**As filed with the Securities and Exchange Commission on June 30, 2010**

## 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, 2009**

**OR**

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

**For the transition period from _____ to**

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

**Commission File Number 000-29992**

# OPTIBASE LTD.
**(Exact name of Registrant as specified in its charter)**

| **N/A** | **Israel** |
|---|---|
| **(Translation of Registrant's name into English)** | **(Jurisdiction of incorporation or organization)** |

**2 Gav Yam Center**
**7 Shenkar Street**
**Herzliya 46120, Israel**
**+972-9-970-9288**
**(Address of principal executive offices)**

**Mr. Amir Philips, Chief Financial Officer**
**Telephone Number: 972-9-9709200, Fax Number: 972-9-9586099, Email: amirp@optibase.com**
**2 Gav Yam Center**
**7 Shenkar Street**
**Herzliya, 46120 Israel**
**(Name, Telephone, E-Mail and/or Facsimile 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, par-value NIS 0.13 each** | **The Nasdaq Global Market** |

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

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
**Not Applicable**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: **16,914,281 Ordinary Shares, par value NIS 0.13 per share, including 347,573 Ordinary Shares held by the Registrant and 30,000 Ordinary Shares held by a trustee for the benefit of the Registrant's employees under the Registrant's incentive plan, both awarding their holders no voting or equity rights.**

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 Financing 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 ☒

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## CERTAIN DEFINED TERMS

In this annual report, unless otherwise provided, references to the "Company," "Optibase", "we", "us" or "our" are to Optibase Ltd., a company organized under the laws of Israel, and its wholly owned subsidiary, Optibase, Inc., a Californian corporation. In addition, references to our financial statements are to our consolidated financial statements, except as the context otherwise requires. References to "U.S." or "United States" are to the United States of America, its territories and its possessions.

We have registered "Optibase" and "VideoPlex", as registered trademarks. In addition, the names "Creator", "MGWFlashStreamer", "MGW Decoder", "MGW Micro", EZTV, "MPEG MovieMaker 200", "MPEG MovieMaker 230", "Media Gateway", "MGW5100", "MGW1100", "MGW2000", "MGW2000e", "MGW1000", "MGW HD", "Creator", "MGW Flash", "VideoPlex Xpress", "VideoPlex Pro", "MPEG MovieMaker", "Videoplex", "MPEG ComMotion", "MPEG Composer", "VideoPump", "MGW200", "MGW230", "MGW 400", "MovieMaker HD", "MovieMaker HD264", "Ocaster" and "MediaPump", are our trademarks.

In this annual report, references to "$" or "dollars" or "U.S. dollars" or "USD" are to the legal currency of the United States, references to "CHF" are to Swiss Francs and references to "NIS" are to New Israeli Shekels, the legal currency of Israel. The Company's financial statements are presented in accordance with United States generally accepted accounting principles, or U.S. GAAP. Except as otherwise specified, financial information is presented in U.S. dollars. References to a particular "fiscal" year are to the Company's fiscal year ended December 31 of such year.

## FORWARD-LOOKING STATEMENTS

IN ADDITION TO HISTORICAL INFORMATION, THIS ANNUAL REPORT CONTAINS CERTAIN FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. THE FORWARD-LOOKING STATEMENTS CONTAINED HEREIN ARE SUBJECT TO CERTAIN RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE REFLECTED IN THE FORWARD-LOOKING STATEMENTS. FACTORS THAT MIGHT CAUSE SUCH A DIFFERENCE INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED IN THE SECTIONS ENTITLED "RISK FACTORS", "INFORMATION ON THE COMPANY" AND "OPERATING AND FINANCIAL REVIEW AND PROSPECTS" AND ELSEWHERE IN THIS REPORT. READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS, WHICH REFLECT MANAGEMENT'S BELIEFS, ASSUMPTIONS AND EXPECTATIONS OF OUR FUTURE OPERATIONS AND ECONOMIC PERFORMANCE, TAKING INTO ACCOUNT CURRENTLY AVAILABLE INFORMATION. IN ADDITION, READERS SHOULD CAREFULLY REVIEW THE OTHER INFORMATION IN THIS ANNUAL REPORT AND IN THE COMPANY'S PERIODIC REPORTS AND OTHER DOCUMENTS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION FROM TIME TO TIME. WE DO NOT UNDERTAKE ANY OBLIGATION TO UPDATE ANY FORWARD-LOOKING STATEMENTS, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR OTHERWISE, EXCEPT AS MAY BE REQUIRED UNDER APPLICABLE SECURITIES LAWS AND REGULATIONS.

**PART I**

**ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**ITEM 3. KEY INFORMATION**

***Introduction***

During 2009, we resolved, to expand and diversify our field of operations and enter into the fixed-income real estate sector. For further details, see Item 4.A 'History and Development of The Company'.

On March 16, 2010, we and our subsidiary, Optibase Inc., entered into an asset purchase agreement with Optibase Technologies Ltd., a wholly owned subsidiary of S.A. Vitec (also known as Vitec Multimedia) (S.A. Vitec and Optibase Technologies Ltd., collectively "Vitec"), according to which Optibase Technologies Ltd. will purchase all of the assets and liabilities related to our Video Solutions Business (the "APA" and the "Vitec Transaction"). Closing of the transaction is expected to occur on June 30, 2010, after the release of this annual report. For Further details see Item 4.B "Business Overview".

The Company, directly and indirectly, engages mainly in the following areas:

- Digital Video and Streaming Based Products and Services or Video Technologies Business (collectively, "Video Solutions Business") – development, marketing and sale of high quality equipment for a wide range of professional video applications in the broadband IPTV, broadcast, government, enterprise and post-production markets.

- Fixed Income Real-Estate – investments in fixed-income real estate assets.

**3.A. SELECTED CONSOLIDATED FINANCIAL DATA**

We derived the consolidated statement of operations data for the years ended December 31, 2007, 2008 and 2009, and consolidated balance sheet data as of December 31, 2008 and 2009 from the audited consolidated financial statements appearing elsewhere in this annual report. These financial statements have been prepared in accordance with U.S generally accepted accounting principles ("U.S. GAAP"). We derived the consolidated statement of operations data for the years ended December 31, 2005 and 2006 and the consolidated balance sheet data as of December 31, 2005, 2006 and 2007 from audited consolidated financial statements that are not included in this annual report, which statements have also been prepared in accordance with U.S. GAAP. The selected financial data set forth below should be read in conjunction with "Item 5 Operating and Financial Review and Prospects" below and the financial statements, including the notes thereto, included elsewhere in this annual report.

| Consolidated Statement of Operations Data: | Year Ended December 31, 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| | (U.S. dollars in thousands, except per share data) | | | | |
| Revenues: | | | | | |
| Video solutions | $ 19,343 | $ 17,977 | $ 22,977 | $ 19,901 | $ 13,149 |
| Fixed income real estate | - | - | - | - | 272 |
| Total revenues | $ 19,343 | $ 17,977 | $ 22,977 | $ 19,901 | $ 13,421 |
| | | | | | |
| **Costs and expenses:** | | | | | |
| Cost of video solutions operations | 7,808 | 7,716 | 11,387 | 9,754 | 6,537 |
| Research and development, net | 4,001 | 4,208 | 5,362 | 6,375 | 3,725 |
| Selling and marketing, net | 8,798 | 8,288 | 7,895 | 8,964 | 5,763 |
| General and administrative | 1,892 | 2,134 | 2,276 | 2,931 | 2,601 |
| Cost of real estate operation | | | | | 125 |
| Total costs and expenses | 22,499 | 22,346 | 26,920 | 28,024 | 18,751 |
| Operating loss | (3,156) | (4,369) | (3,943) | (8,123) | (5,330) |
| | | | | | |
| Other income (expenses), net | (622) | (171) | (327) | 218 | - |
| Financial income (loss), net | 1,583 | 1,405 | (31) | 270 | 617 |
| Net (loss) income before tax | (2,195) | (3,135) | (4,301) | (7,635) | (4,713) |
| Provision for income tax | | | (73) | | - |
| | | | | | |
| Net (loss) income after income tax | (2,195) | (3,135) | (4,374) | (7,635) | (4,713) |
| | | | | | |
| Equity in losses of affiliated companies and gain from sale of investment in affiliated company | - | - | (2,769) | (1,930) | 4,773 |
| | | | | | |
| Net income (loss) from continuing operations | $ (2,195) | $ (3,135) | $ (7,143) | (9,565) | 60 |
| Income (loss) related to discontinued operations (1) | (1,250) | 15 | (30) | 20 | - |
| Net income (loss) | $ (3,445) | $ (3,120) | $ (7,173) | (9,545) | 60 |
| | | | | | |
| Net (loss) income per share from continuing operations: | | | | | |
| Basic | $ (0.17) | $ (0.23) | $ (0.53) | $ (0.63) | $ 0.00 |
| Diluted | $ (0.17) | $ (0.23) | $ (0.53) | $ (0.63) | $ 0.00 |
| Basic and diluted earnings per share from discontinued operations | $ (0.09) | 0.00 | 0.00 | 0.00 | 0.00 |
| Net income (loss) per share | | | | | |
| Basic and diluted | $ (0.26) | $ (0.23) | $ (0.53) | $ (0.63) | $ 0.00 |
| | | | | | |
| Weighted average shares used in computing net income (loss) per share (in thousands): | | | | | |
| Basic | 13,188 | 13,431 | 13,602 | 15,159 | 16,534 |
| | | | | | |
| Diluted | 13,188 | 13,431 | 13,602 | 15,159 | 16,540 |

| Consolidated Balance Sheet Data: | December 31, 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| | (U.S. dollars in thousands) | | | | |
| Cash, cash equivalents and short term investment in marketable securities net | $ 18,199 | $ 40,695 | $ 18,387 | $ 11,386 | $ 28,651 |
| Working capital | 16,383 | 40,342 | 20,098 | 9,610 | 29,254 |
| Long term investment in marketable securities | 26,742 | 2,207 | - | - | - |
| Total assets | 58,346 | 60,974 | 51,932 | 47,306 | 63,350 |
| Long term loans and capital lease obligations, including current maturities | - | - | - | - | 18,262 |
| Capital Stock | 118,508 | 119,720 | 120,706 | 126,142 | 126,299 |
| Total shareholders' equity | $ 44,836 | $ 44,494 | $ 39,164 | $ 35,011 | $ 35,238 |

**3.B. CAPITALIZATION AND INDEBTEDNESS**

Not applicable.

**3.C. REASONS FOR THE OFFER AND USE OF PROCEEDS**

Not applicable.

**3.D. RISK FACTORS**

*Our business operations are subject to various risks resulting from changing economic, political, industry, business and financial conditions. In addition, this annual report contains various forward-looking statements that reflect our current views with respect to future events and financial results. Below we attempt to identify and describe the principal uncertainties and risk factors that in our view at the present time may affect our financial condition, cash flows and results of operations and our forward-looking statements. Readers are reminded that the uncertainties and risks identified below in this annual report do not purport to constitute a comprehensive list of all the uncertainties and risks, which may affect our business and the forward-looking statements in this annual report. In addition, we do not undertake any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.*

**Risks Relating to the Economy, Our Financial Condition and Shareholdings**

***We have a history of losses and we might not be able to reach profitability.***

Since 2000 and until the quarter ended March 31, 2003, we operated at a loss. We returned to profitability in the quarter ended June 30, 2003 and remained profitable until the quarter ended March 31, 2004. Since the quarter ended June 30, 2004 and until the quarter ended December 31, 2008 we returned to operating at a loss. We returned to profitability in the quarter ended March 31, 2009. Since the quarter ended June 30, 2009 and until the quarter ended December 31, 2009 we returned to operate at a loss. As of December 31, 2009, we have accumulated losses of $89.8 million. Given the current market conditions and recent economic downturn, the uncertainty in the technology sector, the uncertainty regarding the demand for our products and our research and development and other expenses as well as the uncertainty regarding the fixed income real-estate sector, we may continue to operate at a loss and may not be able to reach profitability in the future, and our operating results for future periods will continue to be subject to numerous uncertainties and risks. In order to maintain profitability, we will need, among other matters, to aggressively expand markets for our new products while continuing to expand market share for our existing products and to engage in new profitable fixed-income real-estate ventures. We cannot assure you that we will be able to increase the sales of our products and revenues and achieve profitability.

***The economic outlook may adversely affect the demand for our products and the results of our operations.***

Weak economic conditions have caused, and may continue to cause, reductions in spending in technology markets in general, including spending in the Video Solutions Business. Consequently, there has been, and may continue to be, an adverse impact on the demand for our products and services, which has adversely affected, and may continue to adversely affect our sales and results of operations. In addition, predictions regarding economic conditions have a low degree of certainty, and further predicting the effect of the changing economy is even more difficult. We may not be able to accurately gauge the effect of the general economy on our business. As a result, we may not react to such changing conditions in a timely manner, which may result in an adverse impact on our results of operations. Any such adverse impact on the results of our operations from a changing economy may cause the price of our ordinary shares to decline.

Our future fixed-income real estate revenues are highly dependent on the over all economic outlook. Our ability to renew tenancy agreements with current tenants as well as seek new tenants in desirable conditions could be impacted by a number of factors, including, but not limited to, the global economic and financial market crisis. A decrease in demand for our real-estate properties may materially adversely affect our financial results.

***We manage our available cash through investments in interest bearing bank deposits and money market funds with leading banks. We are exposed to the credit risk of such banks.***

During 2009, our available cash was invested in interest bearing bank deposits and money market funds with various banks. Our available cash is subject to the credit risk of the banks with which the funds are deposited and as such we may suffer losses if those banks fail to repay those deposits.

***Our officers, directors and affiliated entities own a large percentage of our ordinary shares and could significantly influence the outcome of actions.***

Our executive officers, directors and the entities affiliated with them, beneficially own, in the aggregate, as of June 21, 2010, approximately 43.71% of our outstanding ordinary shares, of which Shlomo (Tom) Wyler, our President and Chief Executive Officer holds approximately 42.62% (calculated taking into consideration shares underlying options that are currently exercisable or exercisable within 60 days of June 21, 2010 which are deemed to be outstanding), see "Item 7.A. Major Shareholders" below. These shareholders, if acting together, would be able to significantly influence all matters requiring approval by our shareholders, including the election of directors and the approval of mergers or other business combination transactions.

***We have experienced significant fluctuations in our results of operations at times in the past and expect these fluctuations to continue. These fluctuations may result in volatility in our share price.***

We have experienced at times in the past, and may in the future experience, significant fluctuations in our quarterly and annual results. Factors that may contribute to the fluctuations in our quarterly results of operations include:

- The timing of purchases of our products by system integrators and other large customers;
- The rate of acceptance of new products we introduce;
- The loss of major customers;
- Product introductions and other actions taken by our competitors;
- Market acceptance of IPTV video services;
- Changing networking standards in the video solutions industry and our ability to anticipate and react to such changes in a timely manner;
- Changes in sales and distribution environments and costs;
- Fluctuations in manufacturing yields and delays in product shipments;
- The purchase or failure to purchase fixed-income real-estate assets;
- Changes in the availability, cost and terms of financing;
- The ongoing need for capital improvements;
- Personnel changes;
- Changes in foreign exchange rates;
- General economic conditions, particularly in those countries or regions where we sell our products; and
- Fluctuations in foreign exchange rates between the USD and other currencies relevant to the location of our real estate properties

Historically, the prices of video encoders and decoders and content authoring tools have decreased over the life of individual products, while the complexity of new product introductions has increased. As a result, we have reduced prices for our products and we may have to reduce prices in the future. In addition, we may have to increase our research, development and marketing expenditures in response to competitive conditions in order to develop new technologies and products. Accordingly, investors should not rely on the results of any past periods as an indication of our future performance. It is likely that in some future periods, our operating results may be below expectations of public market analysts or investors. If this occurs, the market price of our ordinary shares may drop.

***The trading price of our ordinary shares has been highly volatile, and may continue to fluctuate significantly due to factors beyond our control.***

The trading price of our ordinary shares is and will continue to be subject to significant fluctuations in response to numerous factors, including:

- The entering into new businesses;
- The announcement of new products, services or service enhancements by us or our competitors;
- Quarterly variations in our results of operations or in our competitors' results of operations;
- Changes in earnings estimates or recommendations by securities analysts;
- Perceptions of the video solutions and networking industry's relative strength or weakness;
- Developments in our industry and change in demand for our products;
- General market conditions and other factors, including factors unrelated to our operating performance or the operating performance of our competitors;
- Seizure of a substantial business opportunity by our competitors or us;
- Availability of funding resources for the acquisition of new real estate assets;
- Fluctuations in foreign exchange rates between the USD and other currencies relevant to the location of our real estate properties; and
- Changes in interest rates.

We expect this volatility to continue in the future. In addition, any shortfall or changes in our revenues, operating income, earnings or other financial results could cause the market price of our ordinary shares to fluctuate significantly. In recent years, the stock market has experienced significant price and trading volume fluctuations, which have particularly affected the market price of many technology companies and which may not be related to the operating performance of those companies. Volatility in the price of stock of companies in the video solutions industry has been particularly high. These broad market fluctuations have affected and may continue to affect adversely the market price of our ordinary shares. In recent years, the trading price of our ordinary shares has been highly volatile. From January 2009 through June 2010, the closing price of our ordinary shares fluctuated reaching a high of $1.55 and decreasing to a low of $0.93. The fluctuations and factors listed above, as well as general economic, political and market conditions may further materially adversely affect the market price of our ordinary shares.

***Holders of our ordinary shares who are United States residents face income tax risks.***

There is a substantial risk that we are a passive foreign investment company, commonly referred to as PFIC. Our treatment as a PFIC could result in a reduction in the after-tax return to the holders of our ordinary shares and would likely cause a reduction in the value of such ordinary shares. For U.S. federal income tax purposes, we will be classified as a PFIC for any taxable year in which either (i) 75% or more of our gross income is passive income, or (ii) at least 50% of the average value of all of our assets for the taxable year produce or are held for the production of passive income. For this purpose, cash is considered to be an asset, which produces passive income. As a result of our substantial cash position and the decline in the value of our stock, we believe that there is a substantial risk that we became a PFIC during the taxable year ended December 31, 2009, under a literal application of the asset test described above, which looks solely to the market value. If we are classified as a PFIC for U.S. federal income tax purposes, highly complex rules would apply to U.S. holders owning ordinary shares. Accordingly, you are urged to consult your tax advisors regarding the application of such rules. In addition, there can be no assurance that we will not be classified as a PFIC in the future, because the determination of whether we are a PFIC is based upon the composition of our income and assets from time to time, and such determination cannot be made with certainty until the end of a calendar year. United States residents should carefully read "Item 10.E. Taxation" under the heading "United States Federal Income Tax Consequences" below for a more complete discussion of the U.S. federal income tax risks related to owning and disposing of our ordinary shares.

***We may not be able to raise additional financing for our future capital needs on favorable terms, or at all, which could limit our growth and increase our costs and could adversely affect the price of our ordinary shares.***

We received net proceeds in the amount of approximately $67 million from our secondary public offering in March 2000, and we spent approximately $37 million in cash as a component of the consideration paid to acquire Viewgraphics Inc. and certain other assets, see also "Item 4.A. History and Development of the Company" below. In June 2008, we also issued 2,816,901 ordinary shares in a private placement to our Chief Executive Officer and President and then Executive Chairman of our board of directors in consideration for $5 million. It is probable that we will need to raise additional capital in the future to continue our longer-term strategic plans. We cannot be certain that we will be able to obtain additional financing on commercially reasonable terms or at all. This could inhibit our growth and increase our operating costs.

***We may in the future be the target of securities class action or other litigation, which could be costly and time consuming to defend.***

In the past, following a period of volatility in the market price of a company's securities, securities class action lawsuits have often been instituted against such companies. We may in the future be the target of similar litigation. If such a lawsuit were brought against us, regardless of its outcome, we would incur substantial costs and our management resources would be diverted to defending such litigation.

***We do not intend to pay dividends.***

We have never declared or paid any cash dividends on our ordinary shares. We currently intend to retain any future earnings to finance operations and expand our business and, therefore, do not expect to pay any dividends in the foreseeable future.

***We may continue to seek to expand our business through acquisitions that could result in a diversion of resources and our incurring additional expenses, which could disrupt our business and harm our financial condition.***

As we have done in the past, we may in the future continue to pursue acquisitions of businesses, products and technologies, or the establishment of joint ventures, that could expand our business. The negotiation of potential acquisitions or joint ventures as well as the integration of an acquired or jointly developed business, technology, service or product could cause diversion of management's time as well as our resources. Future acquisitions could result in:

- Additional operating expenses without additional revenues;
- Potential dilutive issuances of equity securities;
- The incurrence of debt and contingent liabilities;
- Amortization of goodwill and other intangibles;
- Research and development write-offs;
- Impairment charges; and
- Other acquisition-related expenses.

Acquired businesses or joint ventures may not be successfully integrated with our operations. If any acquisition or joint venture were to occur, we may not receive the intended benefits of the acquisition or joint venture. If future acquisitions disrupt our operations, our business may suffer.

***We may fail to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002.***

The Sarbanes-Oxley Act of 2002 imposes certain duties on us and our executives and directors. Our efforts to comply with the requirements of Section 404, which started in connection with our annual report on Form 20-F for the fiscal year ended December 31, 2007, have resulted in increased general and administrative expense and a diversion of management time and attention, and we expect these efforts to require the continued commitment of resources. Section 404 of the Sarbanes-Oxley Act of 2002 requires (i) management's annual review and evaluation of our internal control over financial reporting and (ii) an attestation report issued by an independent registered public accounting firm on our internal control over financial reporting, in connection with the filing of our annual report on Form 20-F for each fiscal year (such requirement is currently expected to be applicable to us starting with our annual report on Form 20-F for the fiscal year ending December 31, 2010, if not further deferred or abolished). We have documented and tested our internal control systems and procedures in order for us to comply with the requirements of Section 404. While our assessment of our internal control over financial reporting resulted in our conclusion that as of December 31, 2009, our internal control over financial reporting was effective, we cannot predict the outcome of our testing in future periods. If we fail to maintain the adequacy of our internal controls, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting. Failure to maintain effective internal control over financial reporting could result in investigation 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 Relating to Our Video Solutions Business**

On March 16, 2010, we and our subsidiary, Optibase Inc., entered into an asset purchase agreement with Optibase Technologies Ltd., a wholly owned subsidiary of S.A. Vitec (also known as Vitec Multimedia), according to which Optibase Technologies Ltd. will purchase all of the assets and liabilities related to our Video Solutions Business. Closing of the transaction is expected to occur on June 30, 2010, after the release of this annual report. For further details see Item 4.B "Business Overview".

***The video solutions market is highly competitive, and we may lose sales to our competitors and be forced to continue to lower the prices for our products, which may result in reduced revenues.***

We currently develop and market two product lines: the IPTV product line and the Video Technologies product line. The IPTV product line enables telephone operators and service providers to offer TV services to their subscribers by leveraging their existing digital subscriber lines, or DSL, and fiber communications infrastructure. The Video Technologies product line enables a variety of content creation and streaming applications. Both the IPTV and the Video Technologies operate and market their products in the enterprise, government and broadcast markets.

Competition in each of these markets is intense and we expect competition to increase. The Video Technologies markets have grown in recent years and have attracted many competitors. Advances in video encoding technologies and in desk-top processing capabilities have also enabled sophisticated new applications within these markets which require an in-depth understanding of customer needs and significant development efforts. Moreover, the availability of video encoding technologies has also driven prices for products down within these markets. In contrast, the IPTV market though young, is currently dominated by large companies that can afford to aggressively promote their products by reducing prices in order to gain market share. To be competitive in each product line, we must continue to respond promptly and effectively to changing customer preferences, feature and pricing requirements, technological change and competitors' innovations.

We expect price competition to escalate in the video solutions industry. We have consistently attempted to minimize the effect of price reductions in the market by introducing more sophisticated products at the top of our product line, and thereby attempt to maintain higher selling prices. However, competition in the future may force us to further lower product prices and we may be unable to introduce new products at higher prices. We cannot assure you that we will be able to compete successfully in this kind of price competitive environment. Lower prices and reduced demand for our products would reduce our ability to generate revenue. Failure by us to mitigate the effect of these pressures through cost reduction of our products or changes in our product mix could have a material adverse effect on our business, financial condition and results of operations.

Some of our actual and potential competitors may have longer operating histories, greater name recognition, access to larger customer bases and significantly greater financial, marketing, technical and other resources than we do. Our competitors also sell products that provide some of the benefits of the products that we sell, and we could lose sales to our competitors. Moreover, some companies in the video solutions industry, including some of our competitors, participate in business combinations. These combinations may result in the emergence of competitors who have greater market share, customer base, sales force, product offering, technology expertise and/or marketing expertise than we do. As a result, our competitors may be able to adapt more quickly to new or emerging technologies and changes in customer requirements or to devote greater resources to the promotion and sale of their products than we can. Thus, we cannot assure you that we will be able to compete successfully against current and future competitors, or that we will be able to make the technological advances necessary to improve or even maintain our competitive position or that our products will achieve market acceptance.

***If the video solutions market does not grow as we expect, the demand for some of our products and technology may decline and our revenues will be materially adversely affected.***

Our growth depends on our ability to predict which segments of the video solutions markets will grow and on our ability to penetrate those segments. We have devoted substantial effort and expense to the development of new products based on our prediction of market trends, however, if market growth rates do not meet our expectations, or if we are unsuccessful in identifying and penetrating those segments, our business will suffer. In addition, general weak economic conditions have had an adverse impact on the digital video industry and on the demand for our products. If the economic conditions persist and demand does not increase, our revenues will decline, and our business will be materially adversely affected.

***The video solutions market is characterized by rapid technological changes and multiple evolving standards. If we fail to enhance our existing products, develop new and more technologically advanced products and successfully market these products, the results of our operations will suffer.***

The markets for our products are characterized by rapidly changing technology, evolving industry standards and frequent new product introductions. For example, recent advances in silicon technology have enabled the development of cheaper video compression components with higher performance and greater ease of integration than ever before. Such developments enable competitors to offer similar or superior products to our own. Our future success will depend on our ability to maintain expertise in the digital video technologies, enhance our existing products and introduce new products and features to meet the evolution of customer requirements and industry standards.

In addition, we, or our competitors, may announce the introduction of products that have the potential to shorten the life cycle of, or replace, our products. We have made such announcements in the past and may do so in the future. Such announcements could cause customers not to buy our products or to defer decisions to buy our products. In addition, we cannot assure you that products or technologies developed by others will not render our products or technologies non-competitive or obsolete.

Our future success also depends upon our ability to enhance our existing products and develop, launch and market new technologies and products in a cost-effective and timely fashion. We have devoted, and will continue to devote, a substantial effort and expenses for the development of new technologies and products. However, we cannot assure you that we will be able to complete testing and successfully launch our new products.

***We have increased the allocation of research and development resources for the enterprise government and military markets. Should our expectations for such target markets fail to materialize, our ability to respond to the needs of other customers may be adversely affected.***

We have changed the internal allocation of resources within our research and development departments, or R&D department so as to align our products' road map with and focus primarily in products, such as the EZ TV, which are more targeted towards the enterprise, government and military markets. As our R&D resources are limited, such allocation of resources may affect our ability to respond to the needs of other target markets, hurt our relationships with existing and potential customers and have an adverse affect on our revenues.

***We derive a significant portion of our revenues from one type of product, and the failure of this type of product to meet market demands could have an adverse impact on our financial performance, revenues, and income.***

Our MGW X100 product family accounted for 61% of our revenues in 2007, 68% of our revenues in 2008 and 72% of our Video Solutions revenues in 2009. While our revenues from the MGW X100 product family increased as a percentage of total revenues, it decreased in absolute dollars over this period, we expect that this product family will continue to account for a significant portion of our revenues in the next year. If this product fails to match the price, availability, quality or other features of competing products or to otherwise meet our expectations with respect to market demand, it would have a material adverse affect on our results of operations.

***Failure to enter into cooperation agreements with system integrators or unfruitful cooperation agreements with system integrators may have a material adverse effect on our results of operations.***

As IPTV operators currently struggle with the complexity of integrating new technologies from many vendors, it is increasingly clear that it is not enough to provide top-class encoders and transcoders for the IPTV operators. Most IPTV operators do not have sufficient expertise and, therefore, rely on a system integrator.

In the IPTV market, we manufacture encoders and transcoders, and mainly rely on system integrators to market and sell our products by integrating our encoders and transcoders with complementary products offered by such system integrators.

We cannot assure you that we will be able to create the business relationships with the appropriate system integrators on favorable commercial terms or at all. In addition, the integration process is quite complex and requires special resources and expertise and there is no assurance that any relationships we form with system integrators will be fruitful. Failure to enter into cooperation agreements with system integrators or unfruitful cooperation agreements with system integrators may have a material adverse effect on our results of operations.

***A decrease in the sales of our Video Technologies product line which we expect to continue over the coming years, has had an adverse effect on our financial results and will continue to have an adverse effect on our financial results in the future.***

Our sales from the Video Technologies product line were $8.6 million in 2007, $6.2 million in 2008 and $3.6 million in 2009. The decrease in the sales of our Video Technologies products are mainly attributed to significant advances in PC technology supporting software products for standard definition encoding and the emergence of new compression formats. We expect that our sales from the Video Technologies products will continue to decrease over the years which would adversely affect our financial results.

***We have a limited backlog of orders and have to plan production and inventory levels on unpredictable ordering patterns. Maintaining sufficient inventory levels to meet anticipated demand increases the risk of inventory obsolescence and associated write-offs, which could adversely affect our financial performance.***

The timing and volume of orders are difficult to forecast for each quarter, as a substantial portion of our sales are booked and shipped in the same quarter pursuant to purchase orders. We have a limited backlog of orders for our products and must maintain or have available sufficient inventory levels to satisfy anticipated demand on a timely basis. Maintaining sufficient inventory levels to assure prompt delivery of our products increases the risk of inventory obsolescence and associated write-offs. A shift in demand could also result in inventory write-offs, which could harm our financial performance.

In addition, the ordering patterns of some of our large customers have been unpredictable in the past and we expect that ordering patterns by customers will continue to be unpredictable. In view of this inherent unpredictability, we must plan our production and inventory levels based on internal forecasts of customer demand, which may fluctuate substantially and sometimes vary substantially from early estimates provided by customers to us for planning purposes.

***We depend on third parties to distribute and market our products. If we cannot retain effective distributors or fail to develop new distributor relationships, we may be unable to effectively market and distribute our products.***

A significant portion of our sales efforts worldwide, in particular in the Video Technologies product line, is conducted through a network of independent distributors. We are unable to predict whether and the extent to which some of these distributors will be successful in marketing and selling our products in the future. While we have a policy of using only distributors who do not distribute competing products, we have experienced, and may experience in the future, sales by our distributors of products that compete with our products. In such cases, we may have to seek new distributor relationships, and we may not be able to establish relationships on the same terms as the prior relationships. Furthermore, distributors may terminate their relationships with us upon short notice with little or no penalty.

Our future performance also depends on our ability to attract additional distributors who will be able to market and support our products effectively, especially in markets in which we have not previously been active. Effective distributors must possess sufficient technical, marketing and sales resources and must devote these resources to a lengthy sales cycle and subsequent first-line customer support. We may not be able to retain our current distributors and may not be able to recruit additional or replacement distributors with sufficient technical expertise in the networking and video content fields. The loss of one or more of our major distributors, especially in a key market, or the failure by one or more major distributors to adequately provide customer support could adversely affect our business.

We believe it is becoming increasingly important for our success to develop relationships with several large original equipment manufacturers, or OEMs, of video server and network equipment with technical and support expertise. We presently have a limited number of OEM relationships and we may not be able to maintain these relationships. Moreover, we may not be able to develop new OEM relationships on favorable terms or at all. Our failure to retain existing or to develop new OEM relationships will have a material adverse effect on our ability to sell our products and our operation results.

Some of our sales to the telecommunication, or Telco, market segment are conducted directly. However, sales to major Telcos largely depend on our ability to develop relationships and form business combinations with well-recognized Telco vendors, such as: Alcatel, Siemens and Nortel. Failure to develop such relationships will have a material adverse affect on our revenues and results of operations.

Some of our sales to the enterprise market and federal agencies in the United States in particular are conducted directly. However, sales to major federal agencies largely depend on our ability to develop relationships and form business combinations with large purchasing agencies. Failure to develop such relationships will have a material adverse affect on our revenues and results of operations.

***As we market our products internationally our business is affected by the WEEE and RoHS directives.***

As manufacturers and sellers of electronic equipment, certain aspects of the Restriction of Hazardous Substances in Electrical and Electronic Equipment (RoHS) Directive (2002/95/EC) which bans the use on the European Union ("EU") market of certain hazardous materials including lead, mercury, cadmium, chromium, and halogenated flame-retardants and the Waste Electrical and Electronic Equipment (WEEE) Directive (2002/96/EC) which regulates the collection, recovery and recycling of waste from electrical and electronic products apply to our operation. In addition, the Peoples' Republic of China has enacted a law on Management Methods for Controlling Pollution by Electronic Information Products, referred to as the China RoHS, that is equivalent of the bans implemented in the EU, but the marking and product certification requirements exceed the requirement of the EU RoHS directive. Furthermore, the scope of this legislation is broader than the EU RoHS directive, covering also medical devices and measurement instruments. Although we make efforts to comply with the directives, if we fail to do so, we may not be able to market our products effectively in some countries (mainly in Europe) and as a result, our operations will be adversely affected. In order to comply with these directives we have invested and may need to further invest development resources to replace non-compliant components with compliant components with the same function. Our costs of goods sold may also increase due to the use of certain new components and manufacturing processes. We cannot assure you that lack of compliance with the WEEE and RoHS directives will not have a material adverse effect on our financial condition or results of operations. In some cases compliance with these directives may require changing a hardware product in a way that requires some of our customers to make changes to their own systems. The need by a customer to change an existing system requires an investment of resources and presents the opportunity for a customer to reconsider the advantages of our products in comparison with those of competitors, and may result in the loss of some of our customers.

***Our products could contain defects, which would reduce sales of those products or result in claims against us.***

We develop complex and evolving products. Despite testing, errors may be found in existing or new products. Reliability, quality or compatibility problems with our products could significantly delay or reduce market acceptance of our products, could require the devotion of significant time and resources to address errors, could divert our engineering and other resources from other tasks and development efforts, and could damage our reputation and adversely affect our ability to retain our existing customers and to attract new customers. We could also be subject to material product liability claims by customers.

***We depend on a number of third parties to manufacture, distribute and supply critical components of our products and we may be unable to operate our business if these parties fail to perform their obligations.***

We depend upon sole source suppliers for key components used in our products. These key components include, for example:

- H.264 SD, H.264 HD, MPEG I/II, MXF, AAC, Flash, streaming servers and HD video encoding tools provided by technological partners;
- Encoding and Decoding S/W's provided by Main concept;
- Various modules, which are integrated in our systems, both for the MGW2000, MGW200/400, MGW Flash, MGW5100, MGW 1100, MGW HD and the MGW1000 including: Encoding module by Ateme S.A., Switches supplied by PTI (Performance Technologies Inc.), Interface by Intel Corporation, Hosts supplied by Kontron AG, backplane boards by Kaparel Corporation Pentium, CPU modules supplied by Kontron and Compact Pci platforms supplied by EPS (Israel) TECH 1992 Ltd., Elma Electronic Israel Ltd and Dan-el Technologies Ltd.;
- Digital Signal Processing, or DSP, compression techniques, manufactured by Equator Inc. and TI, which are used in our MGW X100 product line and Movie Maker 400 products;
- Video compression chips manufactured by Fujitsu, Magnum and NEL;
- Audio Analog to Digital Converters (A/D), Digital to Analog Converters (D/A) and decompression chips manufactured by Crystal Semiconductor Corporation, or Crystal, a subsidiary of Cirrus Logic, which are included in our encoders and decoders;
- Freescale, Inc.'s DSPs, which are included in our decoders and encoders;
- A video decoding chip manufactured by IBM Corp;
- SDI interface chips manufactured by Gennum Corporation;
- Microprocessor and PCI bridge devices from Intel that are used in our MediaPump and MovieMaker boards;
- A video processing chipset from Gennum, which is used in our MM2X0s;
- Programmable devices by Altera Corporation and Xilinx Inc., which are used in all our product lines; and
- Servers provided by EIM Systems & Components (1999) Ltd, Intel and IBM.

We may have sole source suppliers for additional products in the future. We purchase these sole source components pursuant to purchase orders placed from time to time. We do not carry significant inventories of these sole source components and we have no guaranteed supply arrangements or other long-term agreements. The lack of guaranteed supply arrangements can result in delays in obtaining components from time to time. The time and resources that these third parties devote to our business is not within our control. We cannot be sure that these parties will perform their obligations as expected or that any revenues, cost savings or other benefits will be derived from the efforts of these parties. If any of these parties breaches or terminates its agreement with us or otherwise fails to perform its obligations in a timely manner, the manufacture of our products may be delayed or cancelled. If any of these events occur, we may be required to look for alternative sources of supply for our sole source components, which may be time consuming and we may incur additional expenses, which in turn may affect our sales and operation results.

***Some of our products were designed a number of years ago and we may face difficulties acquiring components for these products which will result in an adverse effect on our reputation and sales.***

Though we monitor the availability of components and make reasonable effort to procure sufficient quantities to meet demand, the availability of components is largely beyond our control, in particular for older components. If a manufacturer declares one or more of these components obsolete, we may not be able to meet the demand for our products which may adversely affect our reputation and our sales.

***We depend on a limited number of key personnel who would be difficult to replace, and if we lose the services of these individuals or cannot hire additional qualified personnel, our business will be adversely affected.***

Our continued growth and success largely depend on the managerial and technical skills of key technical, sales and management personnel. If any of the current members of the senior management team are unable or unwilling to continue in our employ, our results of operations could be materially and adversely affected. Our success also depends to a substantial degree upon our ability to attract, motivate, and retain other highly qualified personnel. The technology associated with video solutions is at a relatively advanced stage, and there are many competitors in this area. Consequently, there is considerable competition for the services of technical, sales, management and engineering personnel.

***The length of our sales cycle of streaming products depends on factors beyond our control and may cause revenues to vary significantly.***

Sales of our streaming products, and in particular, the IPTV products, which are generally integrated within a larger system, require an extended sales effort. The period from an initial sales call to the receipt of a purchase order for such products typically ranges from six to twelve months and can be longer. Also, because our products are often used as part of a larger project, the timing of an order for our products is often dependent upon the timing of the projects, which is beyond our control. In addition, due to the operating procedures in many large organizations considering the purchase of our products, an extended period of time may be required for technical evaluation to be completed and capital expenditure authorization to be obtained within the customer. Accordingly, if a forecast of revenues from a specific customer for a particular period is not realized in that period, our operating results for such period will be adversely affected.

***Cost-reduction efforts may adversely impact our productivity and service levels.***

Since 2001 and until the first quarter of 2010, we have continuously implemented various cost-control measures affecting various aspects of our business operations, including several reductions in our workforce in particular in our U.S. and Israeli offices among various departments. We may in the future be required to take additional cost-saving actions to reduce our operating losses and to conserve cash. The failure to achieve such future cost savings could have a material adverse affect on our financial conditions. On the other hand, even if we are successful with these efforts and can generate the anticipated cost savings, these actions may adversely impact our employees' morale and productivity, the competitiveness of our products and business, our strength and stability as perceived by our customers and the results of our operations.

***Reductions in work force may limit our ability to maintain products and develop new ones.***

In our efforts to reduce operational expenses over the last few years, we have reduced the number of employees in our R&D department. Though we believe we have applied adequate configuration management procedures to support the development of new products and all of our commitments for maintenance and customer support, our ability to respond to certain customer requests may be limited and as such may harm our business relationship with such customers. In addition such reduction in work force may also limit our ability to develop new products. The potential loss and damage could have an adverse affect on our business.

***Our proprietary technology is difficult to protect and unauthorized use of our proprietary technology by third parties may impair our ability to compete effectively.***

Our success and ability to compete depend in large part upon protecting our proprietary technology including both hardware and software components of our products. We cannot assure you that our efforts to protect our proprietary rights will be adequate. Our inability to protect our proprietary rights effectively could have a material adverse effect on our business, financial condition and results of operations. We currently rely on a combination of patent, trade secret, trademark and copyright laws, nondisclosure and other contractual agreements and technical measures to protect our proprietary rights. We cannot assure you that any patents will be issued to us as a result of current or future patent applications or that patents issued to us will not be invalidated, circumvented or challenged. In addition, we cannot assure you that the rights granted under any such patents will provide us with competitive advantages. We cannot assure you that any patents issued to us will be adequate to stop unauthorized third parties from copying our technology, designing around the patents we own or otherwise obtaining and using our products, designs or other information. Litigation may be necessary to enforce our intellectual property rights and to protect our trade secrets, and we cannot assure you that such efforts will be successful. Moreover, we cannot assure you that others will not develop technologies that are similar or superior to our technology. Additionally, our products may be sold in foreign countries that provide less protection to intellectual property than that provided under United States or Israeli laws.

***Because our products may be subject to claims of infringement on the intellectual property rights of third parties, our business will suffer if we are sued for infringement or cannot obtain licenses to these rights on commercially acceptable terms.***

All of our products rely on technology that could be the subject of existing patents or patent applications of third parties. Many participants in the video solutions market have a significant number of patents and have frequently demonstrated a readiness to commence litigation based on allegations of patent and other intellectual property infringement. We expect that companies will increasingly be subject to infringement claims as the number of products and competitors in our industry segment grows and the functionality of products in different industry segments overlaps. Such claims may require us to enter into license arrangements, or may result in protracted and costly litigation that would require us and our management to make significant expenditures of time, capital and other resources, regardless of the merits of these claims. Any necessary licenses may not be available or if available, may not be obtainable on commercially reasonable terms. If we cannot obtain all necessary licenses on commercially reasonable terms, we may be forced to stop selling all or some of our products, and our business would be harmed.

From time to time, we receive notices relating to alleged infringement. In some cases, we have not received subsequent communications after responding to the initial claim or we believe that the correspondence requires no further action on our behalf. In some other cases, we have resolved the matters on commercially reasonable terms or requested additional information in order to determine the merits of the notice. However, we cannot assure you that future claims will be resolved on such terms, and failure to resolve such claims on commercially acceptable terms could result in a material adverse affect on our business, financial condition and results of operations.

***The prices of our products may become less competitive due to foreign exchange fluctuations.***

Foreign currency fluctuations may affect the prices of our products. Our prices in all countries are incurred or determined in U.S. dollars. If there is a significant devaluation of the local currency in relation to the U.S. dollar in a specific country, the prices of our products will increase relative to the local currency and may be less competitive.

***The government programs and tax benefits that we currently participate in or receive require us to meet several conditions and may be terminated or reduced in the future, which would increase our costs.***

We receive grants from the Office of the Chief Scientist, or the OCS, in the Israeli Ministry of Industry, Trade and Labor for research and development programs that meet specified criteria. Through 2009, we received an aggregate of $8.4 million in grants from the OCS and our accrued and paid royalties to the OCS totaled $4.2 million. We also receive tax benefits under Israeli law for capital investments that are designated as "Approved Enterprises". These grants and tax benefits might be reduced in the future. To maintain our eligibility for these programs and tax benefits, we must continue to meet conditions, including payment of royalties with respect to grants received and making specified investments in fixed assets. Under the Encouragement of Industrial Research and Development Law, of 1984, or the "R&D Law", and the terms of the OCS grants, we are subject to three main obligations: (i) the obligation to locally manufacture the OCS supported products; manufacturing the OCS supported products outside of Israel that results in a reduction of more than 10% of the local manufacturing rate, is subject to the OCS's prior written approval and the payment of increased royalties, which may be up to 300% of the grant amount plus interest, depending on the manufacturing volume that is performed outside of Israel, at an increased annual return rate; (ii) the obligation not to transfer know-how, that was developed as a result of grants received from the OCS (in the course of an ‘approved plan’), outside the State of Israel; the Research Committee is authorized to approve the transfer of know-how, that results from research and development made in the course of an ‘approved plan’, outside of Israel pursuant to certain terms, including payment of a redemption fee; and (iii) the obligation to pay royalties to the OCS whenever the company successfully commercializes OCS funded products. Failure to comply with the R&D Law may result in cancellation of the grants received from the OSC. We may be required to refund the portion of the grant already received plus interest and we may also be subject to penalties and criminal charges. The difficulties in obtaining the approval of the OCS for the transfer of know-how and manufacturing rights out of Israel could have a material adverse effect on strategic alliances or other transactions that we may enter into in the future that provide for such a transfer.

Entitlement to the tax benefits under the Law for Encouragement of Capital Investments for enterprises to which the Investment Center granted an Approved Enterprise status prior to December 31, 2004, is subject to the final ratification of the Investment Center, and is conditioned upon fulfillment of all terms of the approved program. In the event of our failure to comply with these conditions, the tax and other benefits granted under the Law for Encouragement of Capital Investments could be canceled, in whole or in part, and we might be required to refund the amount of the canceled benefits, together with the addition of Consumer Price Index linkage difference and interest. We believe that our Approved Enterprise substantially complies with all such conditions at present, but there can be no assurance that it will continue to do so. There can be no assurance that we, who enjoy Approved Enterprise benefits under the Law for Encouragement of Capital Investments will, meet the conditions stipulated under the Law for Encouragement of Capital Investments in order to obtain a future status of Privileged Enterprise, or that the provisions of the Law for Encouragement of Capital Investments will not change in respect of such status. The termination or reduction of the benefits under the Law for Encouragement of Capital Investments would increase our tax liability in the future, which would reduce our profits or increase our losses. Additionally, if we increase our activities outside of Israel, for example, by future acquisitions, our increased activities might not be eligible for inclusion in Israeli tax benefit programs. See "Item 10.E. Taxation" under the heading "Israeli Taxation – Tax benefits under the Law for the Encouragement of Capital Investments, 1959." below.

In recent years, the Government of Israel has reduced the benefits available under these programs. There is no assurance as to the level of these benefits that will be available in the future, if any, and whether we will be eligible for such benefits.

***Business interruptions could adversely affect our business.***

Our operations are vulnerable to interruption by fire, earthquake, power loss, telecommunications failure and other events beyond our control, especially because our facilities are located in Israel and the State of California. We do not have a detailed disaster recovery plan. In the event these blackouts, earthquake or other interruptions occur, they could disrupt the operations of our affected facilities. In addition, we do not carry sufficient business interruption insurance to compensate us for losses that may occur and any losses, and any potential damages resulting from such interruptions could have a material adverse affect on our business.

***The sale of our assets and liabilities related to our Video Solutions Business under the Vitec Transaction is subject to the receipt of consents and approvals from various entities, which may impose conditions on, or jeopardize the completion of, the sale or reduce the anticipated benefits of the sale. Failure to complete the sale of our assets and liabilities related to our Video Solutions Business under the Vitec Transaction could negatively impact the market price of our ordinary shares and our future business and financial results.***

On March 16, 2010, we and our subsidiary, Optibase Inc., entered into an asset purchase agreement with Vitec, according to which Vitec will purchase all of the assets and liabilities related to our Video Solutions Business (the "APA" and the "Vitec Transaction" respectively). Closing of the transaction is expected to occur on June 30, 2010, after the release of this annual report. For further details see Item 4.B "Business Overview" and Item 10.C "Material Contracts".

Completion of the sale of our assets and liabilities related to our Video Solutions Business under the Vitec Transaction is conditioned upon the satisfaction of closing conditions, including the receipt of certain required approvals from third parties and receipt of all necessary regulatory approvals and, if applicable, approval of the transaction by the Israeli Antitrust Authority, all as set forth in the APA with Vitec. The required conditions to closing may not be satisfied in a timely manner, if at all, or, if permissible, waived, and the sale may not be consummated.

If the sale of our Video Solutions Business to Vitec is not completed for any reason, our on-going business may be materially adversely affected and will be subject to a number of risks, each of which, among others, may have a negative impact on the market price of our ordinary shares. The risks associated with a failure to complete the acquisition include, but are not limited to:

- failure to pursue other beneficial opportunities as a result of the focus of management of each of the companies on the sale, without realizing any of the anticipated benefits of the sale;
- the market price of our ordinary shares may decline to the extent that the current market price reflects a market assumption that the sale will be completed;
- we may experience negative reactions to the termination of the sale from licensors, collaborators, suppliers, customers or other strategic partners; and
- our costs incurred related to the sale, such as legal and accounting fees, must be paid even if the sale is not completed.

***There is no assurance that we will receive the full benefits from the Vitec Transaction.***

The Vitec Transaction includes an "earn-out" mechanism pursuant to which 45% of Vitec's revenues deriving from the Video Solutions Business and exceeding $14 million in the year following the closing of the transaction, will be paid to us. For additional information on the Vitec Transaction, see Item 10.C "Material Contracts". The receipt of the proceeds from the "earn-out" mechanism depends, among other things, on market conditions and the successful integration and sale of our products by Vitec. There is no assurance that we will receive any proceeds from the "earn-out" mechanism.

In addition, under the asset purchase agreement with Vitec, $1 million out of the aggregate consideration of $8 million (plus adjustments relating to receivables and payables as of the closing of the transaction) will be deposited in an escrow for a period of two years as a security for damages arising to Vitec, subject to certain conditions, see also Item 10.C "Material Contracts". Although we believe that we have provided Vitec with accurate and complete representations and warranties, there is no assurance that such amount will eventually be paid to us from reasons beyond our control.

**Risks Relating to our Fixed-Income Real Estate Business**

***We have recently decided to enter into the fixed income real-estate sector which presents risks which are, in their essence, materially different from our current business.***

On May 11, 2009, our board of directors resolved to expand and diverse our operations and enter into the fixed-income real estate sector. At a special shareholders meeting held on June 25, 2009, our shareholders approved the diversification of the Company's operations by entering into the fixed income real-estate sector. Such approval was sought solely for cautionary purposes and without any obligation of the part of the Company to do so. Since then, we have entered into two transactions, the first - the acquisition of a stake in an office building located at 485 Lexington Avenue in Manhattan, New York for which we received a letter terminating the agreement from the seller and we have filed a lawsuit against the seller and the second – the acquisition of a commercial building located in Rümlang, Switzerland. For additional information on such transactions, see Item 4.B. "Fixed-Income Real Estate Business", Item 8. "Financial Information - Legal Proceedings" and Item 10.C "Material Contracts".

The fixed-income real estate sector presents risks which are, in their essence, materially different from our current business.

Our fixed income real-estate operations may involve the following risks:

- We may experience difficulties in finding suitable real-estate properties for investment, either at all or at viable prices;

- We may be unable to proceed with the acquisition of fixed income properties because we cannot obtain financing on favourable terms. We may require substantial up-front expenditures for property acquisition. Accordingly, we may require substantial amounts of cash and financing from banks and other capital resources (such as institutional investors and/or the public) for our fixed income real estate operations. We cannot be certain that such external financing would be available on favourable terms or on a timely basis or at all;

- We may have difficulties leasing real-estate properties. The fixed income real-estate sector relies on the presence of tenants in the real-estate assets. The failure of a tenant to renew its lease, the termination of a tenant's lease, or the bankruptcy or economic decline of a tenant can have a material adverse effect on the economic performance of the real-estate asset. There can be no assurance that if a tenant were to fail to renew its lease, we would be able to replace such tenant in a timely manner or that we could do so without incurring material additional costs;

- The ability to collect rents depends on the solvency of the tenants. Tenants may be in default or not pay on time, or we may need to reduce the amount of rents invoiced by lease incentives, to align lease payments with the financial situation of some tenants. In all these cases, tenant insolvency may hurt our operational results;

- Real estate properties in general are relatively illiquid. Such illiquidity may affect the ability to dispose of or liquidate part of real-estate assets in a timely fashion and at satisfactory prices in response to changes in the economic environment, the real estate market or other conditions; and

- Properties could suffer physical damage caused by fire or other causes, resulting in losses which may not be fully compensated by insurance. In addition, there are certain types of losses, generally of a catastrophic nature, such as earthquakes, floods, terrorism or acts of war that may be uninsurable or are not economically insurable. Inflation, changes in building codes and ordinances, environmental considerations and other factors, including terrorism or acts of war, also might result in insurance proceeds being insufficient to repair or replace a property if it is damaged or destroyed. Under such circumstances, the insurance proceeds may be inadequate to restore the economic position with respect to the affected properties. Should an uninsured loss or a loss in excess of insured limits occur, we could lose capital invested in the affected property as well as anticipated profits from that property. No assurance can be given that material losses in excess of insurance proceeds will not occur in the future.

The occurrence of one or more of these factors could affect our fixed income real-estate business, financial condition and results of operations.

**With respect to our commercial building in Rümlang, Switzerland, we are dependent on the continued attraction of third parties to enter into lease agreements, and in particular anchor tenants. If we fail to enter into lease agreements, it would adversely affect our financial condition and results of operations.**

We own, through our subsidiaries, a real-estate asset in Rümlang, Switzerland, which is currently leased to third parties. One of the lessees in Rümlang, that leases approximately 33% of the property, may terminate the lease agreement at a 6-month prior notice. If such lease agreement is terminated, there is no assurance that we will be able to attract new lessees in favorable terms or at all.

In addition, we may find it more difficult to engage tenants to enter into leases during periods when market rents are increasing. Economic recession, pressures that affect consumer confidence, job growth, energy costs and income gains can affect the financial condition of prospective tenants, and a continuing soft economic cycle may impact our ability to find tenants for our properties. Failure to attract tenants, the termination of a tenant's lease, or the bankruptcy or economic decline of a tenant may adversely affect the rent fees for our properties and adversely affect our financial condition and results of operations.

**We may depend on partners in our joint ventures and collaborative arrangements.**

We are currently and we may, in the future, own interests in real-estate assets in partnership with other entities. Our investments in these joint ventures may, under certain circumstances, be subject to (i) the risk that one of our partners may become bankrupt or insolvent, which may cause us to be unable to fulfill our financial obligations, may trigger a default under our bank financing agreements or, in the event of a liquidation, may prevent us from managing or administering our business or entail a compulsory sale of the asset at less favorable terms; (ii) the risk that one of our partners may have economic or other interests or goals that are inconsistent with our interests and goals, and that such partner may be in a position to veto actions which may be in our best interests; and (iii) the possibility that disputes may arise regarding the continued operational requirements of our assets that are jointly owned.

**We may not be able to obtain additional financing for our future capital needs on favorable terms, or at all, which could limit its growth and increase its costs and could adversely affect the price of its ordinary shares.**

Real estate activities are largely financed from external sources. We cannot be certain that we will be able to obtain financing on favorable terms for our future real estate activities, or at all. In addition, an adverse change can occur in the terms of the financing that we receive. Any such occurrence could increase our financing costs and/or result in a material adverse effect on the results of the Company and its ability to develop its real estate business. The amount of long term loans currently outstanding may inhibit our ability to obtain additional financing for our future capital needs, inhibit our long-term expansion plans, increase our costs and adversely affect the price of our ordinary shares.

**We are a party to a legal proceeding in connection with the termination of an agreement for the purchase of a stake in a company holding a real estate asset in New-York, NY, USA.**

On February 3, 2010, Mazal 485 LLC, a company whose beneficial interest is jointly owned by us and by Gilmore USA LLC, filed a lawsuit against SL Green Realty Corp. and certain of its subsidiaries ("SL Green") regarding the purchase agreement for interests in 485 Lexington Avenue (the "Purchase Agreement"). On January 7, 2010, we received a notice from the seller of 485 Lexington Avenue stating that the Purchase Agreement is terminated. The lawsuit alleges that SL Green breached material terms of the Purchase Agreement, including a covenant of good faith and fair dealing towards Mazal 485 LLC ("Mazal"). The lawsuit seeks specific performance to enforce SL Green's obligations under the Purchase Agreement and an abatement of the purchase price to compensate Mazal 485 LLC for damages incurred as a result of SL Green's breaches. On March 16, 2010, SL Green filed a motion for an order dismissing Mazal's claims, which was heard on June 2, 2010. On June 23, 2010, SL Green's motion to dismiss Mazal's request for performance of the sale-purchase agreement, was granted. Mazal's remaining claims, seeking damages for failure to perform, which are limited in scope, are currently being held before the court. There is no assurance that the abovementioned legal proceedings will succeed and that we will be granted the sought performance of the transaction and/or damages. In the opinion of the Company and its advisors, the provisions included in the Company's financial statements are sufficient to cover the potential liabilities of such lawsuit. For further information see Item 8. "Financial Information - Legal Proceedings".

**Risks Relating to Operations in Israel**

***Deterioration in the economy in Israel may adversely affect our results of operations.***

We are incorporated under the laws of and our main offices are located in the State of Israel. The economic conditions in Israel directly influence us. The Israeli economy, which is also influenced by the political and military instability in Israel, has suffered in the past and may suffer in the future from instability, which may adversely affect our financial condition and results of operations. Following the recession and the instability that characterized the Israeli economy during the years 2001 through 2003, the Israeli economy showed signs of improvement between 2004 and 2008 and was relatively lesser impacted by the global financial crisis that broke in the last quarter of 2008. However, the continued global economic instability and uncertainty and in particular the financial crisis which is currently experienced in Europe may adversely affect the economic conditions in Israel. If the Israeli economy deteriorates, it may affect our financial conditions and the results of operations. In addition, acts of terrorism, armed conflicts or political instability in the region could negatively affect local business conditions and harm our results of operations. We cannot predict the effect on the region of any diplomatic initiatives or political developments involving Israel or the Palestinians or other countries in the Middle East. Furthermore, several countries restrict doing business with Israel and Israeli companies, and additional companies may restrict doing business with Israel and Israeli companies as a result of an increase in hostilities. Our products are heavily dependent upon components imported from, and most of our sales are made to, countries outside of Israel. Accordingly, our operations could be adversely affected if trade between Israel and its present trading partners were interrupted or curtailed.

***Potential political and military instability in Israel may adversely affect our results of operations.***

The political and military conditions in Israel directly influence us. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors, and a state of hostility, varying from time to time in intensity and degree, has led to security and economic problems for Israel. Although Israel has entered into various agreements with Egypt, Jordan and the Palestinian Authority, since September 2000, there has been a high level of violence between Israel and the Palestinians. Recently, there has been a further escalation in violence among Israel, Hamas, a militant group responsible for many attacks into Israel, the Palestinian Authority and other groups. In addition, in July 2006, the Israeli army was engaged in extensive hostilities along Israel's northern border with Lebanon and to a lesser extent in the Gaza Strip. Since June 2007, the Hamas militant group has taken over the Gaza Strip from the Palestinian Authority, and the hostilities along Israel's border with the Gaza Strip have increased, escalating to a wide scale attack by Israel in December 2008, in retaliation to rocket attacks into southern Israel. These developments have further strained relations between Israel and the Palestinian Authority. Any armed conflict, political instability or violence in the region may have a negative effect on our business condition, harm our results of operations and adversely affect our share price. No predictions can be made as to whether or when a final resolution of the area's problems will be achieved or the nature thereof and to what extent the situation will impact Israel's economic development or our operations.

Most of our officers and employees are currently obligated to perform military reserve duty, which may amount to lengthily periods of time, and some were called to duty during the summer of 2006 and in December 2008. Additionally, all reservists are subject to being called to active duty at any time under emergency circumstances. Our operations could be disrupted by the absence for a significant period of one or more of our directors, executive officers or key employees due to military service. We cannot assess the full impact of these requirements on our workforce and business if conditions should change, and we cannot predict the effect on us of any expansion or reduction of these obligations.

***Because most of our revenues are generated in U.S. dollars but a portion of our expenses in Israel are incurred in New Israeli Shekels, our results of operations may be seriously harmed by inflation in Israel and currency fluctuations.***

We generate most of our revenues in U.S. dollars but incur a portion of our expenses in NIS. As a result, we are exposed to risk to the extent that the rate of inflation in Israel exceeds the rate of devaluation of the NIS in relation to the dollar or if the timing of devaluation lags behind inflation in Israel. In either event, the dollar cost of our operations in Israel will increase and our dollar-measured results of operations will be adversely affected. Specifically, the inflation rate in Israel was approximately 3.4% in 2007, approximately 3.8% in 2008 and approximately 3.9% in 2009. At the same time the appreciation of the NIS against the dollar was approximately 9% in 2007, 1.1% in 2008 and 0.7% in 2009. As a result of this differentiation, we experienced an increase in the dollar costs of operation in Israel in each of the years 2007, 2008 and 2009, all of which affected our results in such periods. The fluctuations in the dollar costs of our operations in Israel related primarily to the costs of salaries in Israel, which are paid in NIS and constitute a portion of our expenses. We cannot assure you that we will not be materially adversely affected in the future if inflation in Israel exceeds the devaluation of NIS against the dollar or if the timing of such devaluation lags behind increases in inflation in Israel. Since October 2009 following the acquisition of a real estate property in Switzerland we have obtained a loan to finance that purchase. We are also exposed to currency fluctuations of the CHF (Swiss Frank) and its corresponding interest rate as we derive our rental income in CHF and the loan is denominated in CHF. Our operations could also be adversely affected if we are unable to guard against currency fluctuations in the future. Accordingly, we may enter into currency hedging transactions to decrease the risk of financial exposure from fluctuations in the exchange rate of the dollar against the NIS. These measures, however, may not adequately protect us from material adverse effects due to the impact of inflation in Israel.

***Anti-takeover provisions could negatively impact our shareholders.***

The Israeli Companies Law, 1999, or the Companies Law, provides that certain purchases of securities of a public company are subject to tender offer rules. As a general rule, the Companies Law prohibits any acquisition of shares in a public company that would result in the purchaser holding 25% or more, or more than 45% of the voting power in the company, if there is no other person holding 25% or more, or more than 45% of the voting power in a company, respectively, without conducting a special tender offer.

The Companies Law further provides that a purchase of shares of a public company or a class of shares of a public company, which will result in the purchaser's holding 90% or more of the company's shares or class of shares, is prohibited unless the purchaser conducts a full tender offer for all of the company's shares or class of shares. The purchaser will be allowed to purchase all of the company's shares or class of shares (including those shares held by shareholders who did not respond to the offer), if the shareholders who did not respond to the offer constitute less than 5% of the company's issued share capital, or of the issued class of shares. At the request of an offeree of a full tender offer which was accepted, the court may determine that the consideration for the shares purchased under the tender offer, was lower than their fair value and compel the offeror to pay to the offerees the fair value of the shares. Such application to the court may be filed as a class action.

In addition, the Companies Law provides for certain limitations on a shareholder that holds more than 90% of the company's shares, or class of shares.

***Israeli courts might not enforce judgments rendered outside of Israel, which may make it difficult to collect on judgments rendered against us.***

We are incorporated in Israel. Some of our directors and officers are not residents of the United States and some of their assets and our assets are located outside the United States. Service of process upon our non-U.S. resident directors and officers and enforcement of judgments obtained in the United States against us, and our directors and executive officers may be difficult to obtain within the United States.

We have been informed by our Israeli legal counsel, that there is doubt as to the enforceability of civil liabilities under U.S. securities laws in original actions instituted in Israel. However, subject to certain time limitations, an Israeli court may declare a foreign civil judgment enforceable if it finds that all of the following terms are met:

- The judgment was rendered by a court which was, according to the laws of the state of the court, competent to render the judgment;
- The judgment can no longer be appealed;
- The obligation imposed by the judgment is enforceable according to the rules relating to the enforceability of judgments in Israel and the substance of the judgment is not contrary to public policy; and
- The judgment is executory in the state in which it was given.

Even if the above conditions are satisfied, an Israeli court will not enforce a foreign judgment if it was given in a state whose laws do not provide for the enforcement of judgments of Israeli courts (subject to exceptional cases) or if its enforcement is likely to prejudice the sovereignty or security of the State of Israel. An Israeli court will also not declare a foreign judgment enforceable in the occurrence of any of the following:

- The judgment was obtained by fraud;
- There was no due process;
- The judgment was rendered by a court not competent to render it according to the laws of private international law in Israel;
- The judgment is at variance with another judgment that was given in the same matter between the same parties and which is still valid; or
- At the time the action was brought in the foreign court a suit in the same matter and between the same parties was pending before a court or tribunal in Israel.

**ITEM 4. INFORMATION ON THE COMPANY**

**4.A. HISTORY AND DEVELOPMENT OF THE COMPANY**

**History**

During 2009, we resolved to expand and diversify our field of operations and to enter into the fixed-income real estate sector.

On March 16, 2010 we and our subsidiary, Optibase Inc., entered into an asset purchase agreement with a subsidiary of S.A. Vitec for the sale of all of the assets and liabilities related to our Video Solutions Business. Closing of the transaction is expected to occur on June 30, 2010, after the release of this annual report. For further details regarding the diversification of our business and the sale of our Video Solutions business, see below.

Optibase was founded and incorporated in the State of Israel in 1990 under the name of Optibase Advanced Systems (1990) Ltd. In November 1993 we changed our name to Optibase Ltd. Our principal executive offices are located at 2 Gav Yam Center, 7 Shenkar Street, Herzliya 46120, Israel, and our telephone number at that location is +972-9-970-9288. Our website is located at www.optibase.com. Optibase is subject to the provisions of the Companies Law. Our subsidiary, Optibase, Inc., was incorporated in 1991 in California, and is located at 625 Ellis Street, Mountain View, California 94043. Our European subsidiary, Optibase Real Estate Europe SARL, was incorporated in October 2009 as part of our decision to enter the fixed-income real estate sector and is located at 6 Rue Jean Bertholet L-1233 Luxembourg.

Commencing in February 2001, Festin Management Corp., a British Virgin Island corporation jointly owned by Shlomo (Tom) Wyler and Arthur Mayer-Sommer started to acquire our ordinary shares on the open market. On September 10, 2004, Festin Management Corp. transferred all of its holdings in us to its shareholders. As of the date of this annual report, Mr. Wyler serves as our President, Chief Executive Officer and a member of the board of directors and is considered the Company's controlling shareholder. For additional information on Mr. Wyler's holdings in the Company, see "Item 7.A. Major Shareholders".

In December 2000, we acquired Viewgraphics Inc, a privately held company based in Mountain View, California, and a provider of hardware and software products for video solutions infrastructure application which was merged with and into our subsidiary Optibase, Inc. in June 2001. In connection with the acquisition, we paid an aggregate consideration of approximately $43.6 million, of which $11.8 million (net of issuance expenses) was paid in 1.37 million newly issued ordinary shares.

In June 2004, we acquired certain assets and liabilities of Media 100 Inc. as part of a pre-packaged bankruptcy filing of Media 100, in consideration for $2.5 million in cash and costs incurred by us totaling $401,000. In September 2005, we entered into an agreement for the sale of our Digital Non-Linear Editing product line activity. For further information regarding this agreement, see "Item 10.C. Material Contracts".

We listed our ordinary shares for trade on the Tel Aviv Stock Exchange, or the TASE, on August 6, 2007. On September 23, 2008, we decided to delist our ordinary shares from trade on the TASE. The delisting of the Company's ordinary shares from trade on the TASE was effective on September 28, 2008. The last day for trading of the Company's ordinary shares on the TASE was September 24, 2008.

In a series of transactions conducted during 2007 and the first quarter of 2008, we purchased an aggregate of 5,105,223 ordinary shares of Scopus Video Networks Ltd., or Scopus, representing approximately 37% of Scopus' issued and outstanding share capital, for an aggregate consideration of $28.6 million. For further information on these agreements, see "Item 10.C. Material Contracts".

During 2008, we held negotiations with Scopus for the sale of our Video Solutions Business pursuant to which a non-binding term sheet for such sale was executed on August 4, 2008. Under the term sheet, we undertook to sell our Video Solutions Business in consideration for 2.6 million of Scopus shares, and up to additional 900,000 of Scopus shares based on the post-closing performance of our business. Such negotiations did not materialize into a binding agreement with Scopus. On December 23, 2008, Scopus entered into a definitive agreement with Harmonic Inc., or Harmonic, pursuant to which Harmonic undertook to acquire Scopus by way of merger pursuant to which, each shareholder of Scopus shall receive $5.62 in cash per each outstanding share of Scopus. At the time of such agreement, we held approximately 36% of Scopus' outstanding share capital. On March 12, 2009, following the closing of the merger agreement between Scopus and Harmonic, we disposed of our entire holding in Scopus shares consisting of 5,105,223 shares representing 36.34% of Scopus then issued share capital for a total consideration of $28.7 million. As a result, during the first quarter ended March 31, 2009, we recorded other income of $4.8 million, net of equity in losses. For further information on this transaction, see "Item 10.C. Material Contracts".

On May 11, 2009, our board of directors resolved, to expand and diverse our operations and enter into the fixed-income real estate sector. The board of directors believed that due to the global financial crisis, the fixed-income real estate sector has become attractive and presents new business opportunities. The board of directors determined that there are opportunities, especially in Central and Western Europe and North America that are potentially beneficial for the Company and its shareholders that should be pursued. The fixed-income real estate sector presents opportunities and risks which are, in their essence, materially different from the Company's current business. At a special shareholders meeting held on June 25, 2009 our shareholders approved the diversification of the Company's operations by entering into the fixed income real-estate sector. Such approval was sought solely for cautionary purposes and without any obligation of the Company to do so. As of the date hereof, we have entered into one agreement for the acquisition of a fixed-income real estate asset in Switzerland. For further information see Item 4.B "Business Overview".

On March 16, 2010, we and our subsidiary, Optibase Inc., entered into an asset purchase agreement with Optibase Technologies Ltd., a wholly owned subsidiary of S.A. Vitec (also known as Vitec Multimedia) (S.A. Vitec and Optibase Technologies Ltd., collectively "Vitec"), according to which Optibase Technologies Ltd. will purchase all of the assets and liabilities related to our Video Solutions Business. Closing of the transaction is expected to occur on June 30, 2010, after the release of this annual report. For additional information on the transaction see Item 4.B "Business Overview" and Item 10.C "Material Contracts".

In addition, we hold interests in two companies, as follows:

1. V.Box Communication Ltd. - In July 2001, we invested $250,000 in a privately held company, V.Box Communication Ltd. ("V.Box"). The investment was made by way of a loan against a note that can be converted into Ordinary shares of V. Box, at any time, by a five-day prior written notice. The amount of the loan should be payable upon the earlier of: (i) July 1, 2010; (ii) actual liquidation of V. Box; or (iii) mutual consent by us and the other investor of V. Box. The loan does not bear interest. Through December 31, 2007, we invested an additional $2.3 million in V. Box in respect of additional convertible notes. During 2007, we invested additional $325,000 by the way of a promissory note bearing no interest and no linkage differentials. Such additional amounts will be repaid only out of proceeds received by V.Box on account of sale of all or substantially all of the assets of V.Box or a specific line of products and/or upon the occurrence of an event of default, including among others, insolvency or bankruptcy of V.Box, appointment of a receiver or a liquidator to V.Box and exercise of any liens on all or substantially all of V.Box' assets, as described above. In case of conversion, we will hold approximately 32% of V. Box ordinary shares. We recorded impairment losses in the amount of $173,000 and $325,000 in the years ended December 31, 2006 and 2007, respectively, which are included in the statement of operations under other expenses (income), net. Through December 31, 2007, we have impaired our investment in V.Box and the balance of the investment was $0. We did not invest additional amounts in 2008 and 2009. In addition, we provide V.Box with distribution services in the North American market.

2. Mobixell Networks Inc.- In November 2000, we entered into an agreement with a privately held company called Mobixell Networks Inc., or Mobixell, pursuant to which we granted Mobixell a license to use certain of our MPEG-4 technologies valued at $300,000, and committed to invest through one of our subsidiaries at least $1 million. In December 2000, we invested $1.064 million in Mobixell's Series A Preferred Stock. Mobixell Networks designs, develops and markets solutions for mobile rich media adaptation, optimization and delivery. During the quarter ended March 31, 2003, based on updated information, we decided to adjust downward the value of the investment in Mobixell by its full amount, totaling $1.36 million. However, during the quarter ended September 30, 2003, Mobixell entered into an additional financing round that included new strategic investors. As part of the financing round, we reassessed the investment and decided to participate in the financing round in the amount of $300,000 in Mobixell's Series B Preferred Stock. In May 2004, we decided to participate in another financing round in the amount of $400,000 in Mobixell's Series C Preferred Stock. In March 2010, Mobixell networks acquired a company and paid part of the acquisition costs with newly issued shares of stock. As a result, our holdings in Mobixell, on a fully diluted basis, have decreased from 4.34% to 3.71% of its equity. We may participate in future financing rounds in Mobixell and our holdings may be further diluted.

**4.B. BUSINESS OVERVIEW**

The following is a summary of the principal fields of our businesses:

- Digital Video and Streaming Based Products and Services or Video Technologies Business (collectively, "Video Solutions Business") – development, marketing and sale of high quality equipment for a wide range of professional video applications in the broadband IPTV, broadcast, government, enterprise and post-production markets.

- Fixed Income Real-Estate – investments in fixed-income real estate assets.

Below is a description of our principal fields of activity:

**Video Solutions Business**

We provide high quality equipment for a wide range of professional video applications in the broadband IPTV, broadcast, government, enterprise and post-production markets. During 2009, we developed and marketed two product lines: Video Technologies and IPTV. Our products are generally manufactured by the same subcontractors by the use of similar raw materials purchased from the same suppliers. We market our products through a combined sales and marketing team and sell them by way of direct sales and through independent distributors, system integrators and resellers.

***Sale of our Video Solutions Business***

On March 16, 2010 we and our subsidiary, Optibase Inc., entered into an asset purchase agreement with Optibase Technologies Ltd., a subsidiary of S.A. Vitec ("Vitec"), according to which Vitec will purchase all of the assets and liabilities related to our Video Solutions Business in consideration for $8 million (plus adjustments relating to receivables and payables as of the closing of the Transaction). The consideration will be further adjusted according to an earn-out mechanism pursuant to which 45% of Vitec's revenues deriving from the Video Solutions Business and exceeding $14 million in the year following the closing of the Transaction, will be paid to us. For further information regarding the terms of the asset purchase agreement, see Item 10.C "Material Contracts".

***Products***

*Video Technologies*

The Video Technologies product line includes Peripheral Component Interconnect Encoders ("PCI encoders"), decoders and Digital Video Broadcasting ("DVB") network interfaces, Media Gateways for streaming video over computer networks and video ingest solutions.

The PCI products are PC extension boards that are inserted into the Peripheral Component Interconnect bus of a host computer. We provide software applications that operate these boards for encoding, decoding and DVB processing respectively. We also offer software development kits with which system integrators can build their own professional video applications based on our boards.

The Media Gateways are stand-alone, integrated devices for encoding and streaming video over computer networks. They do not use the PCI platforms for encoding or decoding though they are based on similar technology. These products are remotely managed by either a web interface or an SNMP management application.

In the quarter ending March 31, 2008, we released a new product, called the Creator, which uses the PCI encoders to provide a versatile, integrated solution for Ingest. Ingest is the process of acquiring video content for a variety of video applications.

In the quarter ending March 31, 2009, we added to the Creator the ability to encode HD in the H.264 format and an SD only version that provides a cost-effective solution for customers who only need the SD features of the Creator.

The Video Technologies products are sold to the broadcast, government, enterprise and post-production markets.

In enterprise markets, the encoding and streaming products enable corporate training, videoconferencing and TV to the desktop. In the broadcast markets the ingest solutions enable the preparation of video content for Video On Demand (VOD) and non-linear-editing.

We sell the Video Technologies products directly to end users, through OEMs and to system integrators and also through a worldwide network of distributors, resellers and value added resellers.

*IPTV*

IPTV (Internet Protocol Television) is a system where a digital television service is delivered using the IP protocol including delivery by a broadband connection. For residential users, IPTV is often provided in conjunction with VOD access and VoIP (Voice Over IP). IPTV is typically supplied by a broadband operator using a closed network infrastructure.

The primary market of the IPTV product line consists of telephone operators and internet service providers worldwide who are offering broadband and telephone services. These companies are exploring ways to leverage their existing networks to add new services, and in particular, personalized multi-channel television. These networks (sometimes called "access networks") are typically IP enabled over digital subscriber line, or DSL, a family of digital telecommunication protocols designated to allow high speed data communication over existing telephone lines or fiber networks or combinations of these. The new services are offered to home subscribers, to organizations, gated communities or within hotels for entertainment.

In these applications, our IPTV products are integrated in a video head-end. They receive content from various analog or digital video sources, like Betacam tape machines or satellite-receivers and distribute the content over an access network. The three key features of the IPTV products are encoding, transcoding and transrating uncompressed and/or compressed video feeds. "Encoding" means to compress an uncompressed video source (analog or digital); "Transcoding" means the conversion of a video bitstream from one compression format to another and "Transrating" is the reduction of the bitrate of the video content without changing the compression format.

The MGW5100 is a video streaming device that can encode, transcode, transrate and recast up to 26 streams in the MPEG-1, MPEG-2, H.264 (*i.e.* MPEG-4 Part 10 or AVC) formats over IP and ATM networks such as DSL (Digital Subscriber Line) and optical fiber.

The MGW1100 has a smaller form factor than the MGW5100 and supports up to 12 channels. It targets regional headends and other smaller installations where fewer channels are required.

Our management applications for the IPTV products allow an operator to configure each device, to monitor its status and receive notifications upon malfunction. They also enable the configuration of devices for channel redundancy whereby a malfunctioning channel is substituted by a redundant channel in the event of failure. The application uses the Simple Network Management Protocol (or SNMP), commonly used by network equipment vendors, thus enabling smooth integration of our products into other management applications.

During 2007, we added the capability to deliver closed captions, teletext and subtitles to the MPEG-2 streams generated by these products. Closed captions are the textual representation of audio tracks of the video for the purpose of translation or as a viewing aid for the hearing impaired. Government regulations in some countries, for instance in the US, require that public TV services include closed captions. The IPTV products support the insertion of closed captions into MPEG-2 streams according to the SCTE-20 and SCTE-21 specifications.

In the quarter ended September 30, 2008, we released a new version of the MGW 5100 and MGW 1100 that supports the insertion of closed captions into H.264 streams according to Appendix D of the ATSC 53 document published by the Advanced Television Systems Committee (ATSC) which has been adopted by the industry as the preferred method for delivering DTVCC in H.264 streams.

This version of the MGW 5100 and MGW 1100 products also implements the SAP (Session Announcement Protocol) which is a protocol defined by the IETF (Internet Engineers Task Force) that enables video transmitters to announce and video receivers to detect the media services that are available on an IP (Internet Protocol) network. Enhancements were also made to the H.264 encoder to improve the quality of streams produced at low bit-rates, including the ability to control the number of frames being encoded per second.

In the quarter ending December 31, 2007, we released the MGW HD which is a high quality encoder for High Definition TV (HDTV) in the H.264 format for IPTV delivery and other applications. In the quarter ending June 30, 2008 we released an improved version of the product with improvements to the chassis and user interface. In the quarter ending September 30, 2008, we also enhanced the management application for our IPTV products to include user management, advanced fail-over features and more detailed feature control for the MGW HD.

For the IPTV product line we are working on video quality improvements and cost reduction. We are also developing new features such as the ability to accept input streams over IP for transcoding in addition to the DVB inputs that are supported today. We are also developing the capability to generate two streams for each video channel, one with a high bitrate, the other with a low bitrate so that receivers can combine such streams to create a "Picture in a Picture" (PIP) effect on the display. We are also adding the capability to send output streams over Internet Protocol version 6 (IPv6) networks in addition to the IPv4 support that we have today. IPv4 is the dominant version of the Internet Protocol for packet-switched internetworks and the Internet. IPv6 is the next-generation version of this protocol.

*Enterprise, Government and Military Markets*

With the IPTV products we also address certain high-end requirements of the enterprise, government and military markets for video streaming. The IPTV products are especially effective where there is a requirement to handle many channels at one location, where high availability is crucial or when transcoding or transrating are needed. These requirements are common in certain enterprise, governmental and military applications.

In an effort to complete our streaming solutions for the enterprise and government markets, we introduced the EZ TV and the MGW FlashStreamer.

We first released the EZ TV in the quarter ending March 31, 2008. EZ TV is an application that manages the distribution and playback of video over Enterprise IP networks and networks used by military and government facilities. The EZ TV works with all Optibase MediaGateways and, in particular, with the IPTV encoder products. A key feature of the EZ TV system is a web-based desk top player which allows users to view 1, 4, 9 or 16 simultaneous video channels and is very simple to deploy in large numbers throughout an organization. The EZ TV also supports IP settop boxes to allow viewing on TV monitors in addition to computer monitors.

In the quarter ending June 30, 2008, we released version 2.0 of the EZ TV that includes a Video-On-Demand (VOD) server. This version allows users to record content, to upload it to the VOD server and to view it on demand with the EZ TV desktop player. In the quarter ending March 30, 2009, we released version 2.5 of the EZ TV which includes integration with Active Directory. Active Directory is a Microsoft technology that allows network administrators to assign policies, deploy software, and apply updates within an organization. This integration allows IT (Information Technology) managers in organizations in which the EZ TV is deployed to control access to content through the existing IT infrastructure.

In the quarter ending December 31, 2008, we released a new product called the MGW FlashStreamer. This product offers real time video encoding in the Adobe Flash format. The product's built-in Adobe Flash Media Streaming Server supports streaming to hundreds of concurrent internet users who can view the streams on the latest Adobe Flash Player, the prominent Internet browser-based media player. This product is intended for use in e-learning and corporate applications requiring delivery of media at low bitrates over private IP networks. It is also well suited for Web TV services delivered over the public internet. In the quarter ending March 31, 2009, we released version 2.0 of the MGW Flash Streamer which includes the ability to save streams on an internal storage device and support for on-demand delivery of prerecorded content from storage. This version also allows simultaneous encoding of higher and lower bitrate versions of the same video signal and encoding to the H.264 format, which is now supported by Flash Player 9.

In the quarter ending September 30, 2009, we added a VGA (Video Graphics Array) input to the MGW FlashStreamer. This new feature allows encoding from the VGA input, as well as from regular composite input and composes a custom video layout comprised of these two inputs.

During the quarters ended December 31, 2008 and March 31, 2009 we have changed the internal allocation of resources within our R&D department so as to align our products' road map with and focus primarily in products, such as the EZ TV, which are more targeted towards the enterprise, government and military markets

***Sales and Marketing***

We sell our products through the combined efforts of our direct internal sales force and through indirect channels, including independent distributors, system integrators and resellers. A key element of our sales and distribution strategy is to cultivate strategic relationships with companies that can promote reference sales with the potential for significant revenue impact. Our marketing strategy for IPTV products includes partnering with other vendors and system integrators to create an IPTV eco-system thus making our offering more complete and reducing integration complexities for the customer or system integrator.

The particular mix of sales and distribution methods we use varies according to geographic region.

Our sales efforts in North America, Central America and South America are managed by Optibase, Inc., our wholly owned subsidiary, which is headquartered in Mountain View, California. Our North American sales activities are conducted primarily through our direct sales organization, which focuses on key accounts, which include telecommunication operators, system integrators and OEM accounts that offer strategic opportunities or large volume potential. North American sales efforts are supplemented by our value added resellers, or VAR, channel, through which our products are sold directly to end-users. North America accounted for approximately 47% of our total sales in 2007, approximately 54% of our total sales in 2008 and approximately 56% of our Video Solutions sales in 2009.

Outside of North America, the majority of sales are handled via a network of distributors and resellers that manage both small and large accounts. As a rule, this channel is responsible for stocking an inventory of our products to meet immediate local demand, providing first-line sales and technical support for their customers, and, with the use of co-op funds from us for these purposes, conducting local marketing efforts, including trade shows, seminars, advertisements and mailings.

Distributors also generate and follow up on sales leads, act as the sole interface with customers, translate our promotional and technical written materials and endeavor to meet agreed sales targets. Depending on market size and potential, the number of distributors and other partners in a given geographic region varies. Each is carefully selected based on its background in video and networking technology, its knowledge of the local market, its customer base and its reputation. In addition, we strive to work with partners who will devote significant time and effort promoting our products and who do not have product line conflicts. Our distributors do not usually have exclusive rights with respect to any of our products or market segments, and none of our distribution agreements limits our ability to independently develop products or to enter markets. While most of our relationships can be terminated by either party upon short notice and without significant penalty, we have maintained long-standing relationships with many of our distributors. Many of our largest distributors have carried our products for over three years.

Distributor and direct account relationships outside of North America are managed directly or indirectly from our headquarters in Israel. In Europe these distributors and customers are supported by our sales managers in Israel. This local presence approach brings with it many advantages related to culture and language. Our office in Beijing, China directs our sales efforts in China and Hong Kong. In India, we sell our products through our new local sales office. Sales to Asia Pacific or APAC are managed directly from our headquarters in Israel. European Video Solutions sales constituted approximately 32% of our total Video Solutions revenues in 2007, approximately 21% of our total Video Solutions revenues in 2008, and approximately 14% of our total Video Solutions revenues in 2009, while Video Solutions sales in Eastern Asia, including Japan, constituted approximately 15% of our total Video Solutions revenues in 2007, approximately 21% of our total Video Solutions revenues in 2008, and approximately 25% of our total Video Solutions revenues in 2009. Video Solutions sales in Israel and other areas outside of North America, Europe and the Far East was approximately 6% of our total Video Solutions revenues in 2007, approximately 4% of our total Video Solutions revenues in 2008 and approximately 5% of our total Video Solutions revenues in 2009. Please also see "Item 5.A. Operating Results" below.

***Technology***

During the early 90's, we introduced content creating tools for the PC based on the MPEG-1 and MPEG-2 specifications. The products are comprised of software that runs on the PC and controls a PCI (Peripheral Component Interconnect) hardware encoder that is inserted in an expansion slot on the PC. The main application for these products is to create compressed audiovisual files that could be stored on CD and on DVD. These MPEG specifications standardize advanced methods for the compression, delivery and storage of digital audio and video information.

From 1995 and onwards we also developed and marketed products that deliver video over IP networks (a process known as streaming). The first products in this family, known as Commotion, were implemented on a PC with encoder boards, similar to those used for the content creation products. From 2001 and onwards we also developed and marketed streaming products as dedicated custom servers with no keyboard, monitor or mouse that can be controlled remotely using a Web application.

With our acquisition of Viewgraphics Inc. in December 2000, we acquired expertise in DVB technology, primarily through the MediaPump product. The MediaPump is a PC PCI board whose functions are to send files over a DVB network from the PC, receive data over a DVB network to store as a file on the PC, and to provide certain processing operations for outgoing and ingoing data.

*Encoder related technology*

Our video encoding technology is largely based on the MPEG-1, MPEG-2, MPEG-4 international standards and Part 10 of the MPEG-4 specification, also known as H.264 and as AVC (Advanced Video Coding). We have developed and released IPTV products for the delivery of standard definition and high definition video signals using H.264.

Our audio encoding technologies include MPEG-1 Layer II encoding, Dolby AC-3 encoding licensed from Dolby and AAC (Advanced Audio Encoding).

We have implemented some of these audio and video technologies on multimedia DSPs and others by integrating dedicated silicon components. In most cases we license the core encoder from a third party and integrate it in the hardware and software layers of our products.

Our MPEG-2 encoder products use video encoding technology from LSI Logic. We have developed an MPEG-4 part 2 encoder on a powerful multimedia DSP from Equator Technologies for some of our products. Our H.264 technology was developed in cooperation with a two technology partners, one for the standard definition encoder and the other for the high definition encoder. We have also developed an MPEG-2 PCI encoder of high definition video using a dedicated component from NEL. This encoder is used mostly in our content creation tools, the latest of which is the Creator, an ingest server for the broadcast and professional video market.

We have developed an MPEG-1 Layer II encoder on a dedicated digital signal processor, or DSP, and have integrated an implementation of a Dolby AC3 audio encoder, licensed from Dolby, on the same DSP. Our AAC encoders were also developed in cooperation with technology partners including Fraunhofer.

We have also implemented a multiplexer component for each of these products according to the MPEG standards. Multiplexing is the process of combining the compressed video and audio information to ensure synchronization of the decoded audio and video signals and to ensure smooth decoder buffer management.

Within some of our products we have developed a patented technology that we call EverSync to assure the synchronization of both audio and video, even when our products receive unstable video sources or are subject to random noise and disconnections. This technique eliminates the need for an external time base corrector ("TBC"). In addition, despite the fact that the MPEG and MPEG 2 standards do not support certain lower frame rates, our patented technology (that we call SmartMux) embodied in the multiplexer enables the generation of streams with low frame rates, that are compatible with standard MPEG players, trading smoothness of motion for higher image quality at a given bit rate.

*FPGA and Embedded technology*

For some of our products we have developed proprietary technology running on field-programmable gate arrays (FPGA) for processing video before encoding. Some aspects of the technology are designed to stabilize the video input before it is sent for encoding, others are designed to filter the video and derive a signal that is easier for the encoder to encode efficiently. Recent developments in this field enable the scale down of a high definition feed down to standard resolution for standard definition encoding and the extraction of closed captions information that are embedded in the video signal.

*DVB (Digital Video Broadcast) technology*

With the MediaPump we provide proprietary technology to record, play and process MPEG transport streams that containing multiple programs (i.e. services) of audio and video (Multiple Program Transport Stream, or MPTS). The MediaPump is capable of multiplexing several programs to create an MPTS. It can also extract selected programs from an MPTS for storing or further processing.

We have developed transport and control protocols for the streaming of multimedia over IP networks, such as the real time transport protocol, or RTP, and the real time control protocol, or RTCP, that are becoming widely adopted and standard in the industry. We have also developed smoothing algorithms in our streaming products that are used to reduce congestion of the network and prevent the dropping of packets in routers and by other networking interfaces.

*SDK (Software Development Kit) technology*

Our PCI encoders, decoders and DVB boards are exposed by our software development kits, or SDKs. The SDKs allow system integrators to easily incorporate our MPEG encoders, decoders and DVB boards into their own digital video applications. The SDKs have been designed to be forward compatible allowing easy upgrades of hardware with little changes to the customer’s application.

*Management Software Technology*

As part of the development of our media gateways products we have developed management software. For some of our products we have implemented Web applications using the hyper text markup language, or HTML, which can be accessed by web browsers. For our IPTV products we have developed a comprehensive management application using SNMP. The application enables the provisioning of each device and provides monitoring and alarm generation. An important capability of this management application is the management of automatic, flexible and configurable fail-over between devices to reduce possible down-time to a minimum.

*Transcoding Technology*

An important feature developed for the IPTV products is the ability to transcode one media format to another. We have developed the ability to transcode compression formats from MPEG-2 to MPEG-4 and to transrate from MPEG-2 at a high bit rate to MPEG-2 at a lower bit rate. The source can be either a variable bit rate, or VBR, or constant bit rate, or CBR feed. Some of the technology is licensed from a technology vendor and integrated into our products. We have also developed the ability to pass-through specified elements of the audiovisual information without transcoding, such as closed captions and audio streams. In addition to transcoding at the compression layer, we have further enhanced our networking capabilities to perform translation of the network layer between DVB, IP/Ethernet and ATM according to the needs of the service provider. With regard to ATM we have developed the capability of transmitting audiovisual content over native ATM and over IP over ATM.

*Carrier Class systems related technology*

As part of the development of the IPTV products, the MGW 5100 and the MGW 1100, we have implemented such features as redundancy and scalability, no single point of failure, and the design to meet carrier grade requirements. These features are required by Telcos (*i.e.* carriers) and service providers in order to ensure a reliable service to their customers. An important capability of our management application is that of flexible and configurable fail-over management between redundant devices to reduce possible down-time to a minimum.

*Enterprise Software Technology*

The EZ TV family of products is designed for users in an Enterprise environment. For these products we have developed technologies relating to simple and secure deployment of software within an organization. In particular we have developed plug-ins for our browser based media player and we have integrated the management server with Active Directory.

*Adobe Flash Technology*

For the MGW FlashStreamer we have developed components that implement the Adobe Flash proprietary technology on the server and on the client. On the server side, we have developed the know how to build encoders that are Adobe Flash compliant and the ability to deliver hundreds of encoded streams concurrently to individual users. On the client side, we have integrated the Flash Player into the EZ TV player.

***Research and Development***

We believe that our innovative and versatile technology is at the core of our strength, and that our ability to enhance our current products, to develop and to introduce new products, to maintain technological competitiveness and to meet customer requirements is essential to our future success. Accordingly, we devote and intend to continue to devote significant human and financial resources to research and development.

As part of the process of product development, we work closely with current and potential customers, dealers, distributors and leading companies in relevant industries to identify market needs and define appropriate product specifications. As of June 21, 2010, our research and development department was comprised of 27 employees all of whom are located in our headquarters in Israel. Our research and development net expenses were $5.4 million in 2007, $6.4 million in 2008, and $3.7 million in 2009.

Our research and development efforts have been financed through internal resources as well as through programs sponsored by the Israeli OCS, in the Israeli Ministry of Industry and Trade, and the European Union Research and Development Program. The total funding from these sources was $1.8 million in 2007, $1.1 million in 2008, and $1.3 million in 2009.

Under the Encouragement of Industrial Research and Development Law, of 1984, or the R&D Law, and the terms of the OCS grants we are subject to three main obligations: (i) the obligation to locally manufacture the OCS supported products; manufacturing the OCS supported products outside of Israel, that resulted in a reduction if more than 10% of the local manufacturing rate, is subject to the OCS's prior written approval and the payment of an increased total amount of royalties, which may be up to 300% of the grant amount plus interest, depending on the manufacturing volume that is performed outside of Israel, at an increased annual return rate; (ii) the obligation not to transfer know how, that was developed as a result of grants received from the OCS (in the course of an 'approved plan'), outside the State of Israel; Under section 19B of the R&D Law, the Research Committee is authorized to approve the transfer of know-how, that results from research and development made in the course of an 'approved plan', outside of Israel pursuant to certain terms, including payment of a redemption fee; and (iii) the obligation to pay royalties to the OCS whenever we sell OCS funded products. Such sale of OCS funded products includes: (i) any contractual engagement for the purchase, transfer, lease, rent and grant of a right to manufacture, market or use the OCS funded product itself, in its development, including when such product is part of other goods; and (ii) the formation of a commitment for the provision of maintenance, installation, instruction, consulting, performance of applications services and any other OCS funded product related services. Thus, as described above, the terms of the OCS grants limit us from manufacturing products or transferring technologies developed using these grants outside of Israel without special approvals, which may or may not be granted. Even if we receive approval to manufacture the OCS supported products outside of Israel, we would be required to pay an increased total amount of royalties, which may be up to 300% of the grant amount plus interest, depending on the manufacturing volume that is performed outside of Israel at an increased annual return rate. The R&D Law permits the transfer of OCS financed technology outside of Israel, under certain conditions and subject to receipt of approval from the OCS for such transfer. Failure to comply with the R&D Law may result in cancellation of the grants received from the OCS. We may be required to refund the portion of the grant already received plus interest and we may also be subject to penalties and criminal charges. The difficulties in obtaining the approval of the OCS for the transfer of know-how and manufacturing rights out of Israel could have a material adverse effect on strategic alliances or other transactions that we may seek to enter into in the future that provide for such a transfer. Through December 31, 2009, we received grants from the OCS aggregating $8.4 million for certain of our research and development projects. As of December 31, 2009, accrued and paid royalties to the OCS totaled $4.2 million. As of December 31, 2009, the Company had an outstanding contingent obligation to pay royalties in the amount of approximately $4.2 million plus interest.

To maintain our eligibility for these programs and tax benefits, we must continue to meet conditions, including payment of royalties, amounting to 3%-3.5% of the sales of the products and other related revenues generated from such projects, up to 100% of the grants received, linked to the U.S. dollar and for grants received after January 1, 1999 also bearing interest at the rate of LIBOR. The obligation to pay these royalties is contingent on actual sales of the products and in the absence of such sales, no payment is required.

In addition to the programs mentioned above the OCS provides royalty-free grants through the MAGNET program which provides funding for research and development collaborations between industrial companies and academic research groups, under the auspices of the Office of the Chief Scientist of the Ministry of Industry, Trade & Labor, which are subject to the R&D Law. Under the conditions of the MAGNET program, each of the members of the consortium is to provide the other members with a license to use any know how developed by the consortium, and the recipients of grants under the MAGNET program shall not be under any obligated to pay royalties to the OCS. We have already participated in two consortia under the MAGNET program, MOST and STRIMM and are currently participating in the NEGEV and Net-HD consortiums. The goal of the NEGEV consortium is to develop the infrastructure and techniques for the processing, management and delivery of content to facilitate personalized, on-demand services over broadband and mobile networks. This consortium began operations in May 2006. The goal of Net-HD is to research and develop technologies that will effectively increase the network capacity for network providers without physically changing the underlying infrastructure, in order to provide for expected high demand for High Definition video streaming over the Internet. This consortium began operation in April 2009.

Through December 31, 2009, we recorded grants from the MAGNET framework for participation and research in the MOST, STRIMM, NEGEV and Net-HD consortiums, aggregating $6.6 million.

We are also involved in joint research projects with large European companies under the auspices of, and with financial assistance from, the European Union Research and Development Framework Programs. We have been active contributors in many such projects and have been the coordinator of three: VideoGateway, MUFFINS and TIRAMISU.

Under the European Union Research and Development Framework Programs and the agreements signed under such programs, we are obligated to grant licenses to other participants in the project with respect to our information and/or any existing know-how held by us before entering into the project and to the results, the knowledge and any related intellectual property rights which are generated under the project. Such licenses for use purposes may be requested by the other participants in writing during the 24 months after the end of each project, after which, if not exercised, their right to request such licenses expires.

The VideoGateway project developed a gateway between the narrow band internet and the next generation broadband internet for the purpose of offering live and on-demand video content. MUFFINS was established to investigate the problem of description, delivery and protection of rich-media content, and to propose different scenarios for using that content. The scenarios include the definition and search for the content, as well as the delivery and the related handling of rights management. TIRAMISU proposed a protected framework for the creation, delivery and consumption of audio-visual media across a wide range of hybrid networks and platforms.

We believe that participation in such projects increases our exposure to new technologies, products and potential customers. Within the EU framework we have cooperated closely with large European organizations such as France Telecom, Alcatel, T-Systems, Siemens AG, Fraunhofer, Telefónica I+D and THALES. These programs provide royalty-free funding to consortia of industrial companies and academic institutions aimed at improving the competitiveness of European industry through technological research and development, partnerships and strategic alliances.

Through December 31, 2009 we have obtained approvals for grants for sixteen European research and development projects for a total amount of approximately $8.4 million (of which approximately $7.4 million has already been offset against research and development expenses).

***Service and Support***

We believe that providing a high level of customer service and support is essential to our success. Since 2005, we have been offering our IPTV customers two types of Service Level Agreements (SLA) - Silver service and Gold service. The main differences between the two types of services is that Silver SLA service is offered during standard working hours and Gold SLA service is available for 24 hours a day, on all days of the year. The gold service level also offers an advance replacement service. Our technical support personnel provide worldwide services through each of our main offices in Israel, United States, China and India. In the United States, we provide the first-line of support through our wholly owned subsidiary, Optibase Inc., from the Mountain View office. Outside of the United States and Israel, our independent distributors provide the first-line of support in their respective territories, while in Israel, we provide a second-line of support to those customers. We also support customer inquiries via a web based Help Desk system to which all our customers are linked, on-premises support, telephone and e-mail support, and provide additional technical information on our Internet home page. We also provide a one-year warranty on our hardware products. In addition, we organize technical seminars from time to time to further enhance the technical knowledge of distributors and resellers in the use of our products.

***Manufacturing and Sources of Supply***

Our manufacturing facilities, located in Herzliya, Israel, perform procurement of components, final assembly, testing and quality control of our products. We out-source assembly of hardware modules to multiple manufacturers in Israel who work in accordance with our designs and specifications. This outsourcing strategy has improved product quality and our gross margins. Quality control of our products is conducted at various production stages, both at facilities belonging to the subcontractors and at our facilities. We have implemented a supplier qualification program to ensure subcontractor quality standards. We monitor printed circuit performance by way of statistical survey and a reporting system that tracks boards from initial inspection to shipment. To decrease cost and improve our production process, we have initiated a program of subcontracting the manufacturing of products to manufacturers who also procure the required components. Under this system, we purchase fully assembled and tested products at predetermined prices. We intend to continue to outsource additional products as production levels increase and we are satisfied as to the quality control of our subcontractors. These types of arrangements will allow us to focus on the manufacture of low-volume products, which are generally more complex in nature and require more rigorous assembly, testing and quality control procedures.

Key components used in our products are presently available from, or supplied by, only one source and other components are available from limited sources.

- H.264 SD, , H.264 HD, MPEG I/II, MXF, AAC, Flash, streaming servers and HD video encoding tools provided by technological partners;
- Encoding and Decoding S/W's provided by Main concept;
- Various modules, which are integrated in our systems, both for the MGW2000, MGW200/400, MGW Flash, MGW5100, MGW 1100, MGW HD and the MGW1000 including: Encoding module by Ateme, Switches supplied by PTI (Performance Technologies Inc.), Interface by Intel, Hosts supplied by Kontron, backplane boards by Kaparel Corporation Pentium, CPU modules supplied by Kontron and Compact Pci platforms supplied by EPS (Israel) TECH 1992 Ltd., Elma Electronic Israel Ltd and Dan-el Technologies Ltd;
- Digital Signal Processing, or DSP, compression techniques, manufactured by Equator Inc. and TI, which are used in our MGW X100 product line and Movie Maker 400 products;
- Video compression chips manufactured by Fujitsu, Magnum and NEL;
- Audio Analog to Digital Converters (A/D), Digital to Analog Converters (D/A) and decompression chips manufactured by Crystal Semiconductor Corporation, or Crystal, a subsidiary of Cirrus Logic, which are included in our encoders and decoders;
- Freescale, Inc.'s DSPs, which are included in our decoders and encoders;
- A video decoding chip manufactured by IBM;
- SDI interface chips manufactured by Gennum;
- Microprocessor and PCI bridge devices from Intel that are used in our MediaPump and MovieMaker boards;
- A video processing chipset from Gennum, which is used in our MM2X0s;
- Programmable devices by Altera and Xilinx, which are used in all our product lines; and
- Servers provided by EIM Systems & Components (1999) Ltd, Intel and IBM.

Although we generally do not have long term supply contracts with our suppliers, we have, in the past, been able to obtain supplies of components and raw materials in a timely manner and upon acceptable terms. We cannot assure you that in the future we will not face interruptions or delays in the supply of key components. The design of components to replace any of these limited source components could require six months or more, and our results of operations could be adversely affected in the event of an extended interruption or delay.

***Competition***

Competition in the markets of both Video Technologies and IPTV product lines is intense and we expect competition to increase.

The Video Technologies markets have grown in recent years and have attracted many competitors. Advances in video encoding technologies and in desk-top processing capabilities have also enabled sophisticated new applications within these markets which require an in-depth understanding of customer needs and significant development efforts. Moreover, the availability of video encoding technologies has also driven prices for products down within these markets. In contrast, the IPTV market is still young, but is currently dominated by large companies that can afford to aggressively promote their products by reducing prices. To be competitive in each product line, we must continue to respond promptly and effectively to changing customer preferences, feature and pricing requirements, technological change and competitors' innovations.

The principal competitors of our Video Technologies products in the enterprise and government markets are VBrick Systems Inc., and HaiVision. In the broadcast markets our competitors for these products include Digital Rapids Corporation, Vela Research Inc., Dektec Digital Video B.V., VideoPropulsion, Inc. and CMI and Stradis, Inc. In the post-production market we compete with Canopus and Matrox Electronic Systems Ltd. The post-production market is also characterized by increasing indirect competition from vendors of software encoders and decoders like Digital Rapids, MainConcept GmbH and Intervideo combined with capture cards from Winnov, Inc. and Viewcast, Inc.

The principal competitors in the IPTV market include Envivio, Inc., Thomson, Tandberg Television ASA, and Harmonic Inc. Many of these competitors have substantially greater financial, technical, and marketing resources than Optibase. Some of our actual and potential competitors may have longer operating histories, greater name recognition, access to larger customer bases and significantly greater financial, marketing, technical and other resources than we do. Our competitors also sell products that provide some of the benefits of the products that we sell, and we could lose sales to our competitors. Moreover, some companies in the video solutions market, including some of our competitors, are participating in business combinations. These combinations may result in the emergence of competitors who have greater market share, customer base, sales force, product offering, technology expertise and/or marketing expertise than we do. As a result, our competitors may be able to adapt more quickly to new or emerging technologies and changes in customer requirements or to devote greater resources to the promotion and sale of their products than we can. Thus, we cannot assure you that we will be able to compete successfully against current and future competitors, or that we will be able to make the technological advances necessary to improve or even maintain our competitive position or that our products will achieve market acceptance.

In addition, we expect price competition to escalate in the Video Solutions market. We have consistently attempted to minimize the effect of price reductions in the market by introducing more sophisticated products at the top of our product line, and thereby attempt to maintain higher selling prices. However, competition in the future may force us to further lower product prices and we may be unable to introduce new products at higher prices. We cannot assure you that we will be able to compete successfully in this kind of price competitive environment. Lower prices and reduced demand for our products would reduce our ability to generate revenue. Failure by us to mitigate the effect of these pressures through cost reduction of our products or changes in our product mix could have a material adverse effect on our business, financial condition and results of operations.

***Intellectual Property***

Our future success and ability to compete are dependent, in part, upon our proprietary technology. We rely on patent, trade secret, trademark, copyright law, and confidential agreements to protect our intellectual property. Relating to technologies developed in Optibase Ltd., we hold thirteen issued patents, five granted in Israel, seven granted in the United States, and one in Europe (validated in France and the United Kingdom). We also have three pending application in the United States. In September 2005, certain patents acquired by us in the Media 100 transaction were sold to Acoustics Technology LLC. In April 2008 two patents acquired by us in the Viewgraphics transaction were sold to O.B. Digital Limited Liability Company.

***Effect of Government Regulation on our Business***

Regulation of our business by the Israeli government affects our business in several ways. We benefit from certain tax incentives promulgated by the government of Israel, including programs sponsored by the OCS, in the Israeli Ministry of Industry, Trade and Labor for the support of research and development activities. We also obtained funding from the MOST, STRIMM, NEGEV and Net-HD consortia, which are part of the OCS MAGNET program. The terms of the OCS grants limit us from manufacturing products or transferring technologies developed using these grants outside of Israel without special approvals, which may or may not be granted. For further information see "Research and Development" above.

We are subject to the Companies Law and regulations promulgated under that law, which regulate the activities of companies incorporated in Israel. Please see the "Item 3.D. Risk Factors" under the heading "Risks Related to Operating in Israel" above, as well as "Item 10. Additional Information" below, for more information on the effects of governmental regulation of our business.

***Sale of our Video Solutions Business***

On March 16, 2010, we and our subsidiary, Optibase Inc., entered into an asset purchase agreement with Optibase Technologies Ltd., a wholly owned subsidiary of S.A. Vitec (also known as Vitec Multimedia) (S.A. Vitec and Optibase Technologies Ltd., collectively "Vitec") pursuant to which Optibase Technologies Ltd. will purchase all of the assets and liabilities related to our Video Solutions Business against an aggregate consideration of $8 million in cash. In addition, Optibase and Vitec agreed on an earn-out mechanism pursuant to which 45% of Vitec's revenues deriving from the Business exceeding $14 million in the year following the closing of the transaction will be paid to Optibase. Closing of the transaction is expected to occur on June 30, 2010, after the release of this annual report. For additional information regarding the asset purchase agreement see Item 10.C "Material Contracts".

**Fixed-Income Real Estate Business**

***General***

On May 11, 2009, our board of directors resolved to expand and diverse our operations and enter into the fixed-income real estate sector. At a special shareholders meeting held on June 25, 2009 our shareholders approved the diversification of the company's operations by entering into the fixed income real-estate sector. Such approval was sought solely for cautionary purposes and without any obligation of the Company to do so.

The fixed-income real estate market includes the purchasing and operating of real estate properties intended for leasing primarily for the purpose of commercial, industrial, office space, parking garage and warehouse use. The fixed-income real estate market is affected by growth or slowdown in the economy, and by changes in the demand and the available supply of commercial areas, as well as the construction of additional commercial areas. The real estate market is also affected by governmental, municipal and tax authority policies regarding planning, building, marketing and taxation of land.

Commencing in the fourth quarter of 2008 and as a result of the global economic and financial market crisis, there has been a slowdown in the fixed-income real estate market which is evidenced by a decline in the number of real estate transactions, a reduction in the availability of credit sources, an increase in financing costs and stricter requirements by banks for providing such financing. However, as our fixed-income real estate is leased under long term agreements, we believe that we have limited exposure to the effects of the slowdown in the fixed-income real estate market.

Our strategy in our real estate activities is to become a substantial owner of fixed-income properties. To achieve this goal, we intend to pursue a number of operating and growth strategies, which include:

- purchase of real estate mainly in Central and Western Europe, North America and Israel.
- developing and improving existing real estate;
- maximize the leasing of existing properties to commercial users;
- increase and develop unused building rights in our existing properties; and
- acquire additional commercial real estate and fixed-income assets in light of market conditions, while diversifying our real estate property base.

As of the date of this annual report, we own one real-estate asset in Rümlang Switzerland with approximately 12,500 total square meters of developed property. In addition, a previous agreement for the purchase of an additional real estate asset in New-York, NY, USA was terminated before closing. For further information see Item 8. "Financial Information - Legal Proceedings".

Set forth below is additional information with respect to our projects:

*Rümlang, Switzerland*

On October 29, 2009, we acquired a commercial building located at Riedmattstrasse 9, Rümlang from the Swiss property company Zublin Immobilien AG. Rümlang is situated 15 km from Zurich and as many commercial buildings due to its strategic location in proximity to Zurich international airport.

The five-storey building includes 12,500 square meters (approximately 134,500 square feet) of rentable space with office, laboratory and retail uses. The property is currently 97% occupied and approximately 58% of the leasable area in the property is occupied by Polymed Medical Center and DHL Logistics.

The closing of the transaction occurred on October 29, 2009 and title to the property was acquired by an Optibase subsidiary. The purchase price for the transaction was approximately CHF 23,500,000 of which CHF 18,800,000 (approximately $22.8 million and $18.1 million respectively) was financed by a local Swiss bank pursuant to a mortgage agreement. The expected gross proceeds per annum is approximately CHF 1.7 million (approximately $1.52 million), excluding a sellers' two years rent guaranty for CHF 60,000 (approximately $ 55,000) for the two years period, and the expected net operating income per annum is approximately CHF 1.7 million (approximately $1.48 million

For further information regarding the acquisition agreement and the mortgage agreement, see Item 10.C. "Material Contracts".

Chessell Holdings, a Cypriot company, through its beneficial owner, introduced Optibase to the Rümlang property and facilitated Optibase's acquisition and financing of the property. In connection with such services, the Company's subsidiary in Luxembourg, entered into an option agreement dated March 1, 2010 with Chessell Holdings Limited" pursuant to which Chessell Holdings was granted an option to purchase twenty percent (20%) interest in the owner of the property. For further information, see Item 10.C. "Material Contracts".

*485 Lexington Avenue, New-York, NY*

On August 7, 2009, we entered into a joint venture to acquire 49.5% of the beneficial interest in an office building located at 485 Lexington Avenue in Manhattan, New York, from a subsidiary of SL Green Realty Corp. Optibase and Gilmor USA LLC, an unrelated party, are each equal partners in the joint venture through Mazal 485 LLC ("Mazal"). On August 7, 2009, Mazal executed a sale-purchase agreement to acquire certain interests in the building. For further information see Item 10.C "Material Contracts".

On January 7, 2010, Green 485 JV LLC, the seller of 485 Lexington Avenue in Manhattan, delivered a letter stating that the purchase agreement for 485 Lexington Avenue is terminated and requesting that the escrow agent return the deposit for the transaction to Optibase and its joint venture partner with interest. On February 3, 2010, Mazal filed a lawsuit against SL Green Realty Corp. and certain of its subsidiaries regarding the purchase agreement for interests in 485 Lexington Avenue. On March 16, 2010, SL Green filed a motion for an order dismissing Mazal's claims. On June 23, 2010, SL Green's motion to dismiss Mazal's request for performance of the sale-purchase agreement, was granted. Mazal's remaining claims, seeking damages for failure to perform, which are limited in scope, are currently being held before the court. For further information see Item 8.A "Financial Information – Legal Proceedings".

*Competition*

The fixed-income real estate market is highly competitive and is characterized by a large number of competitors. The main factor affecting competition in this market is geographic location of property. There are properties in close proximity to some of our properties that are similar in purpose and use, which has the effect of increasing competition for the leasing of those properties as well as reducing the rental rates for those properties. Other factors affecting competition are the leasing price, the physical condition of the properties, the finishing of the properties and the level of the management services provided to tenants. Furthermore, the economic and financial market crisis may further increase competition, leading to a reduction of rental fees and a decline in demand for properties. However, as our fixed-income real estate is leased under long term agreements, we believe that we have limited exposure to the effects of the slowdown in the fixed-income real estate market.

**4.C. ORGANIZATIONAL STRUCTURE**

Optibase operates directly and through several subsidiaries. Optibase Inc., incorporated in 1991 in California and is currently located in Mountain View, California which manages our North American sales, marketing and customer support activities. Our real estate activity is managed through several subsidiaries held directly and indirectly by Optibase Ltd.

Our sales activities of the Video Solutions Business in Europe (including Israel) are conducted through sales managers. In 1999 and 2000 we established offices in Japan and in China, respectively, to cultivate closer relationships with local sales forces and potential system integrators and expand our business development activities in those local markets. During 2007 and 2008 we closed our offices in Singapore and Japan, respectively, and focused our attention on the increasing potential we see in the Chinese and Indian markets. Sales, marketing, and support of our products in Asia Pacific are managed from our headquarters in Israel. We are currently in the process of establishing a new office in India, which will focus on marketing and supporting our products in this growing market.

In addition, we hold convertible bonds, which, if converted, will constitute approximately 32% of the issued and outstanding share capital of V.Box, a provider of Digital TV and Data Broadcast receiver equipment for Video and Data applications. We also hold, on a fully diluted basis, approximately 3.71% of Mobixell's issued and outstanding share capital, which designs, develop and markets solutions for mobile rich media adaptation, optimization and delivery. For additional information, see "Item 4.A. History and Development of the Company" above.

**4.D. PROPERTY, PLANTS AND EQUIPMENT**

Our headquarters are located in offices occupying approximately 15,532 square feet in Herzliya Pituach, Israel. Our lease for this space expires on December 31, 2011 and we do not expect to extend the lease beyond that date.

Optibase, Inc.'s headquarters occupy approximately 3,517 square feet in Mountain View, California. The current lease expires on August 31, 2011. We do not expect the current lease to be extended.

We rent an office of approximately 1,735 square feet in Beijing, China. The current lease expires in December 2010.

We rent approximately 289 square feet in India. The current lease expires on March 2011.

Our European subsidiaries occupy offices totaling approximately 646 square feet in Luxembourg. The current leases do not have an expiration date and can be terminated at any time with a three months prior notice.

**ITEM 4A. UNRESOLVED STAFF COMMENTS**

Not Applicable.

**ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

*The following discussion and analysis about our financial condition and results of operations contain forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from the results discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those set forth under "Item 3.D. Risk Factors" above and "Item 5.D. Trend Information" below, as well as those discussed elsewhere in this annual report. You should read the following discussion and analysis in conjunction with the "Selected Consolidated Financial Data" and the Consolidated Financial Statements included elsewhere in this annual report.*

**Overview**

We currently have two principal fields of activity. The following is a summary of these fields of our businesses:

- Digital Video and Streaming Based Products and Services or Video Technologies Business (collectively, "Video Solutions Business") – development, marketing and sale of high quality equipment for a wide range of professional video applications in the broadband IPTV, broadcast, government, enterprise and post-production markets.

- Fixed Income Real-Estate – investments in fixed-income real estate assets.

Below is a description of our principal fields of activity

*Video Solutions Business*

On March 16, 2010, we and our subsidiary, Optibase Inc., entered into an asset purchase agreement with Optibase Technologies Ltd., a wholly owned subsidiary of S.A. Vitec (also known as Vitec Multimedia) (S.A. Vitec and Optibase Technologies Ltd., collectively "Vitec"), according to which Optibase Technologies Ltd. will purchase all of the assets and liabilities related to our Video Solutions Business. Closing of the transaction is expected to occur on June 30, 2010, after the release of this annual report. For further details see Item 4.B "Business Overview".

We provide high quality products that enable the preparation and delivery of digital video based on MPEG over ATM, DVB, and internet protocol (IP) and other packet-based networks through two product lines: Video Technologies and IPTV.

The Video Technologies product line includes PCI platform for encoding, decoding and interfacing with DVB networks and Media Gateways that enables a variety of content creation and streaming application. The Video Technologies products target the broadcast, government, enterprise and post-production markets.

IPTV products design, develop and deliver digital SD and HD (High Definition) TV solutions, from concept to completion for the IPTV market. The IPTV products are offered by themselves or as part of an end-to-end solution together with third-party products.

As new IPTV operators struggle with the complexity of integrating new technologies from many vendors, it is increasingly clear that it is not enough to provide top-class encoders and transcoders for this market. Most operators do not have sufficient expertise and must rely on a system integrator to do this for them. This increases the cost of the solution significantly to the IPTV operators. Over the last three years, we have developed our own integration expertise and have developed business relationships with partners to enable us to provide a turn-key integrated IPTV headend at a lower cost than the larger Telco integrators.

Our solutions include Optibase encoders and transcoders for live TV delivery and partner products for VOD, for middleware and for conditional access. As the set-top box swiftly becomes the most expensive component of the deployment it is important that we give our customers the flexibility to choose. Indeed Optibase solutions are interoperable with a wide range of set-top boxes.

The original market of the IPTV product line is the IPTV market which mainly consists of telephone operators and internet service providers worldwide that are offering broadband and telephone services. These companies are exploring ways to leverage their existing networks to add new services, and in particular, personalized multi-channel television. In addition, the IPTV product line offers full solution for enterprise video communication in various markets including military, government, educational and medical, as well as any other large corporate.

During the last years we are facing a decrease in our Video Technologies product line sales mainly due to advances in PC technology supporting software products for standard definition encoding. At the same time, we are also experiencing a decrease in our IPTV and IPTV related products sales during the last years mainly as a result of increased competition and competitors focus towards the IPTV target market.

Our products from both the Video Technologies and IPTV product lines are sold both directly and through various indirect channels, such as independent distributors, system integrators, OEM’s and resellers.

During 2009 we have continued the development of the H.264 (*i.e.* MPEG-4 Part 10 or AVC) encoders and transcoders by releasing quality improvements. During 2009, we have also added the capability to deliver low bitrates and low resolutions support, closed captions, teletext, subtitles and Picture In Picture support to these products. We believe that these new features will enable our customers to add new services and will increase our advantage over competitors.

During 2007 we released the MGW HD which is a high quality encoder for High Definition TV (HDTV) in the H.264 format for IPTV delivery and other applications. H.264 offers a reduction of between 50% and 60% in bitrate compared with MPEG-2 when configured to produce comparable quality.

In the quarter ending March 31, 2008 we added two new products to our portfolio EZ TV and Creator. EZ TV is an application that enables the distribution of IPTV over Enterprise networks and networks used by Military and Government facilities. The creator is used for building on the Video Technology PCI platforms to provide a versatile, integrated solution for Ingest. Ingest is a broad term used in the professional video industry to describe the process of acquiring video content for a variety of processing applications.

During the quarter ended December 31, 2008, and during the quarter ended March 31, 2009, we took several steps in order to streamline our business and costs, including decreasing our headcount by 22% accompanied by a decrease of approximately 18% in direct personnel costs and overhead. All cost reduction measures have been implemented while minimizing any potential damage to our future business.

We generate most of our Video Solutions revenues from three territories: North America, Europe, including Israel, and Asia Pacific. During 2009, these three regions accounted for 56%, 14% and 30% of our Video Solutions revenues, respectively.

*Fixed-Income Real Estate*

On May 11, 2009, our board of directors resolved to expand and diverse our operations and enter into the fixed-income real estate sector. At a special shareholders meeting held on June 25, 2009, our shareholders approved the diversification of the Company's operations by entering into the fixed income real-estate sector. Such approval was sought solely for cautionary purposes and without any obligation of the Company to do so.

On August 7, 2009, we entered into a joint venture to acquire a stake in an office building located at 485 Lexington Avenue in Manhattan from a subsidiary of SL Green Realty Corp. On January 7, 2010, we received a notice from the seller of 485 Lexington Avenue stating that the purchase agreement is terminated. On February 3, 2010, we filed a lawsuit against SL Green Realty Corp. and certain of its subsidiaries ("SL Green") regarding the purchase agreement for interests in 485 Lexington Avenue. On March 16, 2010, SL Green filed a motion for an order dismissing Mazal's claims. On June 23, 2010, SL Green's motion to dismiss Mazal's request for performance of the sale-purchase agreement, was granted. Mazal's remaining claims, seeking damages for failure to perform, which are limited in scope, are currently being held before the court. For further information see Item 4.B. "Business Overview – Fixed Income Real Estate Business" and Item 8. "Financial Information - Legal Proceedings".

On October 29, 2009 we acquired a commercial building located at Riedmattstrasse 9, Rümlang from the Swiss property company Zublin Immobilien AG. For further information see Item 4.B. "Business Overview – Fixed Income Real Estate Business".

As of December 31, 2009, we had available cash, cash equivalents, long term investments and other financial investments net of approximately $28.7 million. As of June 21, 2010, we have available cash, cash equivalents, long term investments and other financial investments net of approximately $32.5 million. For information regarding the investment of our available cash, see "Item 5.B. Liquidity and Capital Resources" below.

In January 2008, we purchased from certain shareholders of Scopus an aggregate of 1,380,000 ordinary shares of Scopus, representing, at that time, approximately 10% of Scopus' outstanding shares, for an aggregate consideration of approximately $8.6 million. For further information on these agreements, see "Item 10.C. Material Contracts". Following such transaction, we beneficially owned approximately 37% of Scopus' issued and outstanding shares. We accounted for the investment in Scopus in accordance with the provision of APB 18, and the equity method of accounting was applied. As such, the purchase price has been allocated to the assets acquired and the liability assumed based on their fair value at the dates of acquisition. The fair values of the identified tangible and intangible assets were established based on an independent valuation study performed by a third-party specialist. The excess of the purchase price over the fair value of the net tangible and intangible assets acquired has been recorded as goodwill totaling approximately $2.7 million. During 2008, we held negotiations with Scopus for the sale of our Video Solutions Business pursuant to which a non-binding term sheet for such sale was executed on August 4, 2008. Under the term sheet, we undertook to sell our Video Solutions Business in consideration for 2.6 million of Scopus shares and up to additional 900,000 of Scopus shares based on the post-closing performance of our business. Such negotiations did not materialize into a binding agreement with Scopus. On December 23, 2008, Scopus entered into a definitive agreement with Harmonic pursuant to which Harmonic undertook to acquire Scopus by way of merger pursuant to which, each shareholder of Scopus shall receive $5.62 in cash per each outstanding share of Scopus. At the time of such agreement, we held approximately 36% of Scopus' outstanding share capital. In connection with the said transaction, we entered into a voting agreement with Harmonic pursuant to which we undertook to vote in favor of the merger and the transactions contemplated by the merger agreement. We have also agreed to grant to Harmonic a proxy and appointed certain Harmonic officers as its proxy to vote in favor of the merger. On March 12, 2009, following the closing of the merger agreement between Scopus and Harmonic, we disposed of our entire holding in Scopus shares consisting of 5,105,223 shares representing 36.34% of Scopus then issued share capital for a total consideration of $28.7 million. As a result, during the first quarter ended March 31, 2009, we recorded other income of $4.8 million, net of equity in losses. We have also entered into an additional agreement with Scopus pursuant to which we and Scopus agree to waive any claim against one another (and against Harmonic, in the case of claims by the Company) arising from or in connection with the term sheet, previously signed by the Company and Scopus, the negotiations between the parties and the termination of such negotiations. Scopus undertook in addition to reimburse the Company for certain of its expenses associated with such negotiations in the aggregate amount of $300,000.

In addition, we hold interests in V.Box and Mobixell, see "Item 4.A. History and Development of the Company" above. These investments are recorded at $0.0 million in our financial statements.

We use the U.S. dollar as our functional currency. Our consolidated financial statements are presented in U.S. dollars and prepared in accordance with generally accepted accounting principles in the U.S., or U.S. GAAP. In 2009, most of our revenues were denominated in U.S. dollars. Our functional currency may change in the future as a result of the recent diversification of the Company's operation. Our expenses to date have been incurred, in almost equal parts, in U.S. dollars or currencies linked to the U.S. dollar, and in New Israeli Shekels. Our transactions denominated in currencies other than the U.S. dollar are converted into U.S. dollars and recorded based on the exchange rate at the time we issue the invoice for the transaction. Our headquarters are located in Herzliya Pituach, Israel; our subsidiary facilities in the United States are located in Mountain View, California and our European subsidiary is located in Luxembourg. We maintain offices in China and India in order to establish and expand our local presence at the markets and use the advantages, related to culture and language, of that approach.

*Revenues and Sales*

The following table sets forth, for the periods indicated, the total consolidated sales (in thousands) derived from each of our product lines.

| | Year Ended December 31, | | |
|---|---|---|---|
| **Product Line** | **2007** | **2008** | **2009** |
| Video Technology | $ 8,923 | $ 6,420 | $ 3,672 |
| IPTV | 14,054 | 13,481 | 9,477 |
| Fixed Income Real Estate | - | - | 272 |
| Total | $ 22,977 | $ 19,901 | $ 13,421 |

Our level of revenues from video solutions fluctuated in recent years from $23 million in 2007 to $19.9 million in 2008 and to $13.1 million in 2009. The decrease in our total sales in 2008 compared to 2007 and in 2009 compared to 2008, can be mainly attributed to the overall downturn in the global economy as well as the continued decrease in our Video Technology product line sales. The IPTV and IPTV related products sales generated revenues of approximately $9.5 million in the 2009 compared to approximately $13.5 million in 2008 and approximately $14.1 million in 2007. The Video Technology product line sales generated revenues of approximately $3.7 million in the 2009 compared to approximately $6.4 million in the 2008 and approximately $7.9 million in 2007.

Our level of net income fluctuated in recent years from a net loss of $7.2 million in 2007, to a net loss of $9.5 million in 2008 and to a net income of $60,000 in 2009. Our move into net income in 2009 compared with our net loss in 2008 is mainly attributed to equity in loss and gain from sale of investment in affiliated company in the amount of $4.8 million recorded in 2009 as a result of the sale of our holdings in Scopus. The increase in our net loss in 2008 compared with 2007 can be mainly attributed to the significant increase in our operating expenses partially offset by the increase in other and financial income and the decrease in other expenses, which reflect equity in loss of Scopus. As of December 31, 2009, we had accumulated losses of $89.8 million.

The following table sets forth, for the periods indicated, the percentage of total consolidated sales of video solutions derived from sales of video solutions into each of the regions identified in the table, regardless of the operating unit, which generated the sale.

| | Year Ended December 31, | | |
|---|---|---|---|
| **Region** | **2007** | **2008** | **2009** |
| North America | 47% | 54% | 56% |
| Europe | 31% | 21% | 14% |
| Eastern Asia | 15% | 21% | 25% |
| Other countries, including Israel | 7% | 4% | 5% |

The portion of our revenues, as a percentage of total sales, derived from sales into North America and Eastern Asia have increased while the dollar amounts have decreased in 2009 compared to 2008 while the portion of revenues, as a percentage of total sales as well as the dollar amounts into Europe have decreased and the portion of revenues as a percentage of total sales into other countries, including Israel have increased while the dollar amounts have decreased. The decrease in sales into North America, Eastern Asia, Europe and Other countries, including Israel can be mainly attributed to the overall economic downturn as well as increased competition. We sell directly to system integrators, OEMs and value-added resellers, or VARs. Outside of North America, we also sell to distributors. Sales of our products to system integrators can involve a lengthy process and the timing of volume orders from system integrators can be difficult to forecast. As a result, revenues may fluctuate from quarter to quarter depending on the timing and volume of orders. Since these types of customers typically request initial delivery within four to eight weeks of their placement of orders, we have historically had a minimal backlog of orders.

The majority of our revenues are derived from sales of our standard products. Additionally, from time to time, we have the opportunity to develop customized products, which require varying amounts of modifications to our standard products and existing technology. Dollar amount and the percentage of revenues represented by standard products and customized products, respectively, fluctuate from period to period depending on a variety of factors, including the number, size and timing of customized product activities.

*Cost of video solutions operations*

Cost of video solutions operations consists primarily of raw material costs, costs of subcontracting manufacturing and assembly, labor expense, write-off of obsolescence inventory, royalty payments made to the Israeli OCS and other vendors, amortization of capitalized software development costs, other acquisition related costs and allocated overhead attributable to our production operations.

*Research and development expenses*

Research and development expenses, net, consist primarily of labor expenses, development-related raw materials and sub contractors services, acquisition related costs and stock option compensation charges and related overheard, offset by grants from the OCS, including the OCS MAGNET program, and from the EU.

*Sales and marketing expenses*

Selling and marketing expenses, net, consist primarily of compensation expenses, promotional expenses, travel costs and related overhead and expenses.

*General and administrative expenses*

General and administrative expenses consist primarily of fees to outside consultants, legal and accounting fees, stock option compensation charges and certain office maintenance costs.

*Cost of real estate operations*

Cost of real estate operations consist primarily of direct costs associated with operating the real estate properties such as building insurance and management company fees.

*Real estate depreciation and amortization*

Real estate depreciation and amortization consist primarily of depreciation expenses related to the value of properties net of amounts accounted for land, as well as amortization expenses associated with intangible assets derived from the purchase of real estate properties.

*Other income (expenses), Net*

Other income (expenses), net, consists primarily of impairment expenses, capital gains or losses and other expenses or income.

*Financial income (expenses), Net*

Financial expenses consist primarily of interest we paid in connection with bank loans and credit lines, and losses from realization of securities and financial instruments. Financial income consists mainly of interest received on deposits and other financial assets held in our bank accounts and gains from realization of securities and financial instruments. Our exchange differences occur primarily as a result of the change of the NIS value relative to the U.S. dollar.

*Taxes*

As of 2009, Israeli companies are generally subject to a corporate income tax rate of 26%. The income tax rate for Israeli companies was reduced to 25% in 2010. We were granted Approved Enterprise status under the Law for the Encouragement of Capital Investment, 1959 which allow us to enjoy two alternative tax benefits. Under one of the alternatives, a company's undistributed income derived from an Approved Enterprise will be exempt from corporate tax for a period of between two and ten years from the first year of taxable income, depending on the geographic location of the Approved Enterprise within Israel, and the company will be eligible for a reduced tax rate of 10%-25% for the remainder of the benefits period depending on the level of foreign investment. See also "Item 10.E. Taxation" under the heading "Israeli Taxation- Tax benefits under the Law for the Encouragement of Capital Investment, 1959" below. The period during which we are entitled to receive these benefits is limited to seven or ten years from the first year that taxable income is generated, 12 years from commencement of production or within 14 years from the date of approval of the Approved Enterprise status. A recent amendment to the Law, which has been officially published effective as of April 1, 2005 has changed certain provisions of the Law. An eligible investment program under the amendment will qualify for benefits as a Privileged Enterprise (rather than the previous terminology of Approved Enterprise). See also "Item 10.E. Taxation" under the heading "Israeli Taxation- Tax benefits under the Law for the Encouragement of Capital Investment, 1959" below.

We have final tax assessments through the tax year 2005. On December 27, 2007 and on May 28, 2008, we received from the Israeli Tax Authorities a Tax Assessment (the "Assessment") based upon "best judgment" for the years 2002-2003 and 2004-2005 respectively. On January 13, 2009 we signed a settlement agreement with the ITA according to which a final tax obligation of $73,000 was paid for the final tax assessments for the years 2002-2005.

As of December 31, 2009, we had approximately $53.2 million of net operating loss carry-forwards for Israeli tax purposes which we will have to utilize before we can make use of the tax benefits arising from our "Approved Enterprise" status. These net operating loss carry-forwards have no expiration date.

*Equity in losses and gain from sale of affiliated company*

Equity in losses and gain from sale of affiliated company consist primarily of equity gains or losses, net of capital gain derived from the disposal of our entire holding in an affiliated company.

**5.A. OPERATING RESULTS**

The following table sets forth, for the years ended December 31, 2007, 2008 and 2009 statements of operations data as percentages of our total revenues:

| | Year Ended December 31 | | |
|---|---|---|---|
| | **2007** | **2008** | **2009** |
| Revenues | | | |
| Video solutions | 100 | 100 | 98 |
| Fixed income real estate | - | - | 2 |
| Total revenues | 100.0% | 100.0% | 100.0% |
| Costs and expenses: | | | |
| Cost of video solutions operations | 49.6 | 49 | 48.7 |
| Research and development, net | 23.3 | 32 | 27.8 |
| Selling and marketing, net | 34.4 | 45 | 42.9 |
| General and administrative | 9.9 | 14.8 | 19.4 |
| Cost of real estate operations | - | - | 0 |
| Real estate depreciation and amortization | - | - | 0.1 |
| Total costs and expenses | 117.2 | 140.8 | 139.7 |
| Operating income (loss) | (17.2) | (40.8) | (39.7) |
| Other income expenses, net | (1.4) | 1.1 | - |
| Financial income (expenses), net | (0.1) | 1.3 | 4.6 |
| (Loss) before provision for tax | (18.7) | (38.4) | (35.1) |
| Provision for tax | (0.3) | - | - |
| Net (loss) after income tax | (19) | (38.4) | (35.1) |
| Equity in losses of affiliates and gain from sale of investment in affiliated company | (12.1) | (9.7) | 35.6 |
| Net income (loss) from continuing operations | (31.1) | (48.1) | 0 |
| (Loss) Income from Discontinued Operations | (0.1) | 0.1 | 0 |
| Net income (loss) | (31.2)% | (48)% | 0% |

**Results of Operations for the Years Ended 2009 and 2008**

*Total revenues*. Our video solutions revenues decreased by 33.9% to $13.1 million in 2009 from $19.9 million in 2008. The decrease is attributed to the decrease in our Video Technologies products sales by approximately 43% as well as a decrease of approximately 30% in our IPTV products and the over all downturn in the global economy. 2009 is the first year we record revenues from our real estate activity.

*Cost of video solutions operations*. Cost of video solutions operations as a percentage of revenues remained stable at approximately 49% in 2009 compared 2008, and amounted to $6.5 million in 2009 compared to $9.8 million in 2008. The decrease is attributed to the overall lower sales volume of our products, including third parties products. Our cost of video solutions operations may fluctuate as a percentage of revenues depending on our product mix, changes in raw materials cost and other factors.

*Research and Development Expenses, Net*. Our net research and development expenses decreased by approximately 41.6% to $3.7 million in 2009 from $6.4 million in 2008. As a percentage of total revenues, net research and development expenses were approximately 27.8% in 2009 and approximately 32% in 2008. The dollar decrease in research and development expenses can primarily be attributed to the decrease in salaries and related costs as a result of a decrease in headcount. The dollar decrease can also be attributed to the decrease in other expenses and the increase of research and development grants received from the OCS, including the OCS MAGNET program, and from the EU which increased to approximately $1.3 million in 2009 from approximately $1.1 million in 2008.

*Selling and Marketing Expenses, Net*. Our net selling and marketing expenses decreased by approximately 35.7% to $5.8 million in 2009 from $9 million in 2008. As a percentage of revenues, net selling and marketing expenses decreased to approximately 42.9% in 2009 from approximately 45% in 2008. The decrease in selling and marketing expenses can be primarily attributed to the decrease in our sales and technical support personnel. Selling and marketing expenses may continue to fluctuate as a percentage of total revenues, depending, in part, on fluctuations in the level of total revenues.

*General and Administrative Expenses*. General and administrative expenses decreased approximately by 11.3% to $2.6 million in 2009 from $2.9 million in 2008. As a percentage of revenues, general and administrative expenses increased to approximately 19.4% in 2009 from approximately 14.8% in 2008. The decrease in dollar amount can be mainly attributed to a decrease in salaries and related expenses.

*Cost of real estate operations*. 2009 is the first year in which we incur costs for real estate operations which consist primarily of direct costs associated with operating the real estate properties such as building insurance and management company fees.

*Real estate depreciation and amortization*. 2009 is the first year we incur costs for real estate depreciation and amortization, which consist primarily of depreciation expenses related to the value of properties net of amounts accounted for land, as well as amortization expenses associated with intangible assets derived from the purchase of real estate properties.

*Operating loss*. As a result of the foregoing, we recorded operating loss of $5.3 million in 2009 compared with an operating loss of $8.1 million in 2008. The decrease in the operational loss can be primarily attributed to the overall decrease in our operating expenses.

*Other Income (Expenses), Net*. We recorded no other income, net, in 2009, compared to other income, net of $218,000 in 2008. The amounts recorded in 2008 related to other income from the sale of certain patents.

*Financial Income (Expenses), Net*. We recorded financial income, net of $617,000 in 2009, compared with financial income, net of $270,000 in 2008. The change can be mainly attributed to an increase in interest received as well as foreign currency translation differences and a decrease in interest expenses.

*Taxes Income (Expenses), Net*. Effective January 1, 2007, we adopted the provisions of FASB Interpretation No. 48 ("FIN 48"). Under the requirements of FIN 48, we reviewed all of our tax positions and determined whether the position is more-likely-than-not to be sustained upon examination by regulatory authorities. Accordingly, no provision for taxes was recorded during 2009 and 2008.

*Equity in losses and Gain from Sale of Investment in Affiliated Company*. We recorded Equity in losses and gain from sale of investment in affiliated company, of $4.8 million in 2009, compared to a loss of approximately $1.9 million in 2008. The amounts recorded in 2009 are related to the disposal of our entire holding in Scopus shares, net of equity in losses, while in 2008 we recorded equity in loss, as a result of our conclusion that our investment in Scopus qualifies for use of the equity method.

*Net Income (Loss) from Continuing Operations*. We recorded net income of $60,000 in 2009, compared with a net loss of $9.6 million in 2008. The decrease in our net loss from continuing operations can be mainly attributed to the decrease in total costs and expenses, the increase in other income, net, from $218,000 in 2008 to $4.8 million in 2009 and the increase in our financial income, net, from $270,000 in 2008 to $617,000 in 2009.

*Discontinued Operation.* In the fourth quarter of 2006 based on recent assessments and in accordance with the guidance of ASC 360 (Formerly SFAS 144) and EITF 03-13, we have decided to present the Digital Non Linear product line operation, which was sold in the third quarter ending September 30, 2005, as discontinued operations. Net income related to discontinued operation in 2008 totaled to $20,000.

*Net Income (Loss).* We recorded net income of $60,000 in 2009, compared with a net loss of $9.5 million in 2008. The decrease in our net loss can be mainly attributed to the decrease in total costs and expenses, the increase in equity in losses and gain from sale of investment in affiliated company, from a net loss of $1.9 million in 2008 to a net gain of $4.8 million in 2009 and the increase in our financial income, net, from $270,000 in 2008 to $617,000 in 2009.

**Results of Operations for the Years Ended 2008 and 2007**

In June 2004, we acquired certain assets and liabilities of Media 100 Inc. as part of a pre-packaged bankruptcy filing of Media 100. In September 2005, we entered into an agreement for the sale of our Digital Non-Linear Editing operation to Artel Software Corp. for details regarding the sale agreement, see "Item 10.C. Material Contracts" below. In December 2006, based on recent assessments in accordance with the guidance ASC 360 and EITF 03-13, we have decided to present the Digital Non-Linear Editing product line operation as discontinued operations and as such all amounts related to the operational results of the Digital Non Linear Editing product line presented accordingly. For further information on the digital non linear transactions see "Item 5. Operating and Financial Review and Prospects" under the heading "Overview" above. During 2007 and beginning of 2008 we purchased in a series of transactions, approximately 37% of Scopus' share capital, for an aggregate consideration of $ 28.6 million. For addition information, see "Item 4.A. History and Development of the Company" above.

*Total Revenues*. Our video solutions revenues decreased by 13.4% to $19.9 million in 2008 from $23 million in 2007. The decrease can mainly be attributed to the decrease in our Video Technologies products sales by approximately 28% as well as the over all downturn in the global economy.

*Cost of Video Solutions Operations*. Cost of video solutions operations as a percentage of revenues decreased to approximately 49% in 2008 compared to approximately 49.6% in 2007, and amounted to $9.8 million in 2008 compared to $11.4 million in 2007. The decrease can be mainly attributed to the overall lower sales volume of our products, including third parties products. Our cost of revenues may fluctuate as a percentage of revenues depending on our product mix, changes in raw materials cost and other factors.

*Research and Development Expenses, Net*. Our net research and development expenses increased by approximately 18.9% to $6.4 million in 2008 from $5.4 million in 2007, net research and development expenses were approximately 32% in 2008 and approximately 23.3% in 2007. The dollar increase in research and development expenses can primarily be attributed to the increase in salaries and related costs as a result of the devaluation of the USD against the NIS related to expenses paid in our headquarters in Israel. The dollar increase can also be attributed to the increase in other expenses and the decrease of research and development grants received from the OCS, including the OCS MAGNET program, and from the European Union which decreased to approximately $1.1 million in 2008 from approximately $1.8 million in 2007.

*Selling and Marketing Expenses, Net*. Our net selling and marketing expenses increased by approximately 13.5% to $9 million in 2008 from $7.9 million in 2007. As a percentage of revenues, net selling and marketing expenses increased to approximately 45% in 2008 from approximately 34.4% in 2007. The increase in selling and marketing expenses can be primarily attributed to the increase in our sales and technical support personnel, mainly in our North America office, as well as the devaluation of the USD against the NIS related to expenses paid in our headquarters in Israel. Selling and marketing expenses may continue to fluctuate as a percentage of revenues, depending, in part, on fluctuations in the level of revenues.

*General and Administrative Expenses*. General and administrative expenses increased approximately by 28.8% to $2.9 million in 2008 from $2.3 million in 2007. As a percentage of revenues, general and administrative expenses increased to approximately 14.7% in 2008 from approximately 9.9% in 2007. The increase in dollar amount can be mainly attributed to an increase in our expenses for legal expenses, professional services and consulting.

*Operating loss*. As a result of the foregoing, we recorded operating loss of $8.1 million in 2008 compared with an operating loss of $4 million in 2007. The increase in the operational loss can be primarily attributed to the decrease in our revenues and the overall increase of our operating expenses.

*Other Income (Expenses), Net*. We recorded other income, net, of $218,000 in 2008, compared to other expenses, net of $327,000 in 2007. In 2008 we recorded other income from the sale of certain patents while in 2007 we recorded expenses totaling approximately $325,000 of impairment losses in respect of our investment in V.Box.

*Financial Income (Expenses), Net*. We recorded financial income, net of $270,000 in 2008, compared with financial loss of $31,000 in 2007. The change can be attributed to lack of impairment charges we recorded in connection with some of our structured notes and corporate bonds in 2007. The change can be also attributed to the decrease in our utilized portion of credit lines during the year compared to 2007.

*Taxes Income (Expenses), Net*. Effective January 1, 2007, we adopted the provisions of FASB Interpretation No. 48 ("FIN 48"). Under the requirements of FIN 48, we reviewed all of our tax positions and determined whether the position is more-likely-than-not to be sustained upon examination by regulatory authorities. Accordingly, no provision for taxes was recorded during 2008. During 2007 we have recorded a provision for taxes of approximately $73,000.

*Equity in loss*. In connection with our investment in Scopus we recorded equity in loss of approximately $1.9 and $2.8 million in 2008 and 2007 respectively, as a result of our conclusion that our investment in Scopus qualifies for use of the equity method.

*Net Income (Loss) from Continuing Operations.* We recorded net loss of $9.6 million in 2008, compared with a net loss of $7.1 million in 2007. The increase in our net loss from continuing operations can be mainly attributed to the decrease in revenues and the overall increase in our operating expenses partially offset by the decrease in equity in loss from $2.8 million in 2007 to $1.9 million in 2008,.

*Discontinued Operation.* In the fourth quarter of 2006 based on recent assessments and in accordance with the guidance of ASC 360 and EITF 03-13, we have decided to present the Digital Non Linear product line operation, which was sold in the third quarter ending September 30, 2005, as discontinued operations. Net income related to discontinued operation in 2008 totaled to $20,000, compared to net loss of $30,000 in 2007.

*Net Income (Loss).* We recorded net loss of $9.5 million in 2008, compared with a net loss of $7.2 million in 2007. The increase in our net loss can be mainly attributed to the decrease in revenues and the overall increase in our operating expenses partially offset by the decrease in equity in loss from $2.8 million in 2007 to $1.9 million in 2008.

**Critical Accounting Policies**

Our consolidated financial statements are prepared in accordance with U.S. GAAP. These accounting principles require management to make certain estimates, judgments and assumptions based upon information available at the time that they are made, historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the periods presented.

In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management's judgment in its application. There are also areas in which management's judgment in selecting among available alternatives would not produce a materially different result. Our management reviewed these critical accounting policies and related disclosures with our Audit Committee. See Note 2 to our Consolidated Financial Statements, which contain additional information regarding our accounting policies and other disclosures required by U.S. GAAP.

Our management believes the significant accounting policies which affect management's more significant judgments and estimates used in the preparation of our consolidated financial statements and which are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

- Revenue recognition;

- ❖ Allowance for doubtful debts;
- ❖ Inventories valuation;
- ❖ Impairment long- lived assets;
- ❖ Accounting for stock-based compensation; and
- ❖ Contingencies.
- ❖ Taxes

*Revenue recognition*

The Company and its subsidiaries generate revenues mainly from the followings:

- Sale of hardware products ("products") and to a lesser extent from sales of software products – The Video Solutions Business revenues.
- Fixed income real-estate.

*The Video Solutions Business revenues*

Revenues from product sales in which the software is incidental to the hardware are recognized in accordance with ASC 605, "Revenue Recognition" and Staff Accounting Bulletin No. 104, "Revenue Recognition in Financial Statements" (SAB 104), when delivery has occurred, persuasive evidence of an agreement exists, the vendor's fee is fixed or determinable, no further obligation exist and collectability is probable. Estimated warranty costs, which are insignificant, are based on the Company and its subsidiaries past experience and are accrued in the financial statements. The Company and its subsidiaries do not grant a right of return.

Revenues from sale of products that include post customer support are recognized in accordance with ASC 605-25 Multiple Element Arrangements" (formerly: Emerging Issues Task Force ("EITF") Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables"). Multiple-element arrangement (an arrangement that involves the delivery or performance of multiple products, services and/or rights to use assets) is separated into more than one unit of accounting, and revenue from such deliverables is recognized under SAB 104.

The Company accounts for product sales in which the software is more-than incidental to the functionality of the hardware in accordance with ASC 985-605 "Revenue Recognition - Software" (Formerly - Statement of Position No. 97-2, "Software Revenue Recognition"). ASC 985-605 generally requires revenue earned on software arrangements involving multiple elements to be allocated to each element based on the relative fair value of the elements. ASC 985-605 also requires that revenue be recognized under the "residual method" when vendor-specific objective evidence ("VSOE") of fair value exists for all undelivered elements and VSOE does not exist for one or more of the delivered elements. Under the residual method, any discount in the arrangement is allocated to the delivered elements.

Maintenance and support revenue included in multiple element arrangements is deferred and recognized on a straight-line basis over the term of the maintenance and support agreement. The VSOE of fair value of the undelivered elements (maintenance and support), is determined based on the renewal rate charged when these elements are sold separately.

Amounts received from customers for whom revenue has not yet been recognized, are presented as deferred revenues.

We assess collection based on a number of factors, including past transaction history, credit worthiness of the customer and in some instances a review of the customer’s financial statements. We insure a substantial part of our customers with credit insurance in cases of bankruptcy.

Our arrangements do not generally include an acceptance requirement. However if such an acceptance provision exists, then revenue recognition is deferred until written acceptance of the product has been received from the customer. All of our agreements in which revenues are recognized are non-refundable and non-cancelable.

Rental income includes minimum rents and expenses recoveries. Minimum rents are recognized on an accrual basis over the terms of the related leases on a straight-line basis. Leasehold improvements are capitalized and recorded as tenant improvements and depreciated over the shorter of the useful life of the improvement or the lease term. Lease revenue recognition commences when the lessee is given possession of the leased space and there are no contingencies offsetting the lessee's obligation to pay rent.

None of the lease agreements contain provisions that require the payment of additional rents based on the respective tenant's sales volume (contingent or percentage rent) and substantially all contain provisions that require reimbursement of the tenant's share of real estate taxes, insurance and common area maintenance costs, or common area maintenance fees ("CAM"). Revenue from tenant reimbursements of taxes, CAM and insurance is recognized in the period that the applicable costs are incurred in accordance with the lease agreements.

*Fixed income real-estate*

Rental income includes minimum rents and expenses recoveries. Minimum rents are recognized on an accrual basis over the terms of the related leases on a straight-line basis. Lease revenue recognition commences when the lessee is given possession of the leased space and there are no contingencies offsetting the lessee's obligation to pay rent.

Substantially all of the lease agreements contain provisions that require reimbursement of the tenant's share of real estate taxes, insurance and common area maintenance costs, or common area maintenance fees ("CAM"). Revenue from tenant reimbursements of taxes, CAM and insurance is recognized in the period that the applicable costs are incurred in accordance with the lease agreements.

*Allowance for doubtful debts*

We review on a continuing basis the ability to collect on the trade accounts receivable and the adequacy of the allowance for doubtful debts against the trade receivables. We specifically analyze customer accounts, account receivable aging reports, history of bad debts and the business or industry sector to which they belong, customer concentrations, customer credit-worthiness, current economic trends and any other pertinent factors that come to light and to our attention. Generally a provision will be made when a trade receivable becomes 90 days past due. In exceptional cases, a provision after 90 days past due will be waived when, after due diligence with the customer, we are confident that the receivable is still collectible and the customer has demonstrated that payment is forthcoming. In addition, we provide approximately 2% of the trade receivable amount as a general provision for doubtful debts. As of December 31, 2009, our provision for doubtful debt was approximately $414,000.

*Inventories valuation*

Significant judgment is required to determine the reserve for obsolete or excess inventory. Inventory on hand may exceed future demand either because the product is outdated or obsolete, or because the amount on hand is more than can be used to meet future need, or excess. We provide for the total value of inventories that we determine to be obsolete based on criteria such as customer demand and changing technologies. We value our inventories at the lower of cost or market price.

*Impairment of Long- Lived Assets*

We periodically evaluate our goodwill and long-lived assets for potential impairment indicators. Our judgments regarding the existence of impairment indicators are based on legal factors, market conditions and operational performance of our acquired businesses.

*Accounting for stock-based compensation*

The Company accounts for stock-based compensation in accordance with ASC 718 *"Compensation – Stock Compensation" (formally: SFAS 123(R), "Share-Based Payment*"). ASC 718 requires companies to estimate the fair value of share-based awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company's consolidated statements of income. In 2009, we recognized equity-based compensation expense under ASC 718 in the amount of approximately $222,000.

As of December 31, 2009, we had $170,000 of unrecognized compensation expense related to non-vested shares options and non-vested restricted shares awards. For options granted before January 1, 2006, and which had graded vesting, we recognized compensation expenses, based on the accelerated attribution method over the requisite service period of each of the awards. Forfeitures were accounted for as they occurred, but have been estimated with the adoption of ASC 718 for those awards not yet vested. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Estimated forfeitures are based on actual historical pre-vesting forfeitures.

*Contingencies*

We periodically estimate the impact of various conditions, situations and/or circumstances involving uncertain outcomes to our financial condition and operating results. These events are called "contingencies", and the accounting treatment for such events is prescribed by the ASC 450 *"Contingencies"* (formerly: SFAS 5, "Accounting for Contingencies") ASC 450 defines a contingency as "an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur". Legal proceedings are a form of such contingencies.

In accordance with ASC 450, accruals for exposures or contingencies are being provided when the expected outcome is probable. It is possible, however, that future results of operations for any particular quarter or annual period could be materially affected by changes in our assumptions, the actual outcome of such proceedings or as a result of the effectiveness of our strategies related to these proceedings.

*Income Taxes*

The Company and its subsidiaries account for income taxes in accordance with ASC 740, "*Income Taxes*" (Formerly: SFAS 109, "*Accounting for Income Taxes*"). This Statement prescribes the use of the liability method, whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company and its subsidiaries provide a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

Effective January 1, 2007, the Company adopted the provisions of ASC 740 (Formerly: FASB Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109*"). ASC 740 clarifies the accounting for uncertainties in income taxes by establishing minimum standards for the recognition and measurement of tax positions taken or expected to be taken in a tax return. Under the requirements of ASC 740, the Company must review all of its tax positions and make a determination as to whether its position is more-likely-than-not to be sustained upon examination by regulatory authorities. If a tax position meets the more-likely–than-not standard, then the related tax benefit is measured based on a cumulative probability analysis of the amount that is more-likely-than-not to be realized upon ultimate settlement or disposition of the underlying issue.

*Business Combinations*

In December 2007, the FASB issued ACS No. 805 (Formerly SFAS 141(R) ), "Business Combinations". This Statement replaces SFAS No. 141, ‘‘Business Combinations’’, and requires an acquirer to recognize the assets acquired, the liabilities assumed, including those arising from contractual contingencies, any contingent consideration and any non-controlling interest in the acquire at the acquisition date, measured at their fair values as of that date. In addition, the statement requirement to measure the non-controlling interest acquired at fair value will result in recognizing the goodwill attributable to the non-controlling interest in addition to that attributable to the acquirer.

ACS 805 applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008.

**Recent Accounting Pronouncements**

In June 2009, the FASB issued what has been codified in ASC 105, "Generally Accepted Accounting Principles" (Formerly: SFAS No. 168, "the FASB Accounting Standards Codifications and Hierarchy of GAAP - a Replacement of SFAS 162"). The Financial Accounting Standards Board (FASB) Accounting Standards Codification™ ("Codification") became the single source of authoritative U.S. GAAP. The Codification did not create any new GAAP standards but incorporated existing accounting and reporting standards into a new topical structure with a new referencing system to identify authoritative accounting standards, replacing the prior references to Statement of Financial Accounting Standards (SFAS), Emerging Issues Task Force (EITF), FASB Staff Position (FSP), etc. Authoritative standards included in the Codification are designated by their Accounting Standards Codification (ASC) topical reference, and new standards will be designated as Accounting Standards Updates (ASU), with a year and assigned sequence number. Beginning with this report for the year ended December 31, 2009, references to prior standards have been updated to reflect the new referencing system.

In October 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-13, "Multiple-Deliverable Revenue Arrangements" (ASU 2009-13). This update amends ASC Topic 605-25, "Revenue Recognition—Multiple-Deliverable Revenue Arrangements" to remove the criterion that entities must use objective and reliable evidence of fair value in separately accounting for deliverables and provides entities with a hierarchy of evidence that must be considered when allocating arrangement consideration. The update also requires entities to allocate arrangement consideration to the separate units of accounting based on the deliverables’ relative selling price. ASU 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, unless the election is made to adopt ASU 2009-13 retrospectively. The adoption of this guidance is not expected to have a material impact on the Company’s financial condition, results of operations and cash flows.

In October 2009, the FASB issued ASU No. 2009-14, "Certain Revenue Arrangements that Include Software Elements" (ASU 2009-14). This update modifies the scope of the software revenue recognition guidance to exclude (a) non-software components of tangible products and (b) software components of tangible products that are sold, licensed, or leased with tangible products when the software components and non-software components of the tangible product function together to delivery the product's functionality. ASU 2009-14 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, unless the election is made to adopt ASU 2009-14 retrospectively. The adoption of this guidance is not expected to have a material impact on the Company's financial condition, results of operations and cash flows.

In January 2010, the FASB issued ASU No. 2010-06, "Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements" (ASU 2010-06). ASU 2010-06 includes new disclosure requirements related to fair value measurements, including transfers in and out of Levels 1 and 2 and additional information about Level 3 activity. The new disclosures are required in interim and annual reporting periods beginning after December 15, 2009, except for the disclosures relating to Level 3 activity, which are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The adoption did not have a material impact on the Company's financial condition, results of operations or cash.

**Conditions in Israel**

We are incorporated under the laws of the State of Israel, and our principal offices and substantially all research and development and manufacturing facilities are located in Israel. Accordingly, we are directly affected by political, economic and military conditions in Israel.

*Political Conditions*

Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors and a state of hostility, varying from time to time in intensity and degree, has led to security and economic problems for Israel. Although Israel has entered into various agreements with Egypt, Jordan and the Palestinian Authority, since September 2000, there has been a high level of violence between Israel and the Palestinians. Recently, there has been a further escalation in violence among Israel, Hamas, a militant group responsible for many attacks into Israel, the Palestinian Authority and other groups. In addition, in July 2006, the Israeli army was engaged in extensive hostilities along Israel's northern border with Lebanon and to a lesser extent in the Gaza Strip. Since June 2007, the Hamas militant group has taken over the Gaza Strip from the Palestinian Authority, and the hostilities along Israel's border with the Gaza Strip have increased, escalating to a wide scale attack by Israel in December 2008, in retaliation to rocket attacks into southern Israel. These developments have further strained relations between Israel and the Palestinian Authority. Any armed conflict, political instability or violence in the region may have a negative effect on our business condition, harm our results of operations and could adversely affect our share price. No predictions can be made as to whether or when a final resolution of the area's problems will be achieved or the nature thereof and to what extent the situation will impact Israel's economic development or our operations. Certain countries, companies and organizations continue to participate in a boycott of Israeli firms. We do not believe that the boycott has had a material adverse effect on us, but restrictive laws, policies or practices directed towards Israel or Israeli businesses may have an adverse impact on the expansion of our business.

Generally, all male adult citizens and permanent residents of Israel under a certain age are obligated to perform military reserve duty which may amount to lengthily periods of time. Additionally, all such residents are subject to being called to active duty at any time under emergency circumstances. Currently, a majority of our officers and employees are obligated to perform annual reserve duty. While we have operated effectively under these requirements since our inception, we cannot assess the full impact of such requirements on our workforce or business if conditions should change, and we cannot predict the effect of any expansion or reduction of such obligations on us.

*Economic Conditions*

Israel's economy has been subject to numerous destabilizing factors, including a period of rampant inflation in the early to mid-1980's, low foreign exchange reserves, fluctuations in world commodity prices, military conflicts and civil unrest. The Israeli government has, for these and other reasons, intervened in various sectors of the economy, employing, among other means, fiscal and monetary policies, import duties, foreign currency restrictions and controls of wages, prices and foreign currency exchange rates. In 1998, the Israeli currency control regulations were liberalized significantly, as a result of which Israeli residents generally may freely deal in foreign currency and non-residents of Israel generally may freely purchase and sell Israeli currency and assets. There are currently no Israeli currency control restrictions on remittances of dividends on the ordinary shares or the proceeds from the sale of the shares; however, legislation remains in effect pursuant to which currency controls can be imposed by administrative action at any time. Currently, the global economy shows signs of growth slowdown which might also have an effect on the Israeli economy. The Israeli economy has also been subject to significant changes, as a result of implementation of new economic policies and privatization.

*Currency and Inflation*

A substantial majority of our sales and expenses are incurred or determined in U.S. dollars or are dollar-linked. The currency of the primary economic environment in which we operate is, therefore, the dollar, which is our functional reporting currency. Nevertheless, because certain of our expenses are incurred in NIS and are affected by changes in the Israeli consumer price index, the dollar cost of our operations is influenced by the extent to which any increase in the rate of inflation in Israel is not offset, or is offset on a lagging basis, by the devaluation of the NIS in relation to the dollar.

As of June 21, 2010, the inflation rate in Israel has increased at a rate of 0.4% and the NIS had devaluated against the dollar by approximately 1.0%. The inflation rate in Israel was approximately 3.4% in 2007, approximately 3.8% in 2008 and approximately 3.9% in 2009. At the same time the appreciation of the NIS against the dollar was approximately 9% in 2007, approximately 1.1% in 2008, and approximately 0.7% in 2009. As a result of this differential, we experienced an increase in the dollar costs of operations in Israel in each of the years 2007, 2008 and 2009, all of which did not materially affect our results in such periods. The fluctuations in the dollar costs of our operations in Israel related primarily to the costs of salaries in Israel, which are paid in NIS and constitute a significant portion of our expenses. We cannot assure you that we will not be materially adversely affected in the future if inflation in Israel exceeds the devaluation of NIS against the dollar or if the timing of such devaluation lags behind increases in inflation in Israel.

*Trade Agreements*

Israel is a member of the United Nations, the International Monetary Fund, the International Bank for Reconstruction and Development and the International Finance Corporation. Israel is also a signatory to the General Agreement on Tariffs and Trade, which provides for reciprocal lowering of trade barriers among its members. Israel has also been granted preferences under the Generalized System of Preferences from Japan. These preferences allow Israel to export the products covered by these programs either duty-free or at reduced tariffs.

Israel and the U.S. entered into a Free Trade Agreement (FTA) in 1985. Under the FTA, most products receive immediate duty-free status. The FTA eliminated all tariff and some non-tariff barriers on most trade between the two countries in 1995. Israel became associated with the European Economic Community, now known as the European Union, under a 1975 FTA, which confers some advantages with respect to Israeli exports to most European countries and obligates Israel to lower its tariffs with respect to imports from those countries over a number of years. Israel is a member of the European Union's Sixth Research and Development Program, giving Israelis access to research and development tenders in the European Union countries. Since 1993, a FTA has been in effect between Israel and the European Free Trade Association, or EFTA, whose members include Switzerland, Norway, Iceland and Liechtenstein. The agreement grants the exporting countries of EFTA trading with Israel conditions similar to those Israel enjoys with the U.S.

In recent years, Israel has established commercial and trade relations with a number of other nations, including Russia, China, India and other nations in Asia and Eastern Europe, with which Israel previously had not had these relations.

**5.B. LIQUIDITY AND CAPITAL RESOURCES.**

We have funded our operations primarily through private and public sales of our equity securities, banks credit, research and development grants from, among others, the Commission of the European Union and the OCS. As of December 31, 2009, we had cash and cash equivalents of $28.7 million. Our operating activities used cash of $6.6 million, $3.3 and $3.9 million in 2009, 2008 and 2007 respectively. Cash used by operating activities in 2007 was primarily the result of our net loss for the period, as adjusted for compensation related to the grant of option and restricted shares, depreciation and amortization, impairment of long term investments and other assets acquired partially offset by the net changes of our working capital mainly decrease in deferred revenues, accrued expenses and other accounts payables and an increase in inventory partially offset by the increase in trade payables. Cash used by operating activities in 2008 was primarily the result of our net loss for the period, as adjusted for compensation related to the grant of option and restricted shares, depreciation and amortization, equity in loss of Scopus and the net change in our working capital partially offset by the realized gain on the sale of our available-for-sales marketable securities and the decrease in our accrued severance pay, net. Cash used by operating activities in 2009 was primarily the result of our net income for the period, as adjusted for gain from sale of investment in affiliated company, increase in other accounts receivables and prepaid expenses, decrease in trade payables and a decrease in accrued expenses and other liabilities, partially offset by a decrease in inventories, depreciation and amortization and a decrease in trade receivables, net.

Net cash provided from investing activities in 2009 reflects primarily the proceeds from sale of a company totaling $28.6 million primarily offset by investment in real estate totaling $22.3 million, investment in other assets and the purchase of property and equipment totaling $659,000 and $276,000 respectively. In 2008 our investing activity used $240,000 which reflects primarily investment in companies totaling $8.6 million and the purchase of property and equipment totaling $393,000 partially offset by proceeds from redemption of available-for-sale marketable securities totaling $8.5 million and proceeds from sale of intangible assets totaling $218,000. Net cash provided from investing activities in 2007 reflects primarily the result of the redemption of available for sale marketable securities totaling $36.2 million partially offset by investing in companies totaling $20.4 million and purchase of property and equipment totaling $945,000.

Net cash provided from financial activities in 2009 was primarily the result of a long term loan totaling $18.3 million, received for the financing of our investment in real estate. Net cash provided from financial activities in 2008 was primarily the result of a private placement of 2,816,901 of our ordinary shares to Mr. Shlomo (Tom) Wyler, our President, Chief Executive Officer and then Executive Chairman of the board of directors, who is also considered as our controlling shareholder, in consideration for $5 million in cash., slightly offset by a decrease of $634,000 in bank credit. Net cash used in financial activities in 2007 reflects primarily the decrease of approximately $3 million in bank credit, partially offset by proceeds from exercise of stock options in the amount of approximately $225,000. Net cash provided by financing activities in 2006 reflects primarily the net proceeds from the exercise of stock options approximately in the amount of $498,000 and the increase in bank credit by approximately $2.4 million. As of December 31, 2009, we have an authorized credit line in the amount of $395,000 (none of which was utilized). As collateral for our lines of credit, a fixed charge has been placed on our property and equipment and shareholders' equity, and a floating charge (security interest in assets of the Company as they exist from time to time) has been placed on all of our other assets. We have an agreement with Clal Credit Insurance Ltd. for the provision of insurance against default on outstanding receivable balances.

As of December 31, 2009, our available cash including cash and cash equivalent was $28.7 million. As of June 21, 2010, we have available cash, and cash equivalents of approximately $32.5 million. The increase is mainly attributed to the release of a certain deposit totaling $3.75 million that was placed in escrow with respect to the 485 Lexington Avenue transaction. We manage our available cash on a discretionary basis, within the framework of an investment policy based upon an established set of guidelines approved by our board of directors. The main terms of the investment guidelines permit us to invest in the following securities: (i) U.S. treasury and government agency obligations (Government Securities); (ii) money market instruments of domestic and foreign issues denominated in U.S. dollars of commercial paper, bankers' acceptances, certificates of deposit, euro-dollar time deposits and variable rate issues (Money Market Instruments); (iii) up to 40% of the Company's assets, excluding Government Securities, cash and Money Market Instruments, or any combination of the following: (a) corporate notes and bonds rated investment grade (BAA/BBB- and above) on the date of their purchase, provided that investments in any one corporation or entity will not exceed $3 million; (b) investments in bonds and notes with lower rating then BBB- and higher rating of B, on their purchase date, provided that investments in any one corporation or entity will not exceed $1 million; (c) various financial instruments including structure range note products issued by a rated institution (A and above) in which the interest income may be subjected to changes in interests rate; (d) hedge funds up to $5 million of total portfolio pursuant to the following guidelines: (1) volatility below 10%; (2) minimum 5 years of positive performance; (3) low beta; (4) positive sharp ratio; (5) size of fund of at least $1 billion; (e) hedging transactions in order to protect us against currency fluctuations between the US dollar and the NIS as relates to up to $3 million operating expenses of the Company; and (f) purchasing of leading foreign currencies. The investment policy prohibits us from engaging in any non-business related investment activity that would be considered speculative according to the principles of conservative investment management and limits the borrowing for investment to no more than 25% of the investment principal. According to the investment policy, the maximum maturity of individual securities in the portfolio has no limitation and the weighted-average days to maturity of the portfolio may not exceed 10 years. For securities that have put, reset or expected average maturity dates, the put, reset or expected average maturity will be used, instead of the final maturity dates, for maturity limit purposes. The investment guidelines are to be reviewed periodically by our board of directors with the President and the Chief Financial Officer. In addition, our President and Chief Financial Officer and his authorized employees are responsible for the managing investments subject to strict adherence to these guidelines. As of the date hereof, we do not have any material contractual commitments related to capital expenditure. During 2009, we invested solely in interest bearing bank deposits and money market funds with various banks.

We believe that, considering the use of cash in our ongoing operations, together with the existing sources of liquidity described above, our current cash, cash equivalents and marketable securities will be sufficient to meet our needs for cash for at least the next 12 months. However, our liquidity and capital requirements are affected by many factors, some of which are based on the normal ongoing operations of our businesses and some of which arise from uncertainties related to global economies and the markets that we target for our services. In addition, we routinely review potential acquisitions. If we grow more rapidly than currently anticipated, it is possible that we would require more funds than anticipated. In that event, we would likely seek additional equity or debt financing, although we cannot assure you that we would be successful in obtaining such financing on favorable terms or at all.

**5.C. RESEARCH AND DEVELOPMENT**

Research and development expenses, net, consist primarily of labor expenses, development-related raw materials and subcontractors' services and related overhead, offset by grants. Our net research and development expenses have increased from $5.4 millions in 2007 to $6.4 million in 2008 and decreased to $3.7 million in 2009. As a percentage of revenues, our net research and development expenses changed to approximately 27.8% in 2009 from approximately 32% in 2008 and approximately 23.3% in 2007. Our level of research and development expenses had fluctuated over the years. The decrease in research and development expenses between 2009 and 2008 can primarily be attributed to the decrease in compensation expenses due to a decrease in headcount and a reduction in salaries and related costs and an increase in our research and development grants received from the OCS and the European Union. The increase in research and development expenses between 2008 and 2007 can primarily be attributed to the decrease in our research and development grants received from the OCS and the European Union and the increase in compensation expenses due to the devaluation of the USD against the NIS. Research and development grants totaled $1.3 million in 2009, $1.1 million in 2008 and $1.8 million in 2007.

For grants received from certain entities, see "Item 4.B. Business Overview - Research and Development" above.

**5.D. TREND INFORMATION**

The video solutions industry continues to be intensely competitive. We continue to focusing on developing technologies and new products, and research and development expenses might grow in the near future. We continue to market our new products, while expanding markets for our existing products. However, as discussed throughout this annual report, our operations have been subject, and will continue to be subject, to pressure from weakness in the overall technology sector as well as the video solutions industry.

Starting in 2008 the global economic downturn caused a slowdown in the fixed-income real estate market. In the later part of 2008 and through 2009, banks have lowered interest rates but at the same time were reluctant to provide financing or perform refinancing of existing debt. We will continue looking for opportunities in North America, Western Europe and Israel.

Our financial income affected by changes in the 6-month Libor rate, see "Item 3.D. Risk Factors" under the heading "Risks Relating to the Economy, Our Financial Condition and Shareholdings" above. During 2008 we have disposed of all of our investments in structure notes and corporate bonds.

We have been operating at a loss since the quarter ended December 31, 2000. We were able to return to profitability in the quarter ended June 30, 2003, and remain profitable until the quarter ended March 31, 2004. Since the quarter ended June 30, 2004 and until the quarter ended December 31, 2008 we returned to operate in loss. We returned to profitability in the quarter ended March 31, 2009. Since the quarter ended June 30, 2009 and until the quarter ended December 31, 2009 we returned to operate at a loss. If global economic conditions worsen resulting in weakening the demand for our products and increased vacancy in our real estate property, we may not be able to return to profitability in 2010.

**5.E. OFF-BALANCE SHEET ARRANGEMENTS**

There are no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

**5.F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS**

Set forth below are our contractual obligations and other commercial commitments as of December 31, 2009:

| | | Payments Due by Period (USD in thousands) | | | |
|---|---|---|---|---|---|
| **Contractual Obligations** | **Total** | **Less than 1 year** | **1- 3 years** | **4-5 years** | **After 5 years** |
| Long-Term Debt | 18,262 | 365 | 730 | 730 | 16,437 |
| Capital Lease Obligations | -- | -- | -- | -- | -- |
| Operating Leases | 1,416 | 841 | 575 | -- | -- |
| Purchase Obligations | -- | -- | -- | -- | -- |
| Severance pay | 1,731 | -- | -- | -- | 1,731 |
| Other Long-Term Obligations | -- | -- | -- | -- | -- |
| Total Contractual Cash Obligations | 21, 409 | 1,206 | 1,305 | 730 | 18,168 |

| | | Amount of Commitment Expiration Per Period (USD in thousands) | | | |
|---|---|---|---|---|---|
| **Other Commercial Commitments** | **Total** | **Less than 1 year** | **1- 3 years** | **4-5 years** | **After 5 years** |
| Lines of Credit | 395 | -- | 395 | -- | -- |
| Standby Letters of Credit | -- | -- | -- | -- | -- |
| Guarantees | 143 | -- | 143 | -- | -- |
| Standby Repurchase Obligations | -- | -- | -- | -- | -- |
| Other Commercial Commitments | -- | -- | -- | -- | -- |
| Total Commercial Commitments | 538 | -- | 538 | -- | -- |

**ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

**6,A. DIRECTORS AND SENIOR MANAGEMENT**

The following table sets forth information with respect to the individuals who are currently our directors and executive officers. All of these individuals are presently serving in the respective capacities described below:

| Name | Age | Position |
|---|---|---|
| Alex Hilman | 57 | Executive Chairman of the Board of Directors |
| Shlomo (Tom) Wyler(1) | 58 | President and Chief Executive Officer |
| Amir Philips | 41 | Chief Financial Officer |
| Yaron Comarov(5) | 44 | Vice President of Operations |
| Michael Chorpash(5) | 45 | President and Vice President of Sales, Optibase Inc |
| Ehud Ardel(5) | 41 | Vice President of Research and Development |
| Nir Shalev(5) | 41 | Vice President of Marketing |
| Yaron Yunger | 39 | Vice President of International Sales and Technical Support |
| Dana Tamir-Tavor(2) | 60 | Director |
| Orli Garti Seroussi (1)(2)(3) (4) | 49 | Director |
| Itzhak Wulkan(3) (2) (4) | 58 | Director |
| Danny Lustiger | 42 | Director |

- On February 12, 2009, Mr. Eli Sharon resigned from his position as our Vice President Research and Development.
- On October 1, 2009, Mr. Udi Shani resigned from his position as our Executive Vice President of International Sales and Technical Support.
- On October 1, 2009, Mr. Yossi Aloni resigned from his position as President of Optibase Inc and Vice President of Marketing.
- On September 1, 2009, Shlomo (Tom) Wyler resigned from his position as Executive Chairman of the Board of Directors.
- On September 1, 2009, Alex Hilman was appointed as the Executive Chairman of the Board of Directors.
- On October 28, 2009, Danny Lustiger was appointed as a director of the Company by our Board of Directors.

(1) Member of the investment committee
(2) Member of the audit committee
(3) Member of the compensation committee
(4) External Director
(5) Following the signing of the asset purchase agreement between the Company, Optibase Inc. and Optibase Technologies Ltd. on March 16, 2010, the Company terminated the employment of such officers, subject to the remainder of their early notice period. For further information, see Item 10.C "Material Contracts".

**Shlomo (Tom) Wyler** serves as a President, Chief Executive Officer and a member our Board of Directors. Since his investment in us in September 2001 (then through Festin Management Corp.), Mr. Wyler has served in various senior executive positions. Through the Festin Group, of which he is a co-owner, Mr. Wyler has had substantial stakes in several public companies in Switzerland. His other areas of involvement include investment banking, foreign exchange, financial futures and real-estate. In the early 1990s, Mr. Wyler turned his efforts to real estate interests in the U.S. More recently, his attention has been directed toward the high-tech industry in Israel. Mr. Wyler holds a Masters degree in Business Economics from the University of Zurich.

**Amir Philips** serves as our Chief Financial Officer. Mr. Philips has been serving in this position since May 2007. Prior to this position, Mr. Philips served as Vice President Finance of Optibase Inc. from July 2004. From 2000 until 2004, Mr. Philips held the position of Group Controller and Financial Manager at Optibase Ltd. Before joining Optibase, Mr. Philips was an accountant and auditor at Lotker Stein Toledano and Co., currently a member of BDO Ziv Haft. Mr. Philips is a Certified Public Accountant in Israel. He holds a B.B. degree in Accounting and Business Management from the Israeli College of Management.

**Yaron Comarov** served as our Vice President of Operations. Mr. Comarov has been serving in this position since 2000 and until his dismissal in May, 2010 (subject to the remainder of his early notice period). Prior to his present position, Mr. Comarov served as our Director of Operations, a position he has held since joining the Company in 1994. Before joining us, Mr. Comarov worked as an Operations and Project Manager at Israel Aircraft Industries. Mr. Comarov holds a B.Sc. degree in information systems and industrial engineering from the Technion Israel Institute of Technology and an MBA degree from Boston University.

**Michael Chorpash** served as President and Vice President of Sales at Optibase Inc. Since October 2009 and until his dismissal in May 2010 (subject to the remainder of his early notice period) Mr. Chorpash manages the North American operation for Optibase. Mr. Chorpash has vast experiences in the distribution of digital media throughout Enterprise, Broadcast, Telco and Government market segments. Mr. Chorpash had joined Optibase in 1991 and served as a regional sales manager and as Vice President of Sales since October 2007. Before joining Optibase Mr. Chorpash held management positions with Avnet, Inc. a Fortune 500 company that distributes electronic components, enterprise computer products and embedded subsystems.

**Ehud Ardel** served as our vice president Research and Development until his dismissal in May 2010 (subject to the remainder of his early notice period). Mr. Ardel has been with Optibase since 2000. Previously, Mr. Ardel served as a System Engineering Manager and Professional Services Manager. Before joining Optibase, Mr. Ardel held the position of System Engineer in a large military project on behalf of IAF (Israeli Air Force) and an IAF System Engineer in the military classified network system. Mr. Ardel holds BScEE (Control and Communications) from Tel-Aviv University.

**Nir Shalev** served as our vice president Marketing until his dismissal in May 2010 (subject to the remainder of his early notice period). Mr. Shalev joined Optibase in 2006 as Director of Product Marketing. Prior to Optibase, Mr. Shalev served as Director of Engineering at Hot Telecom Ltd. (Hot) the leading cable provider in Israel. Mr. Shalev is responsible for product definition, product marketing management and marketing communications activities. Mr. Shalev holds a practical engineer diploma in Electronic and Computer Science from Tel Aviv University.

**Yaron Yunger** served as our Vice President International Sales and Technical Support since October 2009 and until his dismissal in May 2010 (subject to the remainder of his early notice period). Mr. Yunger joined Optibase in 2000 as Regional Sales Manager for Asia. In 2002 was appointed as AVP of Asia Sales, in 2004 was appointed as AVP for EMAE sales and in 2006 was appointed as Vice President of Asia sales, managing the company's sales and support offices in China and India. Prior to Optibase, Mr. Yunger served as Director of Sales at CMR Communication and at the RAD Bynet Group as a Sales Manager. Mr. Yunger holds a BA in Business Administration from Newcastle University in the UK.

Y**ossi Aloni** served as President of Optibase Inc. and as our Vice President of Marketing until his resignation in October 2009. Mr. Aloni joined Optibase in May 2005 as Director of Broadcast Solutions. In January 2006 he was appointed as Director of Projects, in May 2006 he was appointed as Vice President of Marketing, and in January 2008 he was appointed as President of Optibase Inc. Previously, from 1998 to 2005, Mr. Aloni served as Director of Engineering/Chief Engineer at Telad, an Israeli channel originator. Prior to his appointment, he was Head of Post-Production at Telad. During his career in the video arena over almost two decades, Mr. Aloni also served as Technical Manager at Feltronics, and Golden Channels and Co., as well as Head of the Video Section in the Israel Defense Forces. Mr. Aloni earned his B.Sc. in Computer Science from the Weizmann Institute of Science.

**Udi Shani** served as our Executive Vice President International Sales and Technical Support until his resignation in October, 2009. Mr. Shani joined Optibase in 1999 as regional sales manager. In 2001, he was appointed as AVP of European Sales, in 2002 he relocated to North America where he founded and managed the Americas IPTV sales force, and in 2005 Mr. Shani returned to Israel and was appointed Executive Vice President International Sales. Prior to joining Optibase, Mr. Shani served as sales and marketing manager at Eden Telecom Ltd. and as sales manager at Muller Co. Mr. Shani holds a B.A. in Business Administration from the Israeli College of Management and an MBA from Manchester University.

**Eli Sharon** served as vice president Research and Development until his resignation in February, 2009. Mr. Sharon joined Optibase in 2007. Prior to joining Optibase, Mr. Sharon served as Director of System Engineering and Program Manager at DBS Satellite Services (1998) Ltd. (YES), the leading satellite television provider in Israel. Mr. Sharon holds a Bachelor of Technology in Electronic Engineering and Communication from Ariel University, Israel.

**Dana Tamir-Tavor** joined our board of directors in September 2000. Presently, Ms. Tamir serves as the Chief of Staff of the VAS Group in Comverse after having served as the co-manager of the Indian offshore operation for Comverse. From January 1997 to May 2000, Ms. Tamir served as the Chief Executive Officer of Qronus, Inc., a company that was spun off by Mercury Interactive Corp. Prior to that Ms. Tamir managed and executed large-scale Command Control & Communication real-time systems for the Israeli Defense Forces and European armies.

**Alex Hilman** serves as Executive Chairman of the Board of Directors since September 2009. He has joined the board of directors in February 2002. Mr. Hilman is a partner in Hilman & Co., which provides auditing, tax and business consulting services to corporations. Mr. Hilman was the President of the Israeli Institute of Certified Public Accountants in Israel, served on the board of IFAC, and is a member of the Small & Medium Practices committee in IFAC. Mr. Hilman has published professional works on tax and accounting, among them, The Israel Tax Guide, and in the past was an editor at Globes, a leading Israeli financial daily paper. Mr. Hilman has also held professional and management positions at the Ministry of Finance. Mr. Hilman holds a B.A. in Accountancy and Economics from Tel-Aviv University.

**Orli Garti Seroussi** joined our board of directors on January 31, 2008 as an external director. Ms. Garti-Seroussi has served as the General Manager of the Bureau of Municipal Corporation in the municipality of Tel-Aviv Jaffa since August 2001. From June 1999 until July 2001 Ms. Garti-Seroussi served as manager of consulting department in Shif-Hazenfrats & Associations, CPA firm. Prior to that, Ms. Garti-Seroussi served as Deputy Director of the Department of Market Regulation in the Israel Securities Authority and as an Auditor in the Tel Aviv Stock Exchange. Ms. Garti-Seroussi holds an M.P.A from Harvard University and M.B.A degree and a B.A degree in economics and accounting from Tel Aviv University.

**Itzhak Wulkan** joined our board of directors in December 17, 2007, as an external director. Mr. Wulkan is an independent entrepreneur and has over 30 years of experience in various aspects of Hi-Tech industry at senior positions in leading Israeli corporations (among others Vice-President of Business Development Wireless at Audiocodes Ltd.; Vice-President of Business Development MMA group at Comverse; founder and head of R&D and project department at Tadiran Switching). Mr. Wulkan holds an MBA degree from Tel Aviv University and a B.Sc degree in electrical engineering from the Technion – Israeli Technological Institute.

**Danny Lustiger** joined our board of directors in October 2009. Mr. Lustiger is Mr. Lustiger is the president and Chief Executive Officer of Cupron Inc. and has over 18 years of experience in various aspects of Hi-Tech industry at senior positions together with Real estate and infrastructure industries, experience at senior position in public companies. From 2007 until 2009, Mr. Lustiger served as the Chief Financial officer of Shikun & Binui Holdings Ltd. From 1996 and until 2005, Mr. Lustiger served at different managerial positions at Optibase including Chief Financial Officer. From 1993 to 1996 Mr. Lustiger held the position of an accountant and auditor at Igal Brightman & Co. (currently Brightman Almagor & Co., a member of Deloitte & Touche Tomatsu International). Mr. Lustiger is a Certified Public Accountant in Israel. Mr. Lustiger holds a B.A. degree in Accounting and Economics and an MBA in Finance and International management from the Tel-Aviv University.

**6.B. COMPENSATION.**

The aggregate remuneration we paid to all persons as a group (15 persons) who served in the capacity of director or executive officer in the year ended December 31, 2009, including compensation to directors and officers whose employment was terminated during 2009, was $1.38 million, including amounts paid to provide pension, retirement or similar benefits pursuant to standard Israeli plans but excluding amounts expended by us for vehicles made available to all of our officers, expenses reimbursed to officers and other fringe benefits commonly reimbursed or paid by companies in Israel. As of December 31, 2009, 12 persons served in the capacity as directors or executive officers in our Company and beneficially owned as of such date, options to purchase an aggregate of 257,500 ordinary shares which have not vested on December 31, 2009 or within 60 days thereafter. The exercise price of the options was between $1.192 and $3.16, the vesting period is spread out over a 4-year period and the expiration date of such options is generally 7 years as of their date of grant. In addition, as of June 21, 2010, our directors and executive officers beneficially owned 7,363,708 shares (of which 311,000 shares are issuable upon exercise of options that are currently vested or will vest within 60 days as of June 21, 2010).

*Indemnification, exemption and insurance of Directors and Officers*

The Companies Law permits a company to insure its directors and officers provide them with indemnification, either in advance or retroactively, and exempt its directors and officers from liability resulting from their breach of their duty of care towards the company, all in accordance with the terms and conditions specified under Israeli law. Our articles of association include clauses allowing us to provide our directors and officers with insurance, indemnification and to exempt them from liability subject to the terms and conditions set forth by the Companies Law, as described below.

Subject to statutory limitations, our articles of association provide that we may insure the liability of our directors and offices to the fullest extent permitted by the Companies Law. Without derogating from the aforesaid we may enter into a contract to insure the liability of our directors and officer for an obligation imposed on such director or officer in consequence of an act done in his capacity as a director or officer of Optibase, in any of the following cases:

- A breach of the duty of care vis-a-vis us or vis-a-vis another person;
- A breach of the fiduciary duty vis-a-vis us, provided that the director or officer acted in good faith and had a reasonable basis to believe that the act would not harm us;
- A monetary obligation imposed on him or her in favor of another person; or
- Any other matter in respect of which it is permitted or will be permitted under applicable law to insure the liability of our director or officer.

Our articles of association further provide that we may indemnify our directors and officers, to the fullest extent permitted by the Companies Law. Without derogating from the aforesaid, we may indemnify our directors and officers for liability or expense imposed on them in consequence of an action made by them in the capacity of their position as directors or officers of Optibase, as follows:

- Any financial liability he or she incurs or imposed on him or her in favor of another person in accordance with a judgment, including a judgment given in a settlement or a judgment of an arbitrator, approved by a court.
- Reasonable litigation expenses, including legal fees, incurred by the director or officer or which he or she was ordered to pay by a court, within the framework of proceedings filed against him or her by or on behalf of Optibase, or by a third party, or in a criminal proceeding in which he or she was acquitted, or in a criminal proceeding in which he or she was convicted of a felony which does not require a finding of criminal intent.
- Reasonable litigation expenses, including legal fees he or she incurs due to an investigation or proceeding conducted against him or her by an authority authorized to conduct such an investigation or proceeding, and which was ended without filing an indictment against him or her and without being subject to a financial obligation as a substitute for a criminal proceeding, or that was ended without filing an indictment against him, but with the imposition of a financial obligation, as a substitute for a criminal proceeding relating to an offence which does not require criminal intent, within the meaning of the relevant terms in the Companies Law.
- Any other obligation or expense in respect of which it is permitted or will be permitted under law to indemnify a director or officer of Optibase.

In addition, our articles of association provide that we may give an advance undertaking to indemnify a director and/or an officer in respect of all of the matters above, provided that with respect to the first matter above, the undertaking is restricted to events, which in the opinion of our board of directors, are anticipated in light of our actual activity at the time of granting the obligation to indemnify and is limited to a sum or measurement determined by our board of directors as reasonable under the circumstances. We may further indemnify an officer therein, save for the events subject to any applicable law.

Our articles of association further provide that we may exempt a director in advance and retroactively for all or any of his or her liability for damage in consequence of a breach of the duty of care vis-a-vis Optibase, to the fullest extent permitted by the Companies Law. Notwithstanding the foregoing, the Companies Law prohibits a company to exempt any of its directors and officers in advance from their liability towards such company for the breach of its duty of care in distribution, as defined in the Companies Law, for such company's shareholders (including distribution of dividend and purchase of such company's shares by the company or an entity held by it).

The above provisions with regard to insurance, exemption and indemnity are not and shall not limit the Company in any way with regard to its entering into an insurance contract and/or with regard to the grant of indemnity and/or exemption in connection with a person who is not an officer of the Company, including employees, contractors or consultants of the Company, all subject to any applicable law.

All of the above shall apply *mutatis mutandis* in respect of the grant of insurance, exemption and/or indemnification for persons serving on behalf of the Company as officers in companies controlled by the Company, or in which the Company has an interest.

The Companies Law provides that companies may not give insurance, indemnification (including advance indemnification), or exempt their directors and/or officers from their liability in the following events:

- a breach of the fiduciary duty, except for a breach of the fiduciary duty vis-à-vis the company with respect to indemnification and insurance if the director or officer acted in good faith and had a reasonable basis to believe that the act would not harm the company;
- an intentional or reckless breach of the duty of care, except for if such breach was made in negligence;
- an act done with the intention of unduly deriving a personal profit; or
- a fine imposed on the directors or officers.

We have a directors and officers liability insurance policy. Our shareholders approved indemnification of our directors and officers in connection with our public offerings. We have undertaken to indemnify our directors and officers to the fullest extent permitted by the Companies Law and our articles of association and entered into an indemnity letter with each of our directors and executive officers. The aggregate indemnification amount shall not exceed the higher of: (i) 25% of our shareholders' equity, as set forth in our financial statements prior to such payment; or (ii) $7.5 million.

Optibase, Inc. has also undertaken to indemnify its directors and officers to the maximum extent and in a manner permitted by the California Corporation Code and entered into an indemnity letter with each of its directors and officers, subject to similar limitations. The aggregate indemnification amount shall not exceed the higher of: (i) 25% of the shareholders' equity of Optibase, Inc., as set forth in Optibase, Inc.'s financial statements prior to such payment; or (ii) $7.5 million.

**6.C. BOARD PRACTICES**

Pursuant to our articles of association, our board of directors is required to consist of three to nine members. Directors are elected at the annual general meeting of our shareholders by a vote of the holders of a majority of the voting power represented at such meeting. Each director holds office until the annual general meeting of shareholders following the annual general meeting at which the director was elected or until his or her earlier resignation or removal. A director may be re-elected for subsequent terms. At present, our board of directors consists of six members, including two external directors appointed in accordance with the Israeli law requirements, as detailed herein. Our articles of association provide that our directors may at any time and from time to time, appoint any other person as a director, either to fill in a vacancy or to increase the number of members of our board of directors.

Under the Companies Law, each Israeli public company is required to determine the minimum number of directors with "accounting and financial expertise" that such company believes is appropriate in light of the particulars of such company and its activities. A director with "accounting and financial expertise" is a person that, due to education, experience and qualifications, is highly skilled and has an understanding of business-accounting issues and financial statements in a manner that enables him/her to understand in depth the company's financial statements and stimulate discussion regarding the manner of presentation of the financial data. Our board of directors resolved on March 30, 2006 and on June 27, 2010 that the minimum number of directors with accounting and financial expertise appropriate for us in light of the size of the board of directors and nature and volume of the Company's operations is one director (such director may serve as an external director, see below).

**External Directors**

Under the Companies Law, Israeli public companies are required to appoint at least two external directors to serve on their board of directors. Our shareholders approved in December 2007 the appointment of Mr. Itzhak Wulkan and Ms. Orly Garti-Seroussi as our external directors as of December 17, 2007 and as of January 31, 2008, respectively, for a three-year term. In addition, each committee of the board of directors entitled to exercise any powers of the board is required to include at least one external director. The audit committee must include all the external directors, See "Committees of the Board of Directors" below.

Pursuant to the Israeli Companies Law at least one external director is required to have "accounting and financial expertise" and the other is required to have "professional qualification" or "accounting and financial expertise". A director has "professional qualification" if he or she satisfies one of the following:

(i) the director holds an academic degree in one of these areas: economics, business administration, accounting, law or public administration;

(ii) the director holds an academic degree or has other higher education, all in the main business sector of the company or in a relevant area for the board position; or

(iii) the director has at least five years' experience in one or more of the following or an aggregate five years' experience in at least two or more of these: (a) senior management position in a corporation of significant business scope; (b) senior public office or senior position in the public sector; or (c) senior position in the main business sector of the company.

A director with "accounting and financial expertise" is a person that in light of his or her education, experience and skills has high skills and understanding of business-accounting issues and financial reports which allow him or her to deeply understand the financial reports of the company and hold a discussion relating to the presentation of financial information. The company's board of directors will take into consideration in determining whether a director has "accounting and financial expertise", among other things, his or her education, experience and knowledge in any of the following:

(i) accounting issues and accounting control issues characteristic to the segment in which the company operates and to companies of the size and complexity of the company;

(ii) the functions of the external auditor and the obligations imposed on such auditor;

(iii) preparation of financial reports and their approval in accordance with the companies law and the securities law.

An external director may not be appointed to an additional term unless: (i) such director has "accounting and financial expertise"; or (ii) he or she has "professional expertise", and on the date of appointment for another term there is another external director who has "accounting and financial expertise" and the number of "accounting and financial experts" on the board of directors is at least equal to the minimum number determined appropriate by the board of directors.

A company whose shares are traded in certain exchanges outside of Israel, including The NASDAQ Global Market, such as our company, is not required to nominate at least one external director who has accounting and financial expertise so long as another independent director for audit committee purposes who has such expertise serves on board of directors pursuant to the applicable foreign securities laws. In such case, all external directors will have professional qualification.

Under Israeli law, a person may not serve as an external director if at the date of the person's appointment or within the prior two years the person, or his or her relatives, partners, employers or entities under the person's control, have or had any affiliation with us or any entity controlling, controlled by or under common control with us. Under the Companies Law, "affiliation" includes an employment relationship, a business or professional relationship maintained on a regular basis or control or service as an office holder, excluding service as a director in anticipation of serving as an external director in a company that is about to offer its shares to the public for the first time.

A person may not serve as an external director if that person's position or other business activities create, or may create, a conflict of interest with the person's service as an external director or may otherwise interfere with the person's ability to serve as an external director. If at the time any external director is appointed, all members of the board are the same gender, then the external director to be appointed must be of the other gender.

External directors are elected by a majority vote at a shareholders' meeting, so long as either:

(i) the majority of shares voted for the election includes at least one-third of the shares of non-controlling shareholders voted at the meeting; or

(ii) the total number of shares of non-controlling shareholders voted against the election of the external director does not exceed one percent of the aggregate voting rights of the company.

The Companies Law provides for an initial three-year term for an external director which may be extended, for an additional three-year term. In the case of a company whose shares are traded in certain exchanges outside of Israel, including The Nasdaq Global Market, such as our company, regulations promulgated under the Companies Law provide that the service of an external director can be extended to additional three-year terms, if both the audit committee and the board of directors confirm that in light of the expertise and contribution of the external director, the extension of such external director's term would be in the interest of the company. Election of external directors requires a special majority, as described above. External directors may be removed only by the same special majority required for their election or by a court, and then only if the external directors cease to meet the statutory qualifications for their appointment or if they violate their duty of loyalty to the company. In the event the number of external directors is less than two external directors, our board of directors is required under the Companies Law to call a shareholders meeting to appoint a new external director.

Our external directors are Mr. Itzhak Wulkan and Ms. Orly Garti Seroussi.

External directors may be compensated only in accordance with regulations adopted under the Companies Law.

Following the appointment of Danny Lustiger, on October 28, 2009, a former officer of the Company, as an additional director of the Company, our board of directors does not have a majority of independent directors and therefore we are not in compliance with the NASDAQ Global Market rules requiring that the board of directors of a listed company contain a majority of independent directors and we have notified NASDAQ that we will be following home practice rules in this respect. Danny Lustiger has ceased to be an officer of the Company in November 2007, and therefore, during November 2010 (following the laps of 3 years from the termination of Danny Lustiger's employment) our board of directors is expected to have the majority of independent directors required pursuant to the NASDAQ Global Market rules.

**Committees of the Board of Directors**

Our board of directors has established an audit committee, a compensation committee and an investment committee, as described below.

*Audit Committee*

The Companies Law requires public companies to appoint an audit committee. The responsibilities of the audit committee include identifying irregularities in the management of the company's business and approval of related party transactions as required by law. An audit committee must consist of at least three members, and include all of the company's external directors. However, the chairman of the board of directors, any director employed by the company or providing services to the company on a regular basis, any controlling shareholder and any relative of a controlling shareholder may not be a member of the audit committee. An audit committee recommends approval of transactions that are deemed interested party transactions, including directors' compensation and transactions between a company and its controlling shareholder or transactions between a company and another person in which its controlling shareholder has a personal interest. An audit committee may not approve an action or a transaction with an officer or director, a transaction in which an officer or director has a personal interest, a transaction with a controlling shareholder and certain other transactions specified in the Companies Law, unless at the time of approval two external directors are serving as members of the audit committee and at least one of the external directors was present at the meeting in which an approval was granted.

In accordance with the Sarbanes-Oxley Act of 2002 and NASDAQ requirements, our audit committee reviews our internal accounting procedures and consults with and reviews the services provided by our independent auditors.

The rules of NASDAQ currently applicable to foreign private issuers, such as us, require us to establish an audit committee of at least three members, comprised solely of independent directors. All of the members of the audit committee must be able to read and understand basic financial statements, and at least one member must have experience in finance or accounting, requisite professional certification in accounting or comparable experience or background. The board has determined that Ms. Orly Garti-Seroussi is an audit committee financial expert as defined by applicable Securities and Exchange Commission, or the "SEC" or "Commission" regulation. The responsibilities of the audit committee under the NASDAQ rules include the selection and evaluation of the outside auditors and evaluation of their independence.

The members of the audit committee are Mr. Itzhak Wulkan, Ms. Dana Tamir –Tavor and Ms. Orly Garti-Seroussi. These include our two external directors as required under the Companies Law, and we believe that all of the members of the audit committee are independent of management, and satisfies the requirements of Companies Law, the SEC's rules and NASDAQ rules.

*Compensation Committee*

The compensation committee, which is comprised of Ms. Orli Garti Seroussi and Mr. Itzik Wulkan, reviews and recommends to the board of directors and in certain cases, determines, the compensation and benefits of our employees and reviews general policy relating to our compensation and benefits. The compensation committee also administers our share option plans. Both of the members of the compensation committee have been determined to be independent as defined by the applicable NASDAQ rules.

*Investment Committee*

Our investment committee, which is comprised of Ms. Orli Garti Seroussi and Mr. Shlomo (Tom) Wyler manages our investments in accordance with guidelines set by our board of directors.

The Israeli Companies Law requires the board of directors of a public company to appoint an internal auditor pursuant to the audit committee's proposal. The internal auditor must satisfy certain independence requirements as required by the law. The role of the internal auditor is to examine, among other things, the compliance of the company's conduct with applicable law and orderly business procedures. Our internal auditor is Doron Cohen, CPA (Isr.), CIA (USA).

We currently do not have a nomination committee, and the actions ordinarily taken by such committee are resolved by the majority of our independent directors, in accordance with the NASDAQ Global Market listing requirements.

*Employment Agreements*

Each of our executive officers entered into a written employment agreement with us that provides, among other things, that such officers be paid a monthly salary and bonuses. Each such agreement can be terminated either by us, or by the employee, upon prior notice, which ranges between 30 to 120 days for most of the management team. In the event of a change of control, termination of employment may result for some of the management members in acceleration of the vesting of options by an additional 12 to 24 months. The employment agreements also provide that each executive officer will maintain confidentiality of matters relating to us and will not compete with us during the period of the officer's employment and for a certain period thereafter.

**6.D. EMPLOYEES**

As of June 21, 2010, we had 79 employees, including employees in our subsidiaries and regional offices, of whom approximately 17 are part-time employees. The following is a comparison of the breakdown of our employees by division and location, for the years ended December 31, 2009, 2008 and 2007.

| | December 31, | | | | | |
|---|---|---|---|---|---|---|
| **Division** | **2007** | | **2008** | | **2009** | |
| | **US** | **Israel** | **US** | **Israel** | **US** | **Israel** |
| Research & Development | - | 48 | - | 39 | - | 29 |
| Sales and Technical Marketing | 8 | 23(1) | 12 | 19(2) | 10 | 16(3) |
| Marketing | 2 | 7 | 3 | 7 | 1 | 6 |
| Operations | 3 | 24 | - | 19 | - | 17 |
| General and Administrative, Finance and Human Resources | 3 | 14 | 3 | 12 | 2 | 13 |
| Total | 16 | 116 | 18 | 96 | 13 | 81 |
| | **132** | | **114** | | **94** | |

(1) This number includes 8 employees in Asia.
(2) This number includes 8 employees in Asia.
(3) This number includes 8 employees in Asia.

The number of employees as of December 31, 2009 had continuously decreased from December 31, 2008 and December 31, 2007. The decrease is mainly the result of the reduction in work-force implemented across all departments in the Company during the quarters ended March 31, 2009 and December 31, 2008.

In connection with the sale of the assets and liabilities related to our Video Solutions Business to Vitec, we have provided a dismissal notice to approximately 72 employees (out of the 79 employees employed by the Company as of the date of this annual report) whose employment shall terminate upon completion of their respective prior notice period. Some of our employees were offered employment by Vitec.

Certain provisions of Israeli law and of the collective bargaining agreements between the Histadrut (General Federation of Labor in Israel) and the Coordination Bureau of Economic Organizations (the Israeli federation of employers' organizations) apply to our Israeli employees directly or by an extension order of the Israeli Ministry of Industry, Trade and Labor. These provisions principally concern the maximum length of the workday and the workweek, minimum wages, recuperation payments, travel expenses, determination of severance payment and other conditions of employment. Furthermore, under these provisions, the wages of most of our employees are automatically adjusted in accordance with the cost of living adjustments, as determined on a nationwide basis and pursuant to agreements with the Histadrut based on changes in the Israeli consumer price index, which was extended by an extension order. The amounts and frequency of such adjustments are modified from time to time.

Israeli law generally requires the payment by Israeli employers of severance payment upon the retirement or death of an employee or upon termination of employment by the employer or, in certain circumstances, by the employee. We currently fund our ongoing severance obligations by making monthly payments for insurance policies. In addition, according to the Israeli National Insurance Law, Israeli employees and employers are required to pay specified amounts to the National Insurance Institute, which is similar to the United States Social Security Administration. These contributions entitle the employees to benefits in periods of unemployment, work injury, maternity leave, disability, reserve military service and bankruptcy or winding-up of the employer. Since January 1, 1995, such amounts also include payments for national health insurance payable by employees. A majority of our full-time employees are covered by general and/or individual life and pension insurance policies providing customary benefits to employees, including retirement and severance benefits.

The Israeli employment courts have restricted substantially non-competition provisions in employment agreements.

**6.E. SHARE OWNERSHIP**

As of June 21, 2010, our current directors and executive officers (12 persons) beneficially owned an aggregate of 7,363,708 ordinary shares of our Company of which 311,000 shares are issuable upon exercise of options that may be exercisable within 60 days of June 21, 2010. Such number excludes 14,000 ordinary shares held by a trustee for the benefit of directors and executive officers under the Company's incentive plan which have not vested as of June 21, 2010 or 60 days thereafter and award their holder no voting and equity rights. Other than Shlomo (Tom) Wyler, all of our directors or executive officers hold less than 1% of our shares. See "Item 7.A. Major Shareholders" for more information regarding Mr. Wyler's holdings.

**Incentive Plans**

Since 1990, we have granted options to employees and directors to purchase ordinary shares at exercise prices ranging from $0.17 to $32.00. As of June 21, 2010, options and warrants to purchase 991,600 of our ordinary shares were outstanding, with exercise prices ranging from $1.192 to $6.625 per share. As of June 21, 2010, 731,592 of the options described above have vested or are exercisable within 60 days of such date. The expiration date of the aforementioned options is generally 7 years from the date of their grant. As of December 31, 2008 and 2009, the number of options outstanding and reserved for issuance under our plans was 3,440,486 and 3,157,588, respectively. The following table shows the number of options outstanding and reserved for issuance under each of our incentive plans, as of June 21, 2010 or within 60 days thereafter.

| Plan | Number of options outstanding | Number of options reserved for issuance |
|---|---|---|
| 1999 Plans | 939,600 | 2,039,115 |
| 2001 Non-statutory share option plan | 52,000 | 391,060 |
| **Total options** | 991,600 | 2,229,821 |

| Plan | Number of shares outstanding | Number of shares reserved for issuance |
|---|---|---|
| 2006 Israeli Incentive Compensation Plan | 14,000 | 112,450 |
| **Total shares** | 14,000 | 112,450 |

In connection with the sale of our Video Solutions Business to Vitec, we have provided a dismissal notice to most of our employees which are to terminate their employment with us upon completion of their respective notice period. Following such termination and in light of our share price levels, we expect that upon consummation of the APA with Vitec, approximately 497,100 options shall return to our pool of options reserved for issuance.

The following is a description of our incentive plans currently in effect.

*1999 Plans*

In January 1999, our shareholders approved the adoption of an Israeli option plan, or the 1999 Israeli Plan, and a U.S. option plan, or the 1999 U.S. Plan, collectively the "1999 Plans" both plans have a joint pool of underlying shares to be granted thereunder. The 1999 Plans were amended from time to time to include different tax tracks. The purpose of the 1999 Plans is to attract and retain the best available personnel, to provide additional incentive to employees, directors and consultants and to promote the success of our business. In December 1999, our board of directors adopted a resolution to amend the 1999 Plans in a manner that as of April 1, 2000, the number of shares made available for grant under the 1999 Plans will be automatically increased annually, to equal 5% of our outstanding share capital at the relevant time. As of June 21, 2010, or within 60 days thereafter, an aggregate of 2,039,115ordinary shares has been reserved for issuance under this plan, and 939,600 were granted and are outstanding. Unless specifically changed for a certain grantee, options vest monthly over a period of four years, starting one year after the date of grant, subject to the continued employment of the grantee. The exercise price of the options is determined by our board of directors, subject to limitations. Generally, options granted under each of the 1999 Plans will have a term of no more than seven years from the date of grant. All options are subject to earlier termination upon termination of the grantee's employment or other relationship with us, generally no less than three months from termination. We may make certain exceptions, from time to time, in the vesting and expiration terms of options granted to certain grantees.

*2001 Non-statutory Share Option Plan*

In April 2001, our board of directors approved the adoption of the 2001 Non-statutory Share Option Plan, the purpose of which is to attract and retain the best available personnel, to provide additional incentive to employees and consultants and to promote the success of our business. The options to be granted under the plan are limited to non-statutory options, thus no incentive stock options are granted under the plan. In addition, we grant options only to employees pursuant this plan, thus excluding officers and directors from the plan. As such, we do not need shareholder approval of this plan under U.S. laws or applicable NASDAQ rules. As of June 21, 2010, or within 60 days thereafter, an aggregate of 391,060ordinary shares has been reserved for issuance under this plan, and 52,000 were granted and are outstanding. The plan otherwise has terms similar to those contained under the 1999 U.S. Plan

*2006 Israeli Incentive Compensation Plan*

In May 2006, our board of directors approved the adoption of the 2006 Israeli Incentive Compensation Plan, or the 2006 Plan, the purpose of which is to secure the benefits arising from ownership of share capital by our employees, officers and directors who are expected to contribute to the Company's future growth and success. The 2006 Plan provides for the grant of options, restricted shares and restricted share units in accordance with various Israeli tax tracks. We currently use the 2006 Plan for the grant of restricted shares only. The restricted shares are granted for no consideration and with a vesting schedule of two years (50% each year). The restricted shares are granted in accordance with the Israeli capital gains tax track. Termination of employment of a grantee for any reason will result in the forfeiture of such grantee's unvested restricted shares. All restricted shares are subject to earlier termination upon termination of the grantee's employment or other relationship with us, generally no less than 90 days from termination. We may make certain exceptions, from time to time, in the vesting and expiration terms of the securities granted to certain grantees. As of June 21, 2010 or within 60 days thereafter, an aggregate of 112,450 ordinary shares has been reserved for issuance under the 2006 Plan, and 14,000 were granted and are outstanding.

NASDAQ Listing Rules permit foreign private issuers to follow home country practices in regard to certain requirements, including the requirement to obtain shareholder approval in connection with the establishment of certain incentive plans. In June and September 2006, we notified NASDAQ that we elected to follow home practices with regard to the adoption of, and the amendment to, the 2006 Plan. Accordingly, the adoption of, and the amendment to, the 2006 Plan were not approved by our shareholders.

**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

**7.A. MAJOR SHAREHOLDERS**

The following table sets forth certain information known to the Company regarding the beneficial ownership of our outstanding ordinary shares as of June 21, 2010 of (i) each person or group known by us to beneficially own 5% or more of the outstanding ordinary shares and (ii) the beneficial ownership of all officers and directors as a group, in each case as reported by such persons:

| Name of Beneficial Owner | No. Of Ordinary Shares Beneficially Owned[1] | Percentage of Ordinary Shares Beneficially Owned |
|---|---|---|
| Shlomo (Tom) Wyler[2] | 7,089,934 | 42.62 |
| Arthur Mayer – Sommer[3] | 1,200,000 | 7.26 |
| Prescott Group Capital Management, L.L.C. [4] | 2,006,698 | 12.13 |
| Shareholding of all directors and officers as a group (12 persons)[5] | 7,363,708 | 43.71 |

(1) Number of shares and percentage ownership is based on 16,536,708 ordinary shares outstanding as of June 21, 2010. Such number excludes: (i) 347,573 ordinary shares held by us or for our benefit, and (ii) 14,000 ordinary shares granted under our 2006 Plan held by a trustee for the benefit of the grantees thereunder, both have no voting or equity rights as of the date hereof or within 60 days thereafter. Beneficial ownership is determined in accordance with rules of the SEC and includes voting and investment power with respect to such shares. Shares subject to options that are currently exercisable or exercisable within 60 days of June 21, 2010 are deemed to be outstanding and to be beneficially owned by the person holding such options for the purpose of computing the percentage ownership of such person, but are not deemed to be outstanding and to be beneficially owned for the purpose of computing the percentage ownership of any other person. All information with respect to the beneficial ownership of any principal shareholder has been furnished by such shareholder and, unless otherwise indicated below, we believe that persons named in the table have sole voting and sole investment power with respect to all the shares shown as beneficially owned, subject to community property laws, where applicable. The shares beneficially owned by the directors include the ordinary shares owned by their family members to which such directors disclaim beneficial ownership.

(2) Mr. Shlomo (Tom) Wyler currently serves as a President, Chief Executive Officer and a member in our Board of Directors. The information is based on Amendment No. 10 to Schedule 13D filed by Mr. Wyler on September 10, 2009. Includes 6,983,934 ordinary shares and 100,000 ordinary shares issuable upon exercise of option exercisable within 60 days of June 21, 2010 with an exercise price of $6 per option and expiration date of December 2011 and 6,000 ordinary shares held by a trustee for the benefit of Mr. Shlomo (Tom) Wyler under our 2006 Plan.

(3) To our knowledge, the information is accurate as of June 21, 2010 and is based on the website of NASDAQ online whose address is www.nasdaq.net.

(4) The information is accurate as of December 31, 2009 and based on Amendment No. 2 to Schedule 13G filed with the SEC by, among others, Prescott Group Capital Management, L.L.C. ("Prescott Capital") on February 12, 2010. The number of shares consists of 2,006,098 ordinary shares of the Company purchased by Prescott Group Aggressive Small Cap, L.P., an Oklahoma limited partnership ("Prescott Small Cap"), Prescott Group Aggressive Small Cap II, L.P., an Oklahoma limited partnership ("Prescott Small Cap II" and together with Prescott Small Cap, the "Small Cap Funds") through the account of Prescott Group Aggressive Small Cap Master Fund, G.P., an Oklahoma general partnership ("Prescott Master Fund"), of which the Small Cap Funds are general partners. Prescott Capital serves as the general partner of the Small Cap Funds and may direct the Small Cap Funds, the general partners of Prescott Master Fund, to direct the vote and disposition of the 2,006,098 ordinary shares of the Company held by the Prescott Master Fund. As the principal of Prescott Capital, Mr. Frohlich may direct the vote and disposition of the 2,006,098 ordinary shares of the Company held by Prescott Master Fund.

(5) Includes 7,052,708 ordinary shares and 311,000 ordinary shares issuable upon exercise of options exercisable within 60 days of June 21, 2010. Excludes 14,000 ordinary shares held by a trustee for the benefit of our directors and executive officers under our 2006 Plan, which have not vested on June 21, 2010 or within 60 days thereafter and do not acquire any voting or equity rights.

**Significant changes in the ownership of our shares.**

The following table specifies significant changes in the ownership of our shares held by Shlomo (Tom) Wyler. This information is based on Schedules 13D filed by Shlomo (Tom) Wyler during the period beginning on January 1, 2007, regarding ownership of our shares, and to date:

| Beneficial Owner – | Date of filing | No. Of Shares Beneficially Held |
|---|---|---|
| Shlomo (Tom) Wyler | June 25, 2008 | 5,218,739 |
| Shlomo (Tom) Wyler | August 14, 2008 | 6,761,448 |
| Shlomo (Tom) Wyler | August 13, 2009 | 7,285,934* |

* Including 200,000 ordinary shares issuable upon exercise of option which have expired on December 5, 2009.

The following table specifies significant changes in the ownership of our shares by MKM Longboat Capital Advisors LLP. This information is based on Schedule 13G filed by MKM Longboat Capital Advisors LLP during the period beginning on January 1, 2007, regarding ownership of our shares, and to date:

| Beneficial Owner – | Date of filing | No. Of Shares Beneficially Held |
|---|---|---|
| **MKM Longboat Capital Advisors LLP** | June 27, 2007 | 715,300 |
| | February 11, 2008 | 1,346,418 |
| | February 2, 2009 | - |

The following table specifies significant changes in the ownership of our shares by Prescott Group Capital Management, L.L.C. This information is based on Schedule 13G filed by Prescott Group Capital Management, L.L.C. during the period beginning on January 1, 2007, regarding ownership of our shares, and to date:

| Beneficial Owner – | Date of filing | No. Of Shares Beneficially Held |
|---|---|---|
| **Prescott Group Capital Management, L.L.C.** | February 14, 2008 | 1,362,192 |
| | January 6, 2009 | 2,004,698 |
| | February 12, 2010 | 2,006,098 |

All of our shares have the same voting rights.

On June 21, 2010, there were approximately 63 registered shareholders of our ordinary shares. As of such date, 43 registered holders in the United States hold approximately 81.15% of our ordinary shares. To the best of our knowledge, except as described above, we are not owned or controlled directly or indirectly by any government or by any other corporation. We are not aware of any arrangement, the operation of which may at a subsequent date result in a change in control of the company.

**7.B. RELATED PARTY TRANSACTIONS**

For a description of the insurance, indemnification and exemption granted to our directors and officers, see "Item 6.B. Compensation" above.

For a description of the grant of options to our directors and officers, see "Item 6.E. Share Ownership", above. In addition, each member of our board of directors is paid an annual fee of $18,000 for his/her service as a director.

On November 8, 2006 our shareholders approved the reimbursement of expenses to Shlomo (Tom) Wyler, our President, Chief Executive Officer and then Executive Chairman of our board of directors, who is also considered our controlling shareholder in an amount not to exceed $50,000 for each year beginning in 2006, all on account of performing his duties towards us.

On December 20, 2007, our shareholders approved an employment agreement between Optibase and Mr. Shlomo (Tom) Wyler with respect to Mr. Wyler's service as Chief Executive Officer of the Company. Under the agreement, Mr. Wyler will continue to serve as Chief Executive Officer of the Company in consideration for a gross monthly payment of NIS 40,000. In addition, Mr. Wyler will be entitled to managers' insurance, educational fund (keren hishtalmut), 24 days annual vacation, sick leave and 10 days replenishment fees (dmey havraa). The Company has also undertaken to provide Mr. Wyler with a telephone, facsimile, mobile phone, internet connection, laptop and printer and bear all installation costs and all expenses related thereto. The agreement further provides that Mr. Wyler shall be entitled to a one-time bonus in the amount of $10,000 upon the execution of the employment agreement. In addition, our board of directors, at its sole discretion, may grant Mr. Wyler an annual bonus for each year commencing in 2008 (for the year 2007) which shall not exceed twice Mr. Wyler's monthly salary. The agreement is for a three-year term commencing retroactively on October 1, 2007. Any party to the agreement may terminate it by providing the other party with a 4-month advance written notice. At the Company's discretion, Mr. Wyler shall be obligated to continue working during the first two months of such 4-month advance notice period. During the next two months Mr. Wyler shall be free to practice any other business without the receipt of the Company's approval. The Company may elect to pay Mr. Wyler a one time payment for such advance notice period. Notwithstanding the above, the Company may terminate the agreement and Mr. Wyler's employment immediately for Cause, as such term is defined in the agreement. See also the discussion regarding our relationships with Mobixell and V.Box under "Item 4.A. History and Development of the Company" above.

In June 2008, we issued, in a private placement, 2,816,901 of our ordinary shares to Mr. Shlomo (Tom) Wyler, the President, Chief Executive Officer and then Executive Chairman of the board of directors, who is also considered as our controlling shareholder, in consideration for $5 million in cash. We undertook to make our best efforts to register for resale the shares under the Securities Act within six months of the issuance date. On August 25, 2008, Mr. Shlomo (Tom) Wyler agreed to extend such period by an additional twenty four months as of such date. On October 19, 2009 and following such approval by our audit committee and board of directors, our shareholders approved the registration for resale under the Securities Act of 4,069,447 ordinary shares NIS 0.13 par value each, which constitute all the ordinary shares of the Company held, as of the date of this proxy statement, by Mr. Wyler. It has also been approved that we will bear the expenses relating to the preparation and filing of such registration statement. To date, such shares have not been registered for resale under the Securities Act.

In connection with our entering into a joint venture to acquire 49.5% of the beneficial interest in the office building located at 485 Lexington Avenue in Manhattan, New York, see Item 10.C "Material Contracts", our shareholders approved the provision of certain undertakings by Mr. Shlomo (Tom) Wyler, our Chief Executive Officer and President of the Company, who is deemed also the Company's controlling shareholder. The undertakings include a limited guarantee and indemnity for exceptional events by Mr. Wyler in favor of the bank servicing the loan for the property. Such events include, but are not limited to, fraud, bankruptcy, dissolution, reorganization and liquidation proceedings, prohibition on transfer, and certain acts of misapplication and misappropriation. Mr. Wyler and the Company entered into a reimbursement and indemnification agreement with Gilmor and its principles, in order to allocate their maximum obligations for responsibility under these guarantees and indemnities. Such undertakings have not yet been provided by Mr. Wyler. For information on the legal proceedings in connection with the property, see Item 8. "Financial Information - Legal Proceedings".

On October 19, 2009, our shareholders approved the compensation of Mr. Alex Hilman, a director of the Company, who was appointed on September 1, 2009 as Executive Chairman of the Board of Directors. The principal terms of such compensation are as follows: a monthly payment of NIS 20,000 plus applicable value added tax, against the receipt of a tax invoice. The Company will also reimburse Mr. Hilman of his reasonable expenses directly incurred by him in the performance of his duties against the production of appropriate receipts. In addition, Mr. Hilman was granted on October 19, 2009, 100,000 options exercisable into 100,000 ordinary shares NIS 0.13 nominal value each of the Company under the Section 102 of the Israeli Tax Ordinance, through the capital gains tax track. The options shall vest over a period of four years in equal parts, and will be exercisable until their 10th anniversary, subject to an exercise price of $1.192. All other terms of the options are as stated in the Company's 1999 Israeli Share Option Plan.

On May 6, 2010 our shareholders approved the compensation of Mr. Danny Lustiger as a director of the Company. Mr. Lustiger is entitled to an annual amount of US $18,000, plus reimbursement of expenses, with a retroactive effect as of the date Mr. Lustiger was appointed as a director of the Company (i.e. October 28, 2009), 50,000 options exercisable into 50,000 ordinary shares NIS 0.13 nominal value each of the Company under Section 102 of the Israeli Tax Ordinance, through the capital gains tax track. The options shall vest over a period of four years in four equal parts, and will be exercisable until their 10th anniversary subject to an exercise price of $2. All other terms of the options are as stated in the Company's 1999 Israeli Share Option Plan). Mr. Lustiger is also entitled to 4,000 restricted shares, which shall vest over two years in two equal parts, and which shall be granted pursuant to the Company's 2006 Israeli Incentive Compensation Plan.

We lend unsubstantial amounts, from time to time, to our employees, who are not officers, which payments are not deemed benefits by Israeli tax authorities.

**7.C. INTERESTS OF EXPERTS AND COUNSEL**

Not applicable.

**ITEM 8. FINANCIAL INFORMATION**

**8.a. Consolidated statements and other financial information**

See Item 18 for a list of financial statements filed as part of this annual report.

**Legal proceedings**

In September 2005, we were served with a lawsuit filed by Vsoft Ltd., or Vsoft, a company that is undergoing liquidation proceedings and which has claimed that during 2002 we negotiated with Vsoft in bad faith regarding a potential purchase of its share capital, which led to Vsoft's entering into bankruptcy proceedings. Vsoft demanded damages in the amount of $2,129,000 as well as the payment of reimbursement of expenses, legal fees and applicable VAT. On January 1, 2006, we filed a motion to dismiss the lawsuit based on our claim that Vsoft's receiver did not approve the lawsuit as determined by the liquidation court. As of June 23, 2010, our motion to dismiss was denied. We believe, based on the facts known to us and based on the advice of our external legal advisors as of this annual report, that though the claim for damages is without merit, the court may rule otherwise, and as such we have provided an amount which we believe would cover the risk associated with that lawsuit.

On February 2, 2010, Mazal 485 LLC, a company whose beneficial interest is jointly owned by us and by Gilmore USA LLC ("Mazal"), filed a lawsuit against SL Green Realty Corp. and several of its subsidiaries ("SL Green") regarding the Purchase Agreement for interests in 485 Lexington Avenue. On January 7, 2010, we received a notice from the seller of 485 Lexington Avenue stating that the Purchase Agreement is terminated. The lawsuit alleges that SL Green breached material terms of the Purchase Agreement and breached its covenant of good faith and fair dealing toward Mazal 485 LLC. The lawsuit seeks specific performance to enforce SL Green's obligations under the Purchase Agreement and an abatement of the purchase price to compensate Mazal 485 LLC for damages incurred as a result of SL Green's breaches. On March 16, 2010, SL Green filed a motion for an order dismissing Mazal's claims, which was heard on June 2, 2010. On June 23, 2010, SL Green's motion to dismiss Mazal's request for performance of the sale-purchase agreement, was granted. The court directed SL Green to answer to Mazal's remaining damage claims, while a conference was set for September 8, 2010. The case now proceeds with discovery on Mazal's remaining claims, seeking damages for failure to perform, which are limited by the Purchase Agreement to Mazal's reasonable out-of-pocket costs and expenses (including reasonable attorney's fees) incurred in connection with the agreement.

There is no assurance that the abovementioned legal proceedings will succeed and that we will be granted the sought performance of the transaction and/or damages. For further information see Item 10.C "Material Contracts".

There are several legal proceedings initiated against us in the ordinary course of business, and we do not believe that the outcome of these proceedings, if adverse to us, individually or in the aggregate, will have a significant effect on our financial position or profitability.

**Dividend Policy**

We have not declared or paid any cash dividends on our ordinary shares in the past. We do not expect to pay cash dividends on our ordinary shares in the foreseeable future and intend to retain our future earnings, if any, to finance the development of our business.

A dividend policy, if adopted, will be determined by our board of directors and will depend, among other factors, upon our earnings, financial condition, capital requirements, the impact of the distribution of dividends on our financial condition and tax liabilities, and such other conditions as our board of directors may deem relevant. Under Israeli law, an Israeli company may pay dividends only out of its retained earnings as determined for statutory purposes. Under our articles of association the distribution of dividends will be made by a resolution of the Company's board of directors. See "Description of Share Capital" and "Israeli Taxation and Investment Programs".

Cash dividends paid by an Israeli company are normally subject to a withholding tax, except for dividends paid to an Israeli company in which case no tax is withheld unless the dividend is in respect of earnings from an Approved Enterprise. In addition, because we have received certain benefits under Israeli laws relating to Approved Enterprises, the payment of dividends by us may be subject to certain Israeli taxes to which we would not otherwise be subject. The tax-exempt income attributable to the Approved Enterprise can be distributed to shareholders without subjecting us to taxes only upon our complete liquidation. If we decide to distribute cash dividends out of income that has been exempted from tax, the income out of which the dividend is distributed will be subject to corporate tax at a rate between 10% and 25%. See "Israeli Taxation and Investment Programs". In the event that cash dividends are declared in the future, such dividends will be paid in NIS or in foreign currency subject to any statutory limitations. Under current Israeli regulations, any dividends or other distributions paid in respect of ordinary shares will be freely repatriable in such non-Israeli currencies at the rate of exchange prevailing at the time of conversion, provided that Israeli income tax has been paid on, or withheld from, such payments. Because exchange rates between the NIS and the dollar fluctuate continuously, a U.S. shareholder will bear the risks of currency fluctuations during the period between the date such dividend is declared and paid by us in NIS and the date conversion is made by such shareholder into U.S. dollars.

**ITEM 8.B. SIGNIFICANT CHANGES**

On March 1, 2010 the company's Luxembourgish subsidiary (the Company) entered into an Option Agreement with a Cypriot company, Chessell Holdings Limited With respect to the commercial building acquired by the Company in October, 2009, in Rümlang, Switzerland. Through its beneficial owner, Chessell Holdings introduced Optibase to the Rümlang property and facilitated Optibase's acquisition and financing of the property. Under the Option Agreement, the Company granted Chessell Holdings an option to purchase twenty percent (20%) of the share capital of the Company. Chessell Holdings undertook to pay a purchase price for the option of CHF 315,000 for the option. The exercise price under the Option Agreement is calculated based on Optibase's acquisition costs for the Rümlang Property plus interest and an adjustment for proceeds that are distributed to the Company's shareholders. The shares that would be issued to Chessell Holdings upon exercise of the option will not have voting rights and would be subject to transfer restrictions in favor of Optibase.

In March 2010, Mobixell networks had acquired a company and paid part of the acquisition costs with newly issued shares. As a result, the Company's holding in Mobixell on a fully diluted basis had decreased from 4.34% to 3.71%.

On March 16, 2010, the Company signed an APA (Assets Purchase Agreement) Optibase Technologies Ltd., a wholly owned subsidiary of VITEC Multimedia ("Vitec") pursuant to which Optibase Ltd. and its subsidiary Optibase Inc. (collectively, "Optibase") will sell their entire video business to Vitec (the "Business" and the "Transaction", respectively). Under the terms of the transaction, which was approved by the Board of Directors of both companies, in consideration for the sale of the Business, Vitec will pay the Company an aggregate amount of US $8 million in cash of which US $1 million will be deposited in escrow for a 2-year period as a security, inter alia, for breach or material inaccuracy relating to Optibase's representations and warranties. In addition, Optibase and Vitec agreed on an earn-out mechanism pursuant to which 45% of Vitec's revenues deriving from the Business exceeding $14 million in the year following the closing of the Transaction will be paid to Optibase. Consummation of the Transaction is subject to the fulfillment of certain conditions precedent standard for transactions of this nature. Closing of the Transaction is expected to occur on June 30, 2010, after the release of this annual report. Upon signing of the Transaction, Vitec deposited US $500,000 in escrow to be paid to Optibase if closing does not take place within a specific period of time from signing, subject to certain limited circumstances, principally relating to non fulfillment of certain closing conditions by Optibase, in which case, such funds will be returned to Vitec.

**ITEM 9. THE OFFER AND LISTING**

**9.A. OFFER AND LISTING DETAILS**

Our ordinary shares are traded on The NASDAQ Global Market under the symbol OBAS since our initial public offering on April 7, 1999. The following table sets forth, for the periods indicated, the high and low closing sale prices per share of our ordinary shares as reported by The NASDAQ Global Market.

| | Nasdaq | |
|---|---|---|
| **Year** | **High** | **Low** |
| **2005** | $ 6.69 | $ 4.49 |
| **2006** | $ 5.01 | $ 2.62 |
| **2007** | $ 4.52 | $ 2.52 |
| **2008** | $ 2.73 | $ 0.74 |
| **2009** | $ 1.50 | $ 0.93 |

| **2008** | **High** | **Low** |
|---|---|---|
| First Quarter | $ 2.73 | $ 1.61 |
| Second Quarter | $ 2.2 | $ 1.59 |
| Third Quarter | $ 1.83 | $ 1.14 |
| Fourth Quarter | $ 1.34 | $ 0.74 |

| **2009** | **High** | **Low** |
|---|---|---|
| First Quarter | $ 1.29 | $ 0.93 |
| Second Quarter | $ 1.50 | $ 1.02 |
| Third Quarter | $ 1.35 | $ 1.05 |
| Fourth Quarter | $ 1.45 | $ 1.13 |
| **2010** | | |
| First Quarter | $ 1.43 | $ 1.20 |
| Second Quarter (until June 21, 2010) | $ 1.55 | $ 1.35 |

| **Most Recent Six Months** | **High** | **Low** |
|---|---|---|
| December 2009 | $ 1.45 | $ 1.27 |
| January 2010 | $ 1.38 | $ 1.22 |
| February 2010 | $ 1.25 | $ 1.2 |
| March 2010 | $ 1.43 | $ 1.22 |
| April 2010 | $ 1.55 | $ 1.37 |
| May 2010 | $ 1.49 | $ 1.35 |
| June 2010 (until June 21, 2010) | $ 1.43 | $ 1.39 |

We listed our ordinary shares for trade on the TASE, on August 6, 2007. On September 23, 2008, we decided to delist our ordinary shares from trade on the TASE. The delisting of the Company's ordinary shares from trade on the TASE became effective on September 28, 2008 and the last day for trading of the Company's ordinary shares on the TASE was September 24, 2008.

On June 21, 2010, the reported closing sale price of our ordinary shares on The NASDAQ Global Market, was $1.42 per share.

**9.B PLAN OF DISTRIBUTION**

Not applicable.

**9.C MARKETS**

Our ordinary shares have been listed on The NASDAQ Global Market since April 7, 1999, under the symbol "OBAS".

**9.D SELLING SHAREHOLDERS**

Not applicable.

**9.E DILUTION**

Not applicable.

**9.F EXPENSES OF THE ISSUE**

Not applicable.

**ITEM 10. ADDITIONAL INFORMATION**

**10.A. SHARE CAPITAL**

Not applicable.

**10.B. MEMORANDUM AND ARTICLES OF ASSOCIATION**

**Purposes and Objects of the Company**

We are a public company registered under the Companies Law as Optibase Ltd., registration number 52-0037078.

Pursuant to our articles of association, our objectives are to engage in any lawful business and our purpose is to act pursuant to business considerations to make profits.

Our articles of association also state that we may contribute a reasonable amount for an appropriate cause, even if the contribution is not within the framework of our business considerations.

**The Powers of the Directors**

The power of our directors to vote on a proposal, arrangement or contract in which the director is interested is limited by the relevant provisions of the Companies Law. In addition, the power of our directors to vote on compensation to themselves or any members of their body is limited in that such decision requires the approval of the audit committee, the board of directors and the shareholders at a general meeting, see "Approval of Certain Transaction" below.

The powers of our directors to borrow are not limited, except in the same manner as any other transaction by the company.

**Rights Attached to Shares**

Our registered share capital is NIS 3,900,000 divided into a single class of 30,000,000 ordinary shares, par value NIS 0.13 per share, of which 16,914,281 ordinary shares were outstanding as of June 21, 2010. All outstanding ordinary shares are validly issued, fully paid and non-assessable. The rights attached to the Ordinary Shares are as follows:

*Dividend rights*

Holders of Ordinary Shares are entitled to the full amount of any cash or share dividend subsequently declared. The Board of Directors may propose a dividend only out of profits, in accordance with the provisions of the Companies Law. Declaration of a dividend requires the approval of our board of directors. Please see "Item 10.E. Taxation" below.

One year after a dividend has been declared and is still unclaimed, the board of directors is entitled to invest or utilize the unclaimed amount of dividend in any manner to our benefit until it is claimed. We are not obligated to pay interest or linkage differentials on an unclaimed dividend.

*Voting rights*

Holders of ordinary shares have one vote for each ordinary share held on all matters submitted to a vote of shareholders. Such voting rights may be affected by the grant of any special voting rights to the holders of a class of shares with preferential rights that may be authorized in the future. Currently there are no shares of capital stock outstanding with special voting rights. The quorum required for an ordinary meeting of shareholders consists of at least two shareholders present in person or by proxy who hold or represent, in the aggregate, at least thirty three and one third percent (33.3%) of our voting rights. In the event that a quorum is not present within half an hour of the scheduled time, the shareholders' meeting will be adjourned to the same day of the following week, at the same time and place, or such time and place as the board of directors may determine by a notice to the shareholders. If at such adjourned meeting a quorum is not present at the time of opening of such meeting, two shareholders, at least, present in person or by proxy, shall constitute a quorum.

An ordinary resolution, such as a resolution for the election of directors, or the appointment of auditors, requires the approval by the holders of a majority of the voting rights represented at the meeting, in person, by proxy or through a voting instrument and voting thereon. Under our articles of association, if a resolution to amend the articles of association is recommended by our board of directors, such recommended resolution’s adoption in a general meeting of the shareholders requires an ordinary majority. In any other case, such a resolution requires approval of a special majority of more than three quarters of the votes of the shareholders entitled to vote themselves, by proxy or through a voting instrument.

The directors are appointed by decision of an ordinary majority at a general meeting. The directors have the right at any time, in a resolution approved by at least a majority of our directors, to appoint any person as a director, subject to the maximum number of directors specified in our articles of association, to fill in a place which has randomly been vacated, or as an addition to the board of directors. Any such director so appointed shall hold office until the next annual general meeting and may be reelected.

Under our articles of association our directors are elected by an ordinary majority of the shareholders at each duly convened annual meeting, and they serve until the next annual meeting, provided that external directors shall be elected in accordance with the Israeli Companies Law. In each annual meeting the directors that were elected at the previous annual meeting are deemed to have resigned from their office. A resigning director may be reelected.

Under the NASDAQ corporate governance rules, foreign private issuers are exempt from many of the requirements if they instead elect to be exempted from such requirements, provided they are not prohibited by home country practices and disclose where they have elected to do so.

*Rights in the Company's profits*

All of our ordinary shares have the rights to share in our profits distributed as a dividend and any other permitted distribution.

*Rights in the event of liquidation*

All of our ordinary shares confer equal rights among them with respect to amounts distributed to shareholders in the event of liquidation.

**Changing Rights Attached to Shares**

According to our articles of association, our share capital may be divided into different classes of shares or the rights of such shares may be altered by an ordinary majority resolution passed by the general meetings of the holders of each class of shares separately, or after obtaining the written consent of the holders of all of the classes of shares. As of the date hereof, we only have one class of shares.

**Annual and Extraordinary Meetings**

Our board of directors must convene an annual meeting of shareholders every year by no later than the end of fifteen months from the last annual meeting. Notice of at least twenty-one days prior to the date of the meeting is required. An extraordinary meeting may be convened by the board of directors, as it decides or upon a demand of any two directors or 25% of the directors, whichever is lower, or by one or more shareholders holding in the aggregate at least 5% of the voting rights in the Company. Where the board of directors is requisitioned to call a special meeting, it shall do so within twenty-one days, for a date that shall not be later than thirty-five days from the date on which the notice of the special meeting is published. Notice of a general meeting shall be given to all shareholders entitled to attend and vote at such meeting. No separate notice is to be given to registered shareholders of the Company. Notices may be provided by the Company in person, in mail, transmission by fax or in electronic form. A notice to a shareholder may alternatively be served, as general notice to all shareholders, in accordance with the rules and regulations of any applicable securities authority with jurisdiction over the Company or in accordance with the rules of any stock market upon which the Company's shares are traded.

**Limitations on the Rights to Own Securities in the U.S.**

Our memorandum and articles of association do not restrict in any way the ownership of our shares by non-residents of Israel, and neither the memorandum and articles of association nor Israeli law restricts the voting rights of non-residents of Israel, except that under Israeli law, any transfer or issue of shares of a company to a resident of an enemy state of Israel is prohibited and shall have no effect, unless authorized by the Israeli Minister of Finance.

**Limitations on Change in Control and Disclosure Duties**

Our memorandum and articles of association do not restrict the change of control nor do they impose any disclosure duties beyond the requirements set out in Israeli law. For restriction of change of control provision under Israeli law, see "Item 3.D. Risk Factors", under the heading "Risks Relating to Operations in Israel – Anti-takeover Provisions" above.

**Changes in Our Capital**

Changes in our capital are subject to the approval of the shareholders at a general meeting by an ordinary majority of shareholders participating and voting in the general meeting.

**Fiduciary Duty and Duty of Care of Directors and Officers**

The Companies Law codifies the duties directors and officers owe to a company. An "Officer" includes a company's directors, general manager, general business manager, executive vice president, vice president, any other person assuming the responsibilities of any of the foregoing positions without regard to such person's title and other managers directly subordinate to the general manager. The directors' and officers' principal duties to the company are a duty of care and a fiduciary duty to act in good faith for the company's benefit which include:

- the avoidance of any conflict of interest between the director's or officer's position with the company and any other position he or she fulfills or with his or her personal affairs;
- the avoidance of any act in competition with the company's business;
- the avoidance of exploiting any of the company's business opportunities in order to gain a personal advantage for himself or for others; and
- the disclosure to the company of any information and documentation relating to the company's affairs obtained by the director or officer due to his or her position with the company.

The Companies Law requires that directors, officers or a controlling shareholder of a public company disclose to the company any personal interest that he or she may have, including all related material facts or documents in connection with any existing or proposed transaction by the company. The disclosure must be made without delay and no later than the first board of directors meeting at which the transaction is first discussed.

**Approval of Certain Transactions**

Generally, under the Companies Law, engagement terms of directors, including the grant of an exemption from liability, purchase of directors' and officers' insurance, or grant of indemnification (whether prospective or retroactive) and engagement terms of such director with a company in other positions require the approval of the audit committee, the board of directors and the shareholders of the company. In addition, transactions between a public company and its director or officer, or a transaction between such company and other person in which such director or officer has a personal interest must be approved by such company's board of directors, and if such transaction is considered an extraordinary transaction (as defined below) it must receive the approval of such company's audit committee as well.

The Companies Law also requires that any extraordinary transaction between a public company and its controlling shareholder or an extraordinary transaction between such company and other person in which such company's controlling shareholder has a personal interest must be approved by the audit committee, the board of directors and the shareholders of the company by an ordinary majority, provided that (i) such majority vote at the shareholders meeting shall include at least one third (1/3) of the total votes of shareholders having no personal interest in the transaction, participating at the voting (excluding abstaining votes); or (ii) the total number of votes of shareholders mentioned in clause (i) above who voted against such transaction does not exceed one percent (1%) of the total voting rights in the company. An "extraordinary transaction" is defined in the Companies Law as any of the following: (i) a transaction not in the ordinary course of business; (ii) a transaction that is not on market terms; or (iii) a transaction that is likely to have a material impact on the company's profitability, assets or liability.

The Companies Law further provides that the engagement terms of a controlling shareholder with the company, either as an officer or an employee, must also be approved by such company's audit committee, board of directors and general meeting by the special majority described above.

The Companies Law prohibits any director who has a personal interest in a matter to participate in the discussion and voting pertaining to such matter in the company's board of directors or audit committee except for in circumstances when the majority of the board of directors' have a personal interest in the matter and then such matter must also be approved by the company's shareholders.

**10.C. MATERIAL CONTRACTS**

***Voting Agreement with Harmonic***

On December 23, 2008, Scopus entered into a definitive agreement with Harmonic, pursuant to which Harmonic undertook to acquire Scopus by way of merger pursuant to which each shareholder of Scopus is entitled to receive $5.62 in cash per each outstanding share of Scopus. At the time of such agreement, we held approximately 36% of Scopus' outstanding share capital. In connection with the said transaction, we entered into a voting agreement with Harmonic pursuant to which we undertook to vote in favor of the merger and the transactions contemplated by the merger agreement. We have also agreed to grant to Harmonic a proxy and appointed certain Harmonic officers as its proxy to vote in favor of the merger. On March 12, 2009, following the closing of the merger agreement between Scopus and Harmonic, we disposed of our entire holding in Scopus shares consisting of 5.1 million shares representing 36.34% of Scopus then issued share capital for a total consideration of $28.7 million. As a result, during the first quarter ended March 31, 2009, we recorded other income of $4.8 million, net of equity in losses.

***Private Placement to Shlomo (Tom) Wyler***

In June 2008, we issued in a private placement 2,816,901 ordinary shares of the Company to Mr. Shlomo (Tom) Wyler, the President, Chief Executive Officer and then Executive Chairman of our board of directors, who is also considered as our controlling shareholder, in consideration for $5 million in cash, in the aggregate. For further information, see "Item 7.B Related Party Agreements".

***Purchase of Interest in a Property in 485 Lexington Avenue, New-York, NY***

On August 7, 2009, Mazal 485 LLC, a joint venture owned in equal parts by Optibase and Gilmor USA LLC, an unrelated party ("Mazal"), entered into a Sale-Purchase Agreement with a subsidiary of SL Green Realty Corp. ("SL Green"), pursuant to which Mazal would acquire from SL Green 49.5% of the ownership of Green 485 JV LLC, a Delaware limited liability company which, prior to the closing, would own the entire beneficial interest in the office building located at 485 Lexington Avenue in Manhattan, New York. In consideration for the purchased interest in Green 485 JV LLC, Mazal would pay a purchase price of approximately $20,790,000 (which shall be contributed in equal shares by Optibase and Gilmor).

If closing were to occur, Green 485 JV LLC would have had existing debt to an affiliate of the SL Green in the amount of $12,200,000 which shall become due in 2013.

Mazal 485 LLC paid an initial deposit of $7,500,000 into escrow in order to secure the payment of the purchase price under the Sale-Purchase Agreement. Such sums were later returned to Mazal 485 LLC following the termination of the Sale-Purchase Agreement.

Under the agreement, upon completion of the transaction, Mazal would make an approximately $20,000,000 nonrecourse loan to SL Green which would mature on December 31 2020 and which would be secured by a pledge by the SL Green of an additional 49.5% interest in Green 485 JV LLC, with the SL Green retaining an unencumbered 1% interest in Green 485 JV LLC. Mazal would also acquire an option to purchase such additional ownership interests which is exercisable until December 31, 2022, subject to certain limitations.

The transactions above are subject to certain conditions including the lender’s approval of the transfer of ownership in Green 485 JV LLC and the lender’s approval of substitute guarantors under the existing nonrecourse mortgage financing in the principal amount of $450,000,000 serviced by Wachovia Bank.

*For information on a termination letter we received in connection with this property and a lawsuit filed in connection with such letter of termination, see Item 8. "Financial Information - Legal Proceedings" above.*

***Purchase of a Property in Rümlang, Switzerland***

On October 29, 2009, the company's subsidiary Optibase RE 1 SARL ("Optibase RE 1"), which is wholly owned by the company's subsidiary Optibase Real Estate SARL, entered into a Purchase Agreement with the Swiss property company Zublin Immobilien AG to acquire a 12,500 square meter (approximately 134,500 square feet) commercial building located at Riedmattstrasse 9, Rümlang, Switzerland. Under the Purchase Agreement, Optibase RE 1 undertook to pay a purchase price of CHF 23,500,000 (approximately $22.8 million) to acquire ownership of the property. The Purchase Agreement included representations and warranties from the seller regarding its ownership of the property, the absence of liens, the status of tenant leases and regarding other matters. In the Purchase Agreement, the seller guaranteed the gross annual rental income from two significant tenants up to a maximum amount of CHF 60,000 (approximately $58,000). To secure the Seller's guarantee, an amount of CHF 60,000 was deposited in escrow for two years with Optibase RE 1's counsel. The closing of the Purchase Agreement occurred on October 29, 2009. Upon closing Optibase RE 1 was registered as the owner of the property, and the purchase price was transferred. For further details, see Item 4.B *"Business Overview"* above.

***Mortgage Agreement - Rümlang, Switzerland***

In connection with the purchase of the commercial building in Rümlang, on October 28, 2009, the Company, through its subsidiary Optibase RE 1 SARL ("Optibase RE 1"), wholly owned by Optibase Real Estate SARL, entered into a mortgage agreement with Swiss bank Basler Kantonalbank (the "Bank"), according to which the Bank loaned to Optibase RE 1 a principal amount of CHF 18,800,000 (approximately $18.1 million) (the "Loan"). Interest on the principal amount, is payable in four quarterly payments annually, at the rate of the Libor for a period determined by Optibase RE 1 on the date of each payment for the following period, plus a fixed margin of 0.8% (as of the date hereof, the interest is set to be the rate of Libor for a period of 3 months). The Bank may adjust the margin at its sole discretion on account of deterioration in Optibase RE 1's credit standing or the value of the property. The principal amount is payable in four quarterly amortization payments annually, each in the amount of CHF 94,000 (approximately $86,000). The principal payments may be adjusted on sole discretion of the Bank if the lease of major tenants is terminated and no replacement tenant is found within 6 months. According to the agreement, Optibase RE 1 may repay the mortgage at any time, subject to a prior notice of three months to the Bank, with no subject penalty. The Bank holds the right to accelerate future loan payments, upon occurrence of certain default conditions listed in the agreement.

As security for repayment of the loan, Optibase RE 1 mortgaged the rights to the Rümlang property in favor of the Bank, and registered such mortgage with the local land registrar. Additionally, Optibase RE 1 committed not to grant any encumbrance or mortgage on the Rumland property without the Bank's approval. Optibase RE 1 has also pledged to the Bank all if its rights in a designated bank account, to which rent payments and guarantees relating to the Rümlang property are deposited. As additional security, Optibase Real Estate SARL was to pledge all of its shares in Optibase RE 1 to the Bank. The latter pledge, however, has not yet been provided.

***Chessell Holdings Limited***

On March 1, 2010, the Company’s subsidiary in Luxembourg Optibase RE 1 SARL ("Optibase RE 1") entered into an Option Agreement (the "Option Agreement") with a Cypriot company, Chessell Holdings Limited, with respect to a commercial building acquired by the Company in October, 2009 in Rümlang, Switzerland. Through its beneficial owner, Chessell Holdings introduced Optibase to the Rümlang property and facilitated Optibase’s acquisition and financing of the property. Under the Option Agreement, Optibase RE 1 granted Chessell Holdings an option to purchase twenty percent (20%) of the share capital of Optibase RE 1. Chessell Holdings undertook to pay a purchase price for the option of CHF 315,000 for the option. The exercise price under the Option Agreement is calculated based on Optibase’s acquisition costs for the Rümlang Property plus interest and an adjustment for proceeds that are distributed to the shareholders of Optibase RE 1. The shares that would be issued to Chessell Holdings upon exercise of the option will not have voting rights and would be subject to transfer restrictions in favor of Optibase.

***Sale of our Video Solutions Business***

On March 16, 2010 we and our subsidiary, Optibase Inc., entered into an asset purchase agreement with Optibase Technologies Ltd., a wholly owned subsidiary of S.A. Vitec (also known as Vitec Multimedia) (S.A. Vitec and Optibase Technologies Ltd., collectively "Vitec"), according to which Optibase Technologies Ltd. will purchase all of the assets and liabilities related to our Video Solutions Business (the "APA" and the "Transaction", respectively). Closing of the transaction is expected to occur on June 30, 2010, after the release of this annual report. The following is a short summary of the principal provisions of the APA:

*Acquired Assets and Liabilities*

Pursuant to the APA, Vitec will acquire all rights, title and interest in and to all of our assets and assume certain liabilities, related to our Video Solutions Business only (the "Acquired Assets"). Our Video Solutions Business includes the design, development, manufacture, production, supply, sale, marketing and distribution of video devices and related services (the "Video Solutions Business").

The Acquired Assets include all inventories, tangible assets, intellectual property rights and right under certain assumed agreements, all in relation to the Video Solutions Business only. In addition, Vitec will also acquire all rights to the name "Optibase" and derivatives thereof provided, however, we will be entitled to use the Optibase name in connection with our business so long as such use is not related to the field of video solutions.

The following will not be purchased by Vitec pursuant to the APA: the legal entities of Optibase Ltd. and Optibase Inc.; any securities of Optibase Inc. and any of our other subsidiaries or affiliates; our rights to any grants from the Israeli Office of the Chief Scientist or from other EU/EC sponsored programs or other grants, received or receivable as to the period ending upon closing of the Transaction; cash, cash equivalents and other investments; leases on our offices, and other properties; rights and claims under current insurance policies and all other assets not related to the and our Video Solutions Business ("Excluded Assets"). In addition, the Excluded Assets include, inter alia, our real estate assets as well as other investments, held directly or indirectly by us.

*Consideration*

As consideration for the Acquired Assets and the assumption of our liabilities, Vitec will pay us a sum of $8 million (plus adjustments relating to receivables and payables as of the closing of the Transaction), of which a sum of $7 million (plus adjustments relating to receivables and payables as of the closing of the Transaction) will be paid in cash upon closing and $1 million will be deposited in an escrow for a period of two years as a security for damages arising or resulting from, inter alia, breach or material inaccuracy relating to our representations and warranties and covenants and liabilities that Vitec may incur which are part of the Excluded Liabilities.

In addition, under to the APA, the consideration will be further adjusted according to an earn-out mechanism pursuant to which 45% of Vitec's revenues deriving from the Video Solutions Business and exceeding $14 million in the year following the closing of the Transaction, will be paid to us.

*Signing Deposit*

Upon signing of the APA, Vitec deposited US $500,000 in escrow to be paid to us if closing does not take place within a specific period of time from signing, subject to certain limited circumstances, principally relating to the non-fulfillment of certain closing conditions by Optibase, including, *inter alia*, the receipt of necessary governmental and third party approvals and the transfer of a certain number of employees to Vitec, in which case, such funds will be returned to Vitec.

*Representations and Warranties*

The APA includes certain representations and warranties which are customary for transactions of this type. Such representations and warranties include, among others, representations and warranties by the Company that relate to the Acquired Assets and Liabilities, to our financial results, intellectual property, employment matters, legal proceedings etc. and representations and warranties of Vitec relating to, among others, its ability to continue and operate the Video Solutions Business and the financial condition of Vitec. Such representations and Warranties will survive closing for a period of twenty four months, except for certain exceptions relating to, inter alia, provisions providing for non-competition and confidentiality undertakings and fraud or willful misconduct.

*Closing Conditions*

Consummation of the Transaction is subject to the fulfillment of certain conditions precedent standard for transactions of this nature, including, inter alia, receipt of all necessary approvals and permits, the approval of our shareholders and the transfer of a certain number of employees to Vitec.

With respect to the consortium agreements to which we are a party, if necessary approvals for the assumption of such agreements are not obtained until closing, we may choose to either terminate the APA or pay to Vitec a certain amount unsubstantial to the Company for each consortium agreement which can not assigned to Vitec.

*Additional Undertakings*

Both parties have undertaken several covenants for the period beginning on the signing of the APA and for the period beginning on date of the closing of the Transaction. In this respect, during the period beginning on the signing of the APA and ending on closing of the Transaction, we have undertaken, inter alia, to continue and operate the business in the ordinary course of business and not to make any action relating to the acquisition, sale, or transfer of any of the Acquired Assets or change of control over Seller other than in the ordinary course of business and Vitec has undertaken, among others, to offer employment to a certain number of our employees on terms no less favorable then their current terms of employment or service with the Seller. In addition, for the period following the closing of the Transaction, we have undertaken to comply with non-competition and confidentiality provisions and Vitec has undertaken to provide us with access to information and records, and to endeavor to continue operating the Video Solutions Business for a period of at least twelve months from the closing of the Transaction.

*Indemnification*

The APA includes mutual indemnification for a period of two years for damages arising or resulting from, inter alia, breach or material inaccuracy relating to the representations, warranties and covenants and the liabilities that Vitec may incur which are part of the Excluded Liabilities arising or resulting therefrom such as the breach or material inaccuracy of any representation or warranty. In addition, indemnification provisions will apply for longer periods in the case of damages resulting from fraud or willful misconduct, a period of three years from closing for non-competition provisions and an indefinite confidentiality undertaking). The mutual indemnification will be limited to a maximum amount of $6 million.

From and after the closing, the rights of the parties to indemnification shall be the exclusive remedy of the Parties with respect to claims resulting from this Agreement.

The amount of $1 million which will be deposited in the indemnity escrow account as aforementioned, will be used for such indemnification, and any outstanding sums will be paid by the indemnifying party.

*Termination*

Both parties shall have the right to terminate the APA, if the other side has breached any material representation, warranty, or covenant contained in the APA, or if closing did not take place within 120 days from the signing of the APA. Vitec may also terminate the APA if any material portion of the Acquired Assets is no longer in our possession immediately prior to closing or is damaged and we have not cured such situation within a period of 30 days. In addition, as aforesaid, we may terminate the agreement if the necessary approvals for the assumption of the consortium agreements are not obtained until closing.

*Guaranty of S.A. Vitec*

S.A. Vitec has undertaken to fully guarantee all undertakings, representations, warranties and obligations of Optibase Technologies Ltd. under the APA.

**10.D. EXCHANGE CONTROLS**

Israeli law and regulations do not impose any material foreign exchange restrictions on non-Israeli holders of our ordinary shares. In May 1998, a new "general permit" was issued under the Israeli Currency Control Law, 1978, which removed most of the restrictions that previously existed under the law and enabled Israeli citizens to freely invest outside of Israel and freely convert Israeli currency into non-Israeli currencies.

Dividends, if any, paid to holders of our ordinary shares, and any amounts payable upon our dissolution, liquidation or winding up, as well as the proceeds of any sale in Israel of our ordinary shares to an Israeli resident, may be paid in non-Israeli currency or, if paid in Israeli currency, may be converted into freely repatriable dollars at the rate of exchange prevailing at the time of conversion.

Under Israeli law (and our memorandum and articles of association), persons who are neither residents nor nationals of Israel may freely hold, vote and transfer ordinary shares in the same manner as Israeli residents or nationals.

**10.E. TAXATION**

The following is a discussion of Israeli and United States tax consequences material to us and our Israeli and U.S. shareholders. To the extent the discussion is based on new tax legislation, which has not been subject to judicial or administrative interpretation, the views expressed in the discussion might not be accepted by the tax authorities in question. The discussion is not intended, and should not be construed, as legal or professional tax advice and does not exhaust all possible tax considerations. Holders of our ordinary shares should consult their own tax advisors as to the United States, Israeli or other tax consequences of the purchase, ownership and disposition of ordinary shares, including, in particular, the effect of any non-U.S., state or local taxes.

**Israeli taxation**

*General Corporate Tax Structure in Israel*

Generally, Israeli companies are subject to "Corporate Tax" on their taxable income. On July 25, 2005, the Knesset (Israeli Parliament) approved an amendment to the Income Tax Ordinance, which prescribes, among others, a gradual decrease in the corporate tax rate in Israel to the following tax rates: in 2006 - 31%, in 2007 - 29%, in 2008 - 27%, in 2009 - 26% and in 2010 and thereafter - 25%. In July 2009, the Israeli Parliament (the Knesset) passed the Economic Efficiency Law (Amended Legislation for Implementing the Economic Plan for 2009 and 2010), 2009, which prescribes, among other things, an additional gradual reduction in Israeli corporate tax rate starting from 2011 to the following tax rates: 2011 - 24%, 2012 - 23%, 2013 - 22%, 2014 - 21%, 2015 - 20%, 2016 and thereafter - 18%.

However, the effective tax rate payable by a company which derives income from an Approved Enterprise (as further discussed below) may be considerably less.

**Tax Benefits under the Law for the Encouragement of Industry (Taxes), 1969**

The Law for the Encouragement of Industry (Taxes), 1969, generally referred to as the Industry Encouragement Law, provides several tax benefits for industrial companies. An industrial company is defined as a company resident in Israel, at least 90% of the income of which in a given tax year exclusive of income from specified government loans, capital gains, interest and dividends, is derived from an industrial enterprise owned by it. An industrial enterprise is defined as an enterprise whose major activity in a given tax year is industrial production activity.

Under the Industry Encouragement Law, industrial companies are entitled to a number of corporate tax benefits, including:

- deduction of purchase of know-how and patents and/or right to use a patent over an eight-year period ;
- the right to elect, under specified conditions, to file a consolidated tax return with additional related Israeli industrial companies and an industrial holding company;
- Accelerated depreciation rates on equipment and buildings; and
- Expenses related to a public offering on recognized stock markets, are deductible in equal amounts over three years

Under some tax laws and regulations, an industrial enterprise may be eligible for special depreciation rates for machinery, equipment and buildings. These rates differ based on various factors, including the date the operations begin and the number of work shifts. An industrial company owning an Approved Enterprise may choose between these special depreciation rates and the depreciation rates available to the Approved Enterprise.

Eligibility for benefits under the Industry Encouragement Law is not subject to receipt of prior approval from any governmental authority. We believe that we currently qualify as an industrial company. But no assurance can be given that the Israeli tax authorities will agree that we qualify, or, if we qualify, that we will continue to qualify as an industrial company or that the benefits described above will be available to us in the future.

*Tax Benefits under the Law for the Encouragement of Capital Investments, 1959*

*Tax benefits prior the 2005 amendment*

The Law for the Encouragement of Capital Investments, 1959, as amended (effective as of April 1, 2005) (the "Investments Law"), provides that a proposed capital investment in eligible facilities may, upon application to the Investment Center of the Ministry of Industry and Commerce of the State of Israel, be designated as an Approved Enterprise. The Investment Center bases its decision as to whether or not to approve an application, among other things, on the criteria set forth in the Investments Law and regulations, the then prevailing policy of the Investment Center, and the specific objectives and financial criteria of the applicant. Each certificate of approval for an Approved Enterprise relates to a specific investment program delineated both by its financial scope, including its capital sources, and by its physical characteristics, e.g., the equipment to be purchased and utilized pursuant to the program.

The Investments Law provides that an Approved Enterprise is eligible for tax benefits on taxable income derived from its Approved Enterprise programs. The tax benefits under the Investments Law also apply to income generated by a company from the grant of a usage right with respect to know-how developed by the Approved Enterprise, income generated from royalties, and income derived from a service which is auxiliary to such usage right or royalties, provided that such income is generated within the Approved Enterprise's ordinary course of business. If a company has more than one approval or only a portion of its capital investments are approved, its effective tax rate is the result of a weighted average of the applicable rates. The tax benefits under the Investments Law are not, generally, available with respect to income derived from products manufactured outside of Israel. In addition, the tax benefits available to an Approved Enterprise are contingent upon the fulfillment of conditions stipulated in the Investments Law and regulations and the criteria set forth in the specific certificate of approval, as described above. In the event that a company does not meet these conditions, it would be required to refund the amount of tax benefits, plus a consumer price index linkage adjustment and interest.

The Investments Law also provides that an Approved Enterprise is entitled to accelerated depreciation on its property and equipment that are included in an Approved Enterprise program in the first five years of using the equipment.

Taxable income of a company derived from an Approved Enterprise is subject to corporate tax at the maximum rate of 25%, rather than the regular corporate tax rate, for the benefit period. This period is ordinarily seven years commencing with the year in which the Approved Enterprise first generates taxable income after the commencement of production, and is limited to 12 years from commencement of production or 14 years from the date of approval, whichever is earlier (the "Years limitation"). Please note that the year's limitation does not apply to the exemption period. As discussed below.

A company may elect to receive an alternative package of benefits. Under the alternative package of benefits, a company's undistributed income derived from the Approved Enterprise will be exempt from corporate tax for a period of between two and ten years from the first year the company derives taxable income under the program but after the commencement of production, depending on the geographic location of the Approved Enterprise within Israel, and such company will be eligible for a reduced tax rate for the remainder of the benefits period. A company that has elected the alternative package of benefits, such as us, that subsequently pays a dividend out of income derived from the Approved Enterprise during the tax exemption period will be subject to corporate tax in respect of the gross amount distributed, including any taxes thereon, at the rate which would have been applicable had it not elected the alternative package of benefits, generally 10%-25%, depending on the percentage of the company's ordinary shares held by foreign shareholders. The dividend recipient is subject to withholding tax at the rate of 15% with respect to the gross amount distributed, applicable to dividends from Approved Enterprises, if the dividend is distributed during the tax exemption period or within twelve years thereafter. The company must withhold this tax at source.

*Foreign investor's Company ("FIC")*

A company that has an Approved Enterprise program is eligible for further tax benefits if it qualifies as a foreign investors' company. A foreign investors' company is a company which more than 25% of its share capital and combined share and loan capital is owned by non-Israeli residents. A company that qualifies as a foreign investors' company and has an Approved Enterprise program is eligible for tax benefits for a ten-year benefit period. As specified above, depending on the geographic location of the Approved Enterprise within Israel, income derived from the Approved Enterprise program may be entitled to the following:

- Extension of the benefit period up to ten years.
- An additional period of reduced corporate tax liability at rates ranging between 10% and 25%, depending on the level of foreign (i.e., non-Israeli) ownership of our shares. Those tax rates and the related levels of foreign investment are as set forth in the following table:

*Region B*

| *Rate of Reduced Tax* | *Reduced Tax Period* | *Tax Exemption Period* | *Percent of Foreign Ownership* |
|---|---|---|---|
| *25* | *1 years* | *6 years* | *0-25%* |
| *25* | *4 years* | *6 years* | *25-48.99%* |
| *20* | *4 years* | *6 years* | *49-73.99%* |
| *15* | *4 years* | *6 years* | *74-89.99%* |
| *10* | *4 years* | *6 years* | *90-100%* |

*Region A*

| *Rate of Reduced Tax* | *Reduced Tax Period* | *Tax Exemption Period* | *Percent of Foreign Ownership* |
|---|---|---|---|
| *25* | *0 years* | *10 years* | *0-25%* |
| *25* | *0 years* | *10 years* | *25-48.99%* |
| *20* | *0 years* | *10 years* | *49-73.99%* |
| *15* | *0 years* | *10 years* | *74-89.99%* |
| *10* | *0 years* | *10 years* | *90-100%* |

*Other Region*

| *Rate of Reduced Tax* | *Reduced Tax Period* | *Tax Exemption Period* | *Percent of Foreign Ownership* |
|---|---|---|---|
| *25* | *5 years* | *2 years* | *0-25%* |
| *25* | *8 years* | *2 years* | *25-48.99%* |
| *20* | *8 years* | *2 years* | *49-73.99%* |
| *15* | *8 years* | *2 years* | *74-89.99%* |
| *10* | *8 years* | *2 years* | *90-100%* |

- The twelve years limitation period for reduced tax rate of 15% on dividend from the Approved Enterprise will not apply.

Subject to applicable provisions concerning income under the alternative package of benefits, dividends paid by a company are considered to be attributable to income received from the entire company and the company's effective tax rate is the result of a weighted average of the various applicable tax rates, excluding any tax-exempt income. Under the Investments Law, a company that has elected the alternative package of benefits is not obliged to distribute retained profits, and may generally decide from which year's profits to declare dividends.

Currently we have five Approved Enterprises programs under the Capital Investment Law, which entitle us to some tax benefits. Income derived from these alternative benefit programs is exempt from tax for a period of two years, starting in the first year in which we generate taxable income from the Approved Enterprise, subject to certain conditions. As mentioned above the year's limitation does not apply to the exemption period.

*Tax benefits under the 2005 Amendment*

The amendment includes revisions to the criteria for investments qualified to receive tax benefits as an Approved Enterprise. The amendment applies to new investment programs and investment programs commencing after 2004, and does not apply to investment programs approved prior to December 31, 2004.

A company wishing to receive the tax benefits afforded to a Benefited Enterprise, as defined below, is required to select the tax year from which the period of benefits under the Investment Law are to commence by notifying the Israeli Tax Authority within 12 months of the end of that year. Companies are also granted the right to approach the Israeli Tax Authority for a pre-ruling regarding their eligibility for benefits under the Amendment

Our company will continue to enjoy its current tax benefits in accordance with the provisions of the Investment Law prior to its revision, but if our company is granted any new benefits in the future they will be subject to the provisions of the amended Investment Law.

The amendment simplifies the approval process: according to the amendment, only Approved Enterprises receiving cash grants require the approval of the Investment Center.

The Amendment does not apply to benefits included in any certificate of approval that was granted before the Amendment came into effect, which will remain subject to the provisions of the Investment Law as they were on the date of such approval.

Tax benefits are available under the Amendment to production facilities (or other eligible facilities), which are generally required to derive more than 25% of their business income from export (referred to as a "Benefited Enterprise"). In order to receive the tax benefits, the Amendment states that the company must make an investment in the Benefited Enterprise exceeding a certain percentage or a minimum amount specified in the Law. Such investment may be made over a period of no more than three years ending at the end of the year in which the company requested to have the tax benefits apply to the Benefited Enterprise (the "Year of Election"). Where the company requests to have the tax benefits apply to an expansion of existing facilities, then only the expansion will be considered a Benefited Enterprise and the company's effective tax rate will be the result of a weighted combination of the applicable rates. In this case, the minimum investment required in order to qualify as a Benefited Enterprise is required to exceed a certain percentage or a minimum amount of the company's production assets before the expansion.

The duration of tax benefits is subject to a limitation of the earlier of 7 to 10 years from the Commencement Year, as described in the Investment Law, or 12 years from the first day of the Year of Election. The tax benefits granted to a Benefited Enterprise are determined, as applicable to its geographic location within Israel, according to one of the following new tax routes, which may be applicable to us:

- Similar to the currently available alternative route, exemption from corporate tax on undistributed income for a period of two to ten years, depending on the geographic location of the Benefited Enterprise within Israel, and a reduced corporate tax rate of 10% to 25% for the remainder of the benefits period, depending on the level of foreign investment in each year. Benefits may be granted for a term of seven to ten years, depending on the level of foreign investment in the company. If the company pays a dividend out of income derived from the Benefited Enterprise during the tax exemption period, such income will be subject to corporate tax at the applicable rate (10%-25%) in respect of the gross amount of the dividend that we may distribute. The company is required to withhold tax at the source at a rate of 15% from any dividends distributed from income derived from the Benefited Enterprise; and

- A special tax route, which enables companies owning facilities in certain geographical locations in Israel to pay corporate tax at the rate of 11.5% on income of the Benefited Enterprise. The benefits period is ten years. Upon payment of dividends, the company is required to withhold tax at source at a rate of 15% for Israeli residents and at a rate of 4% for foreign residents.

Generally, a company that is Abundant in Foreign Investment (as defined in the Investments Law) is entitled to an extension of the benefits period by an additional five years, depending on the rate of its income that is derived in foreign currency.

The Amendment changes the definition of "foreign investment" in the Investments Law so that the definition now requires a minimal investment of NIS 5 million by foreign investors. Furthermore, such definition now also includes the purchase of shares of a company from another shareholder, provided that the company's outstanding and paid-up share capital exceeds NIS 5 million. Such changes to the aforementioned definition will take effect retroactively from 2003.

The Amendment will apply to Approved Enterprise programs in which the year of election under the Investments Law is 2004 or later, unless such programs received approval from the Investment Center on or prior to December 31, 2004, in which case the Amendment provides that terms and benefits included in any certificate of approval already granted will remain subject to the provisions of the law as they were on the date of such approval.

As a result of the amendment, tax-exempt income generated under the provisions of the Investments Law, as amended, will subject us to taxes upon distribution or liquidation and we may be required to record deferred tax liability with respect to such tax-exempt income. As of December 2009 we did not generated any tax exempt income under the Investment Law.

***Special Provisions Relating to Measurement of Taxable Income***

According to the law, until 2007, the results for tax purposes were measured based on the changes in the Israeli CPI. In February 2008, the "Knesset" (Israeli parliament) passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the law starting 2008 and thereafter. Starting 2008, the results for tax purposes are measured in nominal values, excluding certain adjustments for changes in the Israeli CPI carried out in the period up to December 31, 2007. The amendment to the law includes, inter alia, the elimination of the inflationary additions and deductions and the additional deduction for depreciation starting 2008.

***Israeli Transfer Pricing Regulations***

On November 29, 2006, Income Tax Regulations (Determination of Market Terms), 2006, promulgated under Section 85A of the Tax Ordinance, came into effect (the "TP Regs"). Section 85A of the Tax Ordinance and the TP Regs generally require that all cross-border transactions carried out between related parties be conducted on an arm's length principle basis and will be taxed accordingly. The TP Regs are not expected to have a material affect on us.

***Tax Benefits of Research and Development***

Israeli tax law permits, under some conditions, a tax deduction in the year incurred for expenditures, including capital expenditures, in scientific research and development projects, if the expenditures are approved by the relevant government ministry and if the research and development is for the promotion of the enterprise and is carried out by, or on behalf of, a company seeking the deduction. However, the amount of such expenses shall be reduced by the sum of any funds received through government grants for the finance of such scientific research and development projects. Expenditures not so approved are deductible over a three-year period.

***Capital Gains Tax on Sales of Our Ordinary Shares***

Israeli law generally imposes a capital gains tax on the sale of any capital assets by residents of Israel, as defined for Israeli tax purposes, and on the sale of assets located in Israel, including shares in Israeli companies, by both residents and non-residents of Israel, unless a specific exemption is available or unless a tax treaty between Israel and the shareholder's country of residence provides otherwise. The law distinguishes between real gain and inflationary surplus. The inflationary surplus is a portion of the total capital gain which is equivalent to the increase of the relevant asset's purchase price which is attributable to the increase in the Israeli consumer price index or, in certain circumstances, a foreign currency exchange rate, between the date of purchase and the date of sale. The real gain is the excess of the total capital gain over the inflationary surplus.

Generally, the tax rate applicable to capital gains derived from the sale of shares, whether listed on a stock market or not, is 20% for Israeli individuals, unless such shareholder claims a deduction for financing expenses in connection with such shares, in which case the gain will generally be taxed at a rate of 25%. Additionally, if such shareholder is considered a "material shareholder" at any time during the 12-month period preceding such sale, *i.e.*, such shareholder holds directly or indirectly, including with others, at least 10% of any means of control in the company, the tax rate shall be 25%. Israeli companies are subject to the Corporate Tax rate on capital gains derived from the sale of shares, unless such companies were not subject to the Adjustments Law (or certain regulations) at the time of publication of the aforementioned amendment to the Tax Ordinance that came into effect on January 1, 2006, in which case the applicable tax rate is 25%. However, the foregoing tax rates do not apply to: (i) dealers in securities; and (ii) shareholders who acquired their shares prior to an initial public offering (that may be subject to a different tax arrangement).

The tax basis of shares acquired prior to January 1, 2003 will be determined in accordance with the average closing share price in the three trading days preceding January 1, 2003. However, a request may be made to the tax authorities to consider the actual adjusted cost of the shares as the tax basis if it is higher than such average price.

Non-Israeli residents are exempt from Israeli capital gains tax on any gains derived from the sale of shares of Israeli companies publicly traded on a recognized stock exchange or regulated market outside of Israel, provided however that such capital gains are not derived from a permanent establishment in Israel, such shareholders are not subject to the Adjustments Law, and such shareholders did not acquire their shares prior to an initial public offering. However, non-Israeli corporations will not be entitled to such exemption if an Israeli resident (i) has a controlling interest of 25% or more in such non-Israeli corporation, or (ii) is the beneficiary or is entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly.

In some instances where our shareholders may be liable to Israeli tax on the sale of their ordinary shares, the payment of the consideration may be subject to the withholding of Israeli tax at the source.

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

***Taxation of Non-Resident Holders of Shares***

Non-residents of Israel are subject to income tax on income accrued or derived from sources in Israel. Such sources of income include passive income such as dividends, royalties and interest, as well as non-passive income from services rendered in Israel. As of 2006, distributions of dividends other than bonus shares, or stock dividends, income tax is withheld at the source at the rate of 20%, 15% for dividends generated by an Approved Enterprise (if the dividend is distributed during the tax exemption period or within 12 years thereafter. In the event, however, that the company is qualified as a Foreign Investors' Company, there is no such time limitation), unless a different rate is provided in a treaty between Israel and the shareholder's country of residence.

Under the U.S.-Israel Tax Treaty, the maximum tax on dividends paid to a holder of ordinary shares who is a Treaty U.S. Resident is 25%. However, under the Investments Law, dividends generated by an Approved Enterprise (or Benefited Enterprise) are taxed at the rate of 15%. Furthermore, dividends not generated by an Approved Enterprise (or Benefited Enterprise) paid to a U.S. corporation holding at least 10% of our issued voting power during the part of the tax year which precedes the date of payment of the dividend and during the whole of its prior tax year, are generally taxed at a rate of 12.5%.

**United States Federal Income Tax Consequences**

The following is a summary of certain material U.S. federal income tax consequences that apply to U.S. Holders who hold ordinary shares as capital assets. This summary is based on the United States Internal Revenue Code of 1986, as amended (the "Code"), Treasury regulations promulgated thereunder, judicial and administrative interpretations thereof, and the U.S.-Israel Tax Treaty, all as in effect on the date hereof and all of which are subject to change either prospectively or retroactively. This summary does not address all tax considerations that may be relevant with respect to an investment in ordinary shares. This summary does not account for the specific circumstances of any particular investor, such as:

- broker-dealers,
- financial institutions,
- certain insurance companies,
- investors liable for alternative minimum tax,
- tax-exempt organizations,
- non-resident aliens of the U.S. or taxpayers whose functional currency is not the U.S. dollar,
- persons who hold the ordinary shares through partnerships or other pass-through entities,
- investors that actually or constructively own 10 percent or more of our voting shares, and
- investors holding ordinary shares as part of a straddle or a hedging or conversion transaction.

This summary does not address the effect of any U.S. Federal taxation other than U.S. Federal income taxation. In addition, this summary does not include any discussion of state, local or foreign taxation. You are urged to consult your tax advisors regarding the non-U. S. and United States federal, state and local tax considerations of an investment in ordinary shares.

For purposes of this summary, a U.S. Holder is:

- an individual who is a citizen or, a resident of the United States for U.S. federal income tax purposes;
- a partnership, corporation or other entity created or organized in or under the laws of the United States or any political subdivision thereof;
- an estate whose income is subject to U.S. federal income tax regardless of its source;
- a trust if: (a) a court within the United States is able to exercise primary supervision over administration of the trust, and (b) one or more United States persons have the authority to control all substantial decisions of the trust; or
- a trust, if the trust were in existence and qualified as a "United States person," within the meaning of the Code, on August 20, 1996 under the law as then in effect and elected to continue to be so treated.

*Taxation of Dividends*

The gross amount of any distributions received with respect to ordinary shares, including the amount of any Israeli taxes withheld therefrom, will constitute dividends for U.S. Federal income tax purposes, to the extent of our current and accumulated earnings and profits as determined for U.S. federal income tax principles. You will be required to include this amount of dividends in gross income as ordinary income. Distributions in excess of our earnings and profits will be treated as a non-taxable return of capital to the extent of your tax basis in the ordinary shares and any amount in excess of your tax basis, will be treated as gain from the sale of ordinary shares. See "Item 10.D. Exchange Controls" under the heading "Disposition of Ordinary Shares" below for the discussion on the taxation of capital gains. Dividends will not qualify for the dividends-received deduction generally available to U.S. corporations under Section 243 of the Code.

Recently enacted amendments to the Code, as amended, provide that certain dividend income received by individual U.S. Holders, with respect to taxable years beginning on or before December 31, 2010 may be eligible for a reduced rate of taxation. Such dividend income will be taxed at the applicable long-term capital gains rate (currently, a maximum rate of 15%) if the dividend is received from a "qualified foreign corporation," and the shareholder of such foreign corporation holds such stock for at least 61 days during the 121-day period that begins on the date that is 60 days before the ex-dividend date for the stock. The holding period is tolled for any days on which the shareholder has reduced his risk of loss. A "qualified foreign corporation" is one that is eligible for the benefits of a comprehensive income tax treaty with the United States. A foreign corporation will be treated as qualified with respect to any dividend paid, if its stock is readily tradable on an established securities market in the United States. Dividend income will not qualify for the reduced rate of taxation if the corporation is a passive foreign investment company, or PFIC (*see* below), for the year in which the dividend is distributed or for the previous year.

Dividends that we pay in NIS, including the amount of any Israeli taxes withheld therefrom, will be included in your income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day such dividends are received. A U.S. Holder who receives payment in NIS and converts NIS into U.S. dollars at an exchange rate other than the rate in effect on such day may have a foreign currency exchange gain or loss that would be treated as U.S. source ordinary income or loss. U.S. Holders should consult their own tax advisors concerning the U.S. tax consequences of acquiring, holding and disposing of NIS.

Any Israeli withholding tax imposed on such dividends will be a foreign income tax eligible for credit against a U.S. Holder's U.S. federal income tax liability, subject to certain limitations set out in the Code (or, alternatively, for deduction against income in determining such tax liability). The limitations set out in the Code include computational rules under which non-U.S. tax credits allowable with respect to specific classes of income cannot exceed the U.S. federal income taxes otherwise payable with respect to each such class of income. Dividends generally will be treated as foreign-source passive income for United States foreign tax credit purposes. Foreign income taxes exceeding the credit limitation for the year of payment or accrual may be carried back for the first preceding taxable years and forward for the first ten taxable years in order to reduce U.S. federal income taxes, subject to the credit limitation applicable in each of such years. A U.S. Holder will be denied a foreign tax credit with respect to Israeli income tax withheld from dividends received on the ordinary shares to the extent such U.S. Holder has not held the ordinary shares for at least 16 days of the 31-day period beginning on the date which is 15 days before the ex-dividend date or to the extent such U.S. Holder is under an obligation to make related payments with respect to substantially similar or related property. Any days during which a U.S. Holder has substantially diminished its risk of loss on the ordinary shares are not counted toward meeting the 16-day holding period required by the statute. The rules relating to the determination of the foreign tax credit are complex, and you should consult with your personal tax advisors to determine whether and to what extent you would be entitled to this credit.

*Dispositions of Ordinary Shares*

If you sell or otherwise dispose of ordinary shares, you will recognize gain or loss for U.S. Federal income tax purposes in an amount equal to the difference between the amount realized on the sale or other disposition and the adjusted tax basis in ordinary shares. Subject to the discussion below under the heading "Passive Foreign Investment Companies," such gain or loss generally will be capital gain or loss and will be long-term capital gain or loss if you have held the ordinary shares for more than one year at the time of the sale or other disposition. In general, any gain that you recognize on the sale or other disposition of ordinary shares will be U.S.-source for purposes of the foreign tax credit limitation; losses will generally be allocated against U.S. source income. Deduction of capital losses is subject to certain limitations under the Code.

In the case of a cash basis U.S. Holder who receives NIS in connection with the sale or disposition of ordinary shares, the amount realized will be based on the U.S. dollar value of the NIS received with respect to the ordinary shares as determined on the settlement date of such exchange. A U.S. Holder who receives payment in NIS and converts NIS into United States dollars at a conversion rate other than the rate in effect on the settlement date may have a foreign currency exchange gain or loss that would be treated as U.S. source ordinary income or loss.

*Passive Foreign Investment Companies ("PFIC")*

There is a substantial risk that we are a passive foreign investment company, or PFIC, for U.S. federal income tax purposes. Our treatment as a PFIC could result in a reduction in the after-tax return to the U.S. Holders of our ordinary shares and may cause a reduction in the value of such shares.

For U.S. federal income tax purposes, we will be classified as a PFIC for any taxable year in which either (i) 75% or more of our gross income is passive income, or (ii) the average percentage of the value of all of our assets for the taxable year which produce or are held for the production of passive income is at least 50%. For this purpose, cash is considered to be an asset which produces passive income. Passive income includes, among others, dividends, interest, certain types of royalties and rents, annuities, net foreign exchange gains and losses and the excess of gains over losses from the disposition of assets which produce passive income. As a result of our substantial cash position and the decline in the value of our stock, we may be a PFIC under a literal application of the asset test that looks solely to market value. If we are a PFIC for U.S. federal income tax purposes, U.S. Holders of our ordinary shares would be required, in certain circumstances, to pay an interest charge together with tax calculated at maximum rates on certain "excess distributions," including any gain on the sale of ordinary shares.

The consequences described above can be mitigated if the U.S. Holder makes an election to treat us as a qualified electing fund, or QEF. A shareholder making the QEF election is required for each taxable year to include in income a pro rata share of the ordinary earnings and net capital gain of the QEF, subject to a separate election to defer payment of taxes, which deferral is subject to an interest charge. We have agreed to supply U.S. Holders with the information needed to report income and gain pursuant to a QEF election. The QEF election is made on a shareholder-by-shareholder basis and can be revoked only with the consent of the Internal Revenue Service, or IRS.

As an alternative to making the QEF election, the U.S. Holder of PFIC stock which is publicly traded could mitigate the consequences of the PFIC rules by electing to mark the stock to market annually, recognizing as ordinary income or loss each year an amount equal to the difference as of the close of the taxable year between the fair market value of the PFIC stock and the U.S. Holder's adjusted tax basis in the PFIC stock. Losses would be allowed only to the extent of net mark-to-market gain previously included by the U.S. Holder under the election for prior taxable years. All U.S. Holders are advised to consult their own tax advisers about the PFIC rules generally and about the advisability, procedures and timing of their making any of the available tax elections, including the QEF or mark-to-market elections.

*Backup Withholding and Information Reporting*

Payments in respect of ordinary shares may be subject to information reporting to the U.S. Internal Revenue Service and to a 28 percent U.S. backup withholding tax. Backup withholding will not apply, however, if you (i) are a corporation or come within certain exempt categories, and demonstrate the fact when so required, or (ii) furnish a correct taxpayer identification number and make any other required certification. Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules may be credited against a U.S. Holder’s U.S. tax liability, and a U.S. Holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS. Any U.S. holder who holds 10% or more in vote or value of our ordinary shares may be subject to certain additional United States information reporting requirements.

*U.S. Gift and Estate Tax*

An individual U.S. Holder of ordinary shares will be subject to U.S. gift and estate taxes with respect to ordinary shares in the same manner and to the same extent as with respect to other types of personal property.

**10.F. DIVIDEND AND PAYING AGENTS**

Not applicable.

**10.G. STATEMENT BY EXPERTS**

Not applicable.

**10.H. DOCUMENTS ON DISPLAY**

Reports and other information of Optibase filed electronically with the SEC may be found at www.sec.gov. They can also be inspected without charge and copied at prescribed rates at the public reference facilities maintained by the SEC Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Copies of this material are also available by mail from the Public Reference Room at 100 F Street, NE, Washington, D.C. 20549, at prescribed rates.

**10.I. SUBSIDIARY INFORMATION**

Not applicable.

**ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

Most of our revenues are generated in U.S. dollars but a portion of our expenses is incurred in NIS. Therefore, our results of operations may be seriously harmed by inflation in Israel and currency fluctuations. In 2007, 2008 and 2009, the NIS appreciated by approximately 9%, 1.1% and 0.7%, respectively, against the U.S. dollar. In 2007, 2008 and 2009 the inflation rate in Israel was approximately 3.4%, 3.8% and 3.9%, respectively. Our operations could be adversely affected if we are unable to guard against currency fluctuations in the future. Accordingly, we may enter into currency hedging transactions to decrease the risk of financial exposure from fluctuations in the exchange rate of the dollar against the NIS. These measures, however, may not adequately protect us from material adverse effects due to the impact of inflation in Israel.

In our balance sheet, we remeasure into U.S. dollars all monetary accounts (principally cash and cash equivalents and liabilities) that are maintained in other currencies. For this remeasurement we use the foreign exchange rate at the balance sheet date. Any gain or loss that results from this remeasurement is reflected in the statement of income as financial income or financial expense, as appropriate.

We measure and record non-monetary accounts in our balance sheet (principally fixed assets, prepaid expenses, and share capital) in U.S. dollars. For this measurement we use the U.S. dollar value in effect at the date that the asset or liability was initially recorded in our balance sheet (the date of the transaction).

The financial statements of Optibase Real Estate SARL whose functional currency has been determined to be CHF have been translated into U.S. dollars. Assets and liabilities of this subsidiary are translated at year-end exchange rates and their statement of operations items are translated using the actual exchange rates at the dates on which those items are recognized. Such translation adjustments are recorded as a separate component of accumulated other comprehensive income in shareholders' equity.

**Interest Rate and Rating Risks**

Our exposure to market risk for changes in interest rates in Switzerland relates primarily to our long term loan taken for the purchase of our real-estate property in Switzerland and denominated in Swiss Franks (CHF). Changes in Swiss interest rates, could affect our financial results.

**Investments Risks**

In the second quarter of 2003, we transferred approximately $39.3 million of our monies and investments to Optibase, Inc. to achieve better net profit from the investment. As of December 31, 2009, our available net cash was $28.7 million. We manage our available cash on a discretionary basis, within the framework of an investment policy based upon an established set of guidelines approved by our board of directors. For information concerning our investment policy, see "Item 5.B. Liquidity and Capital Resources" above. The investment guidelines are to be reviewed periodically by our board of directors and Investment Committee with the President and Chief Financial Officer. As of December 31, 2009, our available cash was invested in short term interest bearing bank deposits and money market funds with several banks. Our available cash (including the money market funds) is generally classified as Cash and cash equivalents and, consequently, is recorded on the consolidated balance sheets as such.

Furthermore, our equity and other investments in private companies are subject to risk of loss of investment capital. These investments are inherently risky as the market for the technologies or products they have under development are typically in the early stages and may never materialize. We could lose our entire investment in these companies. At any time, a sharp rise in interest rates could have a material adverse impact on the fair value of our investments as well as on our results of operations. We do not currently hedge these interest rate exposures.

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not applicable.

## PART II

### ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

### ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable.

### ITEM 15T. CONTROLS AND PROCEDURES

(a) Our management, including our chief executive officer and chief financial officer, has evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2009. Based on such review, our chief executive officer and chief financial officer have concluded that we have in place effective controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure, and is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms.

(b) Our management, under the supervision of our chief executive officer and chief financial officer, is responsible for establishing and maintaining adequate internal control over our financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934, as amended. The Company's internal control over financial reporting is defined as a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and asset dispositions;
- provide reasonable assurance that transactions are recorded as necessary to permit the preparation of our financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on our financial statements.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we evaluated the effectiveness of our internal control over financial reporting as of December 31, 2009 based on the framework for Internal Control-Integrated Framework set forth by The Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management concluded that the Company's internal controls over financial reporting were effective as of December 31, 2009.

This management report on internal control over financial reporting shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended or otherwise subject to the liabilities of that Section.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Commission that permit us to provide only management's report in this annual report.

(c) There were no changes in our internal controls over financial reporting identified with the evaluation thereof that occurred during the period covered by this annual report that have materially affected, or are reasonable likely to materially affect our internal control over financial reporting

**ITEM 16. [RESERVED]**

**ITEM 16.A. AUDIT COMMITTEE FINANCIAL EXPERT**

The board of directors has determined that Ms. Orly Garti-Serroussi is an "audit committee financial expert" and that she is independent under the applicable Securities and Exchange Commission and NASDAQ listing rules.

**ITEM 16.B. CODE OF ETHICS**

We have adopted a Code of Business Conduct and Ethics for our employees, including our chief executive officer and senior financial officers. The Code of Business Conduct and Ethics was attached as Exhibit 11 to the Company's annual report on Form 20-F for the fiscal year ended December 31, 2003, filed with the Commission on May 17, 2004.

**ITEM 16.C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Kost, Forer Gabbay & Kasierer, a member of Ernst & Young Global, or Ernst & Young has served as our independent public accountants for each of the fiscal years in the three-year period ended December 31, 2009, for which audited financial statements appear in this annual report on Form 20-F.

The following table presents the aggregate fees for professional services and other services rendered by Kost, Forer Gabbay & Kasierer to Optibase in 2009 and 2008 (in thousands):

| | 2008 | 2009 |
|---|---|---|
| Audit fees (1) | 95 | 95 |
| Audit-related fees (2) | 100 | -- |
| Tax fees (3) | 49 | -- |
| All other fees (4) | -- | -- |
| Total | 244 | 95 |

(1) Audit fees consist of fees billed for the annual audit services engagement and other audit services, which are those services that only the external auditor can reasonably provide, and include the group audit; statutory audits; comfort letters and consents; attest services; and assistance with and review of documents filed with the SEC.

(2) Audit-related fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements or that are traditionally performed by the external auditor, and include consultations concerning financial accounting and reporting standards; internal control reviews of new systems, programs and projects; review of security controls and operational effectiveness of systems; review of plans and control for shared service centers, due diligence related to acquisitions; accounting assistance and audits in connection with proposed or completed acquisitions; and employee benefit plan audits.

(3) Tax fees include fees billed for tax compliance services, including the preparation of original and amended tax returns and claims for refund; tax consultations, such as assistance and representation in connection with tax audits and appeals, tax advice related to mergers and acquisitions, transfer pricing, and requests for rulings or technical advice from taxing authority; tax planning services; and expatriate tax planning and services.

(4) All other fees include fees billed for training; forensic accounting; data security reviews; treasury control reviews and process improvement and advice; and environmental, sustainability and corporate social responsibility advisory services.

**Audit Committee Pre-approval Policies and Procedures**

Optibase's audit committee's main role is to assist the Board of Directors in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing and reporting practices of the Company. The audit committee oversees the appointment, compensation, and oversight of the public accounting firm engaged to prepare or issue an audit report on the financial statements of the Company. The audit committee's specific responsibilities in carrying out its oversight role include the approval of all audit and non-audit services to be provided by the external auditor and quarterly review the firm's non-audit services and related fees. These services may include audit services, audit-related services, tax services and other services, as described above. It is the policy of our audit committee to approve in advance the particular services or categories of services to be provided to the Company periodically. Additional services may be pre-approved by the audit committee on an individual basis during the year.

During 2008 and 2009, none of audit-related fees, tax fees or other fees provided to us by Kost, Forer Gabbay & Kasierer in Israel or by Ernst & Young in the United States were approved by the audit committee pursuant to the de minimis exception to the pre-approval requirement provided by paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

**ITEM 16.D. EXEMPTION FROM THE LISTING STANDARDS FOR AUDIT COMMITTEE**

We have not and do not expect to apply for any exemptions from the NASDAQ listing standards for audit committees.

**ITEM 16.E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATE PURCHASERS**

Not applicable.

**ITEM 16F. CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT**

None.

**ITEM 16G. CORPORATE GOVERNANCE**

Following the appointment of Danny Lustiger, on October 28, 2009, a former officer of the Company, as an additional director of the Company, our board of directors does not have a majority of independent directors and therefore we are not in compliance with the NASDAQ Global Market rules requiring that the board of directors of a listed company contain a majority of independent directors and have notified The NASDAQ that we will be following home practice rules in this respect. Danny Lustiger has ceased to be an officer of the Company on November 2007 and therefore, on November 2010 (following the laps of 3 years from the termination of Danny Lustiger's employment) our board of directors will have the majority of independent directors required pursuant to The NASDAQ Global Market rules.

There are no other significant ways in which the Company's corporate governance practices differ from those followed by domestic companies listed on the Nasdaq Global Market.

## PART III

### ITEM 17. FINANCIAL STATEMENTS

Not Applicable.

### ITEM 18. FINANCIAL STATEMENTS

The following are our financial statements audited by Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, together with the reports of Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, for the fiscal year ended December 31 2009, are filed as part of this annual report:



### ITEM 19. EXHIBITS

See Exhibit Index.

**OPTIBASE LTD. AND ITS SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2009**

**U.S. DOLLARS IN THOUSANDS**

**INDEX**

**Kost Forer Gabbay & Kasierer**
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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

**OPTIBASE LTD.**

We have audited the accompanying consolidated balance sheets of Optibase Ltd. ("the Company") and its subsidiaries as of December 31, 2008 and 2009, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Scopus Video Networks Ltd., an affiliate presented at equity method, in which the Company's investments totaled to $ 23,914 thousand as of December 31, 2008, and the Company's share in their losses amounted to $ 2,769 thousand and $ 1,930 thousand, for the years ended December 31, 2007 and 2008, respectively. The financial statements of Scopus Video Networks Ltd. for the years ended December 31, 2007 and 2008 were audited by other auditors, whose report have been furnished to us, and our opinion, insofar as it relates to amounts included for Scopus Video Networks Ltd. for the years ended December 31, 2007 and 2008, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above, present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2008 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accounting principles.

Tel-Aviv, Israel
June 30, 2010

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

**CONSOLIDATED BALANCE SHEETS**

**U.S. dollars in thousands**

| | December 31, | |
|---|---|---|
| | **2008** | **2009** |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 11,386 | $ 28,651 |
| Trade receivables (net of allowance for doubtful accounts of $ 355 and $ 414 at December 31, 2008 and 2009, respectively) (Note 16b) | 3,241 | 2,338 |
| Other accounts receivable and prepaid expenses (Note 4) | 690 | 4,492 |
| Inventories (Note 5) | 4,373 | 2,356 |
| Total current assets | 19,690 | 37,837 |
| INVESTMENTS IN COMPANIES (Note 6) | 24,614 | 700 |
| LONG-TERM INVESTMENTS: | | |
| Long-term lease deposits (Note 10a) | 309 | 233 |
| Severance pay fund | 1,465 | 1,230 |
| Total long-term investments | 1,774 | 1,463 |
| PROPERTY, EQUIPMENT AND OTHER ASSETS, NET (Note 7) | | |
| Property and equipment, net | 1,228 | 636 |
| Real Estate Property, net | - | 22,080 |
| Other assets, net | - | 634 |
| Total property, equipment and other assets | 1,228 | 23,350 |
| Total assets | $ 47,306 | $ 63,350 |

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

**CONSOLIDATED BALANCE SHEETS**

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

| | December 31, | |
|---|---|---|
| | **2008** | **2009** |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Current maturities of long term loan (Note 9) | $ - | $ 365 |
| Trade payables | 2,276 | 1,095 |
| Deferred revenues | 884 | 709 |
| Other accounts payable and accrued expenses (Note 8) | 6,920 | 6,315 |
| Total current liabilities | 10,080 | 8,484 |
| ACCRUED SEVERANCE PAY | 2,215 | 1,731 |
| COMMITMENTS AND CONTINGENT LIABILITIES (Note 10) | | |
| LONG TERM LOAN, NET OF CURRENT MATURITIES (Note 9) | - | 17,897 |
| SHAREHOLDERS' EQUITY (Note 13): | | |
| Share capital - | | |
| Ordinary Shares of NIS 0.13 par value - Authorized: 30,000,000 shares at December 31, 2008 and 2009; Issued: 16,914,281 shares at December 31, 2008 and 2009; Outstanding: 16,522,058 and 16,536,708 shares at December 31, 2008 and 2009, respectively | 650 | 650 |
| Additional paid-in capital | 125,492 | 125,649 |
| Treasury shares (392,223 and 377,573 shares at December 31, 2008 and 2009, respectively) | (1,306) | (1,208) |
| Accumulated other comprehensive loss | - | (54) |
| Accumulated deficit | (89,825) | (89,799) |
| Total shareholders' equity | 35,011 | 35,238 |
| Total liabilities and shareholders' equity | $ 47,306 | $ 63,350 |

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

| June 30, 2010 | | |
|---|---|---|
| Date of approval of the financial statements | Tom Wyler<br>President and Chief Executive Officer. | Amir Philips<br>Chief Financial Officer |

**CONSOLIDATED STATEMENTS OF OPERATIONS**

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

| | Year ended December 31, | | |
|---|---|---|---|
| | **2007** | **2008** | **2009** |
| Revenues: | | | |
| Video solutions | $ 22,977 | $ 19,901 | $ 13,149 |
| Fixed income real estate | - | - | 272 |
| Total revenues | 22,977 | 19,901 | 13,421 |
| Costs and expenses: | | | |
| Cost of video solutions operations | 11,387 | 9,754 | 6,537 |
| Research and development, net (Note 16a) | 5,362 | 6,375 | 3,725 |
| Selling and marketing | 7,895 | 8,964 | 5,763 |
| General and administrative | 2,276 | 2,931 | 2,601 |
| Cost of real estate operations | - | - | 125 |
| Total costs and expenses | 26,920 | 28,024 | 18,751 |
| Operating loss | (3,943) | (8,123) | (5,330) |
| Other income (expenses), net (Note 11) | (327) | 218 | - |
| Financial income (expenses), net (Note 16c) | (31) | 270 | 617 |
| Loss before taxes on income | (4,301) | (7,635) | (4,713) |
| Taxes on income | 73 | - | - |
| Loss after taxes on income | (4,374) | (7,635) | (4,713) |
| Gain from sale of investment in affiliated company and equity in losses of affiliated companies, net | (2,769) | (1,930) | 4,773 |
| Net income (loss) from continuing operations | (7,143) | (9,565) | 60 |
| Income (loss) from discontinued operations | (30) | 20 | - |
| Net income (loss) | $ (7,173) | $ (9,545) | $ 60 |
| Basic and diluted income (loss) per share from continuing operations | $ (0.53) | $ (0.63) | $ 0.00 |
| Basic and diluted income (loss) per share from discontinued operations | $ (0.00) | $ 0.00 | $ 0.00 |
| Basic and diluted income (loss) per share | $ (0.53) | $ (0.63) | $ 0.00 |
| Weighted average number of shares used in computing basic and diluted net income (loss) per share (in thousands): | | | |
| Basic | 13,602 | 15,159 | 16,534 |
| Diluted | 13,602 | 15,159 | 16,540 |

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

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

**U.S. dollars in thousands**

| | Ordinary shares | Additional paid-in capital | Treasury shares | Accumulated other comprehensive income (loss) | Accumulated deficit | Total comprehensive loss | Total shareholders' equity |
|---|---|---|---|---|---|---|---|
| Balance as of January 1, 2007 | $ 539 | $ 119,181 | $ (2,278) | $ (339) | $ (72,609) | | $ 44,494 |
| Exercise of employees stock options | 2 | 223 | - | - | - | | 225 |
| Stock-based compensation related to options and unvested shares granted to employees | - | 1,013 | | - | - | | 1,013 |
| Issuance of treasury shares upon vesting of unvested shares | - | (252) | 500 | - | (248) | | - |
| Other comprehensive loss: | | | | | | | |
| Unrealized gain on available-for-sale marketable securities, net | - | - | - | 605 | - | $ 605 | 605 |
| Net loss | - | - | - | - | (7,173) | (7,173) | (7,173) |
| Total comprehensive loss | | | | | | $ (6,568) | |
| Balance as of December 31, 2007 | 541 | 120,165 | (1,778) | 266 | (80,030) | | 39,164 |
| Issuance of ordinary shares in a private placement (see Note 13a) | 109 | 4,891 | - | - | - | | 5,000 |
| Stock-based compensation related to options and unvested shares granted to employees | - | 658 | - | - | - | | 658 |
| Issuance of treasury shares upon vesting of unvested shares | - | (222) | 472 | - | (250) | | - |
| Other comprehensive loss: | | | | | | | |
| Unrealized gain on available-for-sale marketable securities, net | - | - | - | (266) | - | $ (266) | (266) |
| Net loss | - | - | - | - | (9,545) | (9,545) | (9,545) |
| Total comprehensive loss | | | | | | $ (9,811) | |
| Balance as of December 31, 2008 | 650 | 125,492 | (1,306) | - | (89,825) | | 35,011 |
| Stock-based compensation related to options and unvested shares granted to employees | - | 221 | - | - | - | | 221 |
| Issuance of treasury shares upon vesting of unvested shares | - | (64) | 98 | - | (34) | | - |
| Other comprehensive loss: | | | | | | | |
| Foreign currency translation adjustment | - | - | - | (54) | - | $ (54) | (54) |
| Net income | - | - | - | - | 60 | 60 | 60 |
| Total comprehensive income | | | | | | $ 6 | |
| Balance as of December 31, 2009 | $ 650 | $ 125,649 | $ (1,208) | $ (54) | $ (89,799) | | $ 35,238 |

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**U.S. dollars in thousands**

| | Year ended December 31, | | |
|---|---|---|---|
| | **2007** | **2008** | **2009** |
| Cash flows from operating activities: | | | |
| Net income (loss) | $ (7,173) | $ (9,545) | $ 60 |
| Adjustments required to reconcile net income (loss) to net cash used in operating activities: | | | |
| Depreciation and amortization | 1,244 | 1,090 | 1,047 |
| Impairment of an affiliated company | 325 | - | - |
| Gain from sale of investment in affiliated company and equity in losses of an affiliated companies, net | 2,769 | 1,930 | (4,773) |
| Accrued interest and amortization of premium and discount on available-for-sale marketable securities, net | (192) | - | - |
| Realized gain on sale of available-for-sale marketable securities | (210) | (274) | - |
| Impairment of available-for-sale marketable securities | 582 | - | - |
| Loss on sale of property and equipment | 2 | - | 8 |
| Accrued severance pay, net | 163 | (180) | (249) |
| Compensation related to options and restricted shares granted to employees and directors | 1,013 | 658 | 221 |
| Decrease in trade receivables, net | 491 | 812 | 903 |
| Decrease (increase) in other accounts receivable and prepaid expenses | (715) | 797 | (3,801) |
| Decrease (increase) in inventories | (1,507) | 713 | 1,939 |
| Increase (decrease) in trade payables | 990 | (477) | (1,182) |
| Decrease in deferred costs | 500 | - | - |
| Increase (decrease) in deferred revenues | (1,313) | 494 | (175) |
| Increase (decrease) in accrued expenses and other accounts payable | (964) | 870 | (605) |
| Gain on sale of intangible assets | - | (218) | - |
| Net cash provided by discontinued operations | 121 | 43 | - |
| Net cash used in operating activities | (3,874) | (3,287) | (6,607) |
| Cash flows from investing activities: | | | |
| Proceeds from sale of property and equipment | 41 | - | 1 |
| Purchase of property and equipment | (945) | (393) | (276) |
| Proceeds from redemption of available-for-sale marketable securities | 36,173 | 8,482 | - |
| Proceeds from sale of intangible assets | - | 218 | - |
| Investment in long-term lease deposits | (5) | 9 | 76 |
| Investment in affiliated companies | (20,382) | (8,556) | - |
| Investment in other assets | - | - | (659) |
| Investment in real estate property | - | - | (22,282) |
| Proceeds from sale of an affiliated company | - | - | 28,691 |
| Net cash provided by (used in) investing activities | 14,882 | (240) | 5,551 |
| Cash flows from financing activities: | | | |
| Short-term bank credit | (3,002) | (634) | - |
| Proceeds from exercise of stock options | 225 | - | - |
| Issuance of ordinary shares in a private placement | - | 5,000 | - |
| Proceeds from bank loan | - | - | 18,353 |
| Net cash provided by (used in) financing activities | (2,777) | 4,366 | 18,353 |
| Exchange differences on balances of cash and cash equivalents | - | - | (32) |
| Increase in cash and cash equivalents | 8,231 | 839 | 17,265 |
| Cash and cash equivalents at the beginning of the year | 2,316 | 10,547 | 11,386 |
| Cash and cash equivalents at the end of the year | $ 10,547 | $ 11,386 | $ 28,651 |

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**U.S. dollars in thousands**

| | Year ended December 31, | | |
|---|---|---|---|
| | **2007** | **2008** | **2009** |
| Supplemental disclosure of cash flow activities: | | | |
| (a) Non-cash transactions: | | | |
| Reclassification of inventories into property and equipment | $ 333 | $ 235 | $ 77 |
| (b) Cash paid during the year for: | | | |
| Interest | $ 386 | $ 49 | $ 26 |

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

**NOTE 1:- GENERAL**

a. Optibase Ltd. ("the Company") was incorporated and commenced operations in 1990.

The Company has two wholly-owned subsidiaries: Optibase Inc. in the United States which was incorporated in 1991 ("the U.S subsidiary") and Optibase Real Estate Europe SARL ("Optibase SARL") in Luxembourg which was incorporated in October 2009 (collectively: "the Group").

In October 2009, the Company acquired through a new subsidiary in Luxembourg, a commercial real estate property in Rumlang, Switzerland in consideration of approximately $ 22,800 and engaged in fixed income real estate activity (see also Note 3).

The Company and its U.S subsidiary provide high quality equipment for a wide range of professional video applications in the Broadband IPTV, Broadcast, Government, Enterprise and Post-production markets, which performed through the operation of two product lines: Video technologies and IPTV.

The Company and its U.S subsidiary sell their products worldwide, directly and through distributors, Value Added Resellers ("VARs"), system integrators and Original Equipment Manufacturers ("OEMs"), all of which are considered end-customers from the perspective of the Company and its subsidiary.

The majority of the Company and its U.S subsidiary sales are made in North America, Europe and the Far East. For the years ended December 31, 2007, 2008 and 2009, the Company had one major customer whose revenues were approximately 14%, 17% and 12%, respectively, from the total revenues.

On March 16, 2010, the Company entered into an Asset Purchase Agreement (“the Agreement”) with Vitec Multimedia ("Vitec"), a French company, for the sale of its video technology and IPTV business for consideration of $ 8,000 in cash. In addition, Optibase and Vitec agreed on an earn-out mechanism pursuant to which 45% of Vitec's revenues deriving from the video business exceeding $14,000 in the year following the closing of the transaction will be paid to Optibase as additional consideration. The Agreement contemplated the sale of substantially all of the assets and liabilities relating to the business with the exception of specific assets and liabilities as defined in the Agreement. As of the signing date of the financial statements, the closing of this transaction is still subject to the receipt of the consideration and is expected to occur shortly after the release of these financial statements. See further details in Note 17c. Following the closing of the transaction the Company's business will focus on the real estate segment. In addition, the Company's entire revenues and expenses for the years ended 2008 and 2009 from the video technology and IPTV business will be classified after the closing of the Agreement as discontinued operations in the Company's financial statements.

b. Discontinued operations:

In 2006, the Company determined that the level of activity and cash flow generated from the disposed digital non-linear product line are no longer significant and as such reassessed the classification of the Digital non-linear product line, and decided that it meets the definition of discontinued operation, in accordance with ASC 205-20 "Discontinued Operation".

Accordingly, the results of operations including revenues, operating expenses and other income and expenses of the digital non-linear product line for the years 2007 and 2008 have been classified in the accompanying statements of operations as discontinued operations. No income or expenses were recognized for the year ended December 31, 2009.

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP").

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES**

In June 2009, the FASB issued what has been codified in ASC 105, "*Generally Accepted Accounting Principles*" (Formerly: SFAS No. 168, "*the FASB Accounting Standards Codifications and Hierarchy of GAAP - a Replacement of SFAS 162*"). The Financial Accounting Standards Board (FASB) Accounting Standards Codification™ ("Codification") became the single source of authoritative U.S. GAAP. The Codification did not create any new GAAP standards but incorporated existing accounting and reporting standards into a new topical structure with a new referencing system to identify authoritative accounting standards, replacing the prior references to Statement of Financial Accounting Standards (SFAS), Emerging Issues Task Force (EITF), FASB Staff Position (FSP), etc. Authoritative standards included in the Codification are designated by their Accounting Standards Codification (ASC) topical reference, and new standards will be designated as Accounting Standards Updates (ASU), with a year and assigned sequence number. Beginning with this report for the year ended December 31, 2009, references to prior standards have been updated to reflect the new referencing system.

a. Use of estimates:

The preparation of financial statements in conformity with U.S generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The Company's management believes that the estimates, judgments and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

b. Financial statements in U.S. dollars:

A majority of the revenues of the Company and its subsidiaries is generated in United States dollars ("dollars"). In addition, a substantial portion of their costs is incurred or determined in dollars. The Company's management believes that the dollar is the currency of the primary economic environment in which the Company and its subsidiaries operate. Thus the dollar is their functional and reporting currency. Accordingly, monetary accounts maintained in currencies other than the dollar are remeasured into U.S. dollars, in accordance with ASC 830, *"Foreign Currency Matters"* (Formerly: SFAS No. 52, "*Foreign Currency Translation*"). All transaction gains and losses of the remeasured monetary balance sheet items are reflected in the statements of operations as financial income or expenses, as appropriate.

The financial statements of Optibase SARL (subsidiary in Luxembourg) whose functional currency has been determined to be CHF (Swiss Francs) have been translated into U.S. dollars. Assets and liabilities of this subsidiary are translated at year-end exchange rates and their statement of operations items are translated using the actual exchange rates at the dates on which those items are recognized. Such translation adjustments are recorded as a separate component of accumulated other comprehensive income in shareholders' equity.

c. Principles of consolidation:

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

U.S. dollars in thousands (except share and per share data)

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

d. Cash equivalents:

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

e. Inventories:

Inventories are stated at the lower of cost or market value. Inventory reserves are provided to cover risks arising from slow-moving items or technological obsolescence. In 2007, 2008 and 2009, the Company and its subsidiaries recorded write-off charges in a total amount of $ 0, $ 79 and $ 171, respectively, related to obsolete inventory and slow-moving items, which are included in the statement of operations under cost of revenues.

Cost is determined as follows:

Raw materials and components - by the "moving average cost" method.

Work in progress and finished goods - cost of manufacturing with the addition of allocable indirect manufacturing costs by the "average cost" method.

f. Property and equipment:

Property and equipment are stated at cost net of accumulated depreciation.

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

| | % |
|---|---|
| Computers and peripheral equipment | 20 – 33 |
| Office furniture and equipment | 6 – 20 |
| Motor vehicles | 15 |
| Building | 35 |
| Leasehold improvements | The shorter of the useful life or term of the lease |

g. Long-lived assets including intangible assets:

The Company and its subsidiaries long-lived assets are reviewed for impairment in accordance with ASC 360, *"Property, Plant and Equipment"* (Formerly: SFAS No. 144, "*Accounting for the Impairment or Disposal of Long-Lived Assets*"), whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

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

The Company reviewed assets on a component-level basis, which is the lowest level of assets for which there are identifiable cash flows that can be distinguished operationally and for financial reporting purposes. The carrying amount of the asset group was compared with the related expected undiscounted future cash flows to be generated by those assets over the estimated remaining useful life of the primary asset. In cases where the expected future cash flows were less than the carrying amounts of the assets, those assets were considered impaired and written down to their fair values. Fair value was established based on discounted cash flows. As of December 31, 2007, 2008 and 2009, no impairment losses have been identified.

h. Investments in affiliated companies:

Investments in companies that are not controlled but over which the Company can exercise significant influence are presented using the equity method of accounting. The Company discontinues applying the equity method when its investment is reduced to zero and the Company has not guaranteed obligations of the affiliate or otherwise committed to provide further financial support to the affiliate.

Investments in non-marketable equity securities of entities in which the Company does not have control or the ability to exercise significant influence over their operation and financial policies are recorded at cost.

Management evaluates investments in affiliates and other companies for evidence of other-than temporary declines in value. When relevant factors indicate a decline in value that is other-than temporary the Company recognizes an impairment loss for the decline in value. As for impairment charges recorded in 2007, 2008 and 2009 see Note 6.

i. Revenue recognition:

The Company and its subsidiaries generate revenues mainly from the followings:

Sale of hardware products ("products") and to a lesser extent from sales of software products - The Video solutions revenues. Fixed income-real-estate.

The Video solutions revenues

The Company and its U.S. subsidiary sell their products worldwide directly and through system integrators, VARs, distributors and OEMs who are considered end-customers.

Revenues from product sales in which the software is incidental to the hardware are recognized in accordance with ASC 605, *"Revenue Recognition"* and Staff Accounting Bulletin No. 104, "*Revenue Recognition in Financial Statements*" (SAB 104), when delivery has occurred, persuasive evidence of an agreement exists, the vendor's fee is fixed or determinable, no further obligation exist and collectability is probable. Estimated warranty costs, which are insignificant, are based on the Company and its U.S. subsidiary's past experience and are accrued in the financial statements. The Company and its U.S. subsidiary do not grant a right of return.

Revenues from sale of products that include post customer support are recognized in accordance with ASC 605-25 Multiple Element Arrangements" (formerly: Emerging Issues Task Force ("EITF") Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables"). Multiple-element arrangement (an arrangement that involves the delivery or performance of multiple products, services and/or rights to use assets) is separated into more than one unit of accounting, and revenue from such deliverables is recognized under SAB 104.

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

The Company accounts for product sales in which the software is more-than incidental to the functionality of the hardware in accordance with ASC 985-605 *"Revenue Recognition - Software"* (Formerly - Statement of Position No. 97-2, *"Software Revenue Recognition"*). ASC 985-605 generally requires revenue earned on software arrangements involving multiple elements to be allocated to each element based on the relative fair value of the elements. ASC 985-605 also requires that revenue be recognized under the "residual method" when vendor-specific objective evidence ("VSOE") of fair value exists for all undelivered elements and VSOE does not exist for one or more of the delivered elements. Under the residual method, any discount in the arrangement is allocated to the delivered elements.

Maintenance and support revenue included in multiple element arrangements is deferred and recognized on a straight-line basis over the term of the maintenance and support agreement. The VSOE of fair value of the undelivered elements (maintenance and support), is determined based on the renewal rate charged when these elements are sold separately.

Amounts received from customers for whom revenue has not yet been recognized, are presented as deferred revenues.

Fixed income-real-estate

Rental income includes minimum rents and expenses recoveries. Minimum rents are recognized on an accrual basis over the terms of the related leases on a straight-line basis. Lease revenue recognition commences when the lessee is given possession of the leased space and there are no contingencies offsetting the lessee's obligation to pay rent.

Substantially all of the lease agreements contain provisions that require reimbursement of the tenant's share of real estate taxes, insurance and common area maintenance costs, or common area maintenance fees ("CAM"). Revenue from tenant reimbursements of taxes, CAM and insurance is recognized in the period that the applicable costs are incurred in accordance with the lease agreements.

j. Research and development costs:

ASC 985-20 "Costs of Software to Be Sold, Leased, or Marketed" (Formerly known as SFAS 86, *"Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed*") requires capitalization of certain software development costs subsequent to the establishment of technological feasibility. Based on the Company product development process, technological feasibility is established upon completion of a working model.

Research and development costs incurred in the process of developing product improvements or new products, are generally charged to expenses as incurred, net of participation of the Office of the Chief Scientist of Israel's Ministry of Industry, Trade and Labor, and the European Union Research and Development Program.

In the years ended December 31, 2007, 2008 and 2009, all research and development costs were charged to the statements of operations as incurred.

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

k. Income taxes:

The Company and its subsidiaries account for income taxes in accordance with ASC 740, *"Income Taxes"* (Formerly: SFAS 109, "*Accounting for Income Taxes*"). This Statement prescribes the use of the liability method, whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company and its subsidiaries provide a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

Effective January 1, 2007, the Company adopted the provisions of ASC 740 (Formerly: FASB Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109"*). ASC 740 clarifies the accounting for uncertainties in income taxes by establishing minimum standards for the recognition and measurement of tax positions taken or expected to be taken in a tax return. Under the requirements of ASC 740, the Company must review all of its tax positions and make a determination as to whether its position is more-likely-than-not to be sustained upon examination by regulatory authorities. If a tax position meets the more-likely–than-not standard, then the related tax benefit is measured based on a cumulative probability analysis of the amount that is more-likely-than-not to be realized upon ultimate settlement or disposition of the underlying issue.

l. Royalty-bearing grants:

Royalty-bearing grants from the Government of Israel for research and development are recognized at the time the Company is entitled to such grants on the basis of the related costs incurred, and are recorded as a reduction of research and development costs (see also Note 10b).

m. Non-royalty-bearing grants:

The Company receives non-royalty-bearing grants from the European Union Research and Development Program, and from the STRIMM and NEGEV consortiums, which are part of the Office of the Chief Scientist Magnet program. These grants are recognized at the time the Company is entitled to such grants on the basis of the costs incurred, and are recorded as a reduction in research and development costs.

n. Concentrations of credit risk:

Financial instruments that potentially subject the Company and its subsidiaries to concentrations of credit risk consist principally of cash and cash equivalents, trade receivables and long-term lease deposits.

Cash and cash equivalents are invested in U.S. dollar deposits with major banks in Israel and the United States. Such deposits in the United States may be in excess of insured limits and are not insured in other jurisdictions. The Company maintains cash and cash equivalents with diverse financial institutions and monitors the amount of credit exposure to each financial institution. The trade receivables of the Company and its subsidiaries are geographically diversified and derived from sales to customers mainly in North America, Europe and the Far East. The Company and its U.S. subsidiary generally do not require collateral; however, in certain circumstances, the Company and its U.S. subsidiary may require letters of credit, advance payments, insurance, and other collateral or additional guarantees. An allowance for doubtful accounts is determined with respect to those amounts that the Company and its U.S. subsidiary have determined to be doubtful of collection in addition to a general allowance for the remaining accounts. The Company and its subsidiary perform ongoing credit evaluations of their customers.

U.S. dollars in thousands (except share and per share data)

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

o. Basic and diluted net earnings (losses) per share:

Basic net earnings (losses) per share are computed based on the weighted average number of Ordinary shares outstanding during each year. Diluted net earnings (losses) per share is computed based on the weighted average number of Ordinary shares outstanding during each year, plus dilutive potential Ordinary shares considered outstanding during the year, in accordance with ASC 260, *"Earning Per Share"* (Formerly: SFAS 128, "*Earnings Per Share*"). All outstanding stock options and unvested shares have been excluded from the calculation of the diluted net earnings (losses) per Ordinary share because the securities are anti-dilutive for all periods presented.

p. Accounting for stock-based compensation:

The Company accounts for stock-based compensation in accordance with ASC 718 "*Compensation – Stock Compensation*" (formally: SFAS 123(R), "*Share-Based Payment*").

ASC 718 requires companies to estimate the fair value of share-based awards on the date of grant using an option-pricing model.

The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company's consolidated statements of income.

The Company recognizes compensation expenses net of estimated forfeitures and recognizes the compensation costs for only those shares expected to vest on a straight-line basis over the requisite service period of the award, which is generally the option vesting term of four years. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

The Company estimates the fair value of stock options granted using the Black-Scholes-Merton option pricing model. The option-pricing model requires a number of assumptions, of which the most significant are the expected stock price volatility and the expected option term. Expected volatility is calculated based upon actual historical stock price movements. The expected term of options granted is based upon historical experience and represents the period of time that options granted are expected to be outstanding. The risk free interest rate is based on the yield from U.S. treasury bonds with an equivalent term. The Company has historically not paid dividends and has no foreseeable plans to pay dividends. During the years ended December 31, 2007, 2008 and 2009, the fair value was estimated at the date of grant using the following assumptions:

| | December 31, | | |
|---|---|---|---|
| | 2007 | 2008 | 2009 |
| Dividend yield | 0% | 0% | 0% |
| Volatility | 58% | 58% | 60% |
| Risk free interest | 4.6% | 3% - 4.6% | 2.36% - 3.69% |
| Expected term (years) | 4.6 | 4.6 | 4.75 |

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

q. Severance pay:

The Company's liability for severance pay is calculated pursuant to Israel's Severance Pay Law, based on the most recent salary of the employees, multiplied by the number of years of employment as of the balance sheet date. Israeli employees are entitled to severance equal to one month's salary for each year of employment, or a portion thereof. The Company's liability for all of its employees is fully provided by monthly deposits with insurance policies and by an accrual. The value of these policies is recorded as an asset in the Company's balance sheet.

The deposited funds include profits or losses accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation, pursuant to the Severance Pay Law or labor agreements. The value of the deposited funds is based on the cash surrendered value of these policies, and includes immaterial profits.

Commencing July, 2007, the Company's employees elected to be included under section 14 of the Severance Compensation Act, 1963 ("section 14"). According to section 14, these employees are entitled only to monthly deposits, at a rate of 8.33% of their monthly salary, made in their name with insurance companies. Payments in accordance with section 14 release the Company from any future severance payments (under the above Israeli Severance Pay Law) in respect of those employees. The aforementioned deposits are not recorded as an asset in the Company's balance sheet.

Severance pay expense amounted to $ 446, $ 599 and $ 380 for the years ended December 31, 2007, 2008 and 2009, respectively.

r. Employee benefit plan:

The Company has a 401(K) defined contribution plan covering certain employees in the U.S. All eligible employees may elect to contribute up to 100%, but no more than $ 16.5 per year (and $ 22 for employees of 50 years of age and above), of their annual compensation to the plan through salary deferrals, subject to IRS limits. The Company makes a matching contribution up to 25% over a vesting period of 5 years.

s. Fair value measurements:

The carrying amounts of our financial instruments, including cash and cash equivalents, short-term bank deposits, trade receivables, accounts receivable, trade payables, other accounts payable and accrued liabilities, approximate fair value because of their generally short maturities.

As of December 31, 2009 and 2008, the Company had no assets and liabilities measured at fair value under ASC 820 "Fair Value Measurement and Disclosures"

t. Treasury Shares:

During past years, the Company repurchased certain of its Ordinary shares on the open market and holds such shares as treasury shares. The Company presents the cost to repurchase treasury shares as a reduction from shareholders' equity.

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

u. Fair value of financial instruments:

The carrying amounts of our financial instruments, including cash and cash equivalents, trade receivables, accounts receivable, trade payables, other accounts payable, and accrued liabilities, approximate fair value because of their generally short-term maturities.

Effective January 1, 2008, the Company adopted ASC 820 (Formerly SFAS 157), "Fair Value Measurements and Disclosures". ASC 820 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, ASC 820 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

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

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

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

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

Cash measured at fair value under ASC 820 on a recurring basis as of December 31, 2009.

v. Business Combinations:

In December 2007, the FASB issued ACS No. 805 (Formerly SFAS 141(R) ), ‘‘Business Combinations’’. This Statement replaces SFAS No. 141, ‘‘Business Combinations’’, and requires an acquirer to recognize the assets acquired, the liabilities assumed, including those arising from contractual contingencies, any contingent consideration and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. In addition, the statement requirement to measure the noncontrolling interest in the acquiree at fair value will result in recognizing the goodwill attributable to the noncontrolling interest in addition to that attributable to the acquirer.
ACS 805 applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008.

w. Impact of recently issued accounting standards:

In October 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-13, “Multiple-Deliverable Revenue Arrangements” (ASU 2009-13). This update amends ASC Topic 605-25, “Revenue Recognition—Multiple-Deliverable Revenue Arrangements” to remove the criterion that entities must use objective and reliable evidence of fair value in separately accounting for deliverables and provides entities with a hierarchy of evidence that must be considered when allocating arrangement consideration. The update also requires entities to allocate arrangement consideration to the separate units of accounting based on the deliverables’ relative selling price. ASU 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, unless the election is made to adopt ASU 2009-13 retrospectively. The adoption of this guidance is not expected to have a material impact on the Company’s financial condition, results of operations and cash flows.

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

In October 2009, the FASB issued ASU No. 2009-14, "Certain Revenue Arrangements that Include Software Elements" (ASU 2009-14). This update modifies the scope of the software revenue recognition guidance to exclude (a) non-software components of tangible products and (b) software components of tangible products that are sold, licensed, or leased with tangible products when the software components and non-software components of the tangible product function together to delivery the product's functionality. ASU 2009-14 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, unless the election is made to adopt ASU 2009-14 retrospectively. The adoption of this guidance is not expected to have a material impact on the Company's financial condition, results of operations and cash flows.

In January 2010, the FASB issued ASU No. 2010-06, "Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements" (ASU 2010-06). ASU 2010-06 includes new disclosure requirements related to fair value measurements, including transfers in and out of Levels 1 and 2 and additional information about Level 3 activity. The new disclosures are required in interim and annual reporting periods beginning after December 15, 2009, except for the disclosures relating to Level 3 activity, which are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The adoption did not have a material impact on the Company's financial condition, results of operations or cash flows.

**NOTE 3:- BUSINESS COMBINATION**

On October 29, 2009, the Company through its subsidiary in Luxemburg acquired a commercial building located in Switzerland. The five-storey building includes 12,500 square meters (approximately 134,500 square feet) of rentable space with offices, laboratory and retail uses. The purchase price for the transaction was approximately CHF 23,500 (approximately $ 22,800 as of the purchase date) of which CHF 18,800 (approximately $ 18,100 as of the purchase date) was financed through a long-term loan from a Swiss bank (see details in Note 9). The Company recognized in 2009 approximately $ 201 of acquisition-related costs.

The acquisition has been accounted for using the purchase method of accounting. The purchase price has been allocated to land, building and intangible assets. The aggregate value of other acquired intangible assets, consisting of in-place leases, is measured by the excess of (i) the purchase price paid for a property after adjusting existing in-place leases to market rental rates over (ii) the estimated fair value of the property as-if-vacant, determined as set forth above. The value of in-place leases exclusive of the value of above-market and below-market in-place leases is amortized to expense over the remaining non-cancelable periods of the respective leases. If a lease were to be terminated prior to its stated expiration, all unamortized amounts relating to that lease would be written off. Other than as discussed above, the Company has determined that the real estate properties do not have any other significant identifiable intangibles. Following the acquisition, the Company reports on operating segments as described in Note 14.

The results of operations of the acquired property are included in the Company's financial statements from the date the acquisition has been completed. The intangible assets associated with the property acquisition are included in the consolidated balance sheets.

U.S. dollars in thousands (except share and per share data)

**NOTE 3:- BUSINESS COMBINATION (Cont.)**

The total purchase price was allocated as follows:

| | |
|---|---|
| Cash paid | $ 22,828 |
| Land | 2,818 |
| Building | 19,354 |
| Intangible assets | 656 |
| Total purchase price | $ 22,828 |

Unaudited pro forma results:

The following unaudited condensed combined pro forma financial information presents the Company's adjusted results of operations as if the acquisition had occurred as of the beginning of the fiscal years 2008 and 2009, assuming that net income for the periods incorporates the amortization of intangible assets and financing costs from the loan that was used for the acquisition:

| | Year ended December 31, 2008 | Year ended December 31, 2009 |
|---|---|---|
| Technology net revenues (audited) | $ 19,901 | $ 13,149 |
| Real estate net revenues (unaudited) | 1,608 | 1,530 |
| | $ 21,509 | $ 14,679 |
| Technology net income (loss) (audited) | $ (9,545) | $ 212 |
| Real estate net income (unaudited) | 505 | 426 |
| | $ (9,040) | $ 638 |
| Technology Basic and diluted net earnings (loss) per share | $ (0.63) | $ 0.01 |
| Real estate Basic and diluted net earnings per share | 0.03 | 0.03 |
| | $ (0.60) | $ 0.04 |

The pro forma financial information is not necessarily indicative of the combined results that would have been attained had the acquisitions taken place at the beginning of 2008 and 2009, nor is it necessarily indicative of future results.

U.S. dollars in thousands (except share and per share data)

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

| | December 31, | |
|---|---|---|
| | 2008 | 2009 |
| Government authorities | $ 455 | $ 228 |
| Prepaid expenses | 85 | 151 |
| Short-term deposit (1) | - | 3,750 |
| Interest receivable | 5 | 131 |
| Others | 145 | 232 |
| | $ 690 | $ 4,492 |

(1) Short-term deposit was paid by the Company to a third-party in connection with potential transaction to acquire interest in an office building in the U.S.A. Subsequent to December 31, 2009, this transaction was terminated and the Company received the deposit from the third party.

**NOTE 5:- INVENTORIES**

| | December 31, | |
|---|---|---|
| | 2008 | 2009 |
| Raw materials and components | $ 1,707 | $ 1,035 |
| Work in progress | 324 | 149 |
| Finished goods | 2,342 | 1,172 |
| | $ 4,373 | $ 2,356 |

**NOTE 6:- INVESTMENTS IN COMPANIES**

a. The Company holds on a fully diluted basis approximately 4.34% of Mobixell Network, Inc. equity. The investment is treated on the basis of the cost method. As of December 31, 2008 and 2009, the investment's balance amounts to $ 700.

b. The Company holds approximately 32% on a fully diluted basis, of V.Box Communication Ltd. ("V. Box"), a privately held Company. The Company recorded impairment losses in the amount of $ 325 in the year ended December 31, 2007, which are included in the statement of operations under other expenses (income), net. Through December 31, 2007, the Company has impaired the investment and the balance of the investment was $ 0. Optibase did not invest additional amounts in 2008 and 2009.

c. In January 2007, the Company purchased 3,035,223 Ordinary shares of Scopus, representing approximately 23% of Scopus then issued share capital, from Koor Corporate Venture Capital and Koor Industries Ltd. at an aggregate purchase price of approximately $ 15,935. In August 2007, the Company has completed a tender offer process and purchased on the market additional 690,000 Ordinary shares of Scopus, representing approximately 5% of Scopus then issued share capital, at an aggregate purchase price of $ 3,968.

In January 2008, the Company purchased additional 1,380,000 Ordinary shares of Scopus, bringing its aggregated investment to approximately 37% of Scopus then issued share capital. The consideration of the purchase amounted to approximately $ 8,556.

U.S. dollars in thousands (except share and per share data)

**NOTE 6:- INVESTMENTS IN COMPANIES (Cont.)**

The Company accounted for the investment in accordance with the provision of ASC 323 "*Investment - Equity Method and Joint Ventures*" (formerly: APB 18), and as the Company has the ability to exercise significant influence over Scopus, the equity method of accounting was applied. As such, the purchase price has been allocated to the assets acquired and the liability assumed based on their fair value at the dates of acquisition. The fair values of the identified assets were established based on an independent valuation study performed by a third-party specialist. The excess of the purchase price over the fair value of the net tangible and intangible assets acquired has been recorded as goodwill totaling approximately $ 1,627 in the 2008 acquisition. For the year ended December 31, 2008, the Company recorded its share of Scopus loss as well as amortization of tangible and intangible assets acquired, amounting to $ 1,930.

The following summarizes information of Scopus:

| | December 31, | |
|---|---|---|
| | 2008 | 2009 |
| Current assets | $ 62,275 | $ - |
| Non current assets | $ 4,620 | $ - |
| Current liabilities | $ (20,117) | $ - |
| Non current liabilities | $ (1,921) | $ - |

| | Year ended December 31, | |
|---|---|---|
| | 2008 | 2009 |
| Revenues | $ 75,654 | $ - |
| Gross profit | $ 37,113 | $ - |
| Net Income | $ 346 | $ - |

On December 23, 2008, the Company entered into an Agreement with Harmonic Inc. ("Harmonic") and Scopus, pursuant to which Scopus will become a wholly owned subsidiary of Harmonic. In connection with the Agreement, the Company and Harmonic entered into a voting agreement pursuant to which the Company has undertaken to vote in favor of the transactions. The Company has agreed also to grant Harmonic a proxy and appointed certain Harmonic officers as its proxy to vote in favor of the transactions.

As of December 31, 2008, the proposed acquisition was subject to customary conditions, regulatory approvals and the approval of Scopus' shareholders. In connection with the acquisition, Optibase entered into a voting agreement with Harmonic pursuant to which Optibase has undertaken to vote in favor of the acquisition at Scopus' shareholder meeting. The closing took place in March 2009.

On March 12, 2009 following the closing of the merger agreement between Scopus and Harmonic, the Company had disposed of its entire holding in Scopus for a total consideration of approximately $ 28,700 and recorded other income, which include equity in losses of $ 4,773. The Company does not expect any tax payments as a result of the sale.

The Company and Scopus have agreed to waive any claim against each other (and against Harmonic, in the case of claims by the Company) arising from or in connection with the term sheet, previously signed by the Company and Scopus with respect to negotiations took place between the parties during 2008 and the termination of such negotiations. Scopus undertook in addition to reimburse the Company for certain of its expenses associated with such negotiations in the aggregate amount of $ 300.

U.S. dollars in thousands (except share and per share data)

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

| | December 31, | |
|---|---|---|
| | 2008 | 2009 |
| Cost: | | |
| Computers and peripheral equipment | $ 11,783 | $ 11,985 |
| Office furniture and equipment | 357 | 363 |
| Motor vehicles | 5 | - |
| Leasehold improvements | 852 | 796 |
| | 12,997 | 13,144 |
| Accumulated depreciation | 11,769 | 12,508 |
| Depreciated cost *) | $ 1,228 | $ 636 |
| Cost (See Note 3 for more details): | | |
| Land | $ - | $ 2,818 |
| Real estate property | - | 19,354 |
| | - | 22,172 |
| Accumulated depreciation | - | 92 |
| Depreciated cost | $ - | $ 22,080 |
| Acquired intangible assets, net ** | $ - | $ 634 |

*) Depreciation expenses amounted to $ 1,244, $ 1,090 and $ 933 for the years ended December 31, 2007, 2008 and 2009, respectively.

**) Amortization expenses amounted to $ 22 for the year ended December 31, 2009. See further details with regards to the other assets in Note 3.

Estimated amortization expenses for each of the five succeeding fiscal years are as follows:

| Year | Estimated amortization expenses |
|---|---|
| 2010 | $ 130 |
| 2011 | 130 |
| 2012 | 130 |
| 2013 | 130 |
| 2014 | 104 |

U.S. dollars in thousands (except share and per share data)

**NOTE 8:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

| | December 31, | |
|---|---|---|
| | 2008 | 2009 |
| Employees and payroll accruals | $ 1,998 | $ 1,119 |
| Royalties (see Note 10b) | 1,906 | 2,046 |
| Accrued expenses | 2,204 | 2,035 |
| Government authorities | 812 | 1,115 |
| | $ 6,920 | $ 6,315 |

**NOTE 9:- SHORT-TERM BANK CREDIT LINE AND LONG TERM LOAN**

As of December 31, 2008 and 2009, the Company and its subsidiaries had authorized lines of credit in the amount of $ 921 and $ 395, respectively, out of which $ 921 and $ 395, respectively, are linked to the NIS and bear an annual bank interest rate of Prime plus 1%-1.25%.

The Company and its subsidiaries did not utilize its line of credit as of December 31, 2008 and 2009.

On October 29, 2009, the Company's subsidiary in Luxemburg was granted a mortgage loan ("the loan") from a financial institution in Switzerland, in the amount of CHF 18,800 for the purpose of purchasing its real estate property located in Switzerland ("the property"). The loan bears an adjustable interest rate based on current money and capital markets in Switzerland plus the bank's customary margins. The financial institution may increase margin at any time if creditworthiness of the borrower or quality of the property is impaired. Principal and interest of the loan are payable quarterly. The mortgage loan may be repaid at any time with a three months prior written notice by the Company. The mortgage loan is governed by the laws of Switzerland and bears other terms and conditions customary for that type of mortgage loans**.** The Company pledged to the bank the property and all accounts and assets of the Company's subsidiary which are deposited with the bank against the loan received.

Maturities of long term loan by years are as follows:

| **Year ended December 31,** | |
|---|---|
| 2011 | $ 365 |
| 2012 | 365 |
| 2013 | 365 |
| 2014 | 365 |
| 2015 | 365 |
| 2016 and thereafter | 16,072 |
| | $ 17,897 |

U.S. dollars in thousands (except share and per share data)

**NOTE 10:- COMMITMENTS AND CONTINGENT LIABILITIES**

a. Lease commitments:

The Company and its subsidiaries facilities and motor vehicles are leased under several operating lease agreements for periods ending in 2011.

Future minimum lease commitments under non-cancelable operating leases are as follows:

| Year ended December 31, | |
|---|---|
| 2010 | $ 841 |
| 2011 | 575 |
| | $ 1,416 |

As of December 31, 2009, the Company and its subsidiaries provided long-term deposits amounting to $ 233 as collateral, in accordance with the lease agreements.

Rent expenses amounted to $ 693, $ 759 and $ 725 for the years ended December 31, 2007, 2008 and 2009, respectively. Motor vehicle leasing expenses for the years ended December 31, 2007, 2008 and 2009, were $ 549, $ 482 and $ 334, respectively.

b. Royalty commitments:

The Company participated in programs sponsored by the Israeli Government for the support of research and development activities. The Company is obligated to pay royalties to the Office of the Chief Scientist ("OCS"), amounting to 3%-3.5% of the sales of the products and other related revenues generated from such projects, up to 100% of the grants received, linked to the U.S. dollar and for grants received after January 1, 1999 also bearing interest at the rate of LIBOR. The obligation to pay these royalties is contingent on actual sales of the products and in the absence of such sales, no payment is required.

Through December 31, 2009, the Company has paid or accrued royalties to the OCS in the amount of $ 4,248, which was recorded under cost of revenues. As of December 31, 2009, the Company had an outstanding contingent obligation to pay royalties in the amount of approximately $ 4,162 plus interest.

c. Guarantees:

As of December 31, 2009, the Company has obtained bank guarantees in favor of a lessor and the Israeli Chambers of Commerce totaling $ 143.

d. Assets pledged as collateral:

As collateral for the Company's lines of credit, a fixed charge has been placed on the Company's property and equipment, shareholders' equity and a floating charge (security interest in assets of the Company as they exist from time to time) has been placed on all the other assets of the Company.

U.S. dollars in thousands (except share and per share data)

**NOTE 10:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)**

e. Legal claim and contingent liabilities:

In September 2005, the Company was served with a lawsuit filed by Vsoft Ltd., or Vsoft, a company that is undergoing liquidation proceedings and which claimed that during 2002 the Company negotiated with Vsoft in bad faith regarding a potential purchase of its share capital, which led to Vsoft's entering into bankruptcy proceedings. Vsoft demanded damages in the amount of $2,129 as well as the payment of reimbursement of expenses, legal fees and applicable VAT. On January 1, 2006, the Company filed a motion to dismiss the lawsuit based on our claim that Vsoft's receiver did not approve the lawsuit as determined by the liquidation court. The Company's motion to dismiss was denied. The Company believes, based on the facts known to the Company and based on the advice of the Company's external legal advisors as of this annual report, that though the claim for damages is without merit, the court may rule otherwise, and as such the Company have provided an amount which it believes would cover the risk associated with that lawsuit.

There are several legal proceedings initiated against the Company in the ordinary course of business. In the opinion of management, it is not anticipated that the settlement or resolution of any such matters, if any, will have a material adverse impact on the Company's financial condition, results of operations or cash flows.

**NOTE 11:- OTHER INCOME (EXPENSES), NET**

| | Year ended December 31, | | |
|---|---|---|---|
| | 2007 | 2008 | 2009 |
| Impairment losses of V.Box | $ (325) | $ - | $ - |
| Sale of Intangible Assets | - | 218 | - |
| Other expenses | (2) | - | - |
| | $ (327) | $ 218 | $ - |

**NOTE 12:- TAXES ON INCOME**

a. Measurement of taxable income under the Income Tax (Inflationary Adjustments) Law, 1985:

According to the law, until 2007, the Company's results for tax purposes were measured based on the changes in the Israeli Consumer Price Index ("CPI"). As explained in Note 2b, the financial statements are measured in U.S. dollars. The difference between the annual change in the Israeli CPI and in the NIS/dollar exchange rate causes a further difference between taxable income and the income before taxes shown in the financial statements. In accordance with ASC 740 "Income taxes" (formerly: SFAS No. 109), the Company has not provided deferred income taxes on the difference between the functional currency and the tax bases of assets and liabilities.

**NOTE 12:- TAXES ON INCOME (Cont.)**

b. Corporate tax rates**:**

Taxable income of Israeli companies is subject to tax at the rate of 29% in 2007, 27% in 2008, 26% in 2009, 25% in 2010, 24% in 2011, 23% in 2012, 22% in 2013, 21% in 2014, 20% in 2015, 18% in 2016 and thereafter.

c. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 ("the law"):

The Company's production facilities have been granted the status of an "Approved Enterprise" under the law, for five separate investment programs.

According to the provisions of the law, the Company has elected the "Alternative Package of Benefits" - waiver of grants in return for tax benefits.

According to the provisions of the law, income derived from the "Approved Enterprise" programs, under the " Alternative Package of Benefits", will be tax-exempt for a period of two years, commencing with the year in which the Company first earns taxable income and subject to corporate taxes at the reduced tax rate of 10%-25%, for an additional period of five to eight years (depending on the percentage of foreign investor ownership in the Company).

The law also provides that an approved enterprise is entitled to accelerated depreciation on its property and equipment that are included in an approved enterprise program in the first five years of using the equipment.

The period of tax benefits detailed above is limited to the earlier of 12 years from the commencement of production, or 14 years from receiving the approval (this limitation does not apply to the exemption period).

If the retained tax-exempt income is distributed in a manner other than upon the complete liquidation of the Company, it would be taxed at the reduced corporate tax rate applicable to such profits (between 10%-25%) on the gross amount of dividend distributed. In addition, these dividends will be subject to a 15% withholding tax.

The tax benefits available to an approved enterprise are contingent upon the Company's fulfillment of the conditions stipulated in the Law, regulations published hereunder and the criteria set forth in the specific certificates of approval. In the event of failure to comply with these conditions, the benefits may be canceled and the Company may be required to refund the amount of the benefits, in whole or in part, including interest. As of December 31, 2009 management believes that the Company is meeting all of the aforementioned conditions.

On April 1, 2005, an amendment to the Law came into effect ("the Amendment") and has significantly changed certain provisions of the Law. The Amendment sets forth the scope of enterprises which may be approved by the Investment Center by setting criteria for the approval of a facility as a "Beneficiary Enterprise", such as provisions generally requiring that at least 25% of the "Beneficiary Enterprise" income will be derived from export. Additionally, the Amendment enacted major changes in the manner in which tax benefits are awarded under the Law so that companies, that elect tax benefits under the "Alternative package of benefits", no longer require Investment Center approval in order to qualify for tax. The company has elected one Beneficiary Enterprise status pursuant to the Amendment benefits.

U.S. dollars in thousands (except share and per share data)

**NOTE 12:- TAXES ON INCOME (Cont.)**

However, the Investment Law provides that terms and benefits included in any certificate of approval already granted will remain subject to the provisions of the law as they were on the date of such approval. Therefore the Company's existing "Approved Enterprise" will generally not be subject to the provisions of the Amendment.

Should the Company derive income from sources other than the "Approved Enterprise" during the relevant period of benefits; such income will be taxable at the regular Israeli corporate tax rate.

Since the company has more than one approval or only a portion of its capital investments are approved, its effective tax rate is the result of a weighted average of the applicable rates. As of December 31, 2009, the Company did not generate any income under the provisions of the Law and the Amendment.

d. Tax assessments:

The Company has final tax assessments through the tax year 2005.

On December 27, 2007 and on May 28, 2008, the Company received from the Israeli Tax Authorities a Tax Assessment (the "Assessment") for the years 2002-2003 and 2004-2005 respectively. On January 13, 2009 the Company signed a settlement agreement with the ITA, according to which, an amount of $ 73 was paid by the Company for the final tax assessments for the years 2002-2005.

e. Tax benefits under the Law for the Encouragement of Industry (Taxation), 1969:

The Company currently believes that it qualifies as an "industrial company" under the above law and, as such, is entitled to certain tax benefits, mainly accelerated depreciation of machinery and equipment, and the right to claim public issuance expenses over three years, as a deduction for tax purposes.

Eligibility for benefits under the Industry Encouragement Law is not subject to receipt of prior approval from any governmental authority. No assurance can be given that the Israeli tax authorities will agree that we qualify, or, if we qualify, that we will continue to qualify as an industrial company or that the benefits described above will be available to us in the future.

f. Deferred income taxes:

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

| | December 31, | |
|---|---|---|
| | 2008 | 2009 |
| Operating loss carry forward | $ 19,870 | $ 17,969 |
| Reserves and allowances | 8,912 | 7,205 |
| Net deferred tax asset before valuation allowance | 28,782 | 25,174 |
| Valuation allowance | (28,637) | (25,029) |
| Net deferred tax asset | $ 145 | $ 145 |

U.S. dollars in thousands (except share and per share data)

**NOTE 12:- TAXES ON INCOME (Cont.)**

The Company and its subsidiaries have provided valuation allowances in respect of deferred tax assets resulting from tax loss carryforward and other temporary differences. Management currently believes that, since the Company and its subsidiaries have a history of losses, it is more likely than not that the deferred tax regarding the loss carryforward and other temporary differences will not be realized in the foreseeable future. During 2009, the valuation allowance was decreased by approximately $ 3,608 primarily due to reduction in tax rate in Israel as described in paragraph b above.

g. Net operating losses carryforward:

Through December 31, 2009, Optibase Ltd. had a net operating losses carryforward for tax purposes in Israel of approximately $ 53,297 which may be carried forward and offset against taxable income in the future, for an indefinite period.

As of December 31, 2009, Optibase Inc. had U.S. federal net operating loss carryforward of approximately $ 21,861 that can be carried forward and offset against taxable income for 20 years, no later than 2009 to 2029. Utilization of U.S. net operating losses may be subject to the substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986, and similar state provisions. The annual limitation may result in the expiration of net operating losses before utilization.

h. Reconciliation of the theoretical tax expenses to the actual tax expenses:

A reconciliation between the theoretical tax expense, assuming all income is taxed at the statutory tax rate applicable to the income of the Company and the actual tax expense as reported in the statements of operations is as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2007 | 2008 | 2009 |
| Loss before taxes as reported | $ (4,301) | $ (7,635) | $ (4,713) |
| Theoretical tax benefit computed at the statutory rate (29%, 27% and 26% for the years 2007, 2008 and 2009, respectively) | $ (1,247) | $ (2,061) | $ (1,225) |
| Tax adjustments in respect of currency translation | (71) | 203 | 17 |
| Income and other items for which a valuation allowance was provided | 895 | 1,623 | 1,270 |
| Current adjustment of ASC 740-10 | 73 | (73) | - |
| Settlement of prior years tax assessments | - | 73 | - |
| Other non-deductible expenses | 423 | 235 | (62) |
| Income tax expense | $ 73 | $ - | $ - |

U.S. dollars in thousands (except share and per share data)

**NOTE 12:- TAXES ON INCOME (Cont.)**

i. Loss before taxes on income consists of the following:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2007 | 2008 | 2009 |
| Domestic | $ (4,135) | $ (8,655) | $ (4,745) |
| Foreign | (166) | 1,020 | 32 |
| | $ (4,301) | $ (7,635) | $ (4,713) |

j. On January 1, 2007, the Company adopted the provisions of ASC Topic 740-10, "Income Taxes", previously referred to as FIN 48.. Prior to 2007, the Company used the provisions of ASC 450 "Contingencies" (previously: FAS 5, "Accounting for Contingencies") to determine tax contingencies. As of January 1, 2007 there was no effect on the Company's shareholders equity upon the Company's adoption of ASC Topic 740-10.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

| | 2008 | 2009 |
|---|---|---|
| Balance at the beginning of the year | $ 218 | $ 145 |
| Reduction related to settlements of tax matters | (73) | - |
| Additions related to tax positions taken during the year | - | - |
| Balance at the end of the year | $ 145 | $ 145 |

The Company conducts business globally and, as a result, the Company or its subsidiaries files income tax returns in the U.S. federal jurisdiction and various states, as well as Switzerland and Luxembourg. In the normal course of business, the Company is subject to examination by taxing authorities such as Israel, Switzerland, Luxembourg and the United States. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations for years before 2003 and is no longer subject to Israeli examinations for years before 2005.

**NOTE 13:- SHAREHOLDERS' EQUITY**

a. General:

1. The Ordinary shares of the Company are traded on the NASDAQ Global Market since April 1999.

   Ordinary shares confer on their holders the right to receive notice to participate and vote in general meetings of the Company, the right to a share in excess assets upon liquidation of the Company, and the right to receive dividends, if declared.

2. On June 25, 2008, following the receipt of the approval of the Company's shareholders on June 18, 2008, the Company had completed a private issuance of 2,816,901 ordinary shares of the Company to, the Company's President, Chief Executive Officer and then Executive Chairman of the Board of Directors, in consideration for $5,000.

U.S. dollars in thousands (except share and per share data)

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

b. Stock options:

Since 1990, the Company has granted options to employees and directors to purchase Ordinary shares.

In 1999, the Company adopted an Israeli Option Plan ("1999 Israeli option plan"), a U.S. Option Plan ("1999 U.S. option plan") (collectively "the 1999 plans"). Under the terms of the above option plans, options may be granted to employees, officers, directors and various service providers of the Company and its subsidiaries. Also, the options generally become exercisable monthly over a four-year period, commencing one year after date of the grant, subject to the continued employment of the employee. The options generally expire no later than seven years from the date of the grant.

In April 2001, the Board of Directors of the Company approved the adoption of the 2001 Non-Statutory Share Option Plan. Under the terms of this plan, options may be granted to available personnel, employees, directors and consultants. The options to be granted under the plan are limited to non-statutory options. The plan has terms similar to those contained under the 1999 U.S. Option Plan.

On May 1, 2003, the Board of Directors of the Company approved three years extension to the options granted under the 1994 share option agreement. At the same date, the Company adopted the "Share Option Agreement 2003" in accordance with the amended Section 102 of Israel's Income Tax Ordinance.

The exercise price of the options granted under the plans may not be less than the nominal value of the shares into which such options are exercised. Any options, which are forfeited or cancelled before expiration, become available for future grants.

The total number of options available for future grants as of December 31, 2009 was 2,303,302.

A summary of the Company's stock option activity, and related information, is as follows:

| | Year ended December 31 | | | | | |
|---|---|---|---|---|---|---|
| | 2007 | | 2008 | | 2009 | |
| | Amount | Weighted Average Exercise price | Amount | Weighted average exercise price | Amount | Weighted Average Exercise price |
| Outstanding at the beginning of the year | 2,209,922 | $ 5.66 | 1,955,126 | $ 4.19 | 1,506,687 | $ 4.05 |
| Granted | 210,000 | $ 3.72 | 32,500 | $ 1.95 | 200,000 | $ 1.26 |
| Exercised | (86,892) | $ 2.55 | - | $ - | - | $ - |
| Forfeited | (377,904) | $ 13 | 480,939 | $ 4.39 | (588,214) | $ 3.23 |
| Outstanding at the end of the year | 1,955,126 | $ 4.19 | 1,506,687 | $ 4.05 | 1,118,473 | $ 3.99 |
| Exercisable options at the end of the year | 1,725,942 | $ 4.08 | 1,432,447 | $ 4.08 | 907,895 | $ 4.60 |
| Options vested and expected to vest at end of year | | | 1,490,907 | $ 3.94 | 1,420,878 | $ 2.89 |
| Weighted average fair value of options granted during the year | | $ 1.94 | | $ 0.98 | | $ 1.308 |

U.S. dollars in thousands (except share and per share data)

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

The aggregate intrinsic value represents the total intrinsic value (the difference between the Company's closing stock price on the last trading day of the fiscal year 2009 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2009. This amount changes based on the fair market value of the Company's stock. As of December 31, 2009, the total intrinsic value of outstanding options was $ 14.

As of December 31, 2009, there was $ 170 of total unrecognized compensation cost related to options compensation arrangements granted under the Company's stock option plans. That cost is expected to be recognized over a period of up to 3 years.

c. Nonvested shares:

In May 2006, the Board of Directors approved the adoption of the 2006 Israeli Incentive Compensation Plan (the "2006 Plan"). The 2006 Plan provides for the grant of options, restricted shares and restricted share units in accordance with various Israeli tax tracks. The Company currently uses the 2006 Plan for the grant of restricted shares only. The restricted shares are granted at no consideration and with a vesting schedule of two years (50% each year). The restricted shares are granted in accordance with the Israeli capital gains tax track. As of December 31, 2009 the pool consists of 300,000 Shares, where an aggregate of 116,450 ordinary shares has been reserved for issuance under the 2006 Plan.

A summary of the status of the entity's nonvested shares as of December 31, 2009, and changes during the year ended December 31, 2009, is presented below:

| Nonvested shares | Shares | Weighted average grant date fair value |
|---|---|---|
| Non-vested at January 1, 2008 | 76,650 | $ 3.48 |
| Granted | 20,000 | $ 2.01 |
| Vested | (61,900) | $ 3.44 |
| Forfeited | (9,000) | $ 3.38 |
| Non-vested at December 31, 2008 | 25,750 | $ 2.46 |
| Granted | 20,000 | $ 1.05 |
| Vested | (14,750) | $ 2.63 |
| Forfeited | (1,000) | $ 4.03 |
| Non-vested at December 31, 2009 | 30,000 | $ 1.39 |

As of December 31, 2009, there was $ 8 of total unrecognized compensation cost related to unvested share-based compensation arrangements granted to employees under the Plan. That cost is expected to be recognized over a period of up to 2 years.

U.S. dollars in thousands (except share and per share data)

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

d. The total equity-based compensation expense related to all of the Company's equity-based awards, recognized for the years ended December 31, 2008 and 2009, was comprised as follows:

| | Year ended December 31, | |
|---|---|---|
| | 2008 | 2009 |
| Cost of goods sold | $ 80 | $ 16 |
| Research and development | 60 | 18 |
| Selling and marketing | 272 | 108 |
| General and administrative | 246 | 79 |
| Total equity-based compensation expense before taxes | $ 658 | $ 221 |

**NOTE 14: - SEGMENT REPORTING**

a. The Company's segment information has been prepared in accordance with ASC Topic 280, “Segment Reporting”. Operating segments are defined as components of an enterprise engaging in business activities about which separate financial information is available that is evaluated regularly by the Company's chief operating decision-maker in deciding how to allocate resources and assess performance. The Company's chief operating decision-maker is the chief executive officer, who evaluates our performance and allocates resources based on segment revenues and operating profit.

Commencing October 2009, following the acquisition of the real estate property as described in Note 3, the Company's operating segments are Video solution and Fixed income real estate (See Note 1 for more details).

Segment operating profit is defined as income from operations, excluding unallocated headquarters costs. Expenses included in segment operating profit consist principally of direct selling, general, administrative and delivery costs.

| | Year ended December 31, 2009 | | |
|---|---|---|---|
| | Video Solutions | Fixed Income Real Estate | Total |
| Revenues from external customers | $ 13,149 | $ 272 | $ 13,421 |
| Operating (loss) | $ (5,216) | $ (114) | $ (5,330) |
| Financial expenses, net | | | 617 |
| Equity in losses and gain from sale of investment in affiliated company | $ 4,773 | | $ 4,773 |
| Income before taxes on income | | | $ 60 |
| Depreciation and amortization | $ 933 | $ 114 | $ 1,047 |
| Segment assets | $ 40,226 | $ 23,224 | $ 63,350 |

U.S. dollars in thousands (except share and per share data)

**NOTE 14: - SEGMENT REPORTING (Cont.)**

Summary information about geographic areas:

The following presents total revenues for the years ended December 31, 2007, 2008 and 2009 and long-lived assets as of December 31, 2008 and 2009.

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | 2008 | | 2009 | |
| | Total revenues*) | Total revenues*) | Long-lived assets | Total revenues*) | Long-Lived Assets |
| Israel | $ 1,186 | $ 444 | $ 1,433 | $ 474 | $ 848 |
| North America | 10,813 | 10,756 | 104 | 7,399 | 21 |
| Europe | 7,228 | 4,246 | - | 1,883 | |
| Far East (excluding Japan) | 3,309 | 3,848 | - | 3,153 | - |
| Japan | 167 | 275 | - | 119 | - |
| Fixed income from real estate in Europe | - | - | - | 272 | 22,714 |
| Other | 274 | 332 | - | 121 | - |
| | $ 22,977 | $ 19,901 | $ 1,537 | $ 13,421 | $ 23,583 |

*) Revenues are attributed to countries based on end-customer location.

b. Total revenues from external customers per product line are divided as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2007 | 2008 | 2009 |
| Video technologies | $ 8,923 | $ 6,420 | $ 3,672 |
| IPTV | 14,054 | 13,481 | 9,477 |
| Fixed Income Real Estate | - | - | 272 |
| | $ 22,977 | $ 19,901 | $ 13,421 |

**NOTE 15:- RELATED PARTY TRANSACTIONS-**

The Company has signed sublease and distribution agreements with V. Box through December 31, 2005. From January 2006 through December 2008, the sublease agreement with V. Box was renewed on a month by month basis. The sublease agreement was not renewed starting January 2009.

The balances with and the revenues derived from related party were as follows:

| | December 31, | |
|---|---|---|
| | 2008 | 2009 |
| a. Balances with related party: | | |
| Trade receivables: | | |
| V. Box | $ 65 | $ 64 |

U.S. dollars in thousands (except share and per share data)

**NOTE 15:- RELATED PARTY TRANSACTIONS (Cont.)**

| | | Year ended December 31, | | |
|---|---|---|---|---|
| | | 2007 | 2008 | 2009 |
| b. | Revenues from related party: | | | |
| | V. Box | $ 9 | $ 11 | $ 8 |
| | Scopus | $ - | $ 23 | $ - |
| c. | Sublease and IT services payment received from related party: | | | |
| | V. Box | $ 92 | $ 125 | $ 22 |
| d. | Purchases from related party: | | | |
| | Scopus | $ 99 | $ 102 | $ - |
| | V. Box | $ 213 | $ 107 | $ 31 |
| e. | General and administrative from related party: | | | |
| | Scopus | $ - | $ 300 | $ - |

**NOTE 16:- SELECTED STATEMENT OF OPERATIONS DATA**

a. Research and development, net:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2007 | 2008 | 2009 |
| Total research and development costs | $ 7,143 | $ 7,498 | $ 5,020 |
| Less - grants and participation | (1,781) | (1,123) | (1,295) |
| | $ 5,362 | $ 6,375 | $ 3,725 |

b. Allowance for doubtful accounts:

| | | | |
|---|---|---|---|
| Balance at beginning of year | $ 313 | $ 367 | $ 355 |
| Increase during the year | 56 | 159 | 172 |
| Write-off of bad debts | (2) | (171) | (113) |
| Balance at the end of year | $ 367 | $ 355 | $ 414 |

U.S. dollars in thousands (except share and per share data)

**NOTE 16:- SELECTED STATEMENT OF OPERATIONS DATA (Cont.)**

c. Financial income (expenses):

| | Year ended December 31, | | |
|---|---|---|---|
| | 2007 | 2008 | 2009 |
| Financial income: | | | |
| Interest | $ 804 | $ 214 | $ 423 |
| Foreign currency translation adjustments | - | - | 257 |
| Realized gains on sale of available-for-sale marketable securities | 733 | 349 | - |
| | 1,537 | 563 | 680 |
| Financial expenses: | | | |
| Interest | (359) | (79) | (63) |
| Foreign currency translation adjustments | (104) | (139) | - |
| Realized losses on sale of available-for-sale marketable securities | (523) | (75) | - |
| Impairment of marketable securities | (582) | - | - |
| | (1,568) | (293) | (63) |
| | $ (31) | $ 270 | $ 617 |

**NOTE 17:- SUBSEQUENT EVENTS (UNAUDITED)**

a. On March 1, 2010 the Company's subsidiary in Luxembourg entered into an Option Agreement with a Cypriot company, Chessell Holdings Limited, with respect to the commercial building acquired by the Company in October 2009, in Rümlang, Switzerland. Through its beneficial owner, Chessell Holdings, introduced Optibase to the Rumlang property and facilitated Optibase's acquisition and financing of the property. Under the Option Agreement, the Company granted Chessell Holdings an option to purchase twenty percent (20%) of the share capital of the Company. Chessell Holdings undertook to pay a purchase price for the option of CHF 315. The exercise price under the Option Agreement is calculated based on Optibase's acquisition costs for the Rumlang Property plus interest and an adjustment for proceeds that are distributed to the Company's shareholders. The shares that would be issued to Chessell Holdings upon exercise of the option will not have voting rights and would be subject to transfer restrictions in favor of Optibase.

b. In January 2010, Mobixell networks had acquired a company and paid part of the acquisition costs with newly issued shares. As a result, the Company's holding in Mobixell on a fully diluted basis had decreased from 4.34% to 3.71%.

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

c. On March 16, 2010, the Company signed an Assets Purchase Agreement (APA) with a wholly owned subsidiary of VITEC Multimedia ("Vitec") pursuant to which Optibase Ltd. and its subsidiary Optibase Inc. (collectively, "Optibase") will sell their entire video business to Vitec (the "Business" and the "Transaction", respectively). Under the terms of the transaction, which was approved by the Board of Directors of both companies, in consideration for the sale of the Business, Vitec will pay the Company an aggregate amount of $ 8,000 in cash of which $ 1,000 will be deposited in escrow for a 2-year period as a security, inter alia, for breach or material inaccuracy relating to Optibase's representations and warranties. In addition, Optibase and Vitec agreed on an earn-out mechanism pursuant to which 45% of Vitec's revenues deriving from the Business exceeding $ 14,000 in the year following the closing of the Transaction will be paid to Optibase. Consummation of the Transaction is subject to the fulfillment of certain conditions precedent standard for transactions of this nature. Closing of the Transaction is expected to occur on June 30, 2010, after the release of this annual report. Upon signing of the Transaction, Vitec deposited US $500 in escrow to be paid to Optibase if closing does not take place within a specific period of time from signing, subject to certain limited circumstances, principally relating to non fulfillment of certain closing conditions by Optibase, in which case, such funds will be returned to Vitec. After closing of the transaction, the company will reclassify its entire revenues and expenses for the years 2008 and 2009 as discontinues operation.

d. On February 2, 2010, Mazal 485 LLC, a company whose beneficial interest is jointly owned by the Company and by Gilmore USA LLC ("Mazal"), filed a lawsuit against SL Green Realty Corp. and several of its subsidiaries ("SL Green") regarding the Purchase Agreement for interests in 485 Lexington Avenue. On January 7, 2010, the Company received a notice from the seller of 485 Lexington Avenue stating that the Purchase Agreement is terminated. The lawsuit alleges that SL Green breached material terms of the Purchase Agreement and breached its covenant of good faith and fair dealing toward Mazal 485 LLC. The lawsuit seeks specific performance to enforce SL Green's obligations under the Purchase Agreement and an abatement of the purchase price to compensate Mazal 485 LLC for damages incurred as a result of SL Green’s breaches. On March 16, 2010, SL Green filed a motion for an order dismissing Mazal's claims, which was heard on June 2, 2010. On June 23, 2010, SL Green's motion to dismiss Mazal's request for performance of the sale-purchase agreement, was granted. The court directed SL Green to answer to Mazal's remaining damage claims, while a conference was set for September 8, 2010. The case now proceeds with discovery on Mazal's remaining claims, seeking damages for failure to perform, which are limited by the Purchase Agreement to Mazal's reasonable out-of-pocket costs and expenses (including reasonable attorney's fees) incurred in connection with the agreement. There is no assurance that the abovementioned legal proceedings will succeed and that the Company will be granted the sought performance of the transaction and/or damages.

**SIGNATURES**

The registrant hereby certifies that it meets all the requirements for filing on Form 20-F and has duly caused and authorized this annual report to be signed on its behalf by the undersigned.

Date: June 30, 2010

OPTIBASE LTD.

By: */s/ Shlomo (Tom) Wyler*
Name: Shlomo (Tom) Wyler
Title: President and Chief Executive Officer

**EXHIBIT INDEX**

| Exhibit Number | Description of Document |
|---|---|
| 1.1 | Amended and Restated Memorandum of Association of Optibase Ltd. (incorporated by reference to Exhibit 3.1 to the Registrant's Report on Form 6-K dated February 15, 2002). |
| 1.2 | Amended and Restated Articles of Association of Optibase Ltd. (incorporated by reference to Exhibit 1.2 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2008). |
| 4.1 | Agreement between Optibase Ltd. and Mr. Shlomo (Tom) Wyler dated May 6, 2008 (incorporated by reference to Exhibit 99.4 to Schedule 13D/A, filed with the Commission by Shlomo (Tom) Wyler on June 25, 2008). |
| 4.2 | Agreement between Optibase Ltd. and Harmonic Inc. dated December 22, 2008 (incorporated by reference to Exhibit 99.13 to Schedule 13D/A, filed with the Commission by Shlomo (Tom) Wyler on December 23, 2008). |
| 4.3* | Agreement between Mazal 485 LLC and Green 485 Holdings LLC, a subsidiary of SL Green Realty Corp. dated August 7, 2009. |
| 4.4* | Agreement between Optibase RE 1 SARL and Zublin Immobilien AG dated October 29, 2009. |
| 4.5* | Agreement between Optibase RE 1 SARL and Basler Kantonalbank dated October 28, 2009. |
| 4.6* | Agreement between Optibase RE 1 SARL and Chessell Holdings Limited dated March 1, 2010. |
| 4.7* | Agreement between Optibase Inc. and Optibase Technologies Ltd., a wholly owned subsidiary of S.A. Vitec dated March 16, 2010. |
| 4.8 | Form of Letter of Indemnification between Optibase Ltd. and its directors and officers (incorporated by reference to Exhibit 99.3 to Registrant's Report on Form 6-K, filed with the Commission on October 5, 2005). |
| 4.9 | Form of Letter of Indemnification between Optibase, Inc. and its directors and officers (incorporated by reference to Exhibit 4.9 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2002). |
| 4.10 | 1999 Israel Share Option Plan, as amended (incorporated by reference to exhibits filed with the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 1999). |
| 4.11 | 1999 U.S. Share Option Plan, as amended (incorporated by reference to exhibits filed with the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 1999). |
| 4.12 | 102 Plan (incorporated by reference to exhibits filed with the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 1999). |
| 4.13 | Employee Stock Purchase Plan (incorporated by reference to exhibits filed with the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 1999). |
| 4.14 | 2001 Non-statutory Share Option Plan as amended and Form Option Agreement (incorporated by reference to Exhibit 10.5 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2000, and with respect to an amendment, by reference to Exhibit 99.7 to the Registrant's Report on Form 6-K, filed with the Commission on February 15, 2002). |
| 4.15 | 2003 Amendment to the 1999 Israel Share Option Plan (incorporated by reference to Exhibit 4.(c).9 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2003). |
| 4.16 | 2006 Israeli Incentive Compensation Plan (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on From S-8 (File no. 333-137644)). |
| 8.1* | List of the subsidiaries of the Company. |

| Exhibit Number | Description of Document |
|---|---|
| 11.1 | Code of Business Conduct and Ethics (incorporated by reference to Exhibit 11 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2003). |
| 12.1* | Certification by Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 12.2* | Certification by Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 13.1* | Certification by Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 13.2* | Certification by Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 15.1* | Consent of Kost, Forer Gabbay & Kasierer, a member of Ernst & Young Global. |
| 15.2* | Consent of Brightman Almagor Zohar & Co., Certified Public Accountants, a member Firm of Deloitte Touche Tohmatsu. |

* Filed herewith

**Exhibit 4.3**

EXECUTION VERSION

# SALE-PURCHASE AGREEMENT

by and among

GREEN 485 HOLDINGS LLC,

as Transferor,

and

MAZAL 485 LLC,

as Transferee

August 7, 2009

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EXHIBITS

SALE-PURCHASE AGREEMENT (this "**Agreement**"), made as of the ___ day of August, 2009 (the "**Effective Date**"), by and between GREEN 485 HOLDINGS LLC, a Delaware limited liability company having an address c/o SL Green Realty Corp., 420 Lexington Avenue, New York, New York 10170, (the "**Transferor**") and MAZAL 485 LLC, a Delaware limited liability company having an address at 241 West 47th Street, Suite 11B, New York, New York 10036 ("**Transferee**").

R E C I T A L S :

A. Green 485 Owner LLC ("**Subsidiary**"), 485 EAT Owner LLC ("**EAT**") and Green 485 TIC LLC ("**TIC**") are the owners as tenants-in-common of 100% of the fee interest in the Premises (as hereinafter defined) commonly known as 485 Lexington Avenue, New York, New York.

B. As of the date hereof (i) Transferor is the owner of (a) 85.6% of the membership interests in Green 485 JV LLC, a Delaware limited liability company (the "Company") and (b) 100% of the membership interests in TIC; (ii) the Company is the owner of 100% of the membership interests in Green 485 Mezz LLC, a Delaware limited liability company ("Mezz LLC"); (iii) Mezz LLC is the owner of 100% of the membership interests in Subsidiary; (iv) SL Green Operating Partnership, LP, a Delaware limited partnership ("SLGOP") is the owner of 100% of the membership interests in (a) 485 EAT LLC, a Delaware limited liability company ("EAT Parent") and (b) Transferor; and (v) EAT Parent is the owner of 100% of the membership interests in EAT.

C. Prior to Closing, as set forth in Section 20C, Transferor shall (w) acquire the remaining 14.4% of the membership interests in the Company from CIF (as hereinafter defined), (x) transfer a 1% membership interest in the Company to a wholly-owned subsidiary of SLGOP (the "1% Owner"), (y) contribute all of the membership interests in TIC to Mezz LLC and (z) cause SLGOP to cause EAT Parent to contribute all of the membership interests in EAT to Mezz LLC.

D. In connection with the Closing, the parties intend to cause each of TIC and EAT to be merged with and into Subsidiary with Subsidiary as the surviving entity.

E. Pursuant to the terms and subject to the conditions set forth in this Agreement, Transferor desires to sell, assign, transfer and convey to Transferee forty-nine and one-half percent (49.5%) of the legal and beneficial ownership interests in the Company (the "**Purchased Interest"**).

NOW, THEREFORE, in consideration of the mutual covenants set forth in this Agreement and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Transferor and Transferee hereby agree as follows:

1. Certain Definitions.

Certain capitalized terms used in this Agreement shall, for the purposes of this Agreement, have the meanings ascribed to such terms in this Article 1. Other capitalized terms used in this Agreement and not defined in this Article 1 shall have the meanings ascribed to such terms elsewhere in this Agreement.

**"affiliate"** shall mean, as to any designated person or entity, any other person or entity which controls, is controlled by, or is under common control with, such designated person or entity.

"**Building**" shall mean the building commonly identified as 485 Lexington Avenue, New York, New York.

"**Brokerage Agreements**" shall mean the agreements between a Transferor Party and any leasing brokers which are set forth on Exhibit "1(E)".

"**CIF**" shall mean CIF 485 Member LLC, a Delaware limited liability company.

"**Company**" shall have the meaning set forth in the Recitals.

"**Company LLC Agreement**" shall mean that certain Amended and Restated Limited Liability Company Agreement of the Company, dated as of the Closing Date in the form attached hereto as Exhibit "2(A)", as the same may be amended or amended and restated from time to time.

"**Contribution Agreement**" shall mean that certain Contribution Agreement in the form of Exhibit "2(B)" to this Agreement, by and among SLGOP, Transferor, the Company and Mezz LLC.

"**control**" (and with correlative meaning, "**controlled by**" and "**under common control with**") shall mean the possession, directly or indirectly, of the power to direct or cause the direction of management or policies of the Person in question (whether through ownership of securities or partnership or other ownership interests, by contract or otherwise.

"**Covered Affiliates**" shall mean all affiliates of Transferor, Mezz LLC, the Fee Owner or the Company, as applicable.

"**EAT Parent**" shall have the meaning set forth in the Recitals.

"**Escrow Agent**" shall mean Greenberg Traurig, LLP.

"**Existing Contracts**" shall mean the management, service, telecommunications, information service and maintenance contracts and collective bargaining and other union agreements affecting the Premises or the operation thereof which are listed on Exhibits "1(C)", "1(D)" and "1(F)".

"**Existing Guaranty**" shall mean that certain Guaranty dated as of January 22, 2007 by and between SL Green and Lender.

"**Existing Hazardous Substances Indemnity Agreement**" shall mean that certain Hazardous Substances Indemnity Agreement dated as of January 22, 2007 by and between SL Green, Subsidiary, TIC, EAT and Lender.

"**Existing Loan**" shall mean that certain loan in the original principal amount of Four Hundred Fifty Million Dollars ($450,000,000.00), made on or about January 22, 2007, by Lender to the Fee Owner.

"**Existing Loan Documents**" shall mean the documents, agreements, and instruments evidencing and/or securing the Existing Loan, identified on Exhibit "16(A) (xxii)" attached hereto.

"**Existing Mortgage**" shall mean the Amended, Restated and Consolidated Mortgage, Security Agreement, Assignment of Rents and Fixture Filing dated as of January 22, 2007 by and between Lender and the Fee Owner.

"**Fee Owner**" (each individually a "**Fee Owner**") shall mean, collectively, Subsidiary (as successor by merger to EAT and TIC or otherwise), EAT and TIC.

"**Fixtures**" shall mean all equipment, fixtures and appliances of whatever nature which are (i) affixed to the Land or Improvements and (ii) owned by any Transferor Party and used exclusively at the Real Property.

"**Global Contracts**" shall mean those Existing Contracts identified as a global contract on Exhibit "1(C)",which relate to the Premises along with other properties owned by any Covered Affiliate.

"**Hazardous Materials**" shall mean any solid wastes, toxic or hazardous substances, wastes or contaminants, polychlorinated biphenyls, paint or other materials containing lead, urea formaldehyde foam insulation, radon, asbestos, and asbestos containing material, petroleum product and any fraction thereof as any of these terms is defined in or for the purposes of any Relevant Environmental Laws (as hereinafter defined), and any Pathogen (as hereinafter defined).

"**Improvements**" shall mean the improvements on the Land, including without limitation, the Building.

"**JV Loan**" means that certain loan in the original principal amount of Twelve Million Two Hundred Thousand Dollars ($12,200,000.00) to be made by SLGOP or its wholly-owned subsidiary (the "JV Lender") to the Company prior to the Closing pursuant to the terms of this Agreement.

"**JV Loan Promissory Note**" shall mean the Promissory Note, in the form of Exhibit "2(C)" to this Agreement, made by the Company to the order of the JV Lender evidencing the JV Loan.

"**Land**" shall mean the land described on Exhibit "1(A)" and situated in the Borough of Manhattan, City of New York, County of New York and State of New York.

"**Landlord**" shall mean the landlord under a Lease.

"**Leases**" (each individually, a "**Lease**") shall mean the leases, tenancies, concessions, licenses and occupancies affecting the Premises as listed on Exhibit "1(B)" (specifically excluding any subleases listed on said Exhibit), as (a) the same heretofore have been amended, modified or extended (to the extent noted on Exhibit "1(B)"); and (b) hereafter may be amended, modified or extended from time to time in accordance with the terms of this Agreement, or entered into between the date hereof and the Closing Date (as hereinafter defined) in accordance with Article 20 hereof.

"**Lender**" shall mean Wachovia Bank, National Association as servicer of the Existing Loan held by Wells Fargo Bank, N.A. as trustee for the registered holders of Wachovia Bank Commercial Mortgage Trust, Commercial Mortgage Pass-Through Certificates Series 2007-C30.

"**Major Lease**" means the Lease of each of Citibank, N.A. and Travelers Indemnity, each of which is identified on Exhibit "1(B)".

"**Major Tenant**" means the tenant under any Major Lease.

"**Manager Bad Boy Acts**" means (a) the intentional misappropriation by Newmark or a Qualified Manager of any tenant security deposits or the intentional misapplication of rent after an Event of Default (as defined in the Existing Mortgage), (b) the misappppropriation of Loss Proceeds (as defined in the Existing Mortgage) and (c) any act of damage, arson or physical waste of the Premises resulting from the intentional acts or intentional omissions of Newmark or a Qualified Manager provided that such acts or omissions are willful or constitute gross negligence.

"**Member Loan**" means that certain loan in the original principal amount of Twenty Million Dollars ($20,000,000.00) (which amount shall be increased or decreased by 49.5% of any Net Adjustment provided for in Article VII), to be made on the Closing Date, by Transferee to Transferor, which loan is being made pursuant to the Member Loan Promissory Note for a term of five (5) years and which shall be secured by Transferor's retained 49.5% membership interest in the Company pursuant to the Transferor Pledge and Security Agreement.

"**Member Loan Promissory Note**" shall mean the Promissory Note, in the form of Exhibit "2(D)" to this Agreement, made by Transferor to the order of Transferee, evidencing the Member Loan.

"**Mezz LLC**" shall have the meaning set forth in the Recitals.

"**New Contracts**" shall mean all management, service, telecommunications, information service and maintenance contracts, equipment leases and collective bargaining and other union agreements affecting the Premises or the operation thereof and which are entered into by a Transferor Party or any Covered Affiliate after the date hereof subject to the applicable provisions of this Agreement.

"**Nortel Lease**" shall mean that certain Lease dated December 15, 2006 with Nortel Networks, Inc.

"**Occupied Space**" shall mean the aggregate square footage of rentable area at the Premises occupied, as of the date hereof, by Tenants other than the tenant under the Nortel Lease, which the parties agree is 863,303 rentable square feet.

"**Option Agreement**" shall mean the Membership Interest Option Agreement by and between Transferee and Transferor in the form of Exhibit "2E" to this Agreement.

"**Pathogen**" shall mean any pathogen, toxin or other biological agent or condition, including but not limited to, any fungus, mold, mycotoxin or microbial volatile organic compound.

"**Personal Property**" shall mean the aggregate of the following:

(i) All site plans, architectural renderings, plans and specifications, engineering plans, as-built drawings, floor plans and other similar plans or diagrams, if any, which (a) relate to the Real Property and (b) are in a Transferor Party's possession or control (the "**Building Plans**");

(ii) Any Transferor Party's right, title and interest, if any, in all licenses, permits and warranties, guaranties, indemnities, and bonds, which (a) relate to the Real Property or any other Personal Property at the Real Property and (b) are assignable to Transferee (the "**Permits**"); and

(iii) All equipment, appliances, tools, machinery, supplies, building materials and other similar personal property which are (a) owned by any Transferor Party as of the date of this Agreement or purchased after the date hereof and (b) attached to, appurtenant to or located in the Improvements and used in the day-to-day operation or maintenance of the Improvements, but expressly excluding the Fixtures and any and all personal property owned by any property manager which is not a Covered Affiliate, tenants in possession, public or private utilities licensees or contractors. Notwithstanding the foregoing, "**Personal Property**" expressly excludes, and Transferor shall not be required to convey, and Transferee shall not be entitled to receive, any items containing the logo of Transferor or any Covered Affiliate, or any computer programs, software and documentation thereof (except to the extent that same is required to operate and/or is embedded within any building systems within the Improvements and is not subject to an unassignable license or similar restriction in favor of a third party that is not an affiliate of Transferor), electronic data processing systems, program specifications, source codes, logs, input data and report layouts and forms, record file layouts, diagrams, functional specifications and variable descriptions, flow charts and other related materials (collectively, "**Operational Systems**").

"**Premises**" shall mean the aggregate of the Real Property and the Personal Property.

"**Real Property**" shall mean the fee estate in and to the aggregate of the Land, the Improvements, the Fixtures, the Fee Owner' right, title and interest, if any, in the streets, roads, lands and alleys in front of and adjacent to the Land, and the hereditaments and appurtenances to the Improvements and the Land, including without limitation all easements, rights-of-way and other similar interests appertaining to the Land or the Improvements, and any award or payment made or to be made in lieu of any of the foregoing and any unpaid award for damage to the Land or any of the Improvements by reason of change of grade or the closing of any street, road or avenue.

"**Relevant Environmental Laws**" shall mean any and all laws, rules, regulations, orders and directives, whether federal, state or local, applicable to the Premises or any part thereof with respect to the environmental condition of the Premises and any adjacent property, and any activities conducted on or at the Premises, including by way of example and not limitation: (i) Hazardous Materials; (ii) air emissions, water discharges, noise emissions and any other environmental, health or safety matter; (iii) the existence of any underground storage tanks that contained or contain Hazardous Materials; and (vi) the existence of pcb contained electrical equipment.

"**Security Deposits**" (each individually, a "**Security Deposit**") shall mean all refundable deposits (together with interest thereon) as listed on Exhibit "16(A)(xviii)" as same may be drawn down, applied and/or retained after the date hereof in accordance with the applicable Lease and the terms of this Agreement.

"**SLGOP**" shall have the meaning set forth in the Recitals.

"**SL Green**" shall mean SL Green Realty Corp., a Maryland corporation.

"**Surviving Contracts**" shall mean Existing Contracts and New Contracts other than (i) Global Contracts which are in effect as of the Closing and (ii) any other Existing Contract or New Contract which Transferee requests to be terminated at the Closing in accordance with Section 8(A)(xix).

"**Telecommunications Contracts**" shall mean the telecommunications and information service contracts and licenses affecting the Premises or the operation thereof which are listed on Exhibit "1(D)".

"**Tenants**" (each individually, a "**Tenant**") shall mean the current tenants under the Leases.

"**Title Insurer**" shall mean, collectively, LandAmerica Financial Group, Inc. as to a not less than one-quarter (1/4) share as co-insurer, and First American Title Insurance Company as to the balance, subject to Section 13E.

"**Transferor Pledge and Security Agreement**" shall mean the Pledge and Security Agreement, in the form of Exhibit "2(F)" to this Agreement, entered into by Transferor and Transferee.

"**Transferor Party**" shall mean, individually and collectively, Transferor, Mezz LLC, the Company and the Fee Owner.

"**Union Agreements**" shall mean the collective bargaining agreements with respect to the Union Employees (hereinafter defined) more particularly described on Exhibit "1(F)".

2. Sale-Purchase.

In consideration of, and upon and subject to, the mutual covenants and agreements set forth in this Agreement, and for other good and valuable consideration, the mutual receipt and legal sufficiency of which is hereby acknowledged, Transferor agrees to sell, assign, transfer and convey to Transferee, and Transferee agrees to purchase, accept, assume and acquire, the Purchased Interest. Transferor and Transferee agree that no portion of the Purchase Price (as hereinafter defined) is attributable to the Personal Property included in this sale.

3. Purchase Price; Loan Assumption.

A. The purchase price for the Purchased Interest (the "**Purchase Price**") is TWENTY MILLION SEVEN HUNDRED AND NINETY THOUSAND AND xx/00 DOLLARS ($20,790,000.00), plus or minus any Net Adjustment provided for in Article VII, payable as follows: (i) SEVEN MILLION FIVE HUNDRED THOUSAND AND xx/00 DOLLARS ($7,500,000.00) (the "**Deposit**") payable on the date hereof (the "**Deposit Date**"), by wire transfer of immediately available federal funds to an account designated by Greenberg Traurig, LLP, as escrow agent ("**Escrow Agent**"), to be held by Escrow Agent pursuant to and in accordance with the provisions of Article 19 of this Agreement; and (ii) THIRTEEN MILLION TWO HUNDRED NINETY THOUSAND and xx/00 DOLLARS ($13,290,000.00), subject to the Net Adjustment, shall be paid to Transferor by wire transfer to an account or accounts designated by Transferor on the Closing Date. Payment of the Option Payment (as such term is defined in the Option Agreement) shall be paid to Transferor by wire transfer to an account or accounts designated by Transferor on the Closing Date simultaneous with the execution and delivery of the Option Agreement by Transferee. Transferor and Transferee agree that any interest earned on the Deposit shall not be credited to the Purchase Price at Closing, and shall, upon the Closing, be and remain the property of Transferor; provided, however, that any interest earned on the Deposit during any Transferor Adjournment Period (as hereinafter defined) shall be for the account of and credited to Transferee at Closing.

B. It shall be a condition to Transferor's obligation (as to items (i), (ii), (v) and (vi) below) and Transferee's obligation (as to items (i), (ii), (iii), (iv) and (vi) below) to close under this Agreement that, on or before the Closing Date, Lender shall consent in writing (the "**Lender Consent**") pursuant to the Existing Loan Documents to (i) the sale of the Purchased Interest to Transferee, (ii) the change of control of Fee Owner as the borrowers under the Existing Loan, pursuant to the agreements to be delivered at Closing, (iii) the Transferor Pledge and the exercise of remedies thereunder or the exercise of Transferee's call option pursuant to the Option Agreement, (iv) (x) the amendment of Article 9 and the definition of "Transfer" in the Mortgage to substantially provide that transfers of direct and indirect interests in Fee Owner shall be permitted without Lender's consent (but subject to customary conditions), provided that such transfers do not result in a change of control of Fee Owner or, together with all prior such transfers in the aggregate (but excluding any transfers of direct or indirect interests in SLGOP and/or SL Green), do not total more than 49% of the direct or indirect interests in Fee Owner, (y) (i) the approval of Newmark Knight Frank as a "Qualified Manager" (as defined in the Mortgage) and (ii) the amendment of subsection (i) of the penultimate paragraph of Section 1.2 of the Existing Guaranty to provide that none of the events in such subsection (i) shall be applicable to any Affiliate of Newmark or any other Qualified Manager which signs the Existing Guaranty and no recourse or liability under the Existing Guaranty shall be triggered if any event described in subsection (i) shall occur with respect to any Affiliate of Newmark or any other Qualified Manager which signs the Existing Guaranty, and (z) the termination of that certain Tenancy in Common Agreement, dated as of January 22, 2007, by and among Subsidiary, EAT and TIC, (v) the exercise of Transferor's or JV Lender's remedies under or in respect of the JV Loan Promissory Note and the Company LLC Agreement upon Transferee's default under the JV Loan Promissory Note, and (vi) the execution and delivery of the Approved 750 REA (as described in Section 3C(iii) below), (all of the foregoing, the "**Loan Assumption**"). Transferee acknowledges and agrees that (a) Transferee has received copies of the Existing Loan Documents, (b) the Existing Loan Documents set forth certain requirements that restrict the assumption of the Existing Loan and (c) the Existing Loan has been securitized. By its execution and delivery of this Agreement, Transferee assumes all risk as to the Loan Assumption and Transferee's qualifications to purchase the Purchased Interest and satisfaction of the requirements imposed by Lender or the Existing Loan Documents in connection with the Loan Assumption, and otherwise subject to the terms and conditions of this Agreement.

C. (1) No later than ten (10) business days after the date hereof, Transferee shall provide all information required of Transferee and its Affiliates, and Transferor shall submit, together with the application fee (which application fee shall be split equally between Transferor and Transferee, and Transferee shall pay its share to Transferor within two (2) business days after request therefor), a formal and complete application (the "**Assumption Application**") to Lender pursuant to the assumption provisions of the Existing Loan, and Transferee shall cooperate with Transferor to provide Lender with all applications, financial statements, reports and other materials required by the provisions under the Existing Loan Documents in connection with the assumption of the Existing Loan, including, without limitation, such certifications as may be required under the Existing Loan Documents in respect thereof and such other certifications and documents as may be required by Lender as and when requested, provided the same are customarily required in connection with the assumption of loans similar to the Existing Loan. Transferee and Transferor shall cooperate with one another and with Lender and work diligently to obtain the Lender Consent. Transferee shall deliver to Lender all applications, financial statements, organizational documents, statements, reports and other documents required to be delivered in connection with the Loan Assumption and such other documents and information as are reasonably requested by Lender. Notwithstanding anything to the contrary in this Agreement, (a) Transferee shall, using commercially reasonable efforts in a continuous and diligent manner, seek to satisfy all reasonable requirements and conditions precedent to the Loan Assumption required by the Existing Loan Documents or customarily required by lenders in connection with the assumption of loans similar to the Existing Loan and (b) other than requirements and conditions specific to Transferor (to the extent consistent with Transferor's obligations under this Agreement), Transferee shall use commercially reasonable efforts to satisfy all such reasonable requirements and conditions precedent, including, without limitation, all reasonable requirements and conditions imposed by Lender or rating agencies pursuant to the Existing Loan Documents or otherwise customarily required by lenders in connection with the Loan Assumption. In furtherance of, and not in limitation of, Transferee's obligations under the immediately preceding sentence, Transferee shall promptly and diligently: (a) comply with all reasonable requests or requirements of Lender and shall provide truthful, accurate and complete information in response to all such requests and requirements; (b) execute such documents as shall reasonably be requested or required by Lender to facilitate the Loan Assumption; and (c) comply with all other reasonable requests or requirements of Lender in accordance with customary prevailing practices of institutional lenders in connection with mortgage loans secured by office properties of a size and type similar to the Premises.

(ii) Transferee shall pay all third party attorneys' fees and costs in connection with the Loan Assumption as and when the same are due. Transferor and Transferee shall each pay its one-half share of all payments and other costs and fees as and when due in connection with the Loan Assumption pursuant to the Existing Loan Documents, including but not limited to all assumption fees, transfer fees, application fees and payments due to Lender, all servicers, special servicers and rating agencies (collectively, the "**Loan Assumption Costs**"); provided, however, that Transferor's share of costs and expenses in connection with the Loan Assumption Costs (exclusive of any assumption fees due to Lender) shall be limited to $10,000.00 and Transferee shall be responsible for any balance. Transferee acknowledges and agrees that, except as provided in Section 23(A) of this Agreement, if Transferee fails, for any reason or for no reason, to purchase the Purchased Interest, Transferee shall not be entitled to any refund or reimbursement for all or any portion of the payments by Transferee under this Section 3(c)(ii), including, without limitation, any Loan Assumption Costs.

(iii) Concurrently with the Assumption Application, Transferor shall submit for Lender's approval an Amended and Restated Reciprocal Operating and Easement Agreement in the form attached hereto as Exhibit "8(A)(xxiii)" (the "**Form 750 REA**"). Transferor and Transferee shall reasonably cooperate to obtain Lender's approval of the Form 750 REA, including making such reasonable and customary changes to the Form 750 REA as may be requested by Lender (such changes, the "**Lender REA Changes**"; the Form 750 REA, as modified by the Lender REA Changes and approved by Lender, is referred to as the "**Approved 750 REA**"). At Closing, Transferor shall cause 750 Owner to direct and Transferee shall direct that the Approved 750 REA be recorded in the New York County Office of the Register of the City of New York.

D. If Lender issues the Lender Consent and the Closing occurs, Transferee shall accept the Purchased Interest and the corresponding indirect ownership interest in the Premises, subject to the Existing Loan and the Existing Loan Documents and the JV Loan, all of which shall constitute Permitted Exceptions for purposes of this Agreement. At the Closing, Transferee and Transferor shall execute and deliver, and Transferee shall cause the Fee Owner to execute and deliver, such loan assumption agreements and other documentation as Lender shall reasonably require to effectuate the Loan Assumption in each case in form and content reasonably acceptable to Lender (collectively, the "**Loan Assumption Documents**"); provided, however, the Loan Assumption Documents shall expressly provide that Transferor and SL Green Realty Corp. (and all guarantors and indemnitors of any and all obligations in connection with the Existing Loan) shall be released from any and all liability under the applicable Existing Loan Documents (including but not limited to the Existing Guaranty and the Existing Hazardous Substances Indemnity Agreement) arising or accruing from and after the Loan Assumption on the Closing Date. Transferee shall execute and deliver and shall cause the Fee Owner to execute and deliver all Loan Assumption Documents that do not materially increase the liabilities or obligations imposed by the Existing Loan Documents upon the Fee Owner, as the borrower thereunder, including, without limitation, such Loan Assumption Documents in form and substance as may be customary with respect to the assumption of securitized loans. Transferee shall offer Gilmor International Inc., a British Virgin Islands company and Optibase Ltd., an Israeli company, jointly and severally, and Newmark Knight Frank ("**Newmark**") (or any other "Qualified Manager" (as defined in the Mortgage)), as to the Manager Bad Boy Acts only under the Existing Guaranty (as modified or replaced in connection with the Closing) (collectively, including such other persons or entities that Transferee may in its discretion agree to offer as a replacement guarantor, the "**Replacement Guarantor**") as replacement guarantor under the Existing Guaranty and (other than Newmark or such other Qualified Manager) the Existing Hazardous Substances Indemnity Agreement. If Lender at any time and from time to time indicates, as a condition to further processing the Loan Assumption Application, that any Replacement Guarantor offered by Transferee is insufficient and needs to be supplemented, and Transferee fails to offer another Replacement Guarantor acceptable to Lender within ten (10) Business Days after receiving written notice of same from Transferor, then Transferor shall have the right to terminate this Agreement by written notice to Transferee, whereupon (provided that Transferor shall not be in default of its obligations to offer the Replacement Guarantor required under this Agreement or any other agreement between the parties), the parties shall have no further rights or obligations hereunder and Escrow Agent shall return the Deposit to Transferee.

E. Each of Transferee and Transferor shall reasonably endeavor to include the other party in any meetings and discussions with Lender in connection with the Loan Assumption. Neither Transferee nor Transferor may deliver any written communication to Lender without delivering a copy thereof to the other party. Each of Transferee and Transferor shall deliver to the other, promptly upon receipt or sending, as applicable, copies of all correspondence among or between Lender, Transferee or Transferor, as the case may be, or its applicable Covered Affiliates and their respective representatives. Each of Transferee and Transferor shall endeavor to keep the other party reasonably apprised on a current basis of all communications with Lender.

F. Transferee agrees that until Closing, Transferor shall have the right to draw on any and all escrows, reserves or deposits held by or on behalf of Lender in connection with the Existing Loan for the purposes permitted by the Existing Loan Documents, and Transferor shall endeavor to give Transferee notice thereof prior to or simultaneously with such draw. The fact that Transferor shall have drawn escrow funds to pay for any costs or expenses that are subject to adjustment or apportionment under this Agreement shall not affect the treatment of such costs and expenses under the adjustment and apportionment provisions of this Agreement.

4. Condition of Title.

A. As of Closing, the Fee Owner shall have fee title to the Premises, subject only to (collectively, the "**Permitted Exceptions**"):

(i) the matters set forth in Schedule B of that certain Certificate and Report of Title issued by First American Title Insurance Company on July 13, 2009, under Title No. LT 080327 (the "**Commitment**") and attached hereto as Exhibit "4(A)(i)";

(ii) the Leases;

(iii) all Violations (as hereinafter defined), subject to Section 6 hereof;

(iv) all present and future zoning, building, environmental and other laws, ordinances, codes, restrictions and regulations of all governmental authorities having jurisdiction with respect to the Premises, including, without limitation, landmark designations and all zoning variances and special exceptions, if any;

(v) liens, encumbrances, violations and defects (including, without limitation, any mechanics and/or materialmen's lien or any judgment arising as a result thereof), removal of which is an obligation of a Tenant in possession, and the aggregate amount of which does not exceed (i) $5,000,000 with respect to the Major Tenants and (ii) $1,000,000 with respect to all other Tenants, provided that none of the Fee Owner, no Covered Affiliate nor any other party shall have waived or released, in writing, its rights to cause such Tenant to cure, correct, bond over, or remove the same, or to reimburse the landlord thereunder for its expenses incurred in doing so;

(vi) All presently existing and future liens for unpaid real estate taxes and water and sewer charges not due and payable as of the date of the Closing, subject to adjustment as hereinbelow provided;

(vii) All covenants, restrictions and rights and all easements and agreements for the erection and/or maintenance of water, gas, steam, electric, telephone, sewer or other utility pipelines, poles, wires, conduits or other like facilities, and appurtenances thereto, over, across and under the Premises which are either (a) presently existing or (b) granted to a public utility in the ordinary course, provided that the same shall not have a material adverse effect on the use of the Premises for its current use, or on the access to the Premises;

(viii) State of facts shown on or by survey prepared by Earl B. Lovell - S.P. Belcher, Inc., dated May 1, 1958, last updated by visual examination December 16, 2005, and any additional facts which would be shown on or by an accurate current survey of the Premises (collectively, "**Facts**"), provided that, solely with respect to such additional Facts, the same shall not have a material adverse effect on the use of the Premises for its current use, or on the access to the Premises;

(ix) The Surviving Contracts;

(x) Consents by any Transferor Party or any former owner of the Land for the erection of any structure or structures on, under or above any street or streets on which the Land may abut, that do not materially impair the current operation of the Premises;

(xi) Possible encroachments and/or projections of stoop areas, roof cornices, window trims, vent pipes, cellar doors, steps, columns and column bases, flue pipes, signs, piers, lintels, window sills, fire escapes, satellite dishes, protective netting, sidewalk sheds, ledges, fences, coping walls (including retaining walls and yard walls), air conditioners and the like, if any, on, under or above any street or highway, the Building, or any adjoining property, provided that the same shall not have a material adverse effect on the use of the Premises for its current use or access to the Premises;

(xii) Variations between tax lot lines and lines of record title;

(xiii) Standard exclusions from coverage contained in the form of title policy or "marked-up" title commitment employed by the Title Insurer;

(xiv) Any financing statements, chattel mortgages, encumbrances or mechanics' or other liens entered into by, or arising from, any financing statements filed on a day more than five (5) years prior to the Closing and any financing statements, chattel mortgages, encumbrances or mechanics' or other liens filed against property no longer contained in the Premises, provided that the Title Insurer shall remove them as exceptions from the title insurance policy to be issued to Transferee at Closing or shall affirmatively insure over them at no additional cost or expense to Transferee;

(xv) Any lien or encumbrance arising out of the acts or omissions of Transferee;

(xvi) Any other matter which the Title Insurer may raise as an exception to title, provided the Title Insurer will either omit or affirmatively insure against collection or enforcement of same out of the Premises at no additional cost or expense to Transferee and that no prohibition of present use or maintenance of the Premises will result therefrom, as may be applicable;

(xvii) any other matter which, pursuant to the last sentence of Section 13(A) or any other express provision of this Agreement, is a permitted exception.

5. Closing.

The "**Closing**" shall mean the consummation of each of the actions set forth in Article 8 of this Agreement, or the waiver of such action by the party in whose favor such action is intended, and the satisfaction of each condition precedent to the Closing set forth in Article 9 and elsewhere in this Agreement, or the waiver of such condition precedent by the party intended to be benefited thereby. The Closing shall take place commencing at 10:00 a.m., with the portion of the Purchase Price due at Closing received by 5:00 p.m. to be deemed paid as of such date (New York time), at the offices of Greenberg Traurig, LLP, 200 Park Avenue, New York, New York or such other place which the parties shall mutually agree, on the date which is ten business (10) days after the date Lender delivers the Lender Consent to Transferee or Transferor, but in no event earlier than October 5, 2009, TIME BEING OF THE ESSENCE with respect to Transferee's obligation to close on or before such date, subject to Transferor's and Transferee's right to adjourn the Closing as permitted under this Agreement (such date, as same may be extended or adjourned in accordance with this Agreement, is hereinafter referred to as the "**Closing Date**"). If Lender does not deliver the Lender Consent to Transferee or Transferor on or before the date that is ninety (90) days after submission of the Assumption Application (the "**Assumption Outside Date**"), either Transferor or Transferee may terminate this Agreement by written notice to the other party, whereupon the parties shall have no further rights or obligations hereunder, and Escrow Agent shall return the Deposit to Transferee. Notwithstanding anything to the contrary contained herein, (i) Transferor may, upon written notice to Transferee, extend the Closing Date one or more times for an aggregate of up to forty five (45) days in order to satisfy a condition to closing under this Agreement (such extended period, the "**Transferor Adjournment Period**") and (ii) Transferee may, upon written notice to Transferor, extend the Closing Date one or more times for an aggregate of up to fifteen (15) days for any reason.

6. Violations.

Transferor shall have no obligation to cure or remove any violations of law, rules, regulations, ordinances, orders or requirements noted in or issued by any Federal, state, county, municipal or other department or governmental agency having jurisdiction against or affecting the Premises whenever noted or issued (collectively, "**Violations**") nor any conditions which could give rise to any Violations, except that Transferor shall be responsible for any penalties or fines in connection with any Violations issued prior to the date of this Agreement, imposed on or before the Closing Date and (except to the extent such fine is imposed after the Closing Date because of the continuance of any such Violation after the Closing Date) for thirty (30) days following the Closing Date.

7. Apportionments.

A. The following shall be apportioned between Transferor and the Fee Owner at the Closing with respect to the Premises as of 11:59 p.m. of the day immediately preceding the Closing Date. At Closing, the Purchase Price will be increase or decreased, as the case may be, by an amount (the "Net Adjustment") equal to 49.5% multiplied by the sum of (i) the net amount of all prorations calculated pursuant to this Article 7 (excluding Leasing Costs provided for in clause (ix) below) and (ii) the difference (positive or negative) between the total of all reserves held by the Lender under the Existing Loan and Four Million Two Hundred Thousand Dollars ($4,200,000).

(i) Real property taxes and assessments (or installments thereof), payments required to be made to any business improvement district ("**BID taxes**") and vault charges, except those required by Leases to be paid by a Tenant directly to the entity imposing same;

(ii) Water rates and charges, except those required by Leases to be paid by a Tenant directly to the entity imposing same;

(iii) Sewer taxes and rents, except those required by Leases to be paid by a Tenant directly to the entity imposing same;

(iv) Salaries, vacation pay, sick pay and pension and other benefits of the Union Employees (as hereinafter defined);

(v) Permit, license and inspection fees, if any, on the basis of the fiscal year for which levied;

(vi) Fuel, if any, at the cost per gallon most recently charged to the Fee Owner, based on the supplier's measurements thereof, plus sales taxes thereon, which measurements taken by the supplier or any other professionally qualified third party shall be given by Transferor to Transferee as close to the Closing Date as is reasonably practicable, and which, absent manifest error, shall be conclusive and binding on the Transferor and Transferee;

(vii) Transferor shall receive a credit in the full amount of (including accrued interest thereon, if any) deposits on account with any utility company servicing the Premises;

(viii) Rents (as hereinafter defined), if, as and when collected, in accordance with Section 7(F) hereof;

(ix) Leasing Costs shall be apportioned as follows:

(a) Leasing Costs held in reserve under the Existing Loan Documents shall not be apportioned,

(b) Transferor shall pay the Leasing Cost Credit (as defined in Section 20(B)) to the Fee Owner at Closing,

(c) Any remaining Leasing Costs shall be paid by Transferor or credited to Transferor at Closing or after Closing in accordance with Section 20(B) hereof;

(x) Payments due under any Surviving Contracts (it being agreed that (i) Transferee shall assume no obligations or liabilities under any Global Contract, (ii) Transferor shall remain liable for any obligations or liabilities under any Global Contract and (iii) Transferor shall cause the Premises to be removed from the Global Contracts from and after Closing);

(xi) Interest payable under the Existing Loan Documents accruing during the calendar month in which the Closing occurs; and

(xii) All other items customarily apportioned in connection with the sale of similar properties similarly located.

B. Apportionment of real property taxes, BID taxes, water rates and charges, sewer taxes and rents and vault charges shall be made on the basis of the fiscal year for which assessed. If the Closing Date shall occur before the real property tax rate, BID taxes, water rates or charges, sewer taxes or rents or vault charges are fixed, apportionment for any item not yet fixed shall be made on the basis of the real property tax rate, BID taxes, water rates and charges, sewer taxes and rents or vault charges, as applicable, for the preceding year applied to the latest assessed valuation. After the real property taxes, BID taxes, water rates and charges, sewer taxes and rents and vault charges are finally fixed, Transferor and the Fee Owner shall make a recalculation of the apportionment of same after the Closing, and Transferor or the Fee Owner, as the case may be, shall make an appropriate payment to the other based upon such recalculation.

C. The amount of any of the unpaid taxes, assessments, water rates or charges, sewer rents and vault charges which Fee Owner is obligated to pay and discharge, with interest and penalties thereon (if any) to the Closing Date may, at Transferor's option, be allowed to be paid by Transferee out of the balance of the Purchase Price, provided that official bills therefor with interest and penalties thereon (if any) are furnished by Transferor at the Closing.

D. If any refund of real property taxes, BID taxes, water rates or charges, sewer taxes or rents or vault charges is made after the Closing Date covering a period prior to and/or after the Closing Date, the same shall be applied first to the reasonable out-of-pocket costs incurred in obtaining same and the balance, if any, of such refund shall, to the extent received by Transferee, the Company or a Fee Owner, be paid to Transferor (for the period prior to the Closing Date) and to the extent received by Transferor, be paid to the Fee Owner (for the period commencing with the Closing Date). Any payment to Transferor pursuant to the immediately preceding sentence shall be net of any amount payable to a Tenant in accordance with its Lease (and any payment to the Fee Owner by Transferor pursuant to the immediately preceding sentence shall include any amount payable to a Tenant in accordance with its Lease, which payment to such Tenant shall be made promptly by Transferee or the Fee Owner after such refund is made). Transferee shall and shall cause the Fee Owner to indemnify and hold harmless Transferor as to any refund payment paid by Transferor to Fee Owner for a Tenant.

E. If there are meters measuring water consumption or sewer usage at the Premises (other than meters measuring water consumption or sewer usage for which a Tenant is obligated to pay under its Lease directly to the taxing authority or utility), Transferor shall, and shall cause the Fee Owner to attempt to obtain readings to a date not more than thirty (30) days prior to the Closing Date. If such readings are not obtained (and if such readings are obtained, then with respect to any period between such reading and the Closing Date), water rates and charges and sewer taxes and rents, if any, shall be apportioned based upon the last meter readings, subject to reapportionment when readings for the relevant period are obtained after the Closing Date. If any of the Tenants pay electric based on a submeter for their electric consumption, then the Transferor shall, and shall cause the Fee Owner to cause any such submeter to be read as close as possible to the Closing Date and upon completion of such reading, the Transferor shall, and shall cause the Fee Owner to cause bills to be sent to each such Tenant for electric charges, based on such reading. At the Closing, the Transferor shall provide the Transferee with documentation as to any such readings and billings for submetered electric charges.

F. To the extent that Transferor, the Fee Owner, Mezz LLC, the Company or Transferee receives Rents after the Closing Date, the same shall be held in trust by such recipient, as the case may be, and shall be applied in the order of priority set forth in this Section 7(F).

(i) The following terms shall be as defined herein: "**Base Rents**": fixed rent, and other amounts of a fixed nature (which may include, without limitation, electric inclusion and supplemental water, HVAC and condenser water charges paid or payable by Tenants); "**Overage Rents**": a percentage of the Tenant's business during a specified annual or other period (sometimes referred to as "percentage rent"), if any, so-called "escalation rent", and additional rent based upon increases in or otherwise attributable to real estate and BID taxes, operating expenses, utility costs, a cost of living index or porter's wages or otherwise, but which shall in no event include Reimbursable Payments (as hereinafter defined); "**Reimbursable Payments**": overtime heat, air conditioning or other utilities or services; freight elevator; electric inclusion and adjustments related to electric usage (such as rate and/or fuel adjustments and survey); submetered electric; supplemental water, HVAC, and condenser water charges; services or repairs, and labor costs associated therewith, to which a Tenant is obligated to reimburse the landlord under its Lease or for which a Tenant has separately contracted with Transferor or its agent; true-ups on account of escalation and/or additional rent for years prior to the year in which the Closing occurs; above standard cleaning; and all other items which are payable to the Fee Owner, the Company or Transferor as reimbursement or payment for above standard or overtime services (but which amounts shall not be treated as Reimbursable Payments if already included in a Tenant's Base Rents); and "**Rents**": all amounts due and owing from Tenants, however characterized, including, without limitation, Base Rents, Overage Rents and Reimbursable Payments.

(ii) Base Rents and Overage Rents shall be adjusted and prorated on an as, if and when collected basis. Base Rents and Overage Rents collected by the Fee Owner, the Company, Transferee or Transferor after the Closing from any Tenant who owes any such amounts for periods prior to the Closing shall be applied in the following order, but shall be treated separately for such allocation purposes: (a) first, in payment of such amounts owed by such Tenant for the month in which the Closing occurs, (b) second, in payment of such amounts owed by such Tenant for periods after the month in which the Closing occurs, (c) third, in payment of such amounts owed by such Tenant (if any) for any periods prior to the month in which the Closing occurs, and (d) fourth, the balance to Transferee, if any. Each such amount, less any third party costs of collection (including reasonable attorneys' fees and expenses) reasonably allocable thereto, shall be paid over as provided above, and the party who receives any such amount shall promptly pay over to the other party any portion thereof to which it is so entitled.

(iii) Reimbursable Payments shall not be apportioned or adjusted to the extent they relate to a period of time prior to the Closing Date. Reimbursable Payments incurred and which relate to a period of time prior to the Closing Date shall belong in their entirety to Transferor, and shall be retained by Transferor, and/or paid over to Transferor by Transferee, as applicable, on an as, if and when collected basis, less a proportionate share of any reasonable attorneys' fees and expenses of collection thereof. To the extent a payment is made by a Tenant after the Closing Date which is specifically designated as being on account of one or more Reimbursable Payments due to Transferor, by reference to a charge, invoice number or otherwise, or is of an amount which is equal to one or more Reimbursable Payments and no other charge for the same amount exists, provided that at the time of such payment the applicable Tenant is current for the period following Closing in the payment of Base Rent, then same shall be treated as a Reimbursable Payment which relates to a period of time prior to the Closing Date, and shall be paid over to Transferor promptly upon receipt thereof. Reimbursable Payments incurred and which relate to a period of time on or after the Closing Date shall belong in their entirety to the Fee Owner, and shall be retained by the Fee Owner, and/or paid over to the Fee Owner by Transferor, on an as, if and when collected basis, less a proportionate share of any reasonable attorneys' fees and expenses of collection thereof. To the extent a payment is made by a Tenant to Transferor, the Company or the Fee Owner after the Closing Date which is specifically designated as being on account of one or more Reimbursable Payments and no other charge for the same amount exists and is not specifically due to the Fee Owner by reference to a charge, invoice number, identity to the charged amount or otherwise, then same shall be treated as a Reimbursable Payment which relates to a period on or after the Closing Date, and shall be paid over to the Fee Owner promptly upon receipt thereof until all sums due the Fee Owner are paid and then to Transferor until all accounts for Reimbursable Payments due Transferor (i.e., those which relate to a period of time prior to the Closing Date) are paid, with the balance, if any, being paid to the Fee Owner. To the extent any payment made by a Tenant is not specifically designated as being on account of a Reimbursable Payment, or otherwise not identifiable as a Reimbursable Payment (for example, by reference to a charge, invoice number or similar reference or if a payment is in an amount equal to one or more charges for Reimbursable Payments), same shall be treated hereunder as either Base Rent or Overage Rent attributable to the calendar year in which the Closing occurs.

(iv) Transferee shall cause the Fee Owner to bill Tenants in possession as of the Closing Date who owe Rents for periods prior to the Closing on a monthly basis for a period of six (6) consecutive months following the Closing and shall use commercially reasonable efforts to collect such past due Rents (which efforts shall include, but not be limited to, including such amounts in invoices and notices for rents due for the period after Closing). Neither Transferee nor the Fee Owner shall have any obligation to commence any action or proceeding to collect any such past due Rents, provided, however, if Transferee or the Fee Owner in fact commences any such action or proceeding, the amount sought shall include all Rents unpaid for the period prior to the Closing and Transferor shall reimburse the Fee Owner for a portion of the reasonable legal fees and disbursements actually incurred in pursuing said claim, equal to the total amount of such fees and disbursements multiplied by a fraction, the numerator of which is the total amount realized by the Transferor and the denominator is the total amount realized by the Transferor and the Fee Owner in such action or proceeding. Notwithstanding the foregoing, if Transferee or the Fee Owner shall fail to collect such past due Rents after such six (6) month period, then after prior written notice to Transferee, Transferor shall have the right (in the name of the Fee Owner, if required) to pursue such Tenants to collect such delinquencies (including, without limitation, the prosecution of one or more lawsuits); provided that, without the consent of Transferee (which consent may be withheld in Transferee's sole and absolute discretion), in no event shall any such action result in the termination of a Tenant's Lease or the eviction of a Tenant from its demised premises or, application against any Security Deposits.

(v) Transferee shall cause the Fee Owner to (a) promptly render bills to the applicable Tenants in possession as of the Closing Date for any Overage Rent in respect of a period that shall have expired prior to the Closing but which is payable after the Closing, (b) bill Tenants in possession as of the Closing Date for any such Overage Rent on a monthly basis for a period of six (6) consecutive months thereafter and (c) use commercially reasonable efforts to collect such Overage Rent (which efforts shall include, but not be limited to, including such amounts in invoices and notices for rents due for the period after the Closing). Notwithstanding the foregoing, if Transferee shall be unable to collect such Overage Rent after such six (6) month period, then after prior written notice to Transferee, Transferor shall have the right (in the name of the Fee Owner, if required) to pursue Tenants to collect such delinquencies (including, without limitation, the prosecution of one or more lawsuits); provided that, without the consent of Transferee (which consent may be withheld in Transferee's sole and absolute discretion), in no event shall any such action result in the termination of a Tenant's Lease or the eviction of a Tenant from its demised premises or application against any Security Deposits. From and after the Closing, Transferor may furnish to Transferee calculations of the amounts due from Tenants in possession as of the Closing Date on account of Overage Rent for periods prior to the Closing, and such other information relating to the period prior to the Closing as is reasonably necessary for the billing of any such Overage Rent. Transferee shall cause the Fee Owner to bill such Tenants for Overage Rent for periods prior to the Closing in accordance with and on the basis of such information furnished by Transferor. Transferee shall cause the Fee Owner to deliver to Transferor, concurrently with the delivery to such Tenants, copies of all statements delivered to Tenants relating to Overage Rent for periods prior to the Closing.

(vi) Overage Rent for the calendar year in which the Closing occurs shall be apportioned between Transferor and the Fee Owner using a percentage derived by dividing the total operating expenses incurred for those operating expenses (or real estate or BID taxes, as the case may be) which are used by Transferor in determining the operating expense pool for the calendar year in question consistent with the terms of the applicable Leases over each parties' actual expenses incurred for such operating expenses (or real estate or BID taxes, as the case may be). To the extent actually collected, Transferor shall be entitled to receive the proportion of such Overage Rent (less a like portion of any out-of-pocket costs and expenses (including reasonable attorneys' fees and expenses) incurred in the collection of such Overage Rent) that the portion of the actual expenses incurred for operating expenses (or real estate or BID taxes, as the case may be) for the calendar year in question by Transferor or the Fee Owner prior to Closing bears to the entire operating expenses (or real estate or BID taxes, as the case may be) pool for the calendar year in question, and Transferee shall be entitled to receive the proportion of such Overage Rent (less a like portion of any out-of-pocket costs and expenses (including reasonable attorneys' fees and expenses) incurred in the collection of such Overage Rent) that the portion of the actual expenses incurred for operating expenses (or real estate or BID taxes, as the case may be) for the calendar year in question by Fee Owner from and after the Closing bears to the entire operating expenses (or real estate or BID taxes, as the case may be) pool for the calendar year in question. If, prior to the Closing, Transferor or the Fee Owner shall receive any installment of Overage Rent attributable to Overage Rent for periods from and after the Closing, such sum shall be apportioned at the Closing. If, after the Closing, Transferee or the Fee Owner shall receive any installment of Overage Rent attributable to Overage Rent for periods prior to the Closing, such sum (less any out-of-pocket costs and expenses (including reasonable counsel fees) incurred by Transferee or the Fee Owner in the collection of such Overage Rent) shall be paid by Transferee or the Fee Owner to Transferor promptly after Transferee (or the Fee Owner) receives payment thereof.

(vii) To the extent that any payment on account of Overage Rent for a period prior to the Closing is required to be paid periodically by Tenants for any calendar year (or, if applicable, any lease year or any other applicable accounting period), and at the end of such calendar year (or lease year or other applicable accounting period, as the case may be) such estimated amounts are required to be recalculated based upon the actual expenses, taxes or other relevant factors for that calendar year (or lease year or other applicable accounting period, as the case may be), then Transferee agrees to so recalculate same for Tenants in possession as of the Closing Date, subject to Transferor's reasonable review and approval (not to be unreasonably withheld) of such recalculation and to bill such Tenants for all amounts due from such Tenants on account therefor, within six (6) months after the end of such calendar year (or lease year or other applicable accounting period, as the case may be). At the time(s) of final calculation and collection from (or refund to) each Tenant of the amounts in reconciliation of actual Overage Rent, there shall be a re-proration between Transferor and the Fee Owner in accordance with this Agreement and Transferor, on the one hand, and Transferee and the Fee Owner, on the other hand, shall each be entitled to (or responsible for, as the case may be) the amounts attributable to such party's period of ownership of the Purchased Interest, provided that Transferor shall have no liability for amounts due to Tenants if Transferee shall have failed to obtain Transferor's prior approval of any such recalculation, if required. Any amounts owed to a Tenant in possession as of the Closing Date for which Transferor is responsible pursuant to the immediately preceding sentence shall be delivered by Transferor to the Fee Owner within ten (10) days following demand, which payment to such Tenant shall be forwarded promptly by Transferee or the Fee Owner to such Tenant. Transferee shall indemnify and cause the Fee Owner to indemnify and hold Transferor harmless from any and all losses, costs, damages, liens, claims, counterclaims, liabilities and expenses (including, but not limited to, reasonable attorneys' fees, court costs and disbursements) incurred by Transferor as the result of Transferee failing to pay over to any Tenant in possession as of the Closing Date any amount paid by Transferor to Transferee for the benefit of any Tenant on account of Overage Rent. Transferor, on or prior to the Closing, shall send (or cause to be sent) statements of the reconciliations with the Tenants for Overage Rent for calendar year 2008 and all prior years and to the extent any such Tenant overpaid such Overage Rent, the Transferor shall, on or prior to the Closing, refund any such overpayment of Overage Rent to each such applicable Tenant. Transferor hereby agrees to indemnify and hold Transferee and the Fee Owner harmless from any and all losses, costs, damages, liens, claims, counterclaims, liabilities and expenses (including, but not limited to, reasonable attorneys' fees, court costs and disbursements) incurred by Transferee or the Fee Owner as a result of the Transferor's failure to refund (or cause to be refunded) any overpayment of Overage Rent due by Transferor or the Fee Owner to any Tenant for any time period prior to the Closing.

(viii) For a period of the lesser of (i) one (1) year following Closing, and (ii) until such time as all amounts required to be paid to Transferor by Transferee or the Fee Owner pursuant to this Section 7(F) shall have been paid in full, to the extent Transferee or the Fee Owner collects any arrears in Base Rents and/or Overage Rent owed to the Transferor, Transferee shall furnish or cause the Fee Owner to furnish to Transferor a reasonably detailed monthly accounting of cash receipts from Tenants (accompanied by aged receivable reports) with a detailed accounting of amounts allocable to Transferor pursuant to this Agreement, which accounting shall be delivered to Transferor for each such applicable month, within twenty (20) days after the end thereof. Transferor and Transferee and their representatives shall each have the right from time to time, for a period of one (1) year following the Closing, on prior notice to the other party, during ordinary business hours on business days, to review each other's rental records and operating expense costs with respect to the Premises to ascertain the accuracy of any such accountings during Transferor's and Transferee's respective periods of ownership of the Purchased Interest.

G. As of the one-year anniversary of the Closing Date, Transferee shall cause the Fee Owner to determine any Nortel Losses (hereinafter defined) calculated as provided in this Section 8(G). Upon such determination, Transferee shall send notice to Transferor setting forth the calculation of Nortel Losses together with backup for such calculation in reasonable detail, which shall be subject to the verification of Transferor. Transferee may, from and after the third anniversary of the Closing Date, as its sole remedy on account of any Nortel Losses, cause the Company to offset any Nortel Losses actually incurred by the Fee Owner accruing during the one-year period after the Closing against its payment obligations under the JV Loan, as more particularly provided in the JV Loan Promissory Note. "Nortel Losses" shall mean, in the event of the rejection of the Nortel Lease in the pending bankruptcy proceeding, losses of net rental income actually incurred by Fee Owner, measured against any net rental income that would have been received absent rejection of the Nortel Lease, in respect of the space demised under the Nortel Lease, taking into account (i) any amounts recoverable from the security deposit under the Nortel Lease (i.e., there is no legal impediment to Fee Owner's recovery of same) and (ii) any net effective rent accruing under any lease for any portion of the space demised under the Nortel Lease during the one-year period after the Closing (on a ratable basis over the term of such lease including for these purposes any free rent period under such lease and taking into account any leasing and tenant improvement costs).

H. If any adjustment or apportionment is miscalculated at the Closing, or the complete and final information necessary for any adjustment is unavailable at the Closing, the affected adjustment shall be calculated after the Closing, and 100% of the net amount thereof either shall be paid by Transferee (on behalf of the Fee Owner) to Transferor or paid by Transferor to the Fee Owner (after giving effect to the consummation of the Closing), as the case may be, within five (5) Business Days after determination thereof. The provisions of this Article 7 shall survive the Closing Date for a period of one (1) year.

8. Closing Deliveries.

A. At the Closing, Transferor shall, and shall cause the Fee Owner, as applicable, to deliver to Transferee, executed and acknowledged, as applicable:

(i) an Assignment of Limited Liability Company Interest Agreement in the form attached hereto as Exhibit 2(G) (the "**Assignment**") pursuant to which Transferor sells, assigns, transfers, conveys and delivers the Purchased Interest in the Company to Transferee, together with a certification from Transferor that Transferor has caused all applicable transactions provided for in the Recitals (including without limitation, the purchase of the CIF Interest) to be consummated and that Transferor and the 1% Owner are the sole members of the Company;

(ii) the Contribution Agreement in the form attached hereto as Exhibit 2(B) and the closing items to be executed and delivered by Transferor set forth therein, including, without limitation, certificates of merger;

(iii) a certified copy of the JV Loan Promissory Note, which shall remain outstanding;

(iv) the Member Loan Promissory Note in the form attached hereto as Exhibit 2(D);

(v) the Transferor Pledge and Security Agreement in the form attached hereto as Exhibit 2(F).

(vi) the Option Agreement in the form attached hereto as Exhibit 2(E).

(vii) Executed original counterparts of all Leases, Brokerage Agreements and Surviving Contracts, or certified copies thereof to the extent executed original counterparts are not in a Transferor Party's or property manager's possession;

(viii) A certification of nonforeign status, in form required by Internal Revenue Code Section 1445 and the regulations issued thereunder;

(ix) The Tenant Estoppels (as hereinafter defined) required to be delivered under Article 10 hereof;

(x) Evidence of authority, good standing (if applicable) and due authorization of each Transferor Party to enter into the within transaction and to perform all of its obligations hereunder, including, without limitation, the execution and delivery of all of the closing documents required by this Agreement, and setting forth such additional facts, if any, as may be needed to show that the transaction is duly authorized and is in conformity with each Transferor Party's organizational documents and applicable laws and to enable the Title Insurer to omit all exceptions regarding each Transferor Party's standing, authority and authorization;

(xi) The Company LLC Agreement in the form attached hereto as Exhibit 2(A);

(xii) To the extent in the Fee Owner's, its property manager's or any affiliate's possession or control (a) those transferable licenses and permits, authorizations and approvals pertaining to the Premises which are not posted at the Premises, (b) all transferable guarantees and warranties which Fee Owner has received in connection with any work or services performed or equipment installed in and improvements erected on the Premises and (c) copies of all Building Plans;

(xiii) A title affidavit in the form annexed here to as Exhibit 2(H);

(xiv) To the extent required by applicable law, a Real Property Transfer Tax Return with respect to the New York City Real Property Transfer Tax (the "**RPT Form**") and a New York State Real Estate Transfer Tax Return and Credit Line Mortgage Certificate with respect to the New York State Real Estate Transfer Tax (the "**Form TP-584**");

(xv) To the extent available at Closing, documentation as reasonably required by the Transferee to calculate the Overage Rent due and owing after the Closing or if not available then Transferor will deliver same within a reasonable time following the Closing;

(xvi) A closing statement (the "**Closing Statement**");

(xvii) A certified updated schedule of Rent arrearages (i.e., "Exhibit 16(A)(i)") and a certified schedule of unreturned escrow and reserves held by the Lender under the Existing Loan (to the extent not confirmed by the Lender in connection with the Loan Assumption);

(xviii) Keys to locks at the Premises in the possession or control of the Fee Owner, its property manager or any Covered Affiliate;

(xix) Evidence that Fee Owner has sent notices of termination, at its sole cost, of the existing property management agreement and those other Existing Contracts and New Contracts designated in writing by Transferee no less than ten (10) days prior to the Closing Date (it being understood that the provisions of certain such contracts will necessitate more than ten (10) days advance notice for termination, and that such contracts will extend through the end of the termination period therein and therefore the termination of such contracts will not be effected until after the Closing Date and it being further understood that Transferee shall be liable under such contracts for the period from and after Closing but not for any termination fees which shall be payable by Transferor or the Fee Owner). Such Existing Contracts and New Contracts shall be excluded from the definition of Surviving Contracts;

(xx) The Lender's Consent and certified copies of the material Existing Loan Documents (to the extent not certified by the Lender in connection with the Loan Assumption);

(xxi) A certification updating Transferor's representations and warranties contained in Section 16(A) as of the Closing Date;

(xxii) A lease for a portion of the property located at 750 Third Avenue, New York, New York in the form attached hereto as Exhibit "8(A)(xxii)" (the "**750 Space Lease**"), executed by 750 Third Owner LLC ("**750 Owner**");

(xxiii) The Approved 750 REA, executed by 750 Owner, in substantially the form attached hereto as Exhibit "8(A)(xxiii)", subject to any Lender REA Changes;

(xxiv) Estoppels with respect to (A) that certain Joint Use Agreement, dated as of November 23, 1956 between 750 Third Avenue Corporation and Uris Lexington, Inc., (B) that certain Declaration, dated as of October 10, 1962 between 750 Third Avenue Corporation and Uris Lexington, Inc., (C) that certain Covenant and Declaration, dated as of November 23, 1956 between 750 Third Avenue Corporation and Uris Lexington, Inc., (D) that certain Loading Dock Services Agreement, dated as of July 28, 2004, between 485 Lexington Owner LLC and 750 Owner ((A), (B), (C), and (D) being the "**Joint 750 Documents**"), and (E) the Approved REA, each in the form attached hereto as Exhibit "8(A)(xxiv)" (collectively, the "**REA Estoppels**") executed by 750 Owner;

(xxv) A notice letter to 750 Owner pursuant to the Joint 750 Documents substantially in the form attached hereto as Exhibit "8(A)(xxv)";

(xxvi) If required by the tenant under the Lease with Citibank, N.A., a Subordination, Recognition and Attornment Agreement in substantially the form attached hereto as Exhibit "8(A)(xxvi)", subject to reasonable changes requested by such tenant, described on Exhibit "1(B)", executed by 750 Owner;

(xxvii) An agreement reasonably satisfactory to Transferor and Transferee terminating that certain Tenancy-In-Common Agreement dated as of January 22, 2007 by and between Subsidiary, EAT and TIC;

(xxviii) A certified updated schedule of all base rents, real estate taxes and operating expense escalations billed to Tenants during the month prior to the month in which the Closing Date occurs and all Security Deposits held by the Fee Owner as of the Closing Date, together with copies of bills sent to Tenants after the date hereof and prior to the Closing (provided that a failure to deliver all such copies shall not be deemed to be a default under this Agreement);

(xxix) The Indemnity Agreement in the form attached hereto as Exhibit 8(A)(xxix); and

(xxx) Such other instruments or documents which by the terms of this Agreement are to be delivered by Transferor at the Closing.

B. At the Closing, Transferee shall (or shall cause the Fee Owner to) deliver to Transferor, executed and acknowledged, as applicable:

(i) The balance of the Purchase Price due at Closing, the Option Payment (as such term is defined in the Option Agreement) and the full proceeds of the Member Loan, and all other amounts payable by Transferee to Transferor at the Closing pursuant to this Agreement;

(ii) The Assignment;

(iii) The Transferor Pledge and Security Agreement;

(iv) The Option Agreement;

(v) The Company LLC Agreement;

(vi) Evidence of authority, good standing (if applicable) and due authorization of Transferee to enter into the within transaction and to perform all of its obligations hereunder, including, without limitation, the execution and delivery of all of the closing documents required by this Agreement, and setting forth such additional facts, if any, as may be needed to show that the transaction is duly authorized and is in conformity with Transferee's organizational documents and applicable laws;

(vii) The Closing Statement;

(viii) The 750 Space Lease;

(ix) the Approved 750 REA;

(x) if required by applicable law, the RPT Form and the TP-584; and

(xi) Such other instruments or documents which by the terms of this Agreement are to be delivered by Transferee at Closing.

9. Conditions Precedent.

A. Transferor's obligations under this Agreement are subject to satisfaction of the following conditions precedent which may be waived in whole or in part by Transferor, provided such waiver is in writing and signed by Transferor on or before the Closing Date:

(i) Transferee shall have paid or tendered payment of (i) the portion of the Purchase Price due at Closing, (ii) the Option Payment and (iii) the proceeds of the Member Loan, pursuant to the terms hereof;

(ii) Transferee shall have delivered to or for the benefit of Transferor, on or before the Closing Date, all of the documents and items required to be delivered by Transferee pursuant to Article 8 hereof which have been tendered thereto by Transferor and Transferee shall have performed in all material respects all of its obligations hereunder to be performed on or before the Closing Date; and

(iii) All of Transferee's representations and warranties made in this Agreement shall be true and correct in all material respects as of the date made and true and correct in all material respects as of the Closing Date as if then made; and

(iv) Lender Consent (or the portions thereof provided to be Transferor conditions to Closing under this Agreement) shall have been received and the Loan Assumption Documents shall expressly provide that SL Green (and any affiliate thereof) shall be released from any and all liability under the applicable Existing Loan Documents, including the Existing Guaranty, the Existing Hazardous Substances Indemnity Agreement and all other applicable guaranties and indemnities in connection with the Existing Loan, arising or accruing from and after the Loan Assumption.

B. Transferee's obligations under this Agreement are subject to the satisfaction of the following conditions precedent which may be waived in whole or in part by Transferee, provided such waiver is in writing and signed by Transferee on or before the Closing Date:

(i) Transferor shall have delivered to or for the benefit of Transferee, on or before the Closing Date, all of the documents and items required to be delivered by Transferor pursuant to Article 8 hereof and Transferor shall have performed in all material respects all of its obligations hereunder to be performed on or before the Closing Date; and

(ii) Subject to the other provisions of this Agreement, all of Transferor's representations and warranties made in this Agreement shall be true and correct as of the date made and true and correct in all material respects as of the Closing Date as if then made, as the same may have been updated pursuant to Section 8(A)(xxi), other than those representations or warranties made as of a specific date, or with reference to previously dated materials, in which event such representations and warranties shall be true and correct as of the date thereof or as of the date of such materials, as applicable. For purposes hereof, but subject to the provisions of Section 9(C)(ii) below, (a) any representation or warranty set forth in Section 16(A)(i), the first sentence of Section 16(A)(ii), Section 16(A)(vi) or Section 16(A)(xxi) (solely to the extent of Environmental Notices relating to conditions existing as of the date of this Agreement) shall not be deemed to have been breached if the representation or warranty is not true and correct in all material respects as of the Closing Date by reason of changed facts or circumstances arising after the date hereof which pursuant to this Agreement are not prohibited to have occurred and did not arise by reason of a breach of any covenant made by Transferor under this Agreement or Agreement and (b) no representation or warranty shall be deemed to have been breached if the same is not true and correct in all material respects as of the Closing Date by reason of any act or omission of Transferor (x) permitted under this Agreement or (y) taken with the consent of Transferee; and

(iii) Lender Consent (or the portions thereof provided to be Transferee conditions to Closing under this Agreement) shall have been received.

C. (i) Notwithstanding anything to the contrary contained in this Agreement, but subject to the provisions of Section 9(C)(ii) below, (a) Transferor does not represent or warrant that any Lease will be in force or effect at Closing, that any Tenant will have performed its obligations under its Lease or that any Tenant will not be the subject of bankruptcy proceedings and (b) the existence of any default by a Tenant, the failure by a Tenant to perform its obligations under its Lease, the termination of any Lease prior to Closing by reason of the Tenant's default (if in accordance with the other provisions of this Agreement) or the existence of bankruptcy proceedings pertaining to any Tenant shall not affect Transferee's obligations hereunder in any manner or entitle Transferee to an abatement of or credit against the Purchase Price or give rise to any other claim on the part of Transferee.

(ii) Notwithstanding the provisions of Section 9(C)(i) above, in the event that one or more Tenants occupying, in the aggregate, five percent (5%) or more of the Occupied Space (for the avoidance of doubt, excluding the Nortel Lease), becomes a debtor in a bankruptcy proceeding and rejects its Lease in such proceeding (such Lease, a "**Rejected Lease**") prior to the Closing, Transferee may, upon twenty (20) days prior written notice to Transferor after such rejection, terminate this Agreement; provided, however, that Transferee's termination notice shall become null and void in the event Transferor, within such twenty (20) day period, commits to cause SLGOP to enter into a lease at Closing for the space covered by such Rejected Lease for the remaining term and otherwise on substantially the same terms and conditions as the Rejected Lease.

10. Estoppel Certificates.

A. Transferor shall use and shall cause the Fee Owner to use commercially reasonable efforts to obtain and to deliver to Transferee, no later than five (5) days prior to the Closing, estoppel certificates (individually, an "**Estoppel**" and, collectively, the "**Estoppels**") from Tenants who, in the aggregate, lease at least 75% of the Occupied Space and including, in any event, the Major Tenants. Each Estoppel shall (x) either (i) be substantially in the form attached hereto as Exhibit 10 and made a part hereof, it being agreed that the inclusion of qualifications as to knowledge shall not cause the Estoppel to be non-compliant (except with respect to estoppel statements not already qualified by knowledge in said form contained in the Estoppels from the Major Tenants and Advanced Magazine Publishers, Inc.), (ii) be on such other form as may be provided by any Tenant, provided that it certifies the matters contained in Exhibit 10; or (iii) in the event that any Lease provides for the form or content of an Estoppel that such Tenant shall be required to deliver, then such Tenant's Estoppel may (and in the case of the tenant under the Lease with Citibank, N.A., shall) be in such form or contain only those matters as an Estoppel is required to address pursuant to the related Lease, without giving effect to any requirement regarding "additional information reasonably requested by the lessor" or words of similar import and (y) be dated no earlier than September 1, 2009; provided that if the Closing Date does not occur on or before November 30, 2009, the Estoppels from the Major Tenants and Advance Magazine Publishers, Inc. shall be dated no earlier than November 15, 2009. Each Estoppel executed and delivered by a Tenant satisfying the above requirements that confirms such matters that an Estoppel is required to address pursuant to the related Lease is referred to herein as a "**Conforming Estoppel**". Transferor shall deliver to Transferee a copy of all Estoppels it receives from Tenants, regardless of the content of such Estoppels. In the event that Transferor is unable to obtain Conforming Estoppels from Tenants who, in the aggregate, lease at least 75% of the Occupied Space (such percentage, the "**Required Percentage**"), including, without limitation, the Major Tenants, then the same shall constitute a failure of a condition to Transferee's obligations hereunder and not a default by Transferor, Transferee shall not be entitled to specific performance of such obligation of Transferor to deliver such Conforming Estoppels and Transferee's sole remedy shall be to waive such failure or terminate this Agreement and receive a refund of the Deposit, together with any interest earned thereon. Claims of any Tenant set forth in any Estoppel shall not be deemed (alone or in combination with other matters), to cause such Estoppel not to be a Conforming Estoppel unless the facts underlying such claims in the aggregate with any claims set forth in any other Tenant Estoppels and any breaches of Transferor's representations and warranties, equal or exceed the Floor (as hereinafter defined). Without limiting the generality of the foregoing sentence, an Estoppel shall be a Conforming Estoppel notwithstanding that such Estoppel may contain claims that are based on the (i) facts disclosed on Schedules or Exhibits to this Agreement, (ii) an assertion by any Tenant that there are amounts due from the Fee Owner to such Tenant allocable to periods prior to the Closing and which, under the terms of this Agreement, Transferor has agreed to pay or (iii) failure of the landlord to keep the Premises, the building systems or other improvements or equipment in good order and repair or to make required repairs or improvements thereto, unless such failure would constitute a default under such Tenant's Lease (it being agreed that Transferor shall not be obligated to make any such repairs or improvements unless otherwise obligated to do so pursuant to Section 20 (A)(vi), and Transferee hereby expressly agrees that for all purposes of this Agreement the obligation to make any such repairs or improvements shall be conclusively deemed to have arisen or accrued after the Closing). Notwithstanding the above, to the extent any delivered Estoppels contain claims or state facts which would cause any representation or warranty contained herein to be untrue, the aggregate adverse economic impact of the facts underlying such claims shall be counted in determining, pursuant to Section 16(C), whether or not there are breaches of Transferor representations or warranties in excess of the Floor, provided Transferor has not cured the circumstances giving rise to such claims (collectively, "**Estoppel Claims**").

B. Subject to Article 39, upon not less than three (3) days' advance written notice (unless the reason necessitating the extension only arises within the three (3) days immediately prior to the Closing Date, in which event as much in advance of the Closing as is practicable but in no event less than one (1) business day prior to the Closing Date), Transferor shall be entitled to one or more adjournments, not to exceed forty-five (45) days in the aggregate, of the Closing Date to obtain Tenant Estoppels.

11. No Successor.Transferee is not and is not to be deemed to be a successor of any of the Transferor Parties, it being understood that Transferee is acquiring only the Purchased Interest; and it is expressly understood and agreed that Transferee has not and does not hereby assume or agree to assume nor shall transferee be deemed to have assumed any liability whatsoever of any of the Transferor Parties, nor does Transferee assume or agree to assume nor shall Transferee be deemed to have assumed any obligation of any of the Transferor Parties under any guaranty, contract, agreement, indenture or any other document to which any such Transferor Party is or may be bound or which in any manner affects the Premises or the Purchased Interest or any part thereof, except for those contracts and agreements specifically assumed pursuant to the terms hereof (including but not limited to the Existing Loan Documents).

12. Right of Inspection.

A. Transferee and its agents, employees and consultants, from time to time prior to the Closing and during regular business hours, upon at least two (2) business days' prior notice (written or via electronic mail) to Transferor, may inspect the Premises, provided that (i) Transferee shall not communicate with any employees of the Fee Owner or the Fee Owner's managers or contractors or with Tenants or occupants of the Premises without, in each instance, the prior consent (written or via electronic mail) of Transferor, which consent may be withheld in Transferor's reasonable discretion, (ii) Transferee shall not perform any tests with respect to the Premises without the prior written consent of Transferor in each instance, which consent may be withheld in Transferor's reasonable discretion, provided however, if such tests are invasive Transferor shall have the right to withhold its consent to such tests in its sole discretion (it being agreed that the public record inquiries required to prepare a Phase I Environmental Report shall not be deemed "invasive"), and (iii) Transferee shall have no additional rights or remedies under this Agreement as a result of such inspection(s) or any findings in connection therewith. Any entry upon the Premises shall be performed in a manner which is not way disruptive to Tenants or the normal operation of the Premises (other than to a de minimis extent) and shall be subject to the rights of any Tenants or occupants of the Premises. Transferee shall (i) exercise reasonable care at all times that Transferee shall be present upon the Premises, (ii) at Transferee's expense, observe and comply with all applicable laws and any conditions imposed by any insurance policy then in effect with respect to the Premises and (iii) not engage in any activities which would violate the provisions of any permit or license pertaining to the Premises. Transferor shall have the right to have a representative of Transferor accompany Transferee during any such communication or entry upon the Premises.

B. Transferee hereby agrees to indemnify, defend and hold the Transferor Parties and their respective officers, shareholders, partners, members, directors, employees, attorneys and agents harmless from and against any and all liability, loss, cost, judgment, claim, damage or expense (including, without limitation, reasonable attorneys' fees and expenses), resulting from or arising out of the entry upon the Premises prior to the Closing by Transferee and its employees, agents, consultants, contractors and advisors. The foregoing indemnification shall survive the Closing or the termination of this Agreement.

C. As a condition precedent to (x) any third party entering the Premises on behalf of Transferee in connection with any inspection and (y) any physically invasive testing of the Premises by Transferee or any third party on behalf of Transferee (each, an "**Insurable Inspection**"), Transferee shall maintain or cause to be maintained, at Transferee's sole cost and expense, a policy of comprehensive general public liability and property damage insurance by an insurer or syndicate of insurers reasonably acceptable to Transferor: (a) with a combined single limit of not less than Three Million Dollars ($3,000,000.00) general liability and Five Million Dollars ($5,000,000.00) excess umbrella liability, (b) insuring Transferee, the Transferor Parties, the Fee Owner's property manager, their respective affiliates, lenders and any other person or entity related to the Transferor Parties or involved with the transaction contemplated by this Agreement (such additional persons or entities to be designated in writing by Transferor), as additional insureds, against any injuries or damages to persons or property that may result from or are related to (x) Transferee's entry upon the Premises and (y) any inspection or other activity conducted thereon by representatives or agents of Transferee and (c) containing a provision to the effect that insurance provided by Transferee hereunder shall be primary and noncontributing with any other insurance available to the Transferor Parties. Transferee shall deliver evidence of such insurance coverage to Transferor prior to the commencement of the Insurable Inspection and proof of continued coverage prior to any subsequent Insurable Inspection.

D. Notwithstanding any provision in this Agreement to the contrary, neither Transferee nor any representative or agent of Transferee shall contact any Federal, state, county, municipal or other department or governmental agency regarding the Premises without Transferor's prior written consent thereto; provided, however, that the foregoing shall not prohibit Transferee from accessing publicly accessible governmental records and databases from time to time. In addition, if Transferor's consent is obtained by Transferee, Transferor shall be entitled to receive at least five (5) business days prior written notice of the intended contact and shall be entitled to have a representative present when Transferee has any such contact with any governmental official or representative.

E. During the term of this Agreement, Transferor shall endeavor to, at Transferee's cost, make available to Transferee for inspection and copying, or at Transferor's option deliver to Transferee, such documents, materials and information concerning the Premises as Fee Owner may have in its or its property manager's possession or control, excluding (i) internal analyses of the value of the Premises, (ii) materials that are subject to attorney-client privilege or work-product doctrine and (iii) materials of a proprietary nature.

13. Title Insurance.

A. (i) Transferee acknowledges receipt of the existing owner's title insurance policy for the Premises. At Closing, Transferee shall have the right at Transferee's sole cost and expense to obtain a new title policy. Transferor shall use commercially reasonable efforts to cooperate with Transferee in connection with obtaining such policy and a nonimputation endorsement; provided, however, that neither Transferor or any affiliate thereof shall be required to expend any monies (except pursuant to the following sentence) or assume any additional liability (other than the title affidavits, certifications and indemnities set forth in Section 8A(xiii)) in connection therewith. Provided that Transferee obtains a new owner's title insurance policy with a policy limit not to exceed $500,000,000, Transferor agrees at Closing to reimburse Transferee for one-half of any additional premium payable on account of the non-imputation endorsement (provided, however, in the event Transferee obtains a new owner's title insurance policy with a policy limit that exceeds $500,000,000, Transferee will pay for the excess cost for such non-imputation endorsement resulting from such excess title insurance, it being understood and agreed that the parties shall split the cost for such endorsement up to a policy limit of $500,000,000).

(ii) Except as otherwise expressly provided in this Section 13(A)(ii) or elsewhere in this Agreement, Transferor shall have no obligation to remove any exception to title. Transferee acknowledges that the Premises shall be subject to the Permitted Exceptions. If exceptions to title appear on any update or continuation of a title commitment issued by the Title Insurer (each a "**Continuation**") which are not Permitted Exceptions, Transferee shall notify Transferor thereof (any such specified item being herein called an "**Objection**") within the earlier of ten (10) business days after Transferee receives such Continuation and the last business day prior to the Closing Date, TIME BEING OF THE ESSENCE. Transferee shall be deemed to have waived any such item or items if it does not specify the same as an Objection within the aforementioned period. Transferor shall be obligated to discharge the following title exceptions (each of which shall automatically be deemed to be an Objection (the "**Required Objections**"): (a) any title exception that constitutes a mortgage encumbering the Premises granted by any Transferor Party (except for the Existing Mortgage), (b) any title exception that constitutes a consensual lien that Transferor voluntarily causes to be recorded against the Premises after the date of execution of this Agreement and (c) any title exception that constitutes a mechanic's lien of record resulting from work that the Fee Owner (and not any Tenant) has performed or caused to be performed at the Premises, provided that Transferor shall have the right to bond and remove any such mechanic's lien. Transferor shall use commercially reasonable efforts to eliminate any Objections that are not Required Objections, provided that no Transferor Party shall be required to expend any sum of money to eliminate any such Objection.

(iii) Subject to clause (ii), if Transferor is unable, or elects not to attempt, to eliminate such Objections, or if Transferor elects to attempt to eliminate any such Objection but is unable to do so or thereafter decides not to eliminate the same, and accordingly, is unable to convey title to the Premises in accordance with the provisions of this Agreement, Transferor shall so notify Transferee and, within ten (10) business days after receipt of such notice from Transferor, Transferee shall elect either (i) to terminate this Agreement by notice given to Transferor (time being of the essence with respect to Transferee's notice), in which event the provisions of Article 14 of this Agreement shall apply, or (ii) to accept title to the Premises subject to such exceptions, without any abatement of the Purchase Price. If Transferee shall not notify Transferor of such election within such ten (10) business day period, time being of the essence, Transferee shall be deemed to have elected clause (ii) above with the same force and effect as if Transferee had elected clause (ii) within such ten (10) business day period.

B. Notwithstanding the foregoing provisions of this Article 13, in the event that Title Insurer or any title company retained by Transferee shall raise an exception to title which is not a Permitted Exception, Transferor shall have no obligation to eliminate such exception and Transferee shall have no right to terminate the Agreement by reason of such exception (and such exception shall be deemed a Permitted Exception) if Title Insurer or another national title company, as applicable, shall, at no additional cost or premium (unless Transferor agrees to pay such additional cost or premium) insure title to the Premises without such exception.

C. Except as expressly provided in Section 13A, Transferee shall pay the costs of examination of title and any owner's or mortgagee's policy of title insurance to be issued insuring Transferee's title to the Purchased Interest, as well as all other title charges, survey fees, recording charges and any and all other title and survey costs or expenses incident to the Closing or in connection therewith.

D. Notwithstanding anything in Article 13 hereof to the contrary, Transferee may at any time accept such title as Transferor can convey, without reduction of the Purchase Price or any credit or allowance on account thereof or any claim against Transferor. Subject to Section 16(C), the acceptance of the Purchased Interest by Transferee shall be deemed to be full performance of, and discharge of, every agreement and obligation on Transferor's part to be performed under this Agreement, except for the documents delivered at Closing and such matters which are expressly stated in this Agreement to survive the Closing, to the limit of such survival.

E. In the event the Title Company is unwilling to issue a title insurance policy as required under this Agreement, Transferor may, at Transferee's cost, replace the Title Company with any combination of Fidelity National Title Insurance Company, LandAmerica and Chicago Title Insurance Company that commits to issue such policy under the same conditions and circumstances as required under this Agreement; provided, that in no event shall the replacement of the Title Company cause the Closing Date to occur beyond any adjournments permitted under this Agreement.

14. Reserved.

15. Indemnities.

A. It is the intention of Transferor and Transferee that, notwithstanding the fact that Transferee is purchasing the Purchased Interest, Transferee shall not be obligated to pay or discharge any liabilities or other obligations which Transferee would not assume or be liable for if Transferee were purchasing the Premises instead of the Purchased Interest.

(i) In order to implement the foregoing, Transferor and SLGOP hereby jointly and severally indemnify and agree to hold harmless Transferee, the Company, Mezz LLC and the Fee Owner from and against all liabilities, obligations, debts, claims, causes of action, judgments and damages which may be asserted against, imposed on or incurred by Transferee, the Company, Mezz LLC or the Fee Owner after the Closing by reason of any of the following: (i) any obligations of the Transferor Parties for borrowed money which were incurred prior to the Closing, other than the Existing Loan and the JV Loan; (ii) any claims made by any party (other than the Fee Owner) to any Existing Contracts or New Contracts with respect to any period prior to the Closing; (iii) all obligations and payments due from Transferor or the Fee Owner to trade creditors with respect to any period prior to the Closing; (iv) any amounts due and payable by Transferor or the Fee Owner to the Fee Owner's property manager arising prior to the Closing; (v) all obligations relating to the period prior to Closing with respect to existing litigation against the Transferor Parties, or any litigation instituted against the Transferor Parties on or after the Closing Date to the extent based on any matter occurring prior to the Closing Date; (vi) any income, excise or franchise taxes payable by the Transferor Parties in respect of any period prior to the Closing Date; (vii) any liability to Lender or any other indemnified party under the Existing Loan Documents relating to matters arising prior to the Closing Date; and (vii) any other liabilities, obligations, debts, claims, causes of action, judgments or damages which may be imposed upon, incurred by or asserted against the Transferor Parties and which are based on any matter occurring prior to the Closing.

(ii) Notwithstanding anything to the contrary set forth in this Section 15 (but subject to the provisions of Section 15(B)), the indemnity of SLGOP and Transferor set forth herein shall not apply to any of the following or to any liability, obligation, debt, claim, cause of action, judgment or damage based on any of the following: (a) any matter occurring, arising or accruing after the Closing Date except (with respect solely to Transferor and not SLGOP) to the extent Transferor is expressly obligated in respect thereof under other provisions of this Agreement; (b) any matter expressly assumed by Transferee, the Company, Mezz LLC or the Fee Owner or as to which Transferor is expressly relieved of any obligations or responsibilities under the terms of this Agreement or any agreement entered into in connection with the Closing; (c) any matter which is the subject of a representation and warranty of Transferor set forth in this Agreement or any instrument or document executed pursuant hereto, it being understood and agreed that the indemnity set forth in this Section 15 is not intended either to expand upon or increase Transferor's liability under such warranties and representations or to affect or impair Transferee's rights under other applicable provisions of this Agreement or any such document in the event of the breach of any such representation or warranty; (d) any matter or item in respect of which an apportionment has been made or provided for in this Agreement; (e) any matter relating to title to the Premises; and (f) any matter relating to the physical condition of the Premises or any personal property included therein, including, without limitation, the need for any required repairs or replacements or any condition at the Premises which violates applicable building, zoning, use, occupancy, fire, safety, health, environmental, disability or other laws, ordinances or codes. Without limiting the generality of clause (f) above, but in amplification thereof (but without limiting any remedies that may be provided to Transferee under this Agreement in respect thereof) , if any Tenant or other party claims that the Fee Owner is in default because they failed to make any required repairs, replacements or improvements, or if any governmental authority or other party asserts that the Premises is in violation of any applicable laws, ordinances or codes, unless otherwise expressly provided elsewhere in this Agreement, SLGOP and Transferor shall have no liability, responsibility or obligation to make any such repairs, replacements or improvements, or to comply with any such laws, ordinances or codes or to remedy any violation thereof, or to pay the cost thereof, even if the condition which gives rise to the need therefor occurred prior to the Closing, it being understood and agreed that except as otherwise expressly provided elsewhere in this Agreement Transferee has agreed to acquire the Purchased Interest on the basis that the Premises will be in "as is" condition and that Transferor shall not be obligated to make any repairs, replacements or improvements thereto or remedy any conditions therein which are in violation of any applicable laws, ordinances or codes.

B. Supplementing the liabilities and indemnities set forth in Sections 15(A) above and elsewhere under this Agreement:

(i) Notwithstanding any other provision of this Agreement (including, without limitation, any provision purporting to create a sole and exclusive remedy for the benefit of Transferor): Transferee shall indemnify, defend and hold Transferor, its direct and indirect shareholders, officers, directors, partners, principals, members, employees, agents, contractors and all successors or assigns of the foregoing (collectively, the "**Covered Transferor Parties**") harmless from and against any and all losses, costs, damages, liens, claims, liabilities or expenses (including, but not limited to, reasonable attorneys' fees, court costs and disbursements) incurred by any of the Covered Transferor Parties as the result of or in connection with any obligation under the Existing Loan (including, without limitation, the Existing Guaranty or any replacement or modification thereof) arising from and after the Closing Date, except as expressly provided in any agreements entered into at the Closing or arising on account of the wrongful acts of any Covered Transferor Party.

(ii) Notwithstanding any other provision of this Agreement (including, without limitation, any provision purporting to create a sole and exclusive remedy for the benefit of Transferee): Transferor and SLGOP shall indemnify, defend and hold Transferee, its direct and indirect shareholders, officers, directors, partners, principals, members, employees, agents, contractors and all successors or assigns of the foregoing (collectively, the "**Covered Transferee Parties**") harmless from and against any and all losses, costs, damages, liens, claims, liabilities or expenses (including, but not limited to, reasonable attorneys' fees, court costs and disbursements) incurred by any of the Covered Transferee Parties as the result of or in connection with any liability to Lender or any other indemnified party under the Existing Loan (subject to the limitations set forth in Section 15(A)(ii) above) relating to matters arising prior to the Closing Date.

(iii) This Section 15(B) shall survive the Closing or termination of this Agreement.

16. Representations and Warranties.

A. Transferor hereby represents and warrants to Transferee as follows as of the date hereof:

(i) The Leases together with all amendments thereto and guarantees listed on Exhibit "1(B)" are the only leases, licenses, tenancies, possession agreements and occupancy agreements affecting the Premises on the date of this Agreement in which any Fee Owner holds the lessor's, licensor's or grantor's interest and there are no other leases, licenses, tenancies, possession agreements or occupancy agreements affecting the Premises (other than subleases, licenses, tenancies or other possession or occupancy agreements which may have been entered into by the Tenants, or their predecessors in interest, under such Leases); Exhibit "1(B)" also sets forth a list of all subleases, licenses, tenancies or other possession or occupancy agreements which may have been entered into by the Tenants, or their predecessors in interest, under such Leases as to which the Fee Owner has executed a consent or recognition agreement; Transferor has delivered copies of all such Leases to Transferee, which copies are true, complete and correct in all material respects; as of the date hereof, no Fee Owner has received any written notice of any default of any of its material obligations under such Leases which has not been cured; Fee Owner has not sent written notice to any Tenant claiming that such Tenant is in default, which default remains uncured, nor does Transferor or Fee Owner have knowledge of any monetary or material non-monetary default under any Lease by any Tenant or the landlord thereunder or the existence of any condition, which, following the mere passage of time or the giving of notice or both, could become a default by a Tenant under a Lease; no Tenant is in arrears in the payment of Base Rent for any period in excess of thirty (30) days, except as set forth on Exhibit "16(A)(i)";

(ii) The Union Employees listed on Exhibit "16(A)(ii)" are all of the Union Employees of the Fee Owner and to Transferor's best knowledge, the employees of the Fee Owner's property manager and any affiliates who work at the Premises as of the date hereof and the Fee Owner has no other employees, and Exhibit "16(A)(ii)" correctly identifies the union with which each Union Employee is affiliated and the position of each Union Employee. Transferor and its affiliates have made all payments relating to the Union Employees required prior to the Closing under the collective bargaining agreements, union agreements and other material agreements related to the Union Employees (it being acknowledged that the Multiemployer Pension Plan (hereinafter defined) is underfunded);

(iii) The Existing Contracts listed on Exhibit "1(C)" are the only Existing Contracts; Transferor has delivered copies of all such Existing Contracts (other than Global Contracts) to Transferee, which copies are true, complete and correct in all material respects; as of the date hereof, to Transferor's actual knowledge, Transferor has received no written notice of material default under an Existing Contract;

(iv) The Telecommunications Contracts listed on Exhibit "1(D)" are the only Telecommunications Contracts; Transferor has delivered copies of all such Telecommunications Contracts (other than Global Contracts) to Transferee, which copies are true, complete and correct in all material respects; as of the date hereof, to Transferor's actual knowledge, Transferor has received no written notice of material default under a Telecommunications Contract;

(v) Transferor is not a "foreign person" within the meaning of Section 1445(f)(3) of the Internal Revenue Code;

(vi) Neither Transferor nor any Fee Owner nor the Fee Owner's property manager has received written notice of any pending or threatened condemnation with respect to the Premises or any part thereof;

(vii) Other than as set forth in Exhibit "16(A)(vii)" attached hereto, and except for claims covered by insurance, there are no material actions, suits, proceedings or government investigations pending against any Transferor Party or the Premises, or to Transferor's knowledge threatened in writing against any Transferor Party or the Premises, in any court of law or in equity or in any arbitration or other forum or before any governmental instrumentality;

(viii) The Brokerage Agreements listed on Exhibit "1(E)" are the only brokerage agreements entered into by the Fee Owner with respect to the leasing of portions of the Premises which provide for the possibility of additional commissions subsequent to the date hereof. Transferor has delivered copies of all such Brokerage Agreements to Transferee, which copies are true, complete and correct in all material respects;

(ix) Each Transferor Party is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Delaware, and has the requisite power and authority to enter into and perform its obligations under this Agreement; Each Transferor Party has taken all action required to execute, deliver and, subject to any consents or waivers required to be obtained prior to the Closing, perform this Agreement and to make all of the provisions of this Agreement the valid and enforceable obligations they purport to be and has caused this Agreement to be executed by a duly authorized person. Transferor has delivered to Transferee true, correct and complete copies of the limited liability company operating agreements currently in effect of the Company, Mezz LLC and each Fee Owner;

(x) This Agreement is, and all documents which are to be delivered to Transferee by Transferor, SLGOP and/or the Fee Owner at the Closing are or at the time of Closing will be, duly authorized, executed and delivered by Transferor, SLGOP and the Fee Owner, as applicable; is (and with respect to any of the documents to be delivered at Closing, at the time of Closing will be), the legal, valid and binding obligations of Transferor, SLGOP and the Fee Owner, as applicable, enforceable in accordance with their terms, subject to general principles of equity and to bankruptcy, insolvency, reorganization, moratorium or other similar laws presently or hereafter in effect affecting the rights of creditors or debtors generally; and do not conflict with any provision of any law or regulation to which Transferor, SLGOP or the Fee Owner is subject or agreement to which Transferor, SLGOP or the Fee Owner is a party or the Premises is subject, violate any provision of any judicial order to which Transferor, SLGOP or the Fee Owner is a party or to which Transferor, SLGOP, the Fee Owner, or the Premises is subject; or require Transferor, SLGOP or the Fee Owner to obtain any consent, authorization, approval or registration under any law, regulation or judicial order which is binding upon Transferor, SLGOP, the Fee Owner or the Premises;

(xi) As of the Closing, Transferor and the 1% Owner will be the legal and beneficial owners of all of the issued and outstanding legal and beneficial ownership interests in the Company, free and clear of any and all liens and such interests have been duly authorized, validly issued and are fully paid and nonassessable. Transferor has not transferred, assigned, sold, hypothecated, pledged or encumbered all or any portion of its interest in the Company;

(xii) There are no subscriptions, warrants, options, conversion rights, or other agreements of any kind to purchase or otherwise acquire or sell Transferor's interest in the Company and there are no subscriptions, warrants, options, conversion rights, or other agreements of any kind to purchase or otherwise acquire or sell any other interests in Mezz LLC or the Fee Owner. None of Transferor, the Company, Mezz LLC or any Fee Owner has granted any currently outstanding purchase option or rights of first refusal with respect to the sale of the Purchased Interest or any interest in Mezz LLC, the Fee Owner or the Premises, as applicable. Upon the consummation of the transactions contemplated by this Agreement, Transferee shall be the holder of the Purchased Interest free and clear of any restrictions on transfer and liens and encumbrances, except as provided in any of the agreements to be executed or delivered at Closing (including the JV Loan). No person or entity has any voting or management rights with respect to the Company except as set forth in and subject to the Company LLC Agreement;

(xiii) Neither the Company nor Mezz LLC has any subsidiaries or holds any direct or indirect beneficial ownership interest in any corporation, partnership, joint venture, limited liability company or other entity or enterprise, other than as set forth on Exhibit "16(A)(xxix)(a)";

(xiv) The Fee Owner does not, either directly or indirectly, own of record or beneficially any shares or other equity interests in any corporation, partnership, limited partnership, limited liability company, limited liability partnership, joint venture, trust or other business entity. The Fee Owner have not, either directly or indirectly, owned of record any other real or personal property other than the Premises;

(xv) None of Transferor, the Company, Mezz LLC or any Fee Owner has (i) made a general assignment for the benefit of its creditors, (ii) admitted in writing its inability to pay its debts as they mature, (iii) had an attachment, execution or other judicial seizure of any property interest which remains in effect, (iv) taken, failed to take or submitted to any action indicating a general inability to meet its financial obligations as they accrue or (v) made a filing of a partition of the Premises. There is not now or pending any case, proceeding or other action seeking reorganization, arrangement, adjustment, liquidation, dissolution or recomposition of Transferor, the Company or any Fee Owner or any of their respective debts under any law relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking appointment of a receiver, trustee, custodian or other similar official for any of them or for all or any substantial part of its property;

(xvi) Other than as set forth on Exhibit "16(A)(xvi)", no Transferor Party has any material liabilities other than liabilities relating to the Premises;

(xvii) Other than as set forth on Exhibit "16(A)(xvii)", the Fee Owner has not commenced any tax assessment reduction proceedings with respect to the Premises;

(xviii) Exhibit "16(A)(xviii)" sets forth all Security Deposits (including those in the form of Letters of Credit) presently held by or on behalf of the Fee Owner with respect to the Leases as of the date hereof;

(xix) Exhibit "16(A)(xix)" sets forth all base rents, real estate taxes and operating expense escalations billed to Tenants during July 2009;

(xx) None of Transferor, the Company, Mezz LLC or any Fee Owner is a person in violation of, and is not a person and/or entity with whom Transferee is restricted from doing business under, the International Emergency Economic Powers Act, 50 U.S.C. § 1701 et seq.; the Trading With the Enemy Act, 50 U.S.C. App. § 5; the USA Patriot Act of 2001; any executive orders promulgated thereunder, any implementing regulations promulgated thereunder by the U.S. Department of Treasury Office of Foreign Assets Control ("**OFAC**") (including those persons and/or entities named on OFAC's List of Specially Designated Nationals and Blocked Persons); or any other applicable law of the United States;

(xxi) Other than as set forth on Exhibit "16(A)(xxi)" neither Transferor nor any Fee Owner nor to Transferor's knowledge, the Fee Owner's property manager, has received written notice (each, an "**Environmental Notice**") from any governmental entity of violation of any environmental law or regulation with respect to the Premises or any part thereof;

(xxii) Exhibit "16(A)(xxii)" attached hereto contains a true, correct and complete list of all of the material Existing Loan Documents. Transferor has delivered to Transferee true, correct and complete copies of the material Existing Loan Documents;

(xxiii) All required payments of principal and interest due and payable as of the date hereof under the Existing Loan Documents have been paid and there exists no Event of Default (as such term is defined in the Existing Loan Documents) under the Existing Loan Documents;

(xxiv) None of Transferor, the Company, Mezz LLC or the Fee Owner has made any transfer that would constitute a Sale (as such term is defined in the Existing Mortgage) pursuant to Section 9.04 of the Existing Mortgage;

(xxv) Attached hereto as Exhibit "16(A)(xxv)" is a true, correct and complete copy of the Servicer Statement for the Existing Loan as of the date set forth thereon;

(xxvi) Other than as set forth on Exhibit "16(A)(xxvi)" there exists no litigation related to exemption from real estate tax payments under the Industrial Commercial Incentive Program of the City of New York (which, as same may from time to time be amended, is herein referred to as the "**ICIP**") for the Property;

(xxvii) Other than as set forth on Exhibit "16(A)(xxvii)" there are no outstanding Leasing Costs;

(xxviii) The Fee Owner has in full force and effect all material licenses and permits necessary for the operation of the Premises in the manner the same is currently operated;

(xxix) Attached hereto as Exhibit "16(A)(xxix)(a)" is a true, correct and complete copy of the current organizational ownership structure of the Premises and of all of the direct and indirect ownership interests therein (other than ownership interests in SL Green or SLGOP, and no representation is made regarding the interest in the Company owned by CIF). Upon the consummation of the Closing in accordance with the terms of this Agreement, the ownership structure of the Premises and of all of the direct and indirect ownership interests therein shall be as set forth on Exhibit "16(A)(xxix)(b)" attached hereto;

(xxx) Each of the Company, Mezz LLC and each Fee Owner (and Transferor with respect to Company income) has paid or caused to be paid or will pay all federal, state, local, foreign, and other taxes relating to the period prior to the Closing, including, without limitation, income taxes, excise taxes, sales taxes, use taxes, value added taxes, gross receipts taxes, franchise taxes, capital stock taxes, employment and payroll related taxes, withholding taxes, transfer taxes, whether or not measured in whole or in part by net income, and all deficiencies, or other additions to tax, interest, fines and penalties owed by it and required to be paid by it through the date hereof. Each of the Company, Mezz LLC and each Fee Owner has, in accordance with applicable law, filed when due all federal, state, local and foreign returns, declarations, reports, claims for refund, or information returns or statements relating to such taxes, including any schedule or attachment thereto, and including any amendment thereto ("Tax Returns") required to be filed by it through the Closing Date (except for extensions duly filed as to such obligations), and to Transferor's knowledge all such Tax Returns were correct and complete in all material respects;

(xxxi) To Transferor's knowledge, as of the date hereof, neither the Internal Revenue Service nor any other governmental authority is now asserting or has threatened in writing to assert against the Company, Mezz LLC or any Fee Owner any deficiency or claim for additional Taxes; and

(xxxii) As of the date hereof, (i) there is no pending audit of any Tax Return filed by the Company, Mezz LLC or any Fee Owner and no such party has been notified by any tax authority that any such audit is contemplated or pending, and (ii) no waiver or agreement by the Company, Mezz LLC or any Fee Owner is in force for the extension of time for the assessment or payment of any Taxes. None of the Company, Mezz LLC or any Fee Owner has waived any statute of limitations in respect of Taxes.

B. Transferee represents and warrants to Transferor that, as of the date hereof:

(i) Transferee is a limited liability company, duly organized, validly existing and in good standing under the laws of the State of Delaware, and on the Closing Date, will be in good standing and qualified to do business under the laws of the State of New York; Transferee has taken all action required to execute, deliver and perform this Agreement and to make all of the provisions of this Agreement the valid and enforceable obligations they purport to be and has caused this Agreement to be executed by a duly authorized person;

(ii) This Agreement is, and all documents which are to be delivered to Transferor by Transferee at the Closing are or at the time of Closing will be, duly authorized, executed and delivered by Transferee; are, or (with respect to any of the documents to be delivered at Closing) at the time of Closing will be, legal, valid and binding obligations of Transferee enforceable in accordance with their terms, subject to general principles of equity and to bankruptcy, insolvency, reorganization, moratorium or other similar laws presently or hereafter in effect affecting the rights of creditors or debtors generally; and do not conflict with any provision of any law or regulation to which Transferee is subject or agreement to which Transferee is a party, violate any provision of any judicial order to which Transferee is a party or to which Transferee is subject, or require Transferee to obtain any consent, authorization, approval or registration under any law, regulation or judicial order which is binding upon Transferee;

(iii) There are no judgments, orders or decrees of any kind against Transferee unpaid or unsatisfied of record and no legal action, suit or other legal or administrative proceeding pending or threatened before any court or administrative agency which has, or is likely to have, any material adverse effect on (a) the business or assets or the condition, financial or otherwise, of Transferee or (b) the ability of Transferee to perform its obligations under this Agreement;

(iv) Transferee has not filed any petition seeking or acquiescing in any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any law relating to bankruptcy or insolvency, nor has any such petition been filed against Transferee; No general assignment of Transferee's property has been made for the benefit of creditors, and no receiver, master, liquidator or trustee has been appointed for Transferee or any of its property; Transferee is not insolvent and the consummation of the transactions contemplated by this Agreement shall not render Transferee insolvent; Transferee has now and will have as of the Closing Date sufficient capital or net worth to meet its obligations under this Agreement; and Transferee certifies that any financial statements and any financial statements of Transferee and/or any affiliate of Transferee submitted to Transferor are true, correct and complete in all material respects; and

(v) Transferee is not a person and/or entity with whom Transferor is restricted from doing business under OFAC (including those persons and/or entities named on OFAC's List of Specially Designated Nationals and Blocked Persons); or any other applicable law of the United States.

C. The representations of Transferor set forth in this Agreement as updated and made as of the date of Closing (collectively, the "**Surviving Transferor Representation (s)**") shall survive the Closing under this Agreement for a period of two hundred seventy (270) days after the Closing Date (the "**Survival Period**"); provided, however, that the representations of Transferor set forth in this Agreement with respect to Leases shall not survive the Closing to the extent a Conforming Estoppel covering substantially the same matter is delivered. Each Surviving Transferor Representation shall automatically be null and void and of no further force and effect after the Survival Period unless, prior to the end of the Survival Period, Transferee shall have asserted in writing a specific claim with respect to the particular Surviving Transferor Representation and commenced a legal proceeding within of one hundred eighty (180) days after the expiration of the Survival Period against Transferor alleging that Transferor is in breach of such Surviving Transferor Representation and that Transferee has suffered actual damages as a result thereof (a "**Proceeding**"). In no event shall Transferee be entitled to assert any consequential, special or punitive damages, nor shall it be entitled to any award or payment based on such damages. If Transferee timely commences a Proceeding, and a court of competent jurisdiction, pursuant to a final, non-appealable order in connection with such Proceeding, determines that (1) the applicable Surviving Transferor Representation was breached as of the date of this Agreement and/or the Closing Date and (2) Transferee suffered actual damages (the "**Damages**") by reason of such breach and (3) Transferee did not have knowledge of such breach prior to the Closing, then Transferee shall be entitled to receive an amount equal to the Damages, but in no event in an amount greater than the Ceiling (as hereinafter defined); provided, however, Transferee shall not be entitled to pursue any claim against Transferor for damage to Transferee that is, together with all other claims against Transferor regarding breaches of representations and/or Estoppel Claims, less than the Floor (as hereinafter defined). If Transferee has claim(s) against a Transferor Party, individually or in the aggregate, in excess of the Floor, then Transferee shall be entitled to pursue the full amount of the actual loss suffered by Transferee in connection with such claim(s) against Transferor, but in no event shall Transferor's liability for any and all claims exceed the Ceiling. For purposes of this Section 16, Transferee shall be deemed to have actual knowledge if Transferee and/or its affiliates and their respective officers, employees, agents, representatives or consultants had knowledge of the fact in issue prior to Closing or if such information is identified in the Schedules and Exhibits hereto. As used herein, "**Floor**" shall mean with respect to any claim or claims against Transferor for breach of any Surviving Transferor Representation, ONE HUNDRED FIFTY THOUSAND AND 00/100 Dollars ($150,000.00), provided that in determining whether such amount has been reached, Transferor and Transferee shall take into account, pursuant to Sections 10(A) and 16(D), the amount (but in no event in excess of $150,000.00), if any, attributable to any breaches of Transferor's representations and warranties and/or Estoppel Claims, regardless of whether Transferee had knowledge prior to the Closing, but subject to indemnification of such breach pursuant to Section 15 hereof, and "**Ceiling**" shall mean SEVEN MILLION FIVE HUNDRED THOUSAND AND 00/100 Dollars ($7,500,000.00). The provisions of this Section 16(C) shall constitute the sole and exclusive remedy after closing for breaches of Transferor's representations. Notwithstanding the above, the representations of Transferor set forth in Sections 16(A)(v), (vi), (ix), (x), (xii), (xiii), (xiv), (xv), (xvi), (xx), (xxix), (xxx), (xxxi) and (xxxii) shall survive indefinitely and shall not be subject to the Ceiling.

D. (i) Until Closing, Transferor shall, and shall cause Fee Owner to endeavor to update any representation or warranty in this Agreement to correct any mistake and/or to reflect any matter which arises subsequent to the date of this Agreement. If Transferee has actual knowledge of any matter which would constitute a material breach of Transferor's representations and warranties, Transferee shall notify Transferor of such material breach within the earlier of ten (10) business days of learning of same and the Closing Date, failing which Transferee shall be deemed to waive any such material breach of Transferor's representations and warranties. Transferor shall have the right to contest Transferee's determination as to a material breach of Transferor's representations and warranties (including an alleged breach based on information contained in an Estoppel), and shall, upon one (1) day written notice to Transferee, have the right to attempt to cure such material breach without being obligated to complete such cure. In addition, subject to the provisions of Article 39, Transferor shall have until the date that is the later of the then scheduled Closing Date and forty-five (45) days from the date of Transferee's notice to cure any such material breach of Transferor's representations and warranties and, at Transferor's sole option, upon not less that three (3) days' advance written notice (unless the reason necessitating the extension only arises within the three (3) days immediately prior to the Closing Date, in which event as much in advance of the Closing as is practicable but in no event less than one (1) business day prior to the Closing Date), the Closing Date shall be extended to such forty-fifth (45th) day (or any earlier business day) after Transferee's notice to permit such cure by Transferor. Transferee shall not be obligated to close the transactions contemplated hereunder prior to the cure or waiver by Transferee of any such material breach. If the Transferor fails to cure any such material breach of Transferor's representations and warranties within the time period set forth herein, then Transferee, as its sole and exclusive remedies shall have the option to (i) terminate this Agreement by written notice to Transferor, in which case Escrow Agent shall return the Deposit (together with all interest thereon, if any) to Transferee and neither party to this Agreement shall thereafter have any further right or obligation hereunder, other than the Surviving Obligations or (ii) waive such material breach and consummate the transactions contemplated by this Agreement without any credit against or reduction of the Purchase Price, in which case, subject to Section 16(C), Transferee shall be deemed to have forever and for all purposes waived such material breach and shall not be entitled to pursue any action for or collect any damages hereunder therefor.

(ii) For the purposes of Section 16(C) and this Section 16(D), "**material**" shall mean any state of facts, taken alone or together with all other material untruths or inaccuracies and all such covenants with which the Transferor Parties have not materially complied, the restoration of which to the condition represented or warranted by Transferor under this Agreement, or the cost of compliance with which, would cost Transferee in excess of ONE HUNDRED FIFTY THOUSAND AND 00/100 Dollars ($150,000.00); provided, that any one or more breaches of any of the representations and warranties set forth in Sections 16(A)(ix), (x) (which shall be subject to clause (A) below only), (xi), (xii), (xiii), (xiv), (xv), (xvi), (xxx), (xxxi) or (xxxii) shall not, individually or in the aggregate, be deemed to be material if either (A) Transferor causes the same to be cured at or prior to Closing, or (B) the aggregate cost of such cure or damages arising from any such uncured breach is less than TWELVE MILLION and 00/100 Dollars ($12,000,000.00) and SLGOP agrees to indemnify Transferee from and against any losses incurred on account of such breaches.

E. The terms "to Transferor's actual knowledge," "to the best of Transferor's actual knowledge" and phrases of similar import shall mean the actual present knowledge (and not constructive knowledge) of Andrew S. Levine, Andrew Mathias and Isaac Zion, without independent inquiry or investigation (except for such investigation and inquiry as such parties reasonably deemed appropriate), and shall not mean that Transferor or such individual is charged with knowledge of the acts, omissions and/or knowledge of Transferor's property manager (or any employee thereof) or of Transferor's other agents or employees or of Transferor's predecessors in title to the Premises.

17. Broker.

A. Transferor represents to Transferee that it has not dealt with any broker, finder or like agent in connection with this transaction other than (i) Cushman & Wakefield ("**Transferor Broker**") and (ii) Howard Michaels and the Carlton Group (collectively, "**Transferee Broker**"). Transferor shall pay the amounts due Transferor Broker as set forth in a separate agreement by and between Transferor and Transferor Broker. Transferor hereby indemnifies and holds Transferee harmless from and against any and all claims for any commission, fee or other compensation by any person or entity, including Transferor Broker (but excluding Transferee Broker), who shall claim to have dealt with Transferor in connection with the sale of the Purchased Interest and for any and all costs incurred by Transferee in connection with any such claims including, without limitation, reasonable attorneys' fees and disbursements.

B. Transferee represents to Transferor that it has not dealt with any broker, finder or like agent in connection with this transaction other Transferor Broker and Transferee Broker. Transferee shall pay the amounts due Transferee Broker as set forth in a separate agreement by and between Transferee and Transferee Broker. Transferee hereby indemnifies and holds Transferor harmless from and against any and all claims for any commission, fee or other compensation by any person or entity, including Transferee Broker (but excluding Transferor Broker), who shall claim to have dealt with Transferee in connection with the sale of the Purchased Interest and for any and all costs incurred by Transferor in connection with any such claims including, without limitation, reasonable attorneys' fees and disbursements.

C. The provisions of this Article 17 shall survive the Closing or any early termination of this Agreement.

18. Condemnation and Destruction.

A. If, prior to the Closing Date, all or any "Significant Portion" (as hereinafter defined) of the Premises is taken, or rendered unusable for its current purpose or reasonably inaccessible by eminent domain (or is the subject of a pending or contemplated taking which has not been consummated), Transferor shall notify Transferee of such fact and Transferee shall have the option to terminate this Agreement upon notice to Transferor given not later than fifteen (15) business days after receipt of Transferor's notice. For purposes of this Section 18(A) and Section 18(B) hereof, a "**Significant Portion**" shall mean a portion of the Premises (i) the reasonably estimated cost to restore (as determined by an engineer selected by Transferor which is reasonably satisfactory to Transferee), in the case of a casualty, or the value of the award, in the case of a condemnation, equals to or is greater than Twenty-Five Million Dollars ($25,000,000) or (ii) which would permit one or more tenants leasing in the aggregate not less than five percent (5%) of the Occupied Space to terminate its Lease. If this Agreement is terminated as aforesaid, neither party shall have any further right or obligation hereunder except that Escrow Agent shall refund to Transferee the Deposit (together with interest thereon, if any). If Transferee does not elect to terminate this Agreement (provided that Transferee's failure to elect to terminate shall be deemed an election to close) or if the portion of the Premises which is taken or rendered unusable or reasonably inaccessible by eminent domain (or is the subject of a pending or contemplated taking which has not been consummated) is not a Significant Portion of the Premises, Transferee shall accept the Purchased Interest with no abatement of the Purchase Price, and at the Closing, Transferor shall assign and, if applicable, turn over to the Fee Owner, and the Fee Owner shall be entitled to receive and keep, all of Transferor's interest in and to all awards for such taking by eminent domain, if any.

B. If, prior to the Closing Date, a Significant Portion of the Building is destroyed by fire or other casualty, Transferor shall notify Transferee in writing of such fact and Transferee shall have the option to terminate this Agreement upon ten (10) days notice to Transferor given not later than fifteen (15) business days after receipt of Transferor's notice, which notice from Transferor shall include a reasonable estimate from the engineer selected under Section 18(A) as to the estimated cost to restore the portion of the Building affected. If Transferee shall elect to terminate this Agreement as aforesaid (provided that Transferee's failure to elect to terminate shall be deemed an election to close), this Agreement shall terminate and neither party shall have any further rights or obligations hereunder, other than the Surviving Obligations, except that Escrow Agent shall refund to Transferee the Deposit (together with all interest thereon, if any). If Transferee does not elect to terminate this Agreement as provided above, or if the portion of the Premises so damaged or destroyed is not a Significant Portion of the Premises, Transferee shall accept the Purchased Interest, and the appurtenant indirect ownership interest in the Premises in its then "as is" condition with no abatement of the Purchase Price, and at the Closing Transferor shall assign and, if applicable, turn over to the Fee Owner, and the Fee Owner shall be entitled to receive and keep, all of Transferor's interest in and to all casualty insurance proceeds payable in connection with such casualty (except that the proceeds of any business interruption or rental value insurance payable to Transferor shall be apportioned as of the Closing Date; and to the extent necessary to maintain the benefits of any coverage provided by any business interruption or rental value insurance from and after the Closing, Transferor shall, and shall cause Fee Owner to also assign to Transferee Transferor's right and interest in and to such policies), if any, and Transferor shall pay to the Fee Owner at the Closing the amount of any deductible payable by Transferor, the Company or the Fee Owner in connection with casualty coverage. This Article is an express agreement to the contrary of Section 5-1311 of the New York General Obligations Law.

19. Escrow.

A. The Deposit shall be held in escrow by Escrow Agent, upon the following terms and conditions:

(i) Escrow Agent shall deposit the Deposit in an interest-bearing account or invest the Deposit in a money market or monetary fund;

(ii) Escrow Agent shall deliver to Transferor the Deposit (together with all interest thereon, if any) at and upon the Closing; and

(iii) If this Agreement is terminated in accordance with the terms hereof, or if the Closing does not take place under this Agreement by reason of the failure of either party to comply with such party's obligations hereunder, Escrow Agent shall pay the Deposit (together with all interest thereon, if any) to Transferor and/or Transferee, as the case may be, in accordance with the provisions of this Agreement.

B. It is agreed that:

(i) The duties of Escrow Agent are only as herein specifically provided, and, except for the provisions of Section 19(C) hereof, are purely ministerial in nature, and Escrow Agent shall incur no liability whatever except for its own willful misconduct or gross negligence;

(ii) Escrow Agent shall not be liable or responsible for the collection of the proceeds of any checks used to pay the Deposit;

(iii) In the performance of its duties hereunder, Escrow Agent shall be entitled to rely upon any document, instrument or signature believed by it in good faith to be genuine and signed by either of the other parties hereto or their successors;

(iv) Escrow Agent may assume, so long as it is acting in good faith, that any person purporting to give any notice of instructions in accordance with the provisions hereof has been duly authorized to do so;

(v) Escrow Agent shall not be bound by any modification, cancellation or rescission of this Agreement unless in writing and signed by Escrow Agent, Transferor and Transferee;

(vi) Except as otherwise provided in Section 19(C) hereof, Transferor and Transferee shall jointly and severally reimburse and indemnify Escrow Agent for, and hold it harmless against, any and all loss, liability, costs or expenses in connection herewith, including attorneys' fees and disbursements, incurred without willful misconduct or gross negligence on the part of Escrow Agent arising out of or in connection with its acceptance of, or the performance of its duties and obligations under, this Agreement, as well as the costs and expenses of defending against any claim or liability arising out of or relating to this Agreement;

(vii) Each of Transferor and Transferee hereby releases Escrow Agent from any act done or omitted to be done by Escrow Agent in good faith in the performance of its duties hereunder; and

(viii) Escrow Agent may resign upon ten (10) days written notice to Transferor and Transferee. If a successor Escrow Agent is not appointed by Transferor and Transferee within such ten (10) day period, Escrow Agent may petition a court of competent jurisdiction to name a successor.

C. Escrow Agent is acting as a stakeholder only with respect to the Deposit. Escrow Agent, except in the event of the Closing, shall not deliver the Deposit except on seven (7) days' prior written notice to the parties and only if neither party shall object within such seven (7) day period. If there is any dispute as to whether Escrow Agent is obligated to deliver all or any portion of the Deposit or as to whom the Deposit is to be delivered, Escrow Agent shall not be required to make any delivery, but in such event Escrow Agent may hold the same until receipt by Escrow Agent of an authorization in writing, signed by all of the parties having any interest in such dispute, directing the disposition of the Deposit (together with all interest thereon, if any), or in the absence of such authorization Escrow Agent may hold the Deposit (together with all interest thereon, if any), until the final determination of the rights of the parties in an appropriate proceeding. If such written authorization is not given or proceedings for such determination are not begun within thirty (30) days after the date Escrow Agent shall have received written notice of such dispute, and thereafter diligently continued, Escrow Agent may, but is not required to, bring an appropriate action or proceeding for leave to deposit the Deposit (together with all interest thereon, if any), in court pending such determination. Escrow Agent shall be reimbursed for all costs and expenses of such action or proceeding including, without limitation, reasonable attorneys' fees and disbursements, by the party determined not to be entitled to the Deposit, or if the Deposit is split between the parties hereto, such costs of Escrow Agent shall be split, pro rata, between Transferor and Transferee, in inverse proportion to the amount of the Deposit received by each. Upon making delivery of the Deposit (together with interest thereon, if any), in the manner provided in this Agreement, Escrow Agent shall have no further obligation or liability hereunder.

D. Escrow Agent has executed this Agreement solely to confirm that Escrow Agent has received the Deposit (if the Deposit is made by check, subject to collection) and will hold the Deposit, in escrow, pursuant to the provisions of this Agreement.

E. Transferor understands and acknowledges that Escrow Agent also serves as Transferee's counsel and that Escrow Agent shall have the right to represent Transferee in any dispute between Transferor and Transferee with respect to the Deposit, this Agreement or otherwise.

20. Covenants.

A. Transferor agrees that, prior to the Closing, it shall, and shall cause the Company, Mezz LLC and the Fee Owner, as applicable, to:

(i) Not enter into any new lease of space or other occupancy arrangement or any New Contract or brokerage agreement, or amend or modify the same or any Lease, Surviving Contracts or Brokerage Agreements or approve any assignment or sublease (to the extent the Fee Owner's approval is required under a Lease), in each case, other than (a) with the prior written consent of Transferee, which consent Transferee shall not unreasonably withhold, condition or delay; or (b) New Contracts which expire or are cancelable prior to the Closing Date or are cancelable at any time without cause on not more than thirty (30) days' notice without payment of any termination fees, or (c) renewals, extensions, expansions or consents under Leases which are expressly provided in any such Lease and which, under the terms of the applicable Lease, do not require the consent of the lessor thereunder or to which the consent or approval of the lessor shall not be unreasonably withheld and as to which the lessor has no reasonable basis for objecting (and Transferor shall consult with Transferee regarding such renewals, extensions, expansions or consents). Transferee acknowledges receipt of the Fee Owner's standard form lease and Transferee hereby approves same. Notwithstanding the foregoing provisions of this clause (i), Transferor may enter into Leases, renewals, extensions and modifications based on a term sheet or letter of intent approved in writing by Transferee (which approval shall not be unreasonably withheld, delayed or conditioned), provided that the same is on the approved standard form lease subject only to commercially reasonable changes to such form agreed between the Fee Owner and the applicable tenant in order to conform with the approved term sheet or letter of intent. If Transferee fails to respond to a request from Transferor for consent to any action for which Transferee's consent is required under this Section 20(A)(i) within five (5) business days after Transferee's receipt of Transferor's written request, which request shall include a summary of terms relating to such request, Transferor shall send a second notice to Transferee and if Transferee fails to respond to such request within three (3) business days, Transferee's consent to such action shall be deemed granted. Transferor shall provide to Transferee a copy of any Lease, Brokerage Agreements and New Contract executed by Transferor, the Company or the Fee Owner after the date hereof;

(ii) Subject to subsection (vi) of this Section 20(A), keep and perform in all material respects all of the obligations to be performed by it under the Leases ("**Landlord's Lease Obligations**"); provided that none of the Transferor Parties may cause the termination of any Lease or the bringing of any proceeding by reason of a default without Transferee's consent, which consent may be withheld in its sole discretion except that such consent shall not be unreasonably withheld solely in the event of a proposed termination by reason of a material monetary default under the Lease; and provided, further, that nothing herein shall prohibit Transferor from applying, or causing the Company or the Fee Owner to apply a Security Deposit under a Lease in accordance with the terms of such Lease if the Tenant has vacated the leased space (and Transferor shall give Transferee notice of such application prior thereto or simultaneously therewith); if Transferee shall fail to respond to a written request for consent under this Section 20(A)(ii) within five (5) business days after receipt thereof Transferor shall send a second notice to Transferee and if Transferee fails to respond to such request within three (3) business days, Transferee shall be deemed to have consented;

(iii) Not create, incur or suffer to exist any mortgage, deed of trust, lien, pledge or other encumbrance in any way affecting any portion of the Premises other than a Permitted Encumbrance or the liens encumbering the Premises on the date of this Agreement, and not amend any of the Existing Loan Documents;

(iv) Maintain the current insurance coverages on the Premises and otherwise comply with the insurance requirements under the Existing Mortgage subject to any waiver by Lender;

(v) In a manner consistent with the Union Agreements, cause the replacement of any of the current Union Employees with other Union Employees so long as the wages and benefits (including, without limitation, any termination liability) for any replacement Union Employees are not greater in the aggregate than the wages and benefits for the replaced Union Employees;

(vi) Operate the Premises substantially in accordance with past practice; provided, however, that notwithstanding the foregoing, except for Landlord's Lease Obligations, the Fee Owner or Transferor may, but shall not be obligated to, make or cause to be made any capital or other repairs, replacements or improvements to the Improvements, provided that Transferee's consent shall be required for repairs, replacements or improvements to the Improvements in excess of $250,000 in the aggregate (except in the case of emergency repairs, repairs required under the terms of the Leases or repairs required by applicable laws, for which no consent shall be required, but Transferor shall endeavor, but shall not be obligated, to give notice to Transferee of any such repairs that are material). To the extent (x) Transferor or the Fee Owner is required to make any repairs, replacements or improvements to the Improvements (other than Landlord's Lease Obligations) by a change in the law or (y) the Fee Owner or Transferor elects to make any repairs, replacements or improvements to the Improvements (other than Landlord's Lease Obligations) and the Transferee approves such election (which approval shall not be unreasonably withheld or delayed), then Transferee shall, at the Closing, reimburse or cause the Fee Owner to reimburse Transferor for all sums actually expended by the Fee Owner or Transferor between the date of this Agreement and the Closing Date on account of such repairs, replacements or improvements made to the Improvements; and to the extent the Fee Owner or Transferor elects to make any repairs, replacements or improvements to the Improvements which are not approved by Transferee, required by law as described above or are Leasing Costs for which the Fee Owner or Transferor is responsible pursuant to Section 20(B), Transferee shall not be required to reimburse Transferor for any such sums expended by the Fee Owner or Transferor on account of such election; if Transferee shall fail to respond to a written request for consent under this Section 20(A)(vi) within ten (10) business days after receipt thereof, Transferor shall send a second notice to Transferee and if Transferee fails to respond to such request within three (3) business days, Transferee shall be deemed to have consented;

(vii) Not consent to any work or alterations by Tenants without Transferee's consent (which consent or denial shall be provided within ten (10) business days after receipt by Transferee of written request therefor), provided Transferee shall be reasonable in granting such consent to the extent the landlord is required to be reasonable pursuant to the Lease;

(viii) Endeavor to deliver to Transferee, promptly upon receipt thereof by any of the Transferor Parties, copies of any notices received or given by any of the Transferor Parties, from or to any person alleging or relating to any violation of applicable law or any default under any agreement to which any Transferor Party is a party (including, without limitation, any Lease or the Existing Loan Documents). Transferor shall promptly advise Transferee in writing of the receipt by any Transferor Party of notice of the institution of any litigation or judicial, quasi-judicial or administrative inquiry or proceeding with respect to the Premises, the Company, Mezz LLC or the Fee Owner, including any legal proceedings or condemnation proceedings, any notice of a violation issued by any governmental authority with respect to the Premises;

(ix) Comply in all material respects with all of its obligations and covenants under each of the Existing Loan Documents. No Transferor Party shall waive any material right it has or may have under any agreement, including, without limitation, any Lease or any Existing Loan Documents, to the extent such waiver would be binding on Mezz LLC, the Company or the Fee Owner from and after Closing Date;

(x) Not transfer or otherwise encumber or cause to be encumbered the Purchased Interest, any membership interest in Mezz LLC, or any membership interest in any Fee Owner, except as contemplated in the Recitals;

(xi) Not take any actions or make any decisions relating to the Premises in connection with the pending bankruptcy proceedings of the tenant under the Nortel Lease or any other tenant under a Lease that becomes a debtor in a bankruptcy proceeding after the date of this Agreement without Transferee's prior written consent (which consent shall not be unreasonably withheld and which consent shall be deemed given if Transferee shall fail to respond within five (5) business days after request therefor). Transferor shall, after consultation with Transferee, submit or file any claims in such bankruptcy proceeding relating to the Nortel Lease (or any other applicable Lease), to the extent any filing deadline shall occur prior to the Closing Date.

B. As used in this Agreement, "**Leasing Costs**" shall mean brokerage commissions in connection with any Lease (including commissions and overrides payable to affiliates of Transferor of one-full commission, computed at Transferor's affiliates standard rates, if Transferor's affiliate is the sole broker, and one-half of such a full commission if Transferor's affiliate is a co-broker), out-of-pocket reasonable legal fees and expenses incurred in connection with any Lease and all costs and expenses required under a Lease to be paid by the landlord thereunder, to or for the benefit of the tenant thereunder, including, but not limited to, the costs and expenses, or reimbursements, to prepare the space thereunder for the initial occupancy of the tenant. Transferor shall, subject to the further provisions of this Section 20(B), be responsible for all Leasing Costs payable in connection with (x) the initial term of the Leases entered into prior to the date hereof and (y) any renewals, amendments, modifications, terminations, extensions and expansions which have an effective date prior to the date hereof ("Transferor Leasing Costs"). With respect to Leasing Costs which are payable after the Closing for which Transferor is responsible pursuant to this Section 20(B), to the extent not covered by any reserves held by the Lender at Closing for such purpose), fifty percent (50%) of the aggregate amount thereof in excess of such reserves shall be paid to the Fee Owner out of the Purchase Price at the Closing (such amount, the "**Leasing Cost Credit**") in accordance with the provisions of Section 6(A)(ix), and the balance shall be deposited at closing into an escrow account with Escrow Agent pursuant to an escrow agreement reasonably acceptable to Transferor and Transferee. Transferee shall assume Transferor's obligations in respect of Transferor Leasing Costs payable from such reserves, and such additional Transferor Leasing Costs first becoming due and payable in an aggregate amount equal to the Leasing Cost Credit, and shall be responsible for payment of all Transferor Leasing Costs payable from such reserves and the Transferor Leasing Costs next due and payable until the Leasing Cost Credit has been exhausted. Any balance of the Transferor Leasing Costs shall be payable from the proceeds in the escrow account as provided in such escrow agreement, if and when due and payable pursuant to the applicable Lease or Brokerage Agreement. Any excess balance on deposit from time to time in such escrow account after the applicable Transferor Leasing Costs have been satisfied or waived (and Transferee agrees to cause the Fee Owner to request an estoppel from any applicable Tenant as requested by Transferor to confirm same) shall be remitted to Transferor. Transferor hereby agrees to indemnify and hold the Transferee and the Fee Owner harmless from and against any and all liability, court costs, judgment, claim, damage or expense (including, without limitation, reasonable attorneys' fees and expenses) in connection with any unpaid Transferor Leasing Costs, except to the extent assumed by Transferee pursuant to this Section 20(B) or delivered into escrow pursuant to this Section 20(B). Transferee shall pay or cause the Fee Owner to pay all Leasing Costs ("Transferee Leasing Costs") payable in connection with: (i) the Leases entered into on or after the date hereof and prior to the Closing which are approved in writing by Transferee in accordance with this Agreement (or deemed approved by Transferee under this Agreement) and leases which are pending as of the Closing (and executed by Transferee after the Closing) and Leases entered into after Closing, (ii) all renewals, terminations, extensions and expansions entered into after the date hereof with the approval of Transferee (or deemed approval of Transferee under this Agreement) or, without Transferee's approval, if the lessor's consent to such action is not required or is not to be unreasonably withheld under the terms of the applicable Lease (collectively "**New Leases**") and the applicable Leasing Costs are payable in accordance with the express terms of such existing Lease as to any renewals, exercised by a Tenant for a renewal period commencing after the date hereof and (iii) all renewals, amendments, modifications, extensions and expansions which have an effective date on or after the date hereof. If on or prior to the Closing Date, a Transferor Party shall have paid any Transferee Leasing Costs, Transferee shall (or shall cause the Fee Owner to) reimburse Transferor therefor at the Closing or credit the same ratably against the Leasing Cost Credit and the escrow of Leasing Costs provided for above. Transferee hereby agrees to indemnify, defend and hold the Transferor Parties harmless from and against any and all liability, loss, cost, judgment, claim, damage or expense (including, without limitation, reasonable attorneys' fees and expenses), arising from nonpayment of Transferor Leasing Costs assumed by Transferee pursuant to this Section 20(B) or any Transferee Leasing Costs. The provisions of this Section 20(B) shall survive the Closing.

C. Transferor Structure.

(i) Prior to Closing, Transferor shall cause CIF, which entity currently owns a 14.4% membership interest in Company (such interest, the "**CIF Interest**"), to assign the CIF Interest to Transferor so that Transferor shall, prior to Closing, own 100% of the membership interests in Company.

(ii) Prior to Closing, Transferor shall (a) transfer a 1% membership interest in the Company to the 1% Owner, (b) contribute all of the membership interests in TIC to Mezz LLC and (c) cause SLGOP to cause EAT Parent to contribute all of the membership interests in EAT to Mezz LLC, so that that the Company shall, at Closing, own directly or indirectly 100% of the Premises.

21. Transfer Taxes.

A. Transferor and Transferee shall join on the Closing Date in completing, executing, delivering and verifying the returns, affidavits and other documents required in connection with the taxes imposed under Article 31 of the Tax Law of the State of New York and Title II of Chapter 46 of the Administrative Code of the City of New York and any other tax payable by reason of delivery and/or recording of the documents to be delivered at the Closing (collectively, "**Conveyance Taxes**"). The Conveyance Taxes, if any, and any and all interest and penalties thereon shall be paid by Transferor.

B. The provisions of this Article 21 shall survive the Closing.

22. Non-Liability.Transferee agrees that it shall look solely to the Premises and proceeds thereof and to any assets of Transferor or to the members, managers, directors, officers, employees, shareholders, partners or agents of Transferor or any other person, partnership, corporation or trust, as principal of Transferor or otherwise, and whether disclosed or undisclosed, to enforce its rights hereunder, and that none of the members, managers, directors, officers, employees, shareholders, partners or agents of Transferor or any other person, partnership, corporation or trust, as principal of Transferor or otherwise, and whether disclosed or undisclosed, shall have any personal obligation or liability hereunder, and Transferee shall not seek to assert any claim or enforce any of its rights hereunder against such party. Transferor agrees that none of the members, managers, directors, officers, employees, shareholders, partners or agents of Transferee or any other person, partnership, corporation or trust, as principal of Transferee or otherwise, and whether disclosed or undisclosed, shall have any personal obligation or liability hereunder, and Transferor shall not seek to assert any claim or enforce any of its rights hereunder against such party. The provisions of this Article 22 shall survive the Closing.

23. Inability to Perform; Default.

A. Transferor's Inability to Perform; Transferor's Default. If Transferor shall be unable to perform its obligation to convey the Purchased Interest to Transferee in accordance with the terms of this Agreement (other than by reason of Transferor's Controllable Default (as hereinafter defined)), then Transferee, at its sole option and as its sole and exclusive remedy, may terminate this Agreement, in which event Escrow Agent shall refund to Transferee the Deposit (and all interest earned thereon, if any), and neither party shall thereafter have any further right or obligation hereunder, other than with respect to any Surviving Obligations (as hereinafter defined). "**Transferor's Controllable Default**" shall mean Transferor's failure to perform its obligation to convey the Purchased Interest to Transferee in accordance with the terms of this Agreement, provided: (1) the reasons for such failure do not include conditions beyond Transferor's reasonable control, the action or inaction of any third party (including, without limitation, the failure of any Tenant to deliver an Estoppel, but excluding the failure of CIF to convey its interest in the Company to Transferor, which shall be deemed to constitute a Transferor's Controllable Default) or the unmarketability of title (unless the same was willfully or intentionally caused by Transferor); and (2) Transferee is ready, willing and able to consummate the Closing under this Agreement and to deliver the Purchase Price due Transferor under this Agreement. In the event of Transferor's Controllable Default, then Transferee, at its sole option and as its sole and exclusive remedy may either (a) terminate this Agreement, in which event (x) Escrow Agent shall refund to Transferee the Deposit (and all interest thereon, if any), (y) make a claim against Transferor for Transferee's reasonable out-of-pocket costs and expenses (including reasonable attorneys' fees) incurred in connection with the transactions contemplated by this Agreement, not to exceed $300,000.00 in the aggregate, and (z) neither party shall thereafter have any further right or obligation hereunder, other than the Surviving Obligations or (b) within ninety (90) days after any rights of Transferee arise due to a Transferor's Controllable Default, bring an action in equity against Transferor for specific performance. In no event may Transferee bring an action against Transferor for damages or seek any remedy (whether or not in an action at law or in equity) against Transferor that could require Transferor to pay any monies to Transferee whether characterized as damages or otherwise (except for an action to compel Escrow Agent to return the Deposit to Transferee if Transferee is, in fact, entitled to the return thereof in accordance with this Agreement or to compel Transferor to pay the costs set forth in clause (a)(y) of the previous sentence if Transferee is, in fact, entitled to reimbursement thereof). The untruth or inaccuracy of any representation or warranty of Transferor shall not be deemed Transferor's Controllable Default, provided Transferor has complied with its obligations under Section 16(D) with respect thereto.

B. Transferee's Inability to Perform; Transferee's Default. If Transferee shall default of its obligation to consummate the Closing under this Agreement, the parties hereto agree that Transferor's sole remedy shall be to terminate this Agreement and retain the Deposit (together with all interest thereon, if any) as liquidated damages, it being expressly understood and agreed that in the event of Transferee's default, Transferor's damages would be impossible to ascertain and that the Deposit (together with all interest thereon, if any) constitutes a fair and reasonable amount of compensation in such event. Upon such termination, neither party to this Agreement shall have any further rights or obligations hereunder except that: (a) Transferee shall return to Transferor all written material relating to the Premises or the transaction contemplated herein delivered by or on behalf of Transferor; (b) Escrow Agent shall deliver to Transferor and Transferor shall retain the Deposit (together with all interest thereon, if any) as liquidated damages, except with respect to any breaches of Surviving Obligations (as hereinafter defined); and (c) any provisions of this Agreement which expressly survive the termination of this Agreement (collectively, the "**Surviving Obligations"**) shall survive and continue to bind Transferee and Transferor and the Fee Owner.

24. Condition of Premises.Transferee shall accept indirect ownership of the Premises at the Closing in its "as is" condition as of the date hereof, reasonable wear and tear excepted, and subject to the provisions of Article 18 hereof in the event of a casualty or condemnation and subject to Transferor's compliance with the covenants contained in Article 20 hereof. Transferor shall not be liable for any latent or patent defects in the Premises or bound in any manner whatsoever by any guarantees, promises, projections, operating expenses, set-ups or other information pertaining to the Premises made, furnished or claimed to have been made or furnished, whether orally or in writing, by Transferor or any other person or entity, or any partner, employee, agent, attorney or other person representing or purporting to represent Transferor, except to the extent expressly set forth herein or in any document or instrument expressly required in this Agreement to be delivered at Closing (collectively, the "**Closing Documents**"). Transferee acknowledges that neither Transferor nor any of the employees, agents or attorneys of Transferor have made and do not make any oral or written representations or warranties whatsoever to Transferee, whether express or implied, except as expressly set forth in this Agreement or in any Closing Document, and, in particular, that no such representations and warranties have been made with respect to the physical, environmental condition or operation of the Premises, the presence, introduction or effect of Hazardous Materials at or affecting the Premises, the actual or projected revenue and expenses of the Premises, the zoning and other laws, regulations and rules or Relevant Environmental Laws applicable to the Premises or the compliance of the Premises therewith, the current or future real estate tax liability, assessment or valuation of the Premises, the availability of any financing for the alteration, rehabilitation or operation of the Premises from any source, including, without limitation, any state, city or Federal government or any institutional lender, the current or future use of the Premises, including, without limitation, the Premises use for residential (including hotel, cooperative or condominium use) or commercial purposes, the present and future condition and operating state of any and all machinery or equipment on the Premises and the present or future structural and physical condition of any building or its suitability for rehabilitation or renovation, the ownership or state of title of any Personal Property comprising a portion of the Premises, the quantity, quality or condition of the Personal Property or Fixtures, the use or occupancy of the Premises or any part thereof, or any other matter or thing affecting or relating to the Premises or the transactions contemplated hereby, except in each such case as specifically set forth in this Agreement or in any Closing Document. Transferee has not relied and is not relying upon any representations or warranties or upon any statements made in any informational materials with respect to the Premises provided by Transferor or any other person or entity, or any shareholder, employee, agent, attorney or other person representing or purporting to represent Transferor, other than the representations and warranties expressly set forth in this Agreement or in any Closing Document. The parties hereto agree that the Personal Property included in this sale, which is or may be attached to or used in connection with the Premises, has no significant separate value except in conjunction with the Real Property. No part of the Purchase Price is attributable to the Personal Property. The provisions of this Article 24 shall survive the Closing.

25. Environmental Matters.Without limiting the generality of Article 24, Transferee acknowledges that it has had an opportunity to conduct its own investigation of the Premises with regard to Hazardous Materials and compliance of the Premises with Relevant Environmental Laws. Transferee is aware (or has had sufficient opportunity to become aware) of the environmental, biological and pathogenic conditions of, affecting or related to the Premises and Transferee agrees to take the Premises subject to such conditions. Transferee agrees to assume all costs and liabilities arising out of or in any way connected to the Premises, including, but not limited to those arising out of Hazardous Materials and Relevant Environmental Laws. Transferee hereby releases Transferor, its principals and affiliates, and their respective officers, directors, members, managers, partners, agents, employees, successors and assigns, from and against any and all claims, counterclaims and causes of action which Transferee may now or in the future have against any of the foregoing parties arising out of the existence of Hazardous Materials affecting the Premises; provided nothing in this Article 25 shall be deemed to be an indemnification of Transferor by Transferee. Nothing in this Article 25 shall be deemed to limit the remedies of Transferee on account of any breach of the representation contained in Section 16(A)(xxi) of this Agreement. The provisions of this Article 25 shall survive the Closing.

26. Tax Certiorari Proceedings; ICIP.

A. If any tax reduction proceedings in respect of the Real Property relating to any fiscal year ending prior to the fiscal year in which the Closing occurs are pending at the time of the Closing, Transferor reserves and shall have the right to continue to prosecute and/or settle the same on behalf of the Transferor Parties. If any tax reduction proceedings in respect of the Real Property relating to the fiscal year in which the Closing occurs are pending at the time of the Closing, then Transferor reserves and shall have the right to continue to prosecute and/or settle the same on behalf of the Company or the Fee Owner, provided, however, that Transferor shall not settle any such proceeding without Transferee's prior written consent, which consent shall not be unreasonably withheld or delayed, and Transferee shall be entitled to that portion of any refund relating to the period from and after the Closing in accordance with Section 7(D). Transferee shall reasonably cooperate with Transferor in connection with the prosecution of any such tax reduction proceedings. Transferee shall have the sole right to prosecute any tax proceedings in respect of the Real Property on behalf of the Company, Mezz LLC or the Fee Owner relating to any fiscal year ending after the fiscal year in which the Closing occurs. Transferor shall reasonably cooperate with Transferee in connection with the prosecution of any such tax proceedings.

B. Transferor shall have the right to continue to prosecute on behalf of the Transferor Parties and, without Transferee's consent, settle the ICIP Litigation listed on Exhibit "16(A)(xxvi)" prior to Closing; provided, however, that if the ICIP Litigation shall be severed such that it relates solely to the Premises, (i) Transferor shall not settle such ICIP Litigation which relates solely to the Premises with respect to the fiscal year in which Closing occurs or any subsequent fiscal year without Transferee's prior written consent, which consent shall not be unreasonably withheld or delayed and (ii) Transferee may assume control of such ICIP Litigation and, if Transferee does so assume control, Transferee shall not settle such ICIP Litigation which relates solely to the Premises with respect to any fiscal year prior to the year in which the Closing occurs without Transferee's prior written consent, which consent shall not be unreasonably withheld or delayed. Each of Transferee and Transferor shall reasonably cooperate with the other in connection with the prosecution of the ICIP Litigation and shall reasonably consult with the other with respect to the ICIP Litigation to the extent it relates to the Premises.

C. Any refunds or savings in the payment of taxes resulting from such tax reduction proceedings or the ICIP Litigation applicable to the period prior to the Closing shall belong to and be the property of Transferor, and any refunds or savings in the payment of taxes applicable to the period from and after the Closing shall belong to and be the property of Transferee; provided, however, that if any such refund creates an obligation to reimburse any Tenants for any Overage Rent paid or to be paid, that portion of such refund equal to the amount of such required reimbursement (after deduction of allocable expenses as may be provided in the Lease to such Tenant) shall be paid to Transferee and Transferee shall disburse the same to such Tenants. All reasonable attorneys' fees and other expenses incurred in obtaining such refunds or savings shall be apportioned between Transferor and Transferee in proportion to the gross amount of such refunds or savings payable to Transferor and Transferee, respectively (without regard to any amounts reimbursable to Tenants).

D. The provisions of this Article 26 shall survive the Closing.

27. Reserved.

28. Notices. All notices, demands or requests made pursuant to, under or by virtue of this Agreement (in each case, a "**Notice**") must be in writing and sent to the party to which the Notice is being made by nationally recognized overnight courier or delivered by hand with receipt acknowledged in writing as follows:

To Transferor:

c/o SL Green Realty Corp.
420 Lexington Avenue
New York, New York 10170-1881
Attention: Andrew S. Levine, Esq.

and:

485 EAT Owner LLC
c/o SL Green Realty Corp.
420 Lexington Avenue
New York, New York 10170-1881
Attention: Marc Holliday

and:

Green 485 TIC LLC
c/o SL Green Realty Corp.
420 Lexington Avenue
New York, New York 10170-1881
Attention: Andrew S. Levine, Esq.

with a copy to:

Paul, Weiss, Rifkind, Wharton & Garrison LLP
1285 Avenue of the Americas
New York, New York 10019
Attention: Peter E. Fisch, Esq.

To Transferee:

Mazal 485 LLC
423 West 55th Street, 12th Floor
New York, NY 10019
Attention: Arie Kotler and Julius Schwarz

with a copy to:

Greenberg Traurig, LLP
200 Park Avenue
New York, New York 10166
Attention: Robert J. Ivanhoe, Esq.

and:

Optibase Inc.
c/o Deco Towers
330 West 42nd Street, Suite 1700
New York, New York 10036
Attention: Philip B. Trost, Esq.

and:

Optibase Inc.
880 Maude Avenue
Mountain View, CA 94043
Attention: Amir Philips and Joan Yeh

To Escrow Agent:

Greenberg Traurig, LLP
200 Park Avenue
New York, New York 10166
Attention: Robert J. Ivanhoe, Esq.

To SLGOP:

c/o SL Green Realty Corp.
420 Lexington Avenue
New York, New York 10170-1881
Attention: Andrew S. Levine, Esq.

with a copy to:

Paul, Weiss, Rifkind, Wharton & Garrison LLP
1285 Avenue of the Americas
New York, New York 10019
Attention: Peter E. Fisch, Esq.

All Notices (i) shall be deemed given upon the date of delivery if delivery is made before 5:00 PM (New York time) and, if delivered later, on the next business day after delivery of such Notice or the date of refusal to accept delivery of such Notice and (ii) may be given either by a party hereto or by such party's attorney set forth above. The address for Notices to any party may be changed by such party by a written Notice served in accordance with this Section.

29. Entire Agreement. This Agreement contains all of the terms agreed upon between the parties with respect to the subject matter hereof, and all agreements heretofore had or made between the parties hereto are merged in this Agreement which alone fully and completely expresses the agreement of said parties.

30. Amendments. This Agreement may not be changed, modified or terminated, nor may any provision hereunder be waived, except by an instrument executed by the parties hereto.

31. No Waiver No waiver by either party of any failure or refusal to comply with its obligations under this Agreement shall be deemed a waiver of any other or subsequent failure or refusal to so comply.

32. Successors and Assigns This Agreement shall inure to the benefit of, and shall bind the parties hereto and the heirs, executors, administrators, successors and permitted assigns of the respective parties.

33. Partial Invalidity If any term or provision of this Agreement or the application thereof to any person or circumstances shall, to any extent, be invalid or unenforceable, the remainder of this Agreement, or the application of such term or provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each term and provision of this Agreement shall be valid and be enforced to the fullest extent permitted by law.

34. Section Headings; Incorporation of Exhibits The headings of the various Articles and Sections of this Agreement have been inserted only for convenience, and are not part of this Agreement and shall not be deemed in any manner to modify, explain or restrict any of the provisions of this Agreement. Unless otherwise provided in this Agreement, any reference in this Agreement to an Exhibit is understood to be a reference to the Exhibits annexed to this Agreement. All Exhibits annexed to this Agreement shall be incorporated into this Agreement as if fully set forth herein.

35. Governing Law This Agreement shall be governed by, interpreted under and construed and enforced in accordance with, the laws of the State of New York, without reference to conflicts of laws principles. Each of the parties hereby irrevocably waives all right to trial by jury in any action, proceeding or counterclaim arising out of relating to this Agreement. Any action brought hereunder shall be brought in a court of law located in the City, County and State of New York. The prevailing party in any such litigation shall be entitled to recovery of all of its fees and expenses (including reasonable legal fees) incurred in such action.

36. Confidentiality.

A. Except as may be required by law (including, without limitation, any public statement with respect to the transaction contemplated hereunder by Optibase Ltd. which is required under applicable law) or in connection with any court or administrative proceeding and as expressly provided in Section 36(B) below, prior to the Closing hereunder, neither party hereto nor their respective agents or designees shall issue or cause the publication of any press release or other public announcement, or cause, permit or suffer any other disclosure which sets forth the terms of the transactions contemplated hereby (other than to such party's employees, officers, directors, shareholders, owners, affiliates, agents, attorneys, advisors, accountants, engineers, architects, lenders and other representatives of any advisors to Transferee who need to know the information for the purposes of assisting such party in making determinations with respect to the Transaction, who, in turn, shall be bound by this Article 36), without first obtaining the written consent of the other party hereto, such consent not to be unreasonably withheld, delayed or conditioned. Any release to the public of information with respect to this Sale-Purchase Agreement will be in the form approved by both Transferor and Transferee, and their respective counsel.

B. Transferee recognizes that SL Green Realty Corp., who indirectly owns interests in Transferor, is a public company. Accordingly, Transferee acknowledges and agrees that Transferor or SL Green Realty Corp. may disclose in press releases, filings with governmental authorities, financial statements and/or other communications such information regarding the transactions contemplated hereby as may be necessary or advisable under securities laws, rules or regulations, GAAP or other accounting rules or procedures or SL Green Realty Corp.'s prior custom, practice or procedure. Transferor acknowledges that any direct or indirect owner of interests in Transferee that is a public company shall be entitled to the same rights of disclosure.

37. No Recording or Notice of Pendency. The parties hereto agree that neither this Agreement nor any memorandum hereof shall be recorded. Supplementing the other liabilities and indemnities of Transferee to Transferor under this Agreement, and notwithstanding any other provision of this Agreement (including, without limitation, any provision purporting to create a sole and exclusive remedy for the benefit of Transferor), Transferee agrees to indemnify and hold Transferor harmless from and against any and all losses, costs, damages, liens, claims, counterclaims, liabilities or expenses (including, but not limited to, reasonable attorneys' fees, court costs and disbursements) incurred by Transferor arising from or by reason of the recording of this Agreement, any memorandum hereof, or any notice of pendency (unless Transferee prevails in a final unappealable order against Transferor in the action underlying such notice of pendency) or any other instrument against the Premises in any case, by Transferee. The provisions of this Article 37 shall survive the Closing or any early termination of this Agreement.

38. Assignment. Transferee may not assign its rights or obligations under this Agreement or transfer any direct or indirect ownership or other interest in Transferee so as to cause a change in control of Transferee without the prior written consent of Transferor in its sole discretion, and any such assignment made without Transferor's consent shall be void ab initio. Notwithstanding the immediately preceding sentence, Transferee may, prior to submission of the Assumption Application (and after such submission with the consent of the Lender (to the extent required by Lender), provided such assignment will not cause a material delay in receipt of the Lender Consent), without Transferor's consent but upon notice to Transferor, assign this Agreement and its rights and obligations hereunder to any entity that controls, is controlled by, or is under common control with Gilmor International Inc., and/or Optibase Ltd., provided that Transferee and Transferee's assignee are jointly and severally liable for the rights and obligations hereunder.

39. Adjournments. Anything in this Agreement to the contrary notwithstanding, all rights of Transferor and Transferee under this Agreement to adjourn or extend the Closing Date may not cause the Closing to be extended in the aggregate, for more than forty-five (45) days.

40. Counterparts. This Agreement may be executed in any number of counterparts each of which when so executed and delivered shall be deemed to be an original, but all such counterparts shall constitute one and the same agreement.

41. No Third Party Beneficiary. The provisions of this Agreement are not intended to benefit any third parties.

42. 1031 Exchange. Transferee understands that Transferor may seek to structure the disposition of the Purchased Interest in such a way that will afford Transferor an opportunity to take advantage of the provisions of Internal Revenue Code (the "**Code**") Section 1031 governing tax free exchanges and reorganizations. Transferee shall reasonably cooperate with Transferor (at Transferor's sole cost and expense) in such efforts. Without limiting the generality of the foregoing, Transferee, as directed by Transferor, shall make all payments on account of the Purchase Price, including the Deposit, to a Qualified Intermediary (as defined in the Code) and not to Transferor, directly or indirectly. Transferor reserves the right, in effectuating such like-kind exchange, to assign Transferor's rights, but not its obligations, under this Agreement to the Qualified Intermediary and Transferee hereby consents to such assignment. Transferee agrees to execute such reasonable documents and otherwise to cooperate in such respects as may reasonably be requested by Transferor in order to enable Transferor to carry out a like-kind exchange as aforesaid. A like kind exchange shall not diminish Transferee's rights (or Transferor's liabilities or obligations), nor increase its liabilities or obligations, in any manner. Transferor agrees to indemnify, defend and hold harmless Transferee from and against all loss, liability, damages and disbursements, costs and expenses (including reasonable counsel fees and disbursements) resulting from Transferor's election to structure the disposition of its interests as a like-kind exchange.

[The remainder of this page is intentionally left blank]

IN WITNESS WHEREOF, this Agreement has been duly executed by the parties hereto as of the day and year first above written.

**TRANSFEROR:**

**GREEN 485 HOLDINGS LLC,**
a Delaware limited liability company

By: SL Green Operating Partnership, LP,
a Delaware limited partnership,
its sole member

By: SL Green Realty Corp.,
a Maryland corporation,
its general partner

By: /s/ Andrew S. Levine
Name: Andrew S. Levine
Title: Chief Legal Officer

**TRANSFEREE:**

MAZAL 485 LLC,
a Delaware limited liability company

By: _____
Name:
Title:

By: _____
Name:
Title:

[Signatures continue on following page]

IN WITNESS WHEREOF, this Agreement has been duly executed by the parties hereto as of the day and year first above written.

**TRANSFEROR:**

**GREEN 485 HOLDINGS LLC,**
a Delaware limited liability company

By: SL Green Operating Partnership, LP,
a Delaware limited partnership,
its sole member

By: SL Green Realty Corp.,
a Maryland corporation,
its general partner

By: _____
Name: Andrew S. Levine
Title: Chief Legal Officer

**TRANSFEREE:**

MAZAL 485 LLC,
a Delaware limited liability company

By: /s/ Tom Wyler /s/ Amir Philips
Name: Tom Wyler Amir Philips
Title: Authorized Signer Authorized Signer

By: _____
Name:
Title:

[Signatures continue on following page]

IN WITNESS WHEREOF, this Agreement has been duly executed by the parties hereto as of the day and year first above written.

**TRANSFEROR:**

**GREEN 485 HOLDINGS LLC,**
a Delaware limited liability company

By: SL Green Operating Partnership, LP,
a Delaware limited partnership,
its sole member

By: SL Green Realty Corp.,
a Maryland corporation,
its general partner

By: _____
Name: Andrew S. Levine
Title: Chief Legal Officer

**TRANSFEREE:**

MAZAL 485 LLC,
a Delaware limited liability company

By: /s/ Abekasis Abraham
Name: Abekasis Abraham
Title: Director

By: /s/ Arie Kotler
Name: Arie Kotler
Title: Authorized Signer

[Signatures continue on following page]

The undersigned has executed this Agreement solely to confirm its acceptance of the duties of Escrow Agent as set forth in Article 19 hereof:

Greenberg Traurig, LLP

By: /s/ Joseph Farrell
Name:
Title:

The undersigned has executed this Agreement solely to confirm its acceptance of the obligations set forth in Article 15 hereof:

SL GREEN OPERATING PARTNERSHIP, L.P.,
a Delaware limited partnership

By: SL Green Realty Corp.,
a Maryland corporation,
its general partner

By: _____
Name: Andrew S. Levine
Title: Chief Legal Officer

The undersigned has executed this Agreement solely to confirm its acceptance of the duties of Escrow Agent as set forth in Article 19 hereof:

Greenberg Traurig, LLP

By: _____
Name:
Title:

The undersigned has executed this Agreement solely to confirm its acceptance of the obligations set forth in Article 15 hereof:

SL GREEN OPERATING PARTNERSHIP, L.P.,
a Delaware limited partnership

By: SL Green Realty Corp.,
a Maryland corporation,
its general partner

By: /s/ Andrew S. Levine
Name: Andrew S. Levine
Title: Chief Legal Officer

**EXHIBIT "2(C)"**

**JV Loan Promissory Note**

**PROMISSORY NOTE**

$ 12,200,000.00

New York, New York
_____, 2009

FOR VALUE RECEIVED, **GREEN 485 JV LLC**, a Delaware limited liability company, having an office at c/o SL Green Realty Corp., 420 Lexington Avenue, New York, New York 10170 ("Maker"), promises to pay to **SLG 485 FUNDING LLC**, a Delaware limited liability company, its successors and/or assigns, having an office at c/o SL Green Realty Corp., 420 Lexington Avenue, New York, New York 10170 ("Payee"), or order, at said office, or at such other place as may be designated, from time to time, in writing by Payee, the principal sum of TWELVE MILLION TWO HUNDRED THOUSAND AND 00/100 DOLLARS ($12,200,000.00) in lawful money of the United States of America, with interest thereon from and including the date of this Note to, but not including, the date this Note is paid in full at the Applicable Rate (hereinafter defined) calculated in the manner hereinafter set forth, and payable as follows:

(i) monthly payments, in arrears, of interest only on the Principal Balance (as hereinafter defined) outstanding from time to time, calculated at a per annum interest rate of four and 50/100 percent (4.5%) shall be due and payable on _____, 2009 and on the fifteenth (15th) day of every calendar month thereafter (each such date, an "Interest Payment Date"), provided, that any payment due on a day that is not a business day in the City of New York shall be paid on the immediately following business day; and

(ii) the entire Principal Balance, together with accrued and unpaid interest on the Principal Balance calculated at the Applicable Rate, and all other sums due under this Note, shall be due and payable on the Maturity Date (taking into account, for purposes of clarity, all amounts paid under clause (i)).

1. The following terms as used in this Note shall have the following meanings:

(a) The term "Applicable Rate" shall mean an interest rate per annum equal to nine percent (9%), compounded annually. Interest at the Applicable Rate (i) shall be calculated for complete calendar months on the basis of a three hundred sixty (360) day calendar year containing twelve (12) months of thirty (30) days each, and (ii) shall be calculated for partial calendar months on the basis of the actual number of days elapsed over a three hundred sixty five (365) day calendar year.

(b) The term "Change of Control" shall mean that the neither Gilmore International Inc. nor Optibase Ltd. is in possession, directly or indirectly, of the power to direct or cause the direction of the day to day management and policies of Maker, through the ownership of voting securities, by contract or otherwise.

(c) The term "Closing Date" shall have the meaning assigned to it in the Purchase Agreement (as hereinafter defined).

(d) The term "Debt" shall mean all principal, interest, additional interest and other sums of any nature whatsoever which may or shall become due to Payee in accordance with the provisions of this Note or the other Loan Documents.

(e) The term "Default Rate" shall mean an interest rate per annum equal to eighteen percent (18%), compounded annually. Interest at the Default Rate (i) shall be calculated for complete calendar months on the basis of a three hundred sixty (360) day calendar year containing twelve (12) months of thirty (30) days each, and (ii) shall be calculated for partial calendar months on the basis of the actual number of days elapsed over a three hundred sixty five (365) day calendar year.

(f) The term "Loan" shall mean the loan in the principal sum of $12,200,000.00, by Payee to Maker which is evidenced by this Note.

(g) The term "Loan Documents" shall mean collectively this Note and all other documents and instruments now or hereafter executed and delivered in connection therewith, as the same may be modified or amended from time to time.

(h) The term "Maturity Date" shall mean the date that is four (4) years after the Closing Date, as the same may be accelerated pursuant to the express provisions of this Note.

(i) The term "Nortel Losses" shall have the meaning assigned to it in the Purchase Agreement.

(j) The term "Property" shall mean that certain real property commonly known as 485 Lexington Avenue, New York, New York, as described in more detail in the Purchase Agreement.

(k) The term "Principal Balance" shall mean the outstanding principal balance of this Note from time to time.

(1) The term "Purchase Agreement" shall mean that certain Sale-Purchase Agreement dated as of August ___, 2009, by and between Green 485 Holdings LLC and Mazal 485 LLC, each a Delaware limited liability company, as amended, restated, modified and supplemented from time to time.

(m) The term "Subsidiaries" shall mean, collectively (and each individually, a "Subsidiary"), each and every direct or indirect subsidiary of Maker, including, without limitation, Green 485 Mezz LLC, Green 485 Owner LLC, 485 EAT Owner LLC and Green 485 TIC LLC, each a Delaware limited liability company.

2. All capital proceeds received by Maker, including, without limitation, the net proceeds of the sale or refinancing of any assets of Maker or distributions received from any direct or indirect Subsidiary of Maker of capital proceeds (including, without limitation, net proceeds of the sale or refinancing of any assets of any Subsidiary, property insurance proceeds or condemnation awards) (collectively, "Capital Proceeds"), in an amount not to exceed the total amount of the Debt, shall be paid directly to Payee or remitted by Maker to Payee within two (2) business days after receipt by Maker for application against Maker's obligations under this Note and the other Loan Documents. All Capital Proceeds shall be applied in the following order: first, to the payment of any monies owed to Payee under this Note or the other Loan Documents, other than interest or principal; second, to the payment of all accrued and unpaid interest under this Note; third, to the repayment of the Principal Balance; and fourth, any excess shall be paid to Maker. Notwithstanding anything to the contrary which may be set forth in this Paragraph 2, the full amount of the Debt shall be due and payable in full on the Maturity Date (as the same may be accelerated pursuant to the further provisions of this Note).

3. This Note may be prepaid in whole or in part, without penalty or premium, at any time.

4. Notwithstanding anything to the contrary contained in this Note, in the event of any transfer (which shall not be deemed to include leasing, licenses and easements in the ordinary course of business) occurring after the Closing Date of (i) all or any portion of Maker's or the Subsidiaries' direct or indirect ownership interest in the Property (whether through a conveyance of any interest in the Property or the transfer of any interest in any direct or indirect Subsidiary of Maker, but excluding direct and indirect ownership interests in Maker), unless Maker directly or indirectly continues to own one hundred percent (100%) of the interests in the Property after giving effect to such transfer or (ii) any direct or indirect interest in Maker that results in a Change of Control, then the Maturity Date shall, without any further action by Payee, be accelerated and this Note shall immediately be due and payable in full.

5. Maker agrees to observe and perform the following covenants set forth in this Paragraph 5 ("Covenants"). By acceptance of this Note, Payee agrees that the sole and exclusive remedy of Payee for a breach of any of the Covenants shall be to bring an action for injunctive relief; provided, that if injunctive relief shall not be available, Payee may maintain an action for actual damages (but not consequential or punitive damages) suffered on account of Maker's breach of the Covenants. Maker agrees, for so long as this Note remains outstanding from and after the Closing Date, it shall, and shall cause the Subsidiaries, as applicable, to:

(a) Not be subject to commencement of an involuntary case or other proceeding against Maker or any Subsidiary that seeks liquidation, reorganization or other relief with respect to it or its debts or other liabilities under any bankruptcy, insolvency or other similar legal requirements now or hereafter in effect or seeks the appointment of a trustee, receiver, liquidator, custodian or other similar official of Maker, any Subsidiary or any of Maker or Subsidiaries' property, and such involuntary case or other proceeding shall remain undismissed or unstayed for a period of ninety (90) days; or an order for relief against Maker or any Subsidiary shall be entered in any such case under the Federal Bankruptcy Code;

(b) Not commence a voluntary case or other proceeding seeking liquidation, reorganization (other than the contemplated merger of Green 485 Owner LLC, 485 EAT Owner LLC and Green 485 TIC LLC, resulting in Green 485 Owner LLC as the surviving entity) or other relief with respect to Maker, any Subsidiary or the debts or other liabilities of Maker or any Subsidiary under any bankruptcy, insolvency or other similar legal requirements or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official for it or any of its property, or consent by Maker or any Subsidiary to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against Maker or any Subsidiary, or the making by Maker or any Subsidiary of a general assignment for the benefit of creditors, or the failure by Maker or any Subsidiary, or the admission by Maker or any Subsidiary in writing of its inability to pay its debts generally as they become due, or any action by Maker or any Subsidiary to authorize or effect any of the foregoing;

(c) Except entering into leases and easements in the ordinary course of business, not transfer all or any portion of the Property or any interest in any Subsidiary, and not transfer (nor permit any member of Maker to transfer) an interest in Maker that would result in a Change of Control;

(d) Not (nor permit any member of Maker to) wind up, liquidate, dissolve, reorganize, merge, or consolidate with or into, or convey, sell, assign, transfer, lease, or otherwise dispose of all or substantially all of Maker's or any Subsidiary's assets (other than the contemplated merger of Green 485 Owner LLC, 485 EAT Owner LLC and Green 485 TIC LLC, resulting in Green 485 Owner LLC as the surviving entity);

(e) Operate and lease the Property in accordance with reasonably prudent management standards and at market rates; and

(f) Not solicit tenants of the Property to relocate to other properties owned by any affiliate of the managing member of Maker.

6. In the event any required interest payment under this Note is not paid when due and such nonpayment continues for ten (10) days following written notice ("Default Notice") by Payee to Maker (provided that Payee shall not be required to give notice of any such nonpayment more than once in any given calendar year) (any such continuing nonpayment, a "Payment Default"), interest shall accrue on the entire Principal Balance from and after the due date of such payment at the Default Rate until the date the unpaid interest and any default interest on account of such nonpayment is paid in full. Upon the occurrence of a Payment Default and until such Payment Default is cured and all default interest on account thereof has been paid in full, Maker shall cause all direct or indirect Subsidiaries of Maker to distribute all available cash flow directly to or as directed by Payee to be applied to satisfy the Debt. If such Payment Default continues for ninety (90) days following delivery of the Default Notice, if such notice is required, or if no such notice is required, for ninety (90) days after said Payment Default, the Maturity Date shall be accelerated and the Debt shall be declared immediately due and payable in full without further act and without the necessity of any further or prior notice by Payee to Maker.

7. If the Debt is not paid in full on the Maturity Date or upon such earlier acceleration as provided for in Paragraphs 4 and 6 (a "Maturity Default"), then Maker shall cause all direct or indirect Subsidiaries of Maker to distribute all available cash flow directly to or as directed by Payee to be applied to the Debt until the same is paid in full.

8. Effective upon any Payment Default or Maturity Default, Maker hereby authorizes Payee to deliver notice to any Subsidiary and/or any Subsidiary's lender instructing such party to remit any amounts payable to any Subsidiary or to Maker directly to or as directed by Payee, and each such party is hereby authorized by Maker to rely on any such notice, provided, that upon the cure of any such Payment Default or Maturity Default, Payee shall notify such parties instructing them to remit payments as they were prior to such instruction.

9. If any Maturity Default shall continue for a period of ninety (90) days, then (i) interest shall accrue and be payable thereafter on all unpaid interest and Principal Balance under this Note at the rate of twenty-five percent (25%) per annum and (ii) Maker shall pay to Payee an additional fee in an amount equal to Two Million Dollars ($2,000,000), which shall constitute additional interest under this Note.

10. Notwithstanding the second sentence of Paragraph 16 of this Note, if a New York State and/or New York City taxing authority (each, a "Taxing Authority") shall have commenced a transfer tax audit of the transaction contemplated by the Purchase Agreement (an "Audit") and such Audit shall remain pending as of the Maturity Date, then Maker may, on written notice to Payee, elect to satisfy its obligation to pay the Debt in full by paying the Debt into an escrow account (the "Escrow Account") with an escrow agent reasonably acceptable to both Maker and Payee ("Escrow Agent"), and Escrow Agent shall be directed to release the proceeds of the Escrow Account, together with any interest earned thereon (the "Escrow Proceeds") to Payee upon the completion or settlement of the Audit and presentation of reasonable evidence of dismissal of such Audit (or determination that no amounts are due and owing in respect thereof) and/or payment by Payee or its affiliate of any amounts assessed in connection therewith (provided, that the foregoing shall not be deemed to limit the rights of Payee or its affiliate to contest such Audit or to appeal the results thereof). In the event that Maker or any member of Maker (other than an affiliate of Payee) is subject to any liability on account of such Audit that is not otherwise reimbursed by Payee or its affiliate, then Escrow Agent shall be directed to reimburse Maker or such member, to the extent of its unreimbursed liabilities, from the Escrow Proceeds, and the balance of the Escrow Proceeds shall be paid to Payee in accordance with the previous sentence.

11. Notwithstanding the second sentence of Paragraph 16 of this Note, from and after the third anniversary of the Closing Date, Maker may offset any unreimbursed Nortel Losses against its payment obligations under this Note as and when the same thereafter become due, including the payment of any interest and the payment of the Debt at Maturity.

12. Maker hereby waives presentment and demand for payment, notice of dishonor, protest and notice of protest of this Note. If any payment under this Note is not made when due, Maker agrees to pay all costs of collection when incurred, including reasonable attorneys' fees (which costs shall be added to the amount due under this Note and shall be receivable therewith). Maker agrees to perform and comply with each of the terms, covenants and provisions contained in this Note and the other Loan Documents on the part of Maker to be observed or performed. No extension of time for payment of this Note, or any installment hereof, and no alteration, amendment or waiver of any provision of this Note or the other Loan Documents made by agreement between Payee and any other person or party shall release, discharge, modify, change or affect the liability of Maker under this Note or the other Loan Documents.

13. This Note is subject to the express condition that at no time shall Maker be obligated or required to pay interest on the Principal Balance at a rate which could subject Payee to either civil or criminal liability as a result of being in excess of the maximum rate which Maker is permitted by law to contract or agree to pay. If by the terms of this Note, Maker is at any time required or obligated to pay interest on the Principal Balance at a rate in excess of such maximum rate, the rate of interest under this Note shall be deemed to be immediately reduced to such maximum rate and interest payable hereunder shall be computed at such maximum rate and the portion of all prior interest payments in excess of such maximum rate shall be applied and shall be deemed to have been payments in reduction of the Principal Balance.

14. The terms of this Note shall be governed by and construed under the laws of the State of New York.

15. This Note may only be modified, amended, changed or terminated by an agreement in writing signed by Payee and Maker. No waiver of any term, covenant or provision of this Note shall be effective unless given in writing by Payee and if so given by Payee shall only be effective in the specific instance in which given.

16. Maker acknowledges that this Note and Maker's obligations under this Note are and shall at all times continue to be absolute and unconditional in all respects and shall at all times be valid and enforceable irrespective of any other agreements or circumstances of any nature whatsoever which might otherwise constitute a defense to this Note and the obligations of Maker under this Note or the obligations of any other person or party relating to this Note or the obligations of Maker hereunder or otherwise with respect to the Loan. Subject to the provisions of Paragraphs 10 and 11 of this Note, Maker absolutely, unconditionally and irrevocably waives any and all right to assert any defense, setoff, counterclaim or crossclaim of any nature whatsoever with respect to this Note or the obligations of Maker under this Note or the obligations of any other person or party relating to this Note or the obligations of Maker hereunder or otherwise with respect to the Loan in any action, case or proceeding brought by Payee to collect the Debt, or any portion thereof (provided, however, that the foregoing provisions of this sentence shall not be deemed a waiver of the right of Maker to assert any compulsory counterclaim in any such action, case or proceeding brought by Payee in any state court if such counterclaim is compelled under local law or rule of procedure, or in any such action, case or proceeding brought by Payee in a court of the United States, nor shall the foregoing provisions of this sentence be deemed a waiver of the right of Maker to assert any claim which would otherwise constitute a defense, setoff, counterclaim or crossclaim of any nature whatsoever against Payee in any separate action, case or proceeding brought by Maker against Payee).

17. No delay on the part of Payee in exercising any right or remedy under this Note or the other Loan Documents or failure to exercise the same shall operate as a waiver in whole or in part of any such right or remedy. No notice to or demand on Maker shall be deemed to be a waiver of the obligation of Maker or of the right of Payee to take further action without further notice or demand as provided in this Note and the other Loan Documents.

18. Maker agrees to submit to personal jurisdiction in the State of New York in any action, case or proceeding arising out of this Note and, in furtherance of such agreement, Maker hereby agrees and consents that without limiting other methods of obtaining jurisdiction, personal jurisdiction over Maker in any such action, case or proceeding may be obtained within or without the jurisdiction of any court located in New York and that any process or notice of motion or other application to any such court in connection with any such action, case or proceeding may be served upon Maker by registered or certified mail to or by personal service at the last known address of Maker, whether such address be within or without the jurisdiction of any such court. Maker also agrees that the venue of any litigation arising in connection with the Debt or in respect of any of the obligations of Maker under this Note shall, to the extent permitted by law, be in New York County.

19. Maker shall and shall cause any Subsidiaries and affiliates to execute such further instruments and take such further actions as Payee shall reasonably require to carry out the intent and purposes of the remedies set forth in this Note.

20. Maker represents that Maker has full power, authority and legal right to execute and deliver this Note and that the Debt constitutes a valid and binding obligation of Maker.

21. MAKER HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES, AND PAYEE BY ITS ACCEPTANCE OF THIS NOTE IRREVOCABLY AND UNCONDITIONALLY WAIVES, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, CASE, PROCEEDING, SUIT OR COUNTERCLAIM ARISING IN CONNECTION WITH, OUT OF OR OTHERWISE RELATING TO THE LOAN, THIS NOTE, OR THE OTHER LOAN DOCUMENTS.

22. Whenever used, the singular number shall include the plural, the plural the singular, and the words “Payee” and “Maker” shall include their respective successors and assigns; provided, however, that Maker shall in no event or under any circumstance have the right without obtaining the prior written consent of Payee to assign or transfer its obligations under this Note or the other Loan Documents, in whole or in part, to any other person, party or entity.

[SIGNATURE PAGE FOLLOWS IMMEDIATELY]

IN WITNESS WHEREOF, Maker has duly executed this Note the day and year first above written.

**GREEN 485 JV LLC,**
a Delaware limited liability company

By: _____
Name:
Title:

STATE OF NEW YORK )
: ss:
COUNTY OF NEW YORK )

On the _____ day of _____ in the year 2009 before me, the undersigned, a notary public in and for said state, personally appeared _____ personally known to me or proved to me on the basis of satisfactory evidence to be the individual(s) whose name(s) is (are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their capacity(ies) and that by his/her/their signature(s) on the instrument, the individual(s) or the person upon behalf of which the individual(s) acted, executed the instrument.

_____
Notary Public

**EXHIBIT "2(D)"**

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**Member Loan Promissory Note**

**SECURED NOTE**

$ _____[1]

New York, New York
_____, 2009

FOR VALUE RECEIVED, **GREEN 485 HOLDINGS LLC**, a Delaware limited liability company ("Maker"), having an office at c/o SL Green Realty Corp., 420 Lexington Avenue, New York, New York 10170, promises to pay to **MAZAL 485 LLC**, a Delaware limited liability company (together with its successors and/or assigns, "Payee"), having an office at c/o Green Investments Group, LLC, 241 West 47th Street, Suite 11B, New York, New York 10036, or order, at said office, or at such other place as may be designated, from time to time, in writing by Payee, the principal sum of _____ AND 00/100 DOLLARS ($ _____), in lawful money of the United States of America, with interest thereon from and including the date of this Note to, but not including, the date this Note is paid in full calculated in the manner hereinafter set forth, as follows:

(i) interest only on the Principal Balance (as hereinafter defined) calculated at the Applicable Rate (as hereinafter defined) shall, subject to Paragraph 2 below, be due and payable on _____ 1, 2009 and on the first day of every calendar month thereafter (each such date, an "Interest Payment Date"); and

(ii) the entire Principal Balance, together with all interest accrued and unpaid thereon calculated in the manner hereinafter set forth and all other sums due under this Note, shall be due and payable on the Maturity Date (as hereinafter defined).

1. The following terms as used in this Note shall have the following meanings:

(a) The term "Applicable Rate" shall mean an interest rate per annum equal to (x) ten and 75/100 percent (10.75%) during the period from and after the date hereof through and including December 31, 2013, and (y) five percent (5%) during the period from and after January 1, 2014. Notwithstanding the foregoing, during the continuance of any "Payment Default" or "Maturity Default" under the JV Note, the Applicable Rate under this Note shall be five percent (5%) per annum. Interest at the Applicable Rate (i) shall be calculated for complete calendar months on the basis of a three hundred sixty (360) day calendar year containing twelve (12) months of thirty (30) days each, and (ii) shall be calculated for partial calendar months on the basis of the actual number of days elapsed over a three hundred sixty five (365) day calendar year.

(b) The term "Company" shall mean Green 485 JV LLC, a Delaware limited liability company.

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[1] $20,000,000.00, adjusted by 49.5% of the Adjustment Amount (net prorations, including lender reserves, in excess of (or less than, as the case may be) $4,200,000, under the Agreement).

(c) The term "Debt" shall mean all principal, interest, additional interest and other sums of any nature whatsoever which may or shall become due to Payee in accordance with the provisions of this Note, the Security Agreement or the other Loan Documents.

(d) The term "Default Rate" shall mean an interest rate per annum equal to the aggregate of (i) three percent (3%) plus (ii) the Applicable Rate. Interest at the Default Rate (i) shall be calculated for complete calendar months on the basis of a three hundred sixty (360) day calendar year containing twelve (12) months of thirty (30) days each, and (ii) shall be calculated for partial calendar months on the basis of the actual number of days elapsed over a three hundred sixty five (365) day calendar year.

(e) The term "JV Note" shall mean that certain Promissory Note, dated as of _____, 2009, made by Green 485 JV LLC in favor of SLG 485 Funding LLC, as the same may be amended, restated, modified and supplemented from time to time.

(f) The term "LLC Agreement" shall mean that certain Amended and Restated Limited Liability Company Agreement of Green 485 JV LLC dated as of the date hereof as the same may be amended, restated, modified and supplemented from time to time.

(g) The term "Loan" shall mean the loan in the principal sum of $ _____, by Payee to Maker which is evidenced by this Note and secured by, among other things, the Security Agreement.

(h) The term "Loan Documents" shall mean collectively this Note, the Security Agreement, and all other documents and instruments now or hereafter executed and delivered in connection therewith, as the same may be amended, restated, modified and supplemented from time to time.

(i) The term "Maturity Date" shall mean December 31, 2021.

(j) The term "Principal Balance" shall mean the outstanding principal balance of this Note from time to time.

(k) The term "Security Agreement" shall mean that certain Pledge and Security Agreement dated the date hereof given by Maker to Payee with respect to the Loan, as the same may be amended, restated, modified and supplemented from time to time.

2. All monies distributed by the Company to Maker pursuant to the terms of the LLC Agreement ("Distributions"), up to the amount of the Debt hereunder, shall be paid directly to Payee for application against Maker's obligations under this Note and the other Loan Documents. If, on any Interest Payment Date, the amount of the Distributions then held by Payee under the Security Agreement is less than the interest which has accrued on the Principal Balance under this Note for the calendar month just ended (any such deficiency with respect to a calendar month, a "Deficiency"), the interest payable under this Note with respect to such calendar month shall be deferred in an amount equal to the Deficiency. Interest on this Note which is deferred in accordance with the provisions of this paragraph ("Deferred Interest") shall accrue interest at the per annum interest rate in effect under this Note from time to time, and such accrued interest shall compound annually (it being agreed that any interest which accrues on the Deferred Interest will for the purposes of this Note also constitute Deferred Interest, to the extent not paid currently). All Distributions held by Payee under the Security Agreement shall be applied in the following order, first, to the payment of any monies owed to Payee under this Note or the other Loan Documents, other than interest (including Deferred Interest) or principal, second, to the payment of interest then due and payable under this Note (other than Deferred Interest), third to Deferred Interest, and fourth, to the repayment of the Principal Balance. Notwithstanding anything to the contrary which may be set forth in this paragraph, the full amount of the Debt shall be due and payable in full on the Maturity Date.

3. The Principal Balance may not be prepaid, in whole or in part (except as otherwise specifically provided in Paragraph 2 or this paragraph). Notwithstanding anything set forth in this Note to the contrary, this Note shall be prepayable in whole or in part, without penalty or premium, in the event all or any portion of Maker's interest in the Company is transferred in accordance with any written agreement by and between Maker and Payee, or any affiliate of Payee.

4. It is hereby expressly agreed that the entire Debt shall become immediately due and payable at the option of Payee on the happening of any Event of Default under the Security Agreement, and that all of the terms, covenants and provisions contained in the Security Agreement and the other Loan Documents which are to be kept and performed by Maker are hereby made part of this Note to the same extent and with the same force and effect as if they were fully set forth herein.

5. If the Debt is declared immediately due and payable by Payee pursuant to the provisions of the Security Agreement, or if the Debt is not paid in full on the Maturity Date, Maker shall thereafter pay interest on the then entire outstanding Debt from the date of such declaration or the Maturity Date, as the case may be, through and including the date the Debt is paid in full at the Default Rate. In addition, if an Event of Default (as such term is defined in the Security Agreement) shall occur, the Principal Balance, the entire amount of the Deferred Interest and the remainder of the Debt shall, from and including the date upon which the Event of Default has occurred and for so long as such Event of Default continues and without further act or instrument and without the necessity of any further or prior notice by Payee to Maker, bear interest at the Default Rate irrespective of whether Payer shall have declared the Debt to be immediately due and payable as the result of the occurrence of such Event of Default.

6. Maker hereby waives presentment and demand for payment, notice of dishonor, protest and notice of protest of this Note. If any payment under this Note is not made when due, Maker agrees to pay all costs of collection when incurred, including reasonable attorneys' fees (which costs shall be added to the amount due under this Note and shall be receivable therewith). Maker agrees to perform and comply with each of the terms, covenants and provisions contained in this Note, the Security Agreement and the other Loan Documents on the part of Maker to be observed or performed. No release of any security for the payment of this Note or extension of time for payment of this Note, or any installment hereof, and no alteration, amendment or waiver of any provision of this Note, the Security Agreement or the other Loan Documents made by agreement between Payee and any other person or party shall release, discharge, modify, change or affect the liability of Maker under this Note, the Security Agreement or the other Loan Documents.

7. This Note is subject to the express condition that at no time shall Maker be obligated or required to pay interest on the Principal Balance or the Deferred Interest at a rate which could subject Payee to either civil or criminal liability as a result of being in excess of the maximum rate which Maker is permitted by law to contract or agree to pay. If by the terms of this Note, Maker is at any time required or obligated to pay interest on the Principal Balance or the Deferred Interest at a rate in excess of such maximum rate, the rate of interest under this Note shall be deemed to be immediately reduced to such maximum rate and interest payable hereunder shall be computed at such maximum rate and the portion of all prior interest payments in excess of such maximum rate shall be applied and shall be deemed to have been payments in reduction of the Principal Balance or the Deferred Interest, as applicable.

8. This Note is secured by the Security Agreement and the other Loan Documents.

9. The terms of this Note shall be governed by and construed under the laws of the State of New York.

10. This Note may only be modified, amended, changed or terminated by an agreement in writing signed by Payee and Maker. No waiver of any term, covenant or provision of this Note shall be effective unless given in writing by Payee and if so given by Payee shall only be effective in the specific instance in which given.

11. Maker acknowledges that this Note and Maker's obligations under this Note are and shall at all times continue to be absolute and unconditional in all respects, subject, however, to the provisions of paragraph 17 hereof, and shall at all times be valid and enforceable irrespective of any other agreements or circumstances of any nature whatsoever which might otherwise constitute a defense to this Note and the obligations of Maker under this Note or the obligations of any other person or party relating to this Note or the obligations of Maker hereunder or otherwise with respect to the Loan. Maker absolutely, unconditionally and irrevocably waives any and all right to assert any defense, setoff, counterclaim or crossclaim of any nature whatsoever with respect to this Note or the obligations of Maker under this Note or the obligations of any other person or party relating to this Note or the obligations of Maker hereunder or otherwise with respect to the Loan in any action, case or proceeding brought by Payee to collect the Debt, or any portion thereof, or to enforce, foreclose and realize upon the liens and security interests created by the Security Agreement and the other Loan Documents, subject, however, to the provisions of paragraph 17 hereof (provided, however, that the foregoing provisions of this sentence shall not be deemed a waiver of the right of Maker to assert any compulsory counterclaim in any such action, case or proceeding brought by Payee in any state court if such counterclaim is compelled under local law or rule of procedure, or in any such action, case or proceeding brought by Payee in a court of the United States, nor shall the foregoing provisions of this sentence be deemed a waiver of the right of Maker to assert any claim which would otherwise constitute a defense, setoff, counterclaim or crossclaim of any nature whatsoever against Payee in any separate action, case or proceeding brought by Maker against Payee). Maker acknowledges that no oral or other agreements, understandings, representations or warranties exist with respect to this Note or with respect to the obligations of Maker under this Note, except those specifically set forth in this Note, and that this Note and the other Loan Documents sets forth the entire agreement and understanding of Payee and Maker with respect to the Loan.

12. No delay on the part of Payee in exercising any right or remedy under this Note, the Security Agreement or the other Loan Documents or failure to exercise the same shall operate as a waiver in whole or in part of any such right or remedy. No notice to or demand on Maker shall be deemed to be a waiver of the obligation of Maker or of the right of Payee to take further action without further notice or demand as provided in this Note, the Security Agreement and the other Loan Documents.

13. Maker agrees to submit to personal jurisdiction in the State of New York in any action, case or proceeding arising out of this Note and, in furtherance of such agreement, Maker hereby agrees and consents that without limiting other methods of obtaining jurisdiction, personal jurisdiction over Maker in any such action, case or proceeding may be obtained within or without the jurisdiction of any court located in New York and that any process or notice of motion or other application to any such court in connection with any such action, case or proceeding may be served upon Maker by registered or certified mail to or by personal service at the last known address of Maker, whether such address be within or without the jurisdiction of any such court. Maker also agrees that the venue of any litigation arising in connection with the Debt or in respect of any of the obligations of Maker under this Note shall, to the extent permitted by law, be in New York County.

14. Maker represents that Maker has full power, authority and legal right to execute and deliver this Note and that the Debt constitutes a valid and binding obligation of Maker.

15. MAKER HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES, AND PAYEE BY ITS ACCEPTANCE OF THIS NOTE IRREVOCABLY AND UNCONDITIONALLY WAIVES, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, CASE, PROCEEDING, SUIT OR COUNTERCLAIM ARISING IN CONNECTION WITH, OUT OF OR OTHERWISE RELATING TO THE LOAN, THIS NOTE, THE SECURITY AGREEMENT OR THE OTHER LOAN DOCUMENTS.

16. Whenever used, the singular number shall include the plural, the plural the singular, and the words “Payee” and “Maker” shall include their respective successors and assigns; provided, however, that Maker shall in no event or under any circumstance have the right without obtaining the prior written consent of Payee to assign or transfer its obligations under this Note, the Security Agreement or the other Loan Documents, in whole or in part, to any other person, party or entity.

17. By its acceptance of this Note and the Security Agreement, Payee agrees that it shall not enforce the liability and obligation of Maker to perform and observe the obligations contained in this Note or the Security Agreement or any other Loan Document by any action or proceeding against Maker or any Exculpated Party (as hereinafter defined), except that Payee may bring a foreclosure action, action for specific performance or other appropriate action or proceeding to enable Payee to enforce and realize upon the Security Agreement and any collateral given to Payee created by the Security Agreement and the other Loan Documents; provided, however, that any judgment in any such action or proceeding shall be enforceable against Maker only to the extent of Maker's interest in the Company and in any other collateral given to Payee. Payee, by accepting this Note and the Security Agreement, agrees that it shall not sue for, seek or demand any deficiency or other money judgment against Maker, any direct or indirect member, manager, shareholder, partner, beneficiary or other owner of beneficial ownership interests in Maker, or any director, officer, agent, attorneys, employee or trustee of any of the foregoing (each, an "Exculpated Party" and, collectively, the "Exculpated Parties") in any such action or proceeding, under or by reason of or under or in connection with this Note, the Security Agreement or the other Loan Documents. The provisions of this paragraph 17 shall not, however, (i) constitute a waiver, release or impairment of any obligation evidenced or secured by this Note, the Security Agreement or the other Loan Documents; or (ii) impair the right of Payee to name Maker as a party defendant in any action or suit for judicial foreclosure and sale under the Security Agreement (subject, however, to the aforesaid limitation on Payee's right to sue, seek or demand a deficiency or other money judgment against Maker or any other Exculpated Party).

18. This Note is registered as to both principal and interest with Maker and, notwithstanding any other provision hereof, transfer of this obligation may be effected only by surrender of this instrument and either (a) the reissuance by Maker of this instrument to the new holder or (b) the issuance by Maker of a new instrument to the new holder. Transfer of this instrument at any time by any means other than the method described in this paragraph shall be deemed void and ineffectual.

[SIGNATURE PAGE FOLLOWS IMMEDIATELY]

IN WITNESS WHEREOF, Maker has duly executed this Note the day and year first above written.

**GREEN 485 HOLDINGS LLC,**
a Delaware limited liability company

By: _____
Name:
Title:

STATE OF NEW YORK )
: ss:
COUNTY OF NEW YORK )

On the _____ day of _____ in the year 2009 before me, the undersigned, a notary public in and for said state, personally appeared _____ personally known to me or proved to me on the basis of satisfactory evidence to be the individual(s) whose name(s) is (are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their capacity(ies) and that by his/her/their signature(s) on the instrument, the individual(s) or the person upon behalf of which the individual(s) acted, executed the instrument.

_____
Notary Public

**EXHIBIT "2(E)"**

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**Option Agreement**

DATE: _____, 2009

TO: **Green 485 Holdings LLC**
ADDRESS: c/o SL Green Realty Corp.
420 Lexington Avenue
New York, New York 10170
ATTN: Andrew S. Levine, Esq.
FAX: (212) 356-4135

FROM: **Mazal 485 LLC**
ATTN: Julius Schwartz
ADDRESS: 241 West 47th Street
Suite 11B
New York, New York 10036
FAX: [_____]

The purpose of this letter agreement is to confirm the terms and conditions of the Transaction entered into on the Trade Date specified below (the "**Transaction**") between Mazal 485 LLC ("**Party A**") and Green 485 Holdings LLC ("**Party B**"). This letter agreement constitutes the sole and complete "Confirmation" (as defined below), as referred to in the "Master Agreement" (as defined below), with respect to the Transaction.

1. This Confirmation evidences a complete and binding agreement between you and us as to the terms of the Transaction to which this Confirmation relates. In addition, in lieu of negotiating an ISDA Master Agreement and Schedule, you and we agree that the 1992 ISDA Master Agreement (Multicurrency Cross-Border) (the "**Master Agreement**") is incorporated by reference herein with such modifications and elections as are set forth herein. This Confirmation (the "**Confirmation**"), confirming this transaction (a "**Transaction**") entered into between us shall supplement, form a part of, and be subject to the Master Agreement as if we had executed an agreement in such form effective as of the Trade Date of this Transaction. In the event of any inconsistency between the Master Agreement and this Confirmation, this Confirmation will govern.

The definitions and provisions contained in the 2002 ISDA Equity Derivatives Definitions (the "**Equity Definitions**"), as published by the International Swaps and Derivatives Association, Inc., are incorporated into this Confirmation except as modified herein. In the event of any inconsistency between the Equity Definitions and this Confirmation, this Confirmation will govern.

Capitalized terms not otherwise defined herein, in the Master Agreement or in the Equity Definitions incorporated by reference into this Confirmation, shall have the ascribed meanings set forth in the Amended and Restated Limited Liability Company Agreement of the Issuer, dated as of the date hereof, by and between Party A, Party B and [SLGOP Subsidiary] (as amended, restated, modified or supplemented form time to time, the "**LLC Agreement**").

2. The terms of the particular Transaction to which this Confirmation relates are as follows:

**I. GENERAL TERMS:**

| | |
|---|---|
| **Party A:** | Mazal 485 LLC |
| **Party B:** | Green 485 Holdings LLC |
| **Trade Date:** | _____, 2009<br><br>[Note: Insert date of initial closing of the acquisition of the initial 49.5%] |
| **Effective Date:** | _____, 2009 |
| **Option Style:** | American |
| **Option Type:** | Call |
| **Seller:** | Party B |
| **Buyer:** | Party A |
| **Shares:** | 49.5% membership interest in Green 485 JV LLC, a Delaware limited liability company, held by Party B as of the Trade Date. |
| **Number of Options:** | One |
| **Option Entitlement:** | All of the Shares per Option. |
| **Strike Price:** | Subject to the Strike Price Cap, the fair market value (the "**Fair Market Value**") of the Shares at the Settlement Date, minus the Premium.<br><br>The Fair Market Value shall be determined by mutual agreement of Party A and Party B and shall be equal to the amount that would be received by the holder of the Shares, based on the fair market value of that certain parcel of real property known as and located at 485 Lexington Avenue, New York, New York (the "**Property**"), if the Property were sold to a third party in a bona fide arms-length transaction on customary terms and conditions, and all liabilities of the Issuer and its subsidiaries were satisfied from such sales proceeds and any balance were distributed to the members of the Issuer parties pursuant to the LLC Agreement. |

If Party A and Party B (collectively, the "**Parties**") are unable to agree upon the Fair Market Value within fifteen (15) days of the Option Notice (as defined herein), then such Fair Market Value shall be determined as follows:

(a) The Parties shall, by mutual agreement, appoint a qualified appraiser (as defined below). If the Parties cannot agree on a single qualified appraiser, then each of the Parties shall have the right to select a qualified appraiser and shall give written notice to the other of the appraiser so selected. The first party to receive such a notice of selection shall have five (5) days after receipt thereof to give the other party written notice of its selection. If one Party gives a notice of selection and the other fails to timely provide its notice of selection within such five (5) day period (or if a single appraiser is selected), the one qualified appraiser so selected shall be the sole appraiser in making the determination required hereunder, which written determination shall be final and binding and shall be delivered to the Parties no more than thirty (30) days after the delivery of the first notice.

(b) If the second notice of selection is properly given within the requisite time, the qualified appraisers so selected shall promptly make the determination required hereunder and deliver a written summary of such determination to the Parties within thirty (30) days after the delivery of the first notice of selection. If such two appraisers reach the same determination, their determination shall be final and binding. If the two appraisers reach determinations that are different but the lower determination is not less than ninety percent (90%) of the higher determination, an average of the two shall be final and binding. In all other events, the two appraisers shall promptly select a third qualified appraiser who shall promptly select the determination of one of the two appraisers which it believes is more accurate and deliver a written summary of such determination to the Parties no more than sixty (60) days after the delivery of the first notice of selection, and such determination shall be final and binding on both Parties.

As used herein, a "qualified appraiser" means a reputable, independent person who has no less than fifteen (15) years experience in appraising or valuing limited liability company interests similar to the Shares, and who has not been employed by or consulted to the Parties within the prior five (5) year period.

**Strike Price Cap:** The Strike Price shall not exceed:

(i) $21,580,020.00 (the "**Initial Cap**"), which equals 103.8% of the Current FMV (as defined below), if the Settlement Date occurs on or prior to July 31, 2013; or

(ii) if the Settlement Date occurs on or after August 1, 2013, 101% of the Initial Cap (which equals $21,795,820.20) plus an additional 1% of the Initial Cap with respect to each one (1) year anniversary of August 1, 2013 occurring thereafter that has occurred on or prior to the Settlement Date.

Notwithstanding the foregoing, if the Option is exercised on December 31, 2022, the Strike Price shall not exceed 115% of the Initial Cap.

For the purposes of this Transaction, "**Current FMV**" means Fair Market Value of the Shares as of the Trade Date, based on the initial valuation of 100% membership interest in the Issuer of USD $42,000,000.00.

**Premium:** USD $275,000.00

**Premium Payment Date:** Trade Date

**Scheduled Trading Day:** Notwithstanding the Equity Definitions, a "**Scheduled Trading Day**" shall be any Local Business Day.

**Exchange:** Not Applicable

**Related Exchange(s):** Not Applicable

**Clearance System(s):** Not Applicable

**II. PROCEDURES FOR EXERCISE:**

**Commencement Date:** March 1, 2013; *provided, that* in the event of a sale of the Property, Buyer may exercise the Option prior to March 1, 2013 if the consummation of the Option occurs not less than two (2) Local Business Days after the sale and conveyance of the Property and the payment in full of the JV Loan.

| | |
|---|---|
| **Latest Exercise Time:** | 6:00 pm (local time in New York, New York). |
| **Expiration Time:** | 6:00 pm (local time in New York, New York). |
| **Expiration Date:** | December 31, 2020; *provided* that if the Option is not exercised by December 31, 2020, the Option may be exercised on December 31, 2022. |
| **Multiple Exercise:** | Not Applicable |
| **Automatic Exercise:** | Not Applicable |

**III. SETTLEMENT TERMS:**

| | |
|---|---|
| **Physical Settlement:** | Applicable.<br><br>The Settlement Price shall be payable to Seller on the Settlement Date by wire transfer to the account of Seller set forth in clause 5 of Section VI below. |
| **Settlement Currency:** | USD |
| **Settlement Method Election:** | Not Applicable |
| **Settlement Date:** | The Settlement Date shall be the date set forth as the date for the closing of the purchase of the Shares in the notice from Buyer of its exercise of the Option (the "**Option Notice**").<br><br>Notwithstanding anything to the contrary in Section 3.2 of the Equity Definitions, the Option Notice shall be in writing, and shall set forth the Settlement Date for the closing of the purchase of the Shares, which Settlement Date shall occur no earlier than ten (10) calendar days and no later than ninety (90) calendar days after the delivery of the Option Notice.<br><br>Seller shall not be required to consummate the closing of the purchase of the Shares hereunder unless the JV Loan (as defined in the Purchase Agreement) is paid in full (taking into account the offset of any Nortel Losses (as defined in the Purchase Agreement) and any applicable escrow of the payoff to the JV Loan as set forth in the JV Loan Documents) prior to or simultaneously with the Settlement Date.<br><br>Buyer shall have the right to credit against the Strike Price payable hereunder all amounts (including principal and interest) outstanding under the Green 485 Holdings Loan on the Settlement Date. |

| | |
|---|---|
| **Settlement Disruption Event:** | Not Applicable |
| **Method of Adjustment:** | Not Applicable |
| **Extraordinary Dividends:** | Not Applicable |

**IV. EXTRAORDINARY EVENTS:**

| | |
|---|---|
| **Extraordinary Events:** | The following events shall constitute Extraordinary Events with the resulting consequences set forth next to each such Extraordinary Event: |
| **Merger Event:** | Not Applicable |
| **Tender Offer:** | Not Applicable |
| **Composition of Combined Consideration:** | Not Applicable |
| **Naturalization; Insolvency or Delisting:** | Not Applicable |
| **Additional Disruption Events:** | The following events shall constitute Additional Disruption Events with the resulting consequences set forth next to each such Additional Disruption Event: |
| **Change in Law:** | Applicable |
| **Failure to Deliver:** | Not Applicable |
| **Insolvency Filing:** | Not Applicable |
| **Hedging Disruption:** | Not Applicable |
| **Increased Cost of Hedging:** | Not Applicable |
| **Loss of Stock Borrow:** | Not Applicable |
| **Increased Cost of Stock Borrow:** | Not Applicable |
| **Determining Party:** | Party A |

**V. REPRESENTATIONS AND WARRANTIES:**

| | |
|---|---|
| **Non-Reliance:** | Applicable |
| **Agreements and Acknowledgments Regarding Hedging Activities:** | Not Applicable |
| **Additional Acknowledgements:** | Applicable |
| **Additional Representations:** | In addition to the representations set forth in the Master Agreement, each party hereto represents and warrants to the other party hereto the following:<br><br>(i) It understands that this Transaction has not been registered under the U.S. Securities Act of 1933 as amended (the "**Securities Act**") or the securities law of any other jurisdiction, and that neither party is obliged to register the Transaction or to assist the other party in complying with any exemption from registration under the Securities Act or state securities laws; *provided*, *however*, notwithstanding the foregoing, if this Transaction is not otherwise exempt from the registration requirements of the Securities Act, each party represents with respect to this Transaction:<br><br>(a) it is entering into the Transaction for its own account as principal, and not with a view to, or for, resale, distribution or fractionalization thereof, in whole or in part;<br><br>(b) it acknowledges its understanding that the offer and sale of this Transaction is intended to be exempt from registration under the Securities Act, by virtue of Section 4(2) of the Securities Act. In furtherance thereof, each party represents and warrants to the other party that (i) it has the financial ability to bear the economic risk of its investment, including a loss of its entire investment, (ii) it is either (x) an accredited investor as defined in Rule 501 under the Securities Act, or (y) a "qualified institutional buyer" as defined in Rule 144A under the Securities Act, (iii) it has the knowledge and experience of investing in instruments similar to the Transaction and is capable of evaluating the risks and merits of the Transaction and has, or has had an opportunity to request, such information as it deemed necessary to make such evaluation; and |

(c) it understands that the Transaction has not been registered under the Securities Act or under the securities laws of certain states and, therefore, cannot be resold, pledged, assigned or otherwise disposed of unless an exemption for such resale, pledge, assignment or disposition is available and that neither party is obliged to register the Transaction or to assist the other party in complying with any exemption from registration under the Securities Act or state securities laws;

(ii) Any information that it desires concerning this Transaction or any other matter relevant to its decision to enter into this Transaction is, or has been made, available to it;

(iii) It is not an investment company required to be registered under the U.S. Investment Company Act of 1940, as amended (the "**Investment Company Act**") pursuant to the exemption available under Section 3(c)(7) of the Investment Company Act or a business development company as defined in Section 202(a)(22) of the U.S. Investment Advisers Act of 1940, as amended.

(iv) It is an "eligible contract participant" as defined in section 1a(12) of the Commodity Exchange Act as amended;

(v) It represents that (i) is not an employee benefit plan (an "**ERISA Plan**") as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), subject to Title 1 of ERISA or Section 4975 of the Internal Revenue Code of 1986, as amended, (ii) it is not a person or entity acting on behalf of an ERISA Plan because less than 25% of all of its equity interests are held by "benefit plan investors" within the meaning of 29 CFR Section 2510.3-101(f)(2), (iii) none of its assets are or will be deemed to be "plan assets" within the meaning of U.S. Department of Labor Regulation 29 C.F.R. Section 2510.3-101 or otherwise; (iv) it is not a defined contribution plan; (v) it is not a "governmental plan" within the meaning of ERISA Section 3 (32); and (vi) transactions by or with it are not subject to state statutes regulating investments of and fiduciary obligations with respect to governmental plans.

**VI. MISCELLANEOUS:**

1. *Incorporation of Terms of Master Agreement.* (a) For the avoidance of doubt, the parties agree that the Master Agreement is incorporated herein by reference, and the parties expressly specify that (i) Second Method and Loss shall apply unless otherwise specified herein; (ii) the Threshold Amount with respect to Party B shall be zero; and with respect to Party A shall not be applicable; (iii) paragraph 2(c) will not apply to Transactions; (iv) the replacement of the word "third" in the last line of Section 5(a)(i) with the word "second"; (v) Specified Entity shall mean none with respect to Party A, and shall mean all Affiliates with respect to Party B.

(b) "Termination Currency" means USD.

(c) "Credit Support Document": With respect to Party A, none. With respect to Party B, means the following: the Credit Support Annex, dated as of the date hereof, between Party A and Party B.

(d) *Rights of Set-Off.* The parties agree to amend Section 6 of the Master Agreement by adding a new Section 6(f), as follows:

"(f) Upon the occurrence of an Event of Default or Termination Event occurs hereunder with respect to a party ("X"), the other party ("Y") will have the right (but not be obliged) without prior notice to X or any other person to set off or apply any obligation of X owed to Y (or any Affiliate of Y) (whether or not matured or contingent and whether or not arising under this Agreement, and regardless of the currency, place of payment or booking office of the obligation) against any obligation of Y (or any Affiliate of Y) owed to X (or any Affiliate of X) (whether or not matured or contingent and whether or not arising under this Agreement, and regardless of the currency, place of payment or booking office of the obligation). Y will give prompt notice to the other party of any set-off effected under this Section 6(f).

Amounts (or the relevant portion of such amounts) subject to set-off may be converted by Y into the Termination Currency at the rate of exchange at which Y would be able, acting in a commercially reasonable manner and in good faith, to purchase the relevant amount of such currency.

If any obligation is unascertained, Y may in good faith estimate that obligation and set off in respect of the estimate, subject to Y accounting to X when the obligation is ascertained.

Nothing in this Section 6(f) shall be effective to create a charge or other security interest. This Section 6(f) shall be without prejudice and in addition to any right of set-off, combination of accounts, lien or other right to which any party is at any time otherwise entitled (whether by operation of law, contract or otherwise)."

2. *Agreement to Deliver Documents*. On the Trade Date, each party agrees to deliver the following documents, as applicable, unless already delivered to the other party pursuant to the terms of any other agreement between the parties:

(i) with respect to Seller, a duly executed and acknowledged Assignment of Membership Interest Agreement, between Buyer (or its designee) and Seller, substantially in the form of Annex I hereto, relating to the transfer of the Shares hereunder;

(ii) with respect to Seller, the Shares, in certificated form, duly issued and executed by the Issuer pursuant to the LLC Agreement, together with undated and blank endorsements;

(iii) with respect to Seller, certified copies of board resolutions or other similar documents approving the Transaction contemplated by this Confirmation, and evidence of the signing authority and specimen signature of each person executing this Confirmation and any Credit Support Document;

(iv) with respect to Seller, such other documents and instruments as may be reasonably necessary or desirable to further carry out the purposes of this Transaction as determined by Buyer;

(v) with respect to Buyer, a duly executed Secured Note in the original principal amount of USD $20,000,000.00, dated on or about the date hereof, by Party A (or its Affiliate) in favor of Party B;

(vi) the LLC Agreement, duly executed by each such party;

(vii) any other documentation reasonably requested by Party A; and

(viii) Tax forms, documents or certificates to be delivered are:

| **Party required to deliver document** | **Form/Document/Certificate** | **Date by which to be delivered** |
|---|---|---|
| Party A | An executed U.S. Internal Revenue Service Form W-9 for each of the members or partners of Party A. | Upon or prior to the execution and delivery of the Confirmation. |
| Party B | An executed U.S. Internal Revenue Service Form W-9 for each of the members or partners of Party B. | Upon or prior to the execution and delivery of the Confirmation. |

3. *Fully-Paid Transaction.* Notwithstanding the terms of Sections 5 and 6 of the Master Agreement, if at any time and so long as one of the parties to this Confirmation ("X") shall have satisfied in full all its payment obligations under Section 2(a) of the Master Agreement and shall at the time have no future payment obligations, whether absolute or contingent, under such Section, then unless the other party ("Y") is required pursuant to appropriate proceedings to return to X or otherwise returns to X upon demand of X any portion of any such payment, (a) the occurrence of an event described in Section 5(a) of the Master Agreement with respect to X or any Specified Entity of X shall not constitute an Event of Default or a Potential Event of Default with respect to X as the Defaulting Party and (b) Y shall be entitled to designate an Early Termination Date pursuant to Section 6 of the Master Agreement only as a result of the occurrence of a Termination Event set forth in (i) either Section 5(b)(i) or 5(b)(ii) of the Master Agreement with respect to Y as the Affected Party or (ii) Section 5(b)(iii) of the Master Agreement with respect to Y as the Burdened Party.

4. *Consent to Recording.* Each party (i) consents to the recording of the telephone conversations of trading and marketing personnel of the parties in connection with the Agreement, this Transaction or any potential Transaction, (ii) agrees to obtain any necessary consent of, and give notice of such recording to, such personnel and (iii) agrees that such recordings may be submitted in evidence in any proceedings.

5. *Accounts for Payments:*

| | |
|---|---|
| Account for Payment to Party A: | To be advised |
| Account for Payment to Party B: | To be advised |

6. *Expenses.* All expenses related to the transfer of Shares to be delivered under this Transaction (such as any transfer taxes, recording fees, filing fees or stamp duty) shall be payable by Seller.

7. *Confidentiality.* Both parties agree that Section 36 of the Purchase Agreement shall apply to this Confirmation *mutatis mutandis.* The provisions of this paragraph on "*Confidentiality"* shall survive the termination of the Master Agreement, this Confirmation, or this Transaction.

8. *Agreements Regarding Bankruptcy Treatment.* The parties agree that this Transaction is intended to provide Buyer with the rights set forth in Sections 555 and 560 of title 11 of the United States Code (the "**Bankruptcy Code**"). The parties also intend for this Agreement to be, and agree that this Agreement is: (i) a "swap agreement" within the meaning of Section 101(53B) of the Bankruptcy Code, and specifically including, but not limited to, an "equity swap" and an "option" within the meaning of Section 101(53B)(A)(IV) of the Bankruptcy Code, and (ii) a "securities contract" within the meaning of Section 741 of the Bankruptcy Code. In addition, the parties agree that Buyer is a "financial participant" within the meaning of Section 101(22A) of the Bankruptcy Code as at the time Buyer enters into this Transaction. The parties also agree that the exercise of rights arising under or related to this Agreement are contractual rights arising under common law or by reason of normal business practice for purposes of Section 555 of the Bankruptcy Code.

9. *Governing Law; Waiver of Jury Trial:*

   (a) This Confirmation shall be governed by, and construed in accordance with, the laws of the State of New York (without reference to choice of law doctrine).

   (b) EACH PARTY HEREBY WAIVES, TO THE FULL EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT THAT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY ACTION, SUIT OR PROCEEDING RELATING TO OR ARISING OUT OF THIS CONFIRMATION OR THIS TRANSACTION. Each party hereby confirms and acknowledges that (i) no representative, agent or attorney of the other party has represented, expressly or otherwise, that such other party would not seek to enforce the foregoing waiver and (ii) it has been induced to enter into this Confirmation by, among other things, the mutual waivers, confirmations and acknowledgments in this paragraph.

10. *Notices.* All notices and other communications pursuant or related to this Confirmation shall be in writing (which shall include, for the avoidance of doubt, any notices or other communications sent by facsimile transmission, by electronic mail, or in any other form from time to time approved by the parties) All notices to Party A shall be delivered to Mazal 485 LLC, 241 West 47th Street, Suite 11B, New York, NY 10036, Attn: _____, Facsimile No.: _____; with a copy to: Greenberg Traurig, LLP, 200 Park Avenue, New York, NY 10166, Attn: Joseph D. Farrell, Esq., Facsimile No.: (212) 805-9304. All notices to Party B shall be delivered to c/o SL Green Realty Corp., 420 Lexington Avenue, New York, NY 10170, Attn: Andrew S. Levine, Esq., Facsimile No.: (212) 356-4135; with a copy to: Paul, Weiss, Rifkind, Wharton & Garrison, LLP, 1285 Avenue of the Americas, New York, NY 10019, Attn: Peter E. Fisch, Esq., Facsimile No.: (212) 492-0424. Notices may be delivered by Party A or Party B by email to the email address, if any, specified above. Any such notice shall be deemed to be delivered upon transmission so long as verbal notice is also delivered telephonically.

This Confirmation may be executed in several counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

Party B hereby agrees to check this Confirmation and to confirm that the foregoing correctly sets forth the terms of the Transaction by signing in the space provided below and returning to Party B a facsimile of the fully-executed Confirmation to [_____]. For inquiries regarding this Transaction, please contact [_____] by telephone at [_____], and email the following email address(es): [_____]. Originals will be provided for your execution upon your request.

Please check this Confirmation carefully and immediately upon receipt, so that errors or discrepancies can be promptly identified and rectified.

We are very pleased to have concluded this Transaction with you.

Sincerely,

**MAZAL 485 LLC** (Party A)

By: _____
Name:
Title:

Confirmed as of the date first above written:

**GREEN 485 HOLDINGS LLC** (Party B)

By: _____
Name:
Title:

**ANNEX 1**
**FORM OF ASSIGNMENT OF INTEREST**

This **ASSIGNMENT OF MEMBERSHIP INTEREST,** dated as of _____, 2009 (this "Assignment"), is entered into by and among **GREEN 485 HOLDINGS LLC,** a Delaware limited liability company ("Assignor") and **MAZAL 485 LLC,** a Delaware limited liability company ("Assignee").

WITNESSETH:

WHEREAS, Green 485 JV LLC, (the "Company") is a limited liability company duly formed under the laws of the State of Delaware, pursuant to the (i) Certificate of Formation of the Company filed with the Secretary of State of the State of Delaware on December 8, 2006 and (ii) the Amended and Restated Limited Liability Company Agreement, dated as of _____, 2009 ("Operating Agreement");

WHEREAS, Assignor is the owner and holder of a forty-nine and one half percent (49.5%) membership interest in the Company (the "Interest"); and

WHEREAS, Assignor has agreed to assign its Interest to Assignee.

NOW, THEREFORE, for value received, the receipt and sufficiency of which are hereby acknowledged, the undersigned, in consideration of the premises, covenants and agreement contained herein, do hereby agree as follows:

1. Assignment. Assignor hereby unconditionally and irrevocably assigns, transfers and conveys to Assignee, effective as of the date hereof, all of the right, title and interest of Assignor in and to the Interest, including, without limitation, all right, title and interest of Assignor, if any, in and to the properties (real and personal) and capital of the Company and all distributions and allocations made or to be made in respect of the Interest.

2. Assumption. Assignee hereby accepts the assignment of the Interest and expressly assumes the obligations of Assignor with respect to the Interest accruing from and after the date hereof.

3. Books and Records. The members of the Company shall take all actions necessary to evidence the admission of Assignee as a member of the Company.

4. Future Cooperation. Each of the parties hereto agrees to cooperate at all times from and after the date hereof with respect to all of the matters described herein, and to execute such further assignments, releases, assumptions, amendments of the Operating Agreement, notifications and other documents as may be reasonably requested for the purpose of giving effect to, or evidencing or giving notice of, the transaction contemplated by this Assignment.

5. Binding Effect. This Assignment shall be binding upon, and shall inure to the benefit of the parties hereto and their respective successors and assigns.

6. Execution in Counterparts. This Assignment may be (a) executed in counterparts, each of which shall be deemed an original, but all which shall constitute one and the same instrument and (b) by telecopy or other electronic signature (which shall be deemed an original for all purposes).

7. Governing Law. This Assignment shall be governed by, and construed under, the laws of the State of New York, all rights and remedies being governed by said laws, without regard to principles of conflict of law.

[REMAINDER OF THIS PAGE IS INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Assignment to be duly executed as of the day and year first-above written.

**ASSIGNOR:**

**GREEN 485 HOLDINGS LLC,**
a Delaware limited liability company

By: _____
Name: Andrew S. Levine
Title: Executive Vice President

**ASSIGNEE:**

**MAZAL 485 LLC,**
a Delaware limited liability company

By: _____
Name:
Title:

**ISDA®**

**International Swaps and Derivatives Association, Inc.**

# CREDIT SUPPORT ANNEX

**to the Schedule to the**

**ISDA MASTER AGREEMENT**

**dated as of _____, 2009**

**Between**

| | | |
|---|---|---|
| **Mazal 485 LLC**<br>**("Party A")** | **and** | **Green 485 Holdings LLC**<br>**("Party B")** |

This Annex supplements, forms part of, and is subject to, the above-referenced Agreement, is part of its Schedule and is a Credit Support Document under this Agreement with respect to each party.

Accordingly, the parties agree as follows:–

**Paragraph 1. Interpretation**

(a) ***Definitions and Inconsistency.*** Capitalized terms not otherwise defined herein or elsewhere in this Agreement have the meanings specified pursuant to Paragraph 12, and all references in this Annex to Paragraphs are to Paragraphs of this Annex. In the event of any inconsistency between this Annex and the other provisions of this Schedule, this Annex will prevail, and in the event of any inconsistency between Paragraph 13 and the other provisions of this Annex, Paragraph 13 will prevail.

(b) ***Secured Party and Pledgor.*** All references in this Annex to the "Secured Party" will be to either party when acting in that capacity and all corresponding references to the "Pledgor" will be to the other party when acting in that capacity; *provided*, however, that if Other Posted Support is held by a party to this Annex, all references herein to that party as the Secured Party with respect to that Other Posted Support will be to that party as the beneficiary thereof and will not subject that support or that party as the beneficiary thereof to provisions of law generally relating to security interests and secured parties.

**Paragraph 2. Security Interest.**

Each party, as the Pledgor, hereby pledges to the other party, as the Secured Party, as security for its Obligations, and grants to the Secured Party a first priority continuing security interest in, lien on and right of Set-off against all Posted Collateral Transferred to or received by the Secured Party hereunder. Upon the Transfer by the Secured Party to the Pledgor of Posted Collateral, the security interest and lien granted hereunder on that Posted Collateral will be released immediately and, to the extent possible, without any further action by either party.

**Paragraph 13. Elections and Variables**

(a) **Security Interest for "Obligations".** The term *"**Obligations**"* as used in this Annex includes the following additional obligations: Not Applicable.

(b) **Credit Support Obligations.**

(i) **Delivery Amount, Return Amount and Credit Support Amount.**

(A) "**Delivery Amount**" shall not be applicable.

(B) "**Return Amount**" shall not be applicable.

(C) "**Credit Support Amount**" shall mean, for any Valuation Date, the Fair Market Value (as defined below) of the Shares on the Trade Date.

(ii) **Eligible Collateral**. The following items will qualify as "**Eligible Collateral**" for the Party specified:

| | Party A | Party B | Valuation Percentage |
|---|---|---|---|
| Cash | Not Applicable | Not Applicable | 0% |
| 49.5% membership interest in Green 485 JV LLC, a Delaware limited liability company, held by Party B as of the Trade Date (the "**Shares**"). | Not Applicable | [X] | 100% |

(iii) **Other Eligible Support**. None.

(iv) **Thresholds**.

(1) "**Independent Amount**" means with respect to Party B: as of any date of determination, the Fair Market Value of the Shares (as defined in the Confirmation to the 1992 ISDA Master Agreement (Multicurrency Cross-Border), dated as of the date hereof (the "**Confirmation**")).

(2) "**Threshold**" means with respect to Party A and Party B: Not Applicable.

(3) "**Minimum Transfer Amount**" means with respect to Party A and Party B: Not Applicable.

(4) "**Rounding**" means with respect to Party A and Party B: Not Applicable.

(c) **Valuation and Timing.**

(i) "**Valuation Agent**" means Party A.

(ii) "**Valuation Date**" means the Trade Date and the Exercise Date.

(iii) "**Valuation Time**" means the close of business in the city of the Valuation Agent on the Local Business Day prior to the Valuation Date or date of calculation, as applicable; provided that the calculations of Value and Exposure will be made as of approximately the same time on the same date.

(iv) "**Notification Time**" means 11:00 a.m., New York time, on a Local Business Day following the Valuation Date.

(d) **Conditions Precedent and Secured Party's Rights and Remedies.**

The following Termination Event(s) will be a "**Specified Condition**" for the party specified (that party being the Affected Party if the Termination Event occurs with respect to that party):

| | Party A | Party B |
|---|---|---|
| Illegality | Not Applicable | Yes |
| Tax Event | Not Applicable | Yes |
| Tax Event Upon Merger | Not Applicable | Yes |
| Credit Event Upon Merger | Not Applicable | Yes |
| Extraordinary Event(s) (as specified in the Confirmation) | Not Applicable | Yes |

(e) **Substitution.**

Substitution shall only be permitted with the express written consent of Party A.

(f) **Dispute Resolution.**

The dispute resolution provision of Paragraph 5 shall not be applicable.

(g) **Holding and Using Posted Collateral.**

(i) **Eligibility to Hold Posted Collateral; Custodians.**

Party A will be entitled to hold Posted Collateral pursuant to Paragraph 6(b).

(ii) **Use of Posted Collateral.** The provisions of Paragraph 6(c)(i) will not apply; the provisions of Paragraph 6(c)(ii) will apply.

(h) **Distributions and Interest Amount.**

(i) **Interest Rate**. Not Applicable.

(ii) **Transfer of Interest Amount.** Not Applicable.

(iii) **Alternative to Interest Amount.** The provisions of Paragraph 6(d)(ii) will not apply.

(i) **Additional Representation(s).** Not Applicable.

(j) **Other Eligible Support and Other Posted Support.**

(i) "**Value**" with respect to Other Eligible Support and Other Posted Support means: Not Applicable.

(ii) "**Transfer**" with respect to Other Eligible Support and Other Posted Support means: Not Applicable.

(k) **Demands and Notices.**

All demands, specifications and notices under this Annex will be made to the following addresses:

Party A:

| | |
|---|---|
| Address: | Mazal 485 LLC<br>241 West 47th Street, Suite 11B<br>New York, NY 10036 |
| Attention: | _____ |
| Fax: | _____ |

With a copy to:

| | |
|---|---|
| Address: | Greenberg Traurig, LLP<br>200 Park Avenue<br>New York, NY 10166 |
| Attention: | Joseph D. Farrell, Esq. |
| Fax: | (212) 805-9304 |

Party B:

| | |
|---|---|
| Address: | c/o SL Green Realty Corp.<br>420 Lexington Avenue<br>New York, NY 10170 |
| Attention: | Andrew S. Levine, Esq. |
| Fax: | (212) 356-4135 |

With a copy to:

| | |
|---|---|
| Address: | Paul, Weiss, Rifkind, Wharton & Garrison, LLP<br>1285 Avenue of the Americas<br>New York, NY 10019 |
| Attention: | Peter E. Fisch, Esq. |
| Fax: | (212) 492-0424 |

(l) **Addresses for Transfers.**

Party A: To Be Advised.

Party B: To Be Advised.

(m) **Other Provisions.**

(i) Party A and Party B agree that, notwithstanding anything to the contrary in the recital to this Annex, Paragraph 1(b) or Paragraph 2 or the definitions in Paragraph 12, (a) the term "**Secured Party**" as used in this Annex means only Party A, (b) the term "**Pledgor**" as used in this Annex means only Party B, (c) only Party B makes the pledge and grant in Paragraph 2, the acknowledgment in Paragraph 8 as amended by this Paragraph 13 and the representations in Paragraph 9 as amended by this Paragraph 13 and (d) only Party B will be required to make Transfers of Eligible Collateral hereunder. Party A and Party B further agree that, notwithstanding anything to the contrary in the recital to this Annex or Paragraph 7, this Annex will constitute a Credit Support Document only with respect to Party B, and the Events of Default in Paragraph 7 and Specified Conditions in Paragraph 13(d) will only apply to Party B.

(ii) The definition of Shares, as this term is used in this Paragraph 13, shall mean the Shares (as defined in the Confirmation), including, without limitation, all dividends, distributions, instruments or other property or proceeds relating thereto. Additionally, Posted Collateral shall include (a) all rights of the Pledgor under the LLC Agreement (as defined in the Confirmation), together with all right, title and interest to all distributions and other proceeds to which Party A is entitled as holder of the Shares; and (b) to the extent not covered by the definition of Posted Collateral under this Annex as amended by this Paragraph 13(m)(iii), all proceeds of the foregoing.

(iii) **Conditions Precedent**. No later than the Trade Date in respect of the Transaction, Party B shall have delivered to Party A all documentation necessary to validly Transfer the Shares in forms reasonably acceptable to Party A, which documentation shall include:

(1) a duly executed and acknowledged Assignment Agreement (as defined in the Confirmation);

(2) the Shares, in certificated form, duly issued and executed by the Issuer (as defined in the Confirmation) pursuant to the LLC Agreement, together with undated and blank endorsements;

(3) a copy of the register of the Issuer, duly updated to record the Transfer of the Shares to Party A and the pledge of the Shares by Party B to Party A; and

(4) such other documents and instruments as may be reasonably necessary or desirable to further carry out the purposes of the Transaction as determined by Party A.

(iv) The definition of (i) "**Exposure**" hereunder is amended to delete the definition thereof and replace it with the following: "Exposure shall be equal to the Independent Amount"; and (ii) the definition of "**Value**" is hereby amended by deleting clause (i)(B) and replacing it with the following: "Shares, the Fair Market Value of such Shares as defined in the Confirmation."

(v) Paragraph 8 of this Annex is hereby amended by adding the following provisions directly below clause (a)(iv) thereof:

(v) The Secured Party may, in its discretion, but shall not be obligated to, sell the Posted Collateral or any part thereof by private sale in such manner and under such circumstances as the Secured Party may deem necessary or advisable. Seller may purchase the Posted Collateral in lieu of effecting any private sale of the Posted Collateral. Without limiting the generality of the foregoing, in any such event, the Secured Party in its discretion (x) may, in accordance with applicable securities laws, proceed to make such private sale, (y) may approach and negotiate with a single possible purchaser to effect such sale, including, without limitation, the Issuer and (z) may restrict such sale to a purchaser who is an accredited investor under the Securities Act of 1933, as amended, and, if required by the Issuer, a qualified purchaser under the Investment Company Act of 1940, as amended, and who will represent and agree that such purchaser is purchasing for its own account, for investment and not with a view to the distribution or sale of such Posted Collateral or any part thereof. In addition, the Secured Party in its reasonable discretion (subject only to applicable requirements of law), may require that any sale hereunder (including a sale at auction) be conducted subject to restrictions:

(1) as to the financial sophistication and ability of any Person permitted to bid or purchase at any such sale;

(2) as to the content of legends on the Shares sold in such sale, including restrictions on future transfer thereof;

(3) as to the representations required to be made by each Person bidding or purchasing at such sale relating to that Person's access to financial information about the Pledgor and such Person's intentions as to the holding of the Posted Collateral so sold for investment for its own account and not with a view to the distribution thereof; and

(4) as to such other matters as the Secured Party may, in its discretion, deem necessary or appropriate in order that such sale (notwithstanding any failure so to register) may be effected in compliance with relevant insolvency or bankruptcy laws and other laws affecting the enforcement of creditors' rights and the Securities Act of 1933, as amended and all applicable state securities laws.

(vi) The Pledgor agrees to the maximum extent permitted by applicable law that following the occurrence and during the continuance of an Event of Default or Termination Event with respect to the Pledgor, it will not at any time plead, claim or take the benefit of any appraisal, valuation, stay, extension, moratorium or redemption law now or hereafter in force in order to prevent or delay the enforcement of this Agreement, or the absolute sale of the whole or any part of the Posted Collateral or the possession thereof by any purchaser at any sale hereunder, and the Pledgor waives the benefit of all such laws to the extent it lawfully may do so. The Pledgor agrees that it will not interfere with any right, power and remedy of the Secured Party provided for in this Agreement or in the other Credit Support Documents to which the Pledgor is a party or now or hereafter existing at law or in equity or by statute or otherwise, or the exercise or beginning of the exercise by the Secured Party of any one or more of such rights, powers or remedies;

(vii) The Pledgor further agrees that a breach of any of the covenants contained herein will cause irreparable injury to the Secured Party, that the Secured Party shall have no adequate remedy at law in respect of such breach and, as a consequence, agrees that each and every covenant contained herein shall be specifically enforceable against the Pledgor, and the Pledgor hereby waives and agrees not to assert any defenses against an action for specific performance of such covenants;

(viii) **TO THE MAXIMUM EXTENT PERMITTED BY LAW, FOLLOWING THE DELIVERY BY PARTY A OF A NOTICE OF AN EVENT OF DEFAULT OR A TERMINATION EVENT WITH RESPECT TO THE PLEDGOR, THE PLEDGOR HEREBY IRREVOCABLY CONSTITUTES AND APPOINTS THE SECURED PARTY AS THE PROXY AND ATTORNEY-IN-FACT OF THE PLEDGOR WITH RESPECT TO THE POSTED COLLATERAL, INCLUDING THE RIGHT TO VOTE SUCH POSTED COLLATERAL, WITH FULL POWER OF SUBSTITUTION TO DO SO. IN ADDITION TO THE RIGHT TO VOTE ANY SUCH POSTED COLLATERAL, SUBJECT TO THE LLC AGREEMENT OF THE ISSUER, THE APPOINTMENT OF THE SECURED PARTY AS PROXY AND ATTORNEY-IN-FACT SHALL INCLUDE THE RIGHT TO EXERCISE ALL OTHER RIGHTS, POWERS, PRIVILEGES AND REMEDIES TO WHICH A HOLDER OF SUCH POSTED COLLATERAL WOULD BE ENTITLED (INCLUDING GIVING OR WITHHOLDING WRITTEN CONSENTS OF MEMBERS, CALLING SPECIAL MEETINGS OF MEMBERS AND VOTING AT SUCH MEETINGS), IN EACH CASE SUBJECT TO THE LLC AGREEMENT OF THE ISSUER. SUCH PROXY SHALL BE EFFECTIVE, AUTOMATICALLY AND WITHOUT THE NECESSITY OF ANY ACTION (INCLUDING ANY TRANSFER OF ANY SUCH POSTED COLLATERAL ON THE RECORD BOOKS OF THE ISSUER THEREOF) BY ANY PERSON (INCLUDING THE ISSUER OF SUCH POSTED COLLATERAL OR ANY OFFICER OR AGENT THEREOF), UPON THE OCCURRENCE OF AN EVENT OF DEFAULT OR A TERMINATION EVENT WITH RESPECT TO THE PLEDGOR; AND**

(ix) THE APPOINTMENT OF THE SECURED PARTY AS PROXY AND ATTORNEY-IN-FACT IN THIS CLAUSE 8(A) IS COUPLED WITH AN INTEREST AND SHALL BE IRREVOCABLE UNTIL THE DATE ON WHICH THIS TRANSACTION IS TERMINATED IN ACCORDANCE WITH ITS TERMS. THE APPOINTMENT OF SECURED PARTY AS PROXY AND ATTORNEY-IN-FACT SHALL INCLUDE THE RIGHT, WITHOUT LIMITATION, TAKE ANY ACTION AND TO EXECUTE ANY INSTRUMENT THAT THE SECURED PARTY MAY DEEM NECESSARY OR ADVISABLE TO ACCOMPLISH THE PURPOSES OF THIS AGREEMENT, INCLUDING WITHOUT LIMITATION TO PAY OR DISCHARGE TAXES OR LIENS LEVIED OR PLACED UPON OR THREATENED AGAINST THE POSTED COLLATERAL, THE LEGALITY OR VALIDITY THEREOF AND THE AMOUNTS NECESSARY TO DISCHARGE THE SAME TO BE DETERMINED BY THE SECURED PARTY IN ITS SOLE DISCRETION, ANY SUCH PAYMENTS MADE BY THE SECURED PARTY TO BECOME OBLIGATIONS OF THE PLEDGOR TO THE SECURED PARTY, DUE AND PAYABLE IMMEDIATELY WITHOUT DEMAND. NOTWITHSTANDING ANYTHING CONTAINED HEREIN, NEITHER THE SECURED PARTY NOR ANY OF ITS RESPECTIVE AFFILIATES, OFFICERS, DIRECTORS, EMPLOYEES, AGENTS OR REPRESENTATIVES SHALL HAVE ANY DUTY TO EXERCISE ANY RIGHT OR POWER GRANTED HEREUNDER OR OTHERWISE OR TO PRESERVE THE SAME AND SHALL NOT BE LIABLE FOR ANY FAILURE TO DO SO OR FOR ANY DELAY IN DOING SO, EXCEPT IN RESPECT OF DAMAGES ATTRIBUTABLE SOLELY TO THEIR OWN GROSS NEGLIGENCE OR WILLFUL MISCONDUCT AS FINALLY DETERMINED BY A COURT OF COMPETENT JURISDICTION; PROVIDED THAT, IN NO EVENT SHALL THEY BE LIABLE FOR ANY PUNITIVE, EXEMPLARY, INDIRECT OR CONSEQUENTIAL DAMAGES.

(vi) Paragraph 9 of this Annex is hereby amended by adding the following representations to the end of clause (iv) thereof:

(v) The Pledgor has not performed and will not perform any acts that might prevent the Secured Party from enforcing any of the terms of this Agreement or that might limit the Secured Party in any such enforcement;

(vi) all Posted Collateral constituting the Shares has been duly authorized, validly issued, are fully paid and non-assessable; with respect to any Shares that are represented by certificates delivered to the Secured Party or attributed to a securities account, such Shares are Securities as defined in Article 8 of the UCC;

(vii) none of the Posted Collateral has been issued or transferred in violation of the securities registration, securities disclosure or similar laws of any jurisdiction to which such issuance or transfer may be subject, and there are existing no options, warrants, calls or commitments or liens of any character whatsoever relating to the Posted Collateral which are the Shares (except for any options, warrants, calls or commitments or liens created by or contemplated in this Agreement) or which obligate the Issuer of the Shares included in the Posted Collateral to issue additional membership interests to the Pledgor;

(viii) The representations and warranties set forth in this Paragraph 9 shall survive the execution and delivery of this Agreement, and shall be deemed repeated on each Business Day on which Posted Collateral is removed, added or substituted pursuant to the terms hereof; and

(vii) Paragraph 10 of this Annex is hereby amended by adding the following clause (d) at the end of clause (c) thereof: "The obligation of the Pledgor to pay expenses as set forth in this Paragraph 10 shall survive the termination of the Agreement and the discharge of the Pledgor's obligations thereunder."

(viii) Paragraph 11 of this Annex is hereby amended by adding the following clauses at the end of such Paragraph:

(g) The Pledgor will maintain, and will cause the Issuer to maintain, complete and accurate books and records with respect to the Posted Collateral. The Pledgor will not intervene with any rights that the Secured Party may have to inspect the books and records of the Issuer.

(h) The Pledgor hereby authorizes the Secured Party to file, and if requested will deliver to the Secured Party, all financing statements (including, without limitation, a UCC financing statement in the name of the Pledgor in the UCC jurisdiction) and other documents and other instruments and take such other actions as may from time to time be requested by the Secured Party in order to maintain a first-priority perfected security interest in and control of, the Posted Collateral in any relevant jurisdiction. Any financing statement filed by the Secured Party may be filed in any filing office in any UCC jurisdiction and may (i) describe the Collateral by any description which reasonably approximates the description contained in this Annex and the Confirmation, and (ii) contain any other information required by Part 5 of Article 9 of the UCC for the sufficiency or filing office acceptance of any financing statement or amendment, including whether the Pledgor is an organization, the type of organization and any organization identification number issued to the Pledgor. The Pledgor also agrees to furnish any such information to the Secured Party promptly upon request. The Pledgor also ratifies its authorization for the Secured Party to have filed in any UCC jurisdiction any initial financing statements or amendments thereto if filed prior to the date hereof. The Pledgor shall pay all actual and reasonable out-of-pocket third party expenses incurred in connection with such liens and security interest within five (5) Business Days.

(i) Except as specifically provided in the Agreement, the Pledgor will not sell, assign, transfer, pledge, dispose or otherwise encumber any of its rights in or to the Posted Collateral, or any unpaid dividends, interest or other distributions or payments with respect to the Posted Collateral or grant a security interest or lien in the Posted Collateral without the prior consent of the Secured Party.

(j) The Pledgor will not create, incur, or suffer to exist any lien on the Posted Collateral except the security interest created by this Agreement and any lien created in favor of Party A in the usual course of business. The Pledgor will not authorize the filing of any financing statement or any other document or instrument naming the Pledgor as debtor covering all or any portion of the Posted Collateral other than in favor of the Secured Party. The Pledgor acknowledges that it is not authorized to file any financing statement or amendment or termination statement with respect to any financing statement without the prior written consent of the Secured Party. The Pledgor shall ensure that the Issuer remains duly incorporated and in good standing in the jurisdiction in which it is organized and each jurisdiction in which it conducts its business.

(k) The Pledgor shall (a) deliver to the Secured Party the originals of the Assignment Agreement relating to the Shares that constitute Posted Collateral, and (b) hold in trust for the Secured Party upon receipt and immediately thereafter deliver to the Secured Party any other securities and/or instruments constituting Posted Collateral.

(l) The Pledgor shall, and will permit the Secured Party to, from time to time cause the Issuer of any uncertificated securities or other types of Eligible Collateral that constitute Posted Collateral not represented by certificates to mark its books and records with the numbers and face amounts of all such uncertificated securities and all rollovers and replacements therefor to reflect the lien of the Secured Party granted pursuant to this Annex. The Pledgor will take any actions necessary to cause the Issuer of any such uncertificated securities to cause the Secured Party to have and retain control over such uncertificated securities.

(m) The Pledgor shall not (i) permit or suffer the Issuer to dissolve, merge, liquidate, retire any of the Shares or other instruments or securities evidencing ownership, reduce its capital, sell or encumber all or substantially all of its assets or merge or consolidate with any other entity, or (ii) vote any of the Shares in favor of any of the foregoing.

(n) The Pledgor shall, until the Secured Party delivers a notice of an Event of Default or a Termination Event with respect to the Pledgor, be entitled to exercise all voting rights and any other rights relating to any Shares constituting Posted Collateral with the prior written consent of the Secured Party. Upon delivery by the Secured Party of a notice of an Event of Default or a Termination Event with respect to the Pledgor, the Secured Party shall, at all times prior to the termination of this Annex but subject to all of the restrictions and limitations with respect to the Shares under the LLC Agreement of the Issuer, be entitled to exercise (or, if applicable, to direct the Pledgor with respect to its exercise of) all voting rights or other rights relating to Posted Collateral, including, without limitation, exchange, subscription or any other rights, privileges, or options pertaining to any Shares constituting Posted Collateral as if it were the absolute owner thereof.

(o) The Pledgor will not interfere with any right, power and remedy of the Secured Party provided for in this Annex or now or hereafter existing at law or in equity or by statute or otherwise, or the exercise or beginning of the exercise by the Secured Party of any one or more of such rights, powers or remedies.

(p) The Pledgor shall not (a) change its name as it appears in official filings in the jurisdiction of its incorporation or organization, (b) change the type of entity that it is, (c) change its organization or registration identification number, if any, issued by its jurisdiction of incorporation or other organization, or (d) change its jurisdiction of incorporation or organization, in each case, unless the Secured Party shall have received at least ten (10) days prior written notice of such change and the Secured Party shall have acknowledged in writing that either (1) such change will not adversely affect the validity, perfection or priority of the Secured Party's security interest in the Posted Collateral, or (2) any action requested by the Secured Party in connection therewith has been completed or taken (including any action to continue the perfection of any liens in favor of the Secured Party in any Posted Collateral).

(q) This Agreement and Annex shall remain in full force and effect and continue to be effective should any petition be filed by or against the Pledgor for liquidation or reorganization, should the Pledgor become insolvent or make an assignment for the benefit of any creditor or creditors or should a receiver or trustee be appointed for all or any significant part of the Pledgor's assets, and shall continue to be effective or be reinstated, as the case may be, if at any time payment and performance of the Obligations, or any part thereof, is, pursuant to applicable law, rescinded or reduced in amount, or must otherwise be restored or returned by any obligee of the Obligations, whether as a "voidable preference," "fraudulent conveyance," or otherwise, all as though such payment or performance had not been made. In the event that any payment, or any part thereof, is rescinded, reduced, restored or returned, the Obligations shall be reinstated and deemed reduced only by such amount paid and not so rescinded, reduced, restored or returned.

(r) The Pledgor acknowledges that the agreements made by it and the authorizations granted by it hereunder are irrevocable and that the authorizations granted in this Paragraph 13 hereof are powers coupled with an interest until payment in full of all amounts due under this Agreement and Annex.

(s) The Secured Party may execute any of its duties hereunder by or through agents or employees and shall be entitled to advice of counsel concerning all matters pertaining to its duties hereunder. Neither the Secured Party, nor any of its respective officers, directors, employees, agents or counsel shall be liable for any action lawfully taken or omitted to be taken by it or them hereunder or in connection herewith, except for its or their own gross negligence or willful misconduct as finally determined by a court of competent jurisdiction.

**MAZAL 485 LLC**

**Name:** _____
**Title:** _____
**Date:** _____

**GREEN 485 HOLDINGS LLC**

**Name:** _____
**Title:** _____
**Date:** _____

**EXHIBIT "2(F)"**

-

**Transferor Pledge and Security Agreement**

**PLEDGE AND SECURITY AGREEMENT**

This **PLEDGE AND SECURITY AGREEMENT** (this "Agreement"), dated as of the _____ day of _____, 2009, between **MAZAL 485 LLC**, a Delaware limited liability company, its successors and/or assigns, having an office at 241 West 47th Street, Suite 11B, New York, New York 10036 ("Secured Party") and **GREEN 485 HOLDINGS LLC**, a Delaware limited liability company having an office at c/o SL Green Realty Corp., 420 Lexington Avenue, New York, New York 10170 ("Pledgor").

**Preliminary Statement**

WHEREAS, Secured Party has agreed to make a loan in the principal sum of $_____ (the "Loan") to Pledgor;

WHEREAS, Pledgor is a member of Green 485 JV LLC, a Delaware limited liability company (the "Company"), under and pursuant to the LLC Agreement (as defined in Exhibit A attached hereto);

WHEREAS, Secured Party was willing to make the Loan to Pledgor only if Pledgor executes and delivers this Agreement and grants and assigns to Secured Party a security interest in the Collateral (as hereinafter defined) in the manner hereinafter set forth;

NOW, THEREFORE, in consideration of the making of the Loan and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Pledgor hereby represents and warrants to and covenants and agrees with Secured Party as follows:

**SECTION 1. Security Interest**. As security for (i) the due and punctual payment of the Debt (as defined in Exhibit A attached hereto) and (ii) the due and punctual observance and performance by Pledgor of all of the terms, covenants and provisions of the Loan Documents (as defined in Exhibit A attached hereto) (collectively the "Obligations"), Pledgor hereby pledges, hypothecates, assigns, and delivers to Secured Party and grants to Secured Party a security interest in all of Pledgor's right, title and interest now owned or hereafter acquired in and to the following described property (the "Collateral"):

(a) 100% of Pledgor's membership interest in the Company (the "Interest") and certificates, if any, representing the Interest;

(b) all cash, securities, dividends, distributions, proceeds, and other property at any time from and after the date hereof and from time to time thereafter received, receivable or otherwise distributed to Pledgor in respect of or in exchange for any or all of the Interest, and any fees, commissions or other compensation payable from and after the date hereof to Pledgor as a member of the Company (all of the foregoing, collectively, "Distributions");

(c) all contract rights, general intangibles, rights, claims, powers, privileges, benefits and remedies arising from or in any way related to ownership of the Interest, certificates, if any, representing the Interest and the other Collateral described above in paragraphs 1(a) and (b), including, without limitation, all rights to vote or consent, or to receive any notice, or to inspect or review any books, records or other information;

(d) all additions to the Collateral described in the foregoing clauses (a) through (c), all substitutions therefor and all replacements thereof; and

(e) all proceeds of any of the foregoing.

**SECTION 2. Representations and Warranties of Pledgor**. Pledgor hereby represents and warrants to Secured Party as follows:

(a) Pledgor is duly organized and validly existing in accordance with the laws of the jurisdiction of its formation and is in good standing under the laws of the State of New York and has all requisite power and authority under the laws of such state and under its organizational and charter documents to enter into and perform its obligations under this Agreement.

(b) Pledgor has taken all necessary legal and other action to authorize the execution, delivery and performance of this Agreement, and this Agreement constitutes the valid and binding obligation and agreement of Pledgor, enforceable against Pledgor in accordance with its terms.

(c) Pledgor has not received any written notice of default under any agreement or instrument to which it is a party or by which it or its assets may be bound which default would have a Material Adverse Effect (as defined on Exhibit A attached hereto), and to the extent Pledgor is in default under any order, judgment, award or decree of any court, arbitrator or other governmental authority binding upon it or by which any of its assets may be bound or affected, such default would not have a Material Adverse Effect.

(d) Neither the execution and delivery of this Agreement nor the compliance by Pledgor with the terms and provisions hereof are events which of themselves, or with the giving of notice or the passage of time, or both, would constitute, on the part of Pledgor, a violation of or conflict with, or result in any breach of, or default under, the terms, conditions or provisions of, or require any consent, permit, approval, authorization, declaration or filing which has not been made or obtained under or pursuant to, any statute, law, judgment, decree, order, rule or regulation applicable to Pledgor, the organizational and charter documents of Pledgor, or any other material agreement or instrument to which Pledgor is a party or by which Pledgor, or its assets, are bound, or result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever (other than the security interest granted hereby) on any of the assets of Pledgor that would have a Material Adverse Effect, and no such condition or event of itself, or with the giving of notice or the passage of time, or both, will result in the acceleration of the due date of any obligation of Pledgor or by which any of its assets are bound which would have a Material Adverse Effect.

(e) To Pledgor's actual knowledge, there are no judgments presently outstanding and unsatisfied against Pledgor or any of its assets that would have a Material Adverse Effect, and neither Pledgor nor any of its assets are a party to or the subject of any actions or suits or proceedings in equity or by any governmental authorities that would have a Material Adverse Effect, and no such litigation or proceeding has been threatened against Pledgor or against any of its assets that would have a Material Adverse Effect, and no investigation in contemplation of such litigation or proceeding has begun or is pending that would have a Material Adverse Effect.

(f) Pledgor is the sole legal and equitable owner of the Interest, free and clear of all liens, security interests, charges and encumbrances of every kind and nature (other than as created hereunder); the Interest is duly authorized, validly issued, fully paid and non-assessable; Pledgor has legal title to the Interest and good right and lawful authority to grant a security interest in the same in the manner hereby done or contemplated; except as otherwise provided in the LLC Agreement, the Interest is not subject to any option or similar arrangement; and no consent or approval of any governmental body or regulatory authority, or of any securities exchange, is necessary to the validity of the rights created hereunder; and all action has been taken by Pledgor to create in favor of Secured Party, a valid security interest in the Interest.

(g) Pledgor is the legal and equitable owner of the Collateral free and clear of all liens, security interests, charges, and encumbrances of every kind and nature (other than those created hereunder); the membership interest comprising the Collateral has been duly authorized, validly issued and is fully paid and non-assessable; Pledgor has legal title to such Collateral and good and lawful authority to pledge, assign and deliver such Collateral in the manner hereby contemplated; and no consent or approval of any governmental body or regulatory authority, or of any securities exchange, is necessary to the validity of the rights created hereunder.

(h) Pledgor shall not take any action, or fail to take any action, in contravention of the terms, conditions and provisions of the Loan Documents.

**SECTION 3. Delivery of Collateral; Voting Rights; Distributions; Substitution of Collateral**.

(a) Any and all certificates, if any, representing the Collateral (including without limitation additional or substitute certificates or instruments representing Distributions or other Collateral that hereafter may be issued) shall be delivered to the Secured Party in suitable form for transfer by delivery, or shall be accompanied by duly executed instruments of transfer or assignment in blank, with signatures appropriately guaranteed, and accompanied by any required transfer tax stamps, all in form satisfactory to Secured Party. Upon the pledge of any Collateral hereunder, Pledgor shall forthwith take any action necessary to cause such Collateral to be registered in the name of Secured Party or its designee, and shall provide evidence of same to Secured Party within five (5) business days of written request.

(b) So long as there shall not have occurred and be continuing an Event of Default, Pledgor shall be entitled to exercise any and all voting rights and powers relating or pertaining to the Collateral or any part thereof for any purpose not inconsistent with the terms and provisions of the Loan Documents or otherwise in contravention of any of the terms, covenants or provisions of the Loan Documents.

(c) Until the Obligations are paid and performed in full, Pledgor shall not receive or be entitled to retain any Distributions, if any, paid on the Collateral. Pledgor hereby irrevocably directs the Company to deliver directly to the Secured Party any Distribution that is payable to Pledgor prior to the Obligations having been paid and performed in full. All Distributions received by Secured Party shall be held by Secured Party in an account under the sole dominion and control of Secured Party. Pledgor hereby pledges to Secured Party, as collateral for the obligations, all right, title and interest of Pledgor to any monies placed in such account, including any interest earned on such monies. The monies placed into such account, together with interest earned thereon, if any, shall be applied by Secured Party in accordance with the provisions of the Note. To the extent Pledgor receives any Distributions prior to the Obligations having been paid and performed in full, Pledgor shall receive same in trust for the benefit of Secured Party and shall immediately deliver same to Secured Party or its designated agent (accompanied by proper instruments of assignment or stock powers executed by Pledgor in accordance with Secured Party's instructions) to be held subject to the terms, provisions and conditions of this Agreement.

(d) Upon the occurrence and during the continuation of an Event of Default, at the option of Secured Party, (i) all rights of Pledgor to exercise the voting and consensual rights and powers which Pledgor is entitled to exercise pursuant to the foregoing subparagraph (b) shall cease, and all such rights shall thereupon and without any further action or notice become vested in Secured Party who shall have the sole and exclusive right and authority to exercise (or refrain from exercising) such voting and consensual rights and powers in its sole discretion, and (ii) without limiting the rights of Secured Party under Section 3(d), Secured Party shall continue to be entitled to receive and retain any and all Distributions until the Obligations are paid and performed in full. THIS ASSIGNMENT OF VOTING RIGHTS IS COUPLED WITH AN INTEREST AND IS IRREVOCABLE BY DISSOLUTION OR OTHERWISE. The exercise of any of the rights and remedies of Secured Party under this paragraph shall not be or be deemed to be a disposition of Collateral under Article 9 of the Uniform Commercial Code as in effect in any applicable jurisdiction (the "UCC") or an acceptance or a retention or a proposal to accept or retain all or any part of the Collateral in satisfaction of all or any of the Obligations. Any and all Distributions received by Secured Party pursuant to the provisions of this paragraph shall be retained by Secured Party as part of the Collateral and applied in accordance with the provisions of Section 6 of this Agreement.

(e) No substitution of Collateral shall be permitted without the prior written consent of Secured Party.

**SECTION 4. Defaults**. The Debt shall become immediately due and payable at the option of the Secured Party upon the occurrence of any of the following events (an "Event of Default"):

(a) if (i) any portion of the Debt is not paid within five (5) business days after the same is due (taking into account any right of Pledgor under the Note to defer payment of Deferred Interest, as defined in the Note) or (ii) the Debt is not paid in full on the Maturity Date.

(b) if any Federal tax lien is filed against Pledgor or the Collateral that would have a Material Adverse Effect, Pledgor is aware of such lien and the same is not discharged of record within thirty (30) days of Pledgor receiving notice of such lien from the lienor, Secured Party or any third party;

(c) if without the written consent of Secured Party, to be granted or withheld in Secured Party's sole discretion, any part of the Collateral or any interest therein is in any manner further encumbered, sold, transferred or conveyed;

(d) if any representation or warranty of Pledgor made in the Loan Documents or in any certificate, report, financial statement or other instrument furnished in connection with the making of the Loan or the execution of the Loan Documents shall prove to have been false or misleading in any material respect when made and would have a Material Adverse Effect;

(e) if Pledgor shall make a general assignment for the benefit of creditors;

(f) if a court of competent jurisdiction enters a decree or order for relief with respect to Pledgor under Title 11 of the United States Code as now constituted or hereafter amended or under any other applicable Federal or state bankruptcy law or other similar law, or if such court enters a decree or order appointing a receiver, liquidator, assignee, trustee, sequestrator (or similar official) of Pledgor or of any substantial part of its property, or if such court decrees or orders the winding up or liquidation of the affairs of Pledgor;

(g) if Pledgor files a petition or answer or consent seeking relief under Title 11 of the United States Code as now constituted or hereafter amended, or under any other applicable Federal or state bankruptcy law or other similar law, or if Pledgor consents to the institution of proceedings thereunder or to the filing of any such petition or to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or other similar official) of Pledgor, or of any substantial part of its property, or if Pledgor fails generally to pay its debts as such debts become due, or if Pledgor takes any action in furtherance of any action described in this subparagraph;

(h) except with respect to defaults arising under Section 4(a), if Pledgor shall be in default (i) under this Agreement with respect to any monetary obligation which continues for five (5) business days after notice from Secured Party or with respect to any non-monetary default which continues for thirty (30) days after notice from Secured Party or (ii) under the terms of any other agreement between Pledgor and Secured Party or any affiliate of Secured Party.

**SECTION 5. Remedies Upon Default**. Upon the occurrence and during the continuation of an Event of Default, Secured Party may, in addition to any other rights or remedies which Secured Party may have at law or in equity (including, without limitation, any rights or remedies provided under this Agreement or the other Loan Documents), immediately and without demand exercise with respect to the Collateral any and all rights and remedies granted to a secured party under the UCC.

**SECTION 6. Sale of Collateral**.

(a) Sale of the Collateral may be made at any public or private sale or at any broker's board or on any securities exchange, for cash, upon credit or for future delivery, as Secured Party shall deem appropriate. Secured Party shall be authorized at any such sale, in its sole discretion, to restrict the prospective bidders or purchasers to persons who will represent and agree that they are purchasing the Collateral then being sold for their own account for investment and not with a view to the distribution or resale thereof, and upon consummation of any such sale Secured Party shall have the right to assign, transfer and deliver to the purchaser or purchasers thereof the Collateral so sold. Each such purchaser at any such sale shall hold the property sold absolutely free from any claim or right on the part of Pledgor, and Pledgor hereby waives, to the extent permitted by law, all right of redemption, stay or appraisal which Pledgor now have or may at any time in the future have under any rule of law or statute now existing or hereafter enacted. To the extent that notice of sale shall be required to be given by law, Secured Party shall give Pledgor ten (10) days' notice in the manner herein specified of Secured Party's intention to make any such public or private sale or sale at any broker's board or on any such securities exchange. Such notice, in case of public sale, shall state the time and place fixed for such sale, and, in the case of sale at a broker's board or on a securities exchange, shall state the board or exchange at which such sale is to be made and the day on which the Collateral, or portion thereof, will first be offered for sale at such board or exchange. In case of private sale, such notice shall state the time after which the Collateral will be sold. Any such public sale shall be held at such time or times within ordinary business hours and at such place or places as Secured Party may fix in the notice of such sale. At any such sale, the Collateral, or any portion thereof, may be sold in one lot as an entirety or in separate parcels, as Secured Party may in its sole discretion determine. To the extent permitted by law, Secured Party may bid, which bid may be in whole or in part, in the form of cancellation of indebtedness, for and purchase for the account of Secured Party or its nominee the whole or any part of the Collateral. Secured Party shall not be obligated to make any sale of the Collateral if Secured Party shall determine not to do so, regardless of the fact that notice of sale of the Collateral may have been given. Secured Party may, without notice of publication, adjourn any public or private sale or cause the same to be adjourned from time to time by announcement at the time and place fixed for sale, and such sale may, without further notice, be made at the time and place to which the same was so adjourned. In case sale of all or any part of the Collateral is made on credit or for future delivery, the Collateral so sold may be retained by Secured Party until the sales price is paid by the purchaser or purchasers thereof, but Secured Party shall not incur any liability in case any such purchaser or purchasers shall fail to take up and pay for the Collateral so sold and, in the case of any such failure, such Collateral may be sold again upon like notice. As an alternative to exercising the power of sale herein conferred upon it, Secured Party may proceed by a suit or suits at law or in equity to foreclose this Agreement and to sell the Collateral, or any portion thereof, pursuant to a judgment or decree of a court or courts of competent jurisdiction. Pledgor agrees, to the extent permitted by law, that any sale or other disposition of any of the Collateral in accordance with the foregoing procedures shall be deemed to be commercially reasonable under the UCC and otherwise proper.

(b) In connection with any disposition of the Collateral, if Secured Party elects to obtain the advice of any one or more independent nationally known investment banking firms which are member firms of the New York Stock Exchange (or other nationally recognized exchange), with respect to the method or manner of sale or disposition of any of the Collateral, the best price reasonably obtainable therefor and any other details concerning such sale or disposition, Pledgor agrees, to the extent permitted by law, that any sale or other disposition of any of the Collateral in reliance on such advice shall be deemed to be commercially reasonable under the UCC and otherwise proper.

(c) Pledgor understands that compliance with federal or state securities laws may strictly limit the course of conduct of Secured Party if Secured Party were to attempt to dispose of all or any part of the Collateral and may also limit the extent to which or the manner in which any subsequent transferee of the Collateral may dispose of the same. Pledgor agrees that in any sale of any of the Collateral, Secured Party is hereby authorized to comply with any such limitation or restriction in connection with such sale as it may be advised by counsel is necessary in order to avoid any violation of applicable law (including, without limitation, compliance with such procedures as may restrict the number of prospective bidders and purchasers or further restrict such prospective bidders or purchasers to persons who will represent and agree that they are purchasing for their own account for investment and not with a view to the distribution or resale of such Collateral), or in order to obtain any required approval of the sale or of the purchaser by any governmental regulatory authority or official, and Pledgor further agrees that such compliance shall not result in such sale being considered or deemed not to have been made in a commercially reasonable manner, nor shall Secured Party be liable or accountable to Pledgor for any discount allowed by reason of the fact that such Collateral is sold in compliance with any such limitation or restriction.

**SECTION 7. Application of Monies**. All monies (including, without limitation, Distributions) received or collected by Secured Party pursuant to this Agreement shall be held as Collateral by Secured Party and applied in accordance with the provisions of the Note and after the occurrence of an Event of Default shall be applied by Secured Party first, to the payment of all costs incurred in the collection of such monies (including reasonable attorneys' fees and legal expenses) and second, to the payment of the Obligations in such order and priority as Secured Party may in its sole discretion determine. The balance, if any, of such monies remaining after payment in full of such costs and the Obligations shall be remitted to Pledgor or as otherwise directed by a court of competent jurisdiction.

**SECTION 8. Secured Party Appointed Attorney-in-Fact**. Pledgor hereby appoints Secured Party the attorney-in-fact of Pledgor for the purpose of carrying out the provisions of this Agreement and taking any action and executing any instrument which Secured Party may deem necessary or advisable to accomplish the purposes hereof, which appointment is irrevocable and coupled with an interest. Without limiting the generality of the foregoing, Secured Party shall have the right and power to receive, endorse and collect all checks and other orders for the payment of money made payable to Pledgor representing any Distribution or any part thereof and to give full discharge for the same.

**SECTION 9. No Waiver**. No failure or delay on the part of Secured Party in exercising any power or right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power preclude any other or further exercise thereof or the exercise of any other right or power hereunder, nor shall Secured Party's waiver of any right or remedy against Pledgor release or relieve Pledgor from its obligations hereunder. No modification or waiver of any provision of this Agreement or consent to any departure by Pledgor therefrom shall be effective unless the same shall be in writing and signed by Secured Party, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to or demand on Pledgor in any case shall, of itself, entitle Pledgor to any other or further notice or demand in similar or other circumstances. If any notice is required by law to be given to Pledgor by Secured Party, ten (10) days' notice given in the manner herein provided for and addressed to Pledgor at the address set forth herein shall be deemed for all purposes to be reasonable notice.

**SECTION 10. Duration of Secured Party's Rights and Termination**. Until the Obligations shall have been paid and performed in full, all rights, powers and remedies granted to Secured Party under this Agreement shall continue to exist and may be exercised by Secured Party at any time and from time to time irrespective of the fact that the Obligations or any part thereof may have become barred by any statute of limitations or that the liability of Pledgor or any other party therefor may have ceased. Upon payment and performance in full of the Obligations, Secured Party shall reassign and redeliver, without recourse or warranty and at the expense of Pledgor, or cause to be so reassigned and redelivered, to Pledgor or to such person or persons as Pledgor shall designate, against receipt, such of the Collateral, if any, as shall not have been sold or otherwise applied by Secured Party pursuant to the terms hereof and still be held by Secured Party hereunder, together with appropriate instruments of reassignment and release.

**SECTION 11. No Further Transfer or Encumbrance of Collateral**. Until the Obligations are paid and performed in full, Pledgor covenants and agrees with Secured Party that Pledgor shall not in any manner further encumber, sell, transfer or convey, or permit to be further encumbered, sold, transferred or conveyed in any manner, the Collateral and security interests created hereby.

**SECTION 12. Limitation on Duties and Liabilities of Secured Party; Indemnification**.

(a) Beyond the exercise of reasonable care in the custody of any Collateral in its possession, Secured Party (in its capacity as Secured Party) shall have no duty as to any Collateral or as to the preservation of rights against prior parties or any other rights pertaining thereto. Secured Party (in its capacity as Secured Party) shall have no duty as to any Collateral, to ascertain or take action with respect to calls, conversions, exchanges, maturities, tenders or other matters relative to any Collateral, whether or not Secured Party has or is deemed to have knowledge of such matters, or as to the taking of any necessary steps to preserve rights against any parties or any other rights pertaining to any Collateral. Secured Party shall be deemed to have exercised reasonable care in the custody and preservation of the Collateral in its possession if the Collateral is accorded treatment substantially equal to that which it accords other collateral of the same type in its possession. Secured Party (in its capacity as Secured Party) shall not be liable or responsible for any loss or damage to any of the Collateral, or for any diminution in the value thereof, by reason of the act or omission of Secured Party (in its capacity as Secured Party) or any agent, bailee or custodian selected by Secured Party in good faith or for taking any necessary steps to preserve rights against any parties with respect to any Collateral or for the collection of any proceeds of any Collateral or for any invalidity, lack of value or uncollectability of any of the Collateral.

(b) The pledge and assignment of the Collateral and grant of a security interest is for collateral purposes only, and Secured Party shall neither by virtue of this Security Agreement, by the receipt of Distributions, by exercise of voting rights or by the exercise of any of its rights or remedies hereunder be deemed to be a member of the Company or to have any liability for the debts, obligations or liabilities of Pledgor, the Company or any other member of the Company. Without limiting the generality of the foregoing, by accepting the pledge, assignment and security interests described herein, Secured Party does not thereby assume any debts, obligations, responsibilities, covenants, agreements or liabilities of Pledgor in connection with the Collateral or of Pledgor to the Company or to any third parties dealing with the Company.

(c) Pledgor upon demand shall pay to Secured Party the amount of any and all reasonable expenses, including the reasonable fees and disbursements of counsel and of any experts and agents, which Secured Party may incur in connection with (i) the sale of, collection from, or other realization upon, any of the Collateral, (ii) the exercise or enforcement of any of the rights of Secured Party hereunder, or (iii) the failure by Pledgor to perform or observe any of the provisions hereof.

(d) All advances, charges, costs, taxes, liens, assessments, and expenses, including reasonable attorneys' fees, incurred or paid by Secured Party in exercising any right, power or remedy conferred in this Agreement, or in the enforcement thereof, shall become a part of the Obligation secured hereby and shall bear interest from the date incurred or paid by Secured Party at a rate per annum equal to the lesser of (i) the Default Rate (as defined in the Note) and (ii), the maximum rate which Secured Party may lawfully be entitled to receive.

**SECTION 13. Security Interest Absolute**. All rights of Secured Party and the security interests hereunder, and all obligations secured hereby, shall be absolute and unconditional, irrespective of any lack of validity or enforceability of any of the Loan Documents; any change in the time, manner or place of payment of, or in any other term of, all or any of the Obligations or any other amendment or waiver of or any consent to any departure from any of the Loan Documents; any exchange, release or non-perfection of any other collateral for the Obligations, or any release or amendment or waiver of or consent to departure from any of the Loan Documents; or any other circumstance (other than payment and performance of the Obligations in full) that might otherwise constitute a defense available to, or a discharge of Pledgor or any other obligor under any of the Loan Documents, or any third party grantor of collateral for the Obligations or any part thereof.

**SECTION 14. Notice**. Any notice, request, demand, statement, authorization, approval or consent made All notices of default, demands, requests for or grants of consents or approvals, which any of the parties to this Agreement may desire or be required to give hereunder shall be in writing and shall be given by (a) personal delivery, (b) facsimile transmission or (c) a nationally recognized overnight courier service, fees prepaid, addressed as follows:

| | |
|---|---|
| If to the Pledgor, to: | c/o SL Green Realty Corp.<br>420 Lexington Avenue<br>New York, New York 10170<br>Attn: Andrew S. Levine, Esq.<br>Facsimile No.: (212) 356-4135 |
| With a copy to: | Paul, Weiss, Rifkind, Wharton & Garrison, LLP<br>1285 Avenue of the Americas<br>New York, New York 10019<br>Attn: Peter E. Fisch, Esq.<br>Facsimile No.: (212) 492-0424 |

| | |
|---|---|
| If to the Secured Party, to: | 241 West 47th Street<br>Suite 11B<br>New York, New York 10036<br>Attn: _____<br>Facsimile No.: _____ |
| With a copy to: | Greenberg Traurig, LLP<br>200 Park Avenue<br>New York, New York 10166<br>Attention: Joseph D. Farrell, Esq.<br>Facsimile No.: _____ |

Any Member may designate another addressee (and/or change its address) for notices hereunder by a notice given pursuant to this Section 14. A notice sent in compliance with the provisions of this Section 14 shall be deemed given on the date of receipt.

**SECTION 15. Further Assurances**.

(a) Pledgor will, at Pledgor's expense and in such manner and form as Secured Party may require, execute, deliver, file and record any financing statement, specific assignment or other customary paper and take any other action necessary or desirable, or that Secured Party may reasonably request, in order to create, preserve, perfect or validate any security interest, or to enable Secured Party to exercise and enforce its rights hereunder with respect to any of the Collateral, or better to assure and confirm unto Secured Party its rights, powers and remedies hereunder. To the extent permitted by applicable law, Pledgor hereby authorizes Secured Party to execute and file, in the name of Pledgor or otherwise, UCC financing statements (which may be carbon, photographic, photostatic or other reproductions of this Agreement or of a financing statement relating to this Agreement) which Secured Party in its sole discretion may deem necessary or appropriate to further perfect its rights under this Agreement. Pledgor hereby consents and agrees that the issuer of the Collateral or any registrar or transfer agent for any of the Collateral shall be entitled to accept the provisions hereof as conclusive evidence of the right of Secured Party to effect any transfer pursuant to the provisions hereof, notwithstanding any other notice or direction to the contrary heretofore or hereafter given by Pledgor or any other party to such issuer, registrar or transfer agent.

(b) Pledgor agrees that Pledgor will not change (i) Pledgor's name or (ii) the location of Pledgor's chief executive office unless Pledgor shall have given Secured Party not less than thirty (30) days' prior written notice thereof.

(c) Pledgor agrees to do such further reasonable acts and things, and to execute and deliver such additional conveyances, assignments, agreements and instruments, as Secured Party may at any time reasonably request in connection with the administration or enforcement of this Agreement (including, without limitation, to aid Secured Party in the sale of all or any part of the Collateral) or related to the Collateral or any part thereof or in order better to assure and confirm unto Secured Party its rights, powers and remedies hereunder.

**SECTION 16. Cumulative Rights and Remedies**. All remedies afforded to Secured Party by reason of this Agreement are separate and cumulative remedies and it is agreed that no one of such remedies shall be deemed to be in exclusion of any other remedies available to Secured Party and shall not in any manner limit or prejudice any other legal or equitable remedies which Secured Party may have. The rights, powers and remedies given to Secured Party by this Agreement shall be in addition to all rights, powers and remedies given to Secured Party by virtue of any statue or rule of law and all such rights, powers and remedies are cumulative and not alternative, and may be exercised and enforced successively or concurrently. Any forbearance or failure or delay by Secured Party in exercising any right, power or remedy hereunder shall not be deemed to be a waiver of such right, power or remedy, and any single or partial exercise of any right, power or remedy hereunder shall not preclude the further exercise thereof, and every right, power and remedy of Secured Party hereunder shall continue in full force and effect until such right, power or remedy is specifically waived by an instrument in writing executed by Secured Party.

**SECTION 17. Parties Bound**. This Agreement shall be binding upon and inure to the benefit of Pledgor and Secured Party and their respective successors and assigns.

**SECTION 18. Severability**. If any term, covenant or provision of this Agreement shall be held to be invalid, illegal or unenforceable in any respect, this Agreement shall be construed without such term, covenant or provision.

**SECTION 19. No Oral Change**. This Agreement may only be modified, amended, changed, discharged or terminated by an agreement in writing signed by the parties hereto.

**SECTION 20. Governing Law**. This agreement shall be governed by and construed in accordance with the laws of the State of New York.

**SECTION 21. Headings**. Section headings used herein are for convenience only and shall not affect the construction of this Agreement.

**SECTION 22. Counterparts**. This Agreement may be executed in any number of counterparts, and each such counterpart shall for all purposes be deemed to be an original, and all such counterparts together shall constitute but one and the same agreement.

**SECTION 23. Exculpation**. The provisions of paragraph 17 of the Note are hereby incorporated by reference to the fullest extent as if the text of such paragraph were set forth in its entirety herein. In the event of any conflict or inconsistency between the provisions of paragraph 17 of the Note, as incorporated herein by this Section 23, on the one hand, and any other Section or provision of this Agreement, on the other, the provisions of paragraph 17 of the Note shall govern and control.

[SIGNATURE PAGE FOLLOWS IMMEDIATELY]

**IN WITNESS WHEREOF**, Secured Party and Pledgor have duly executed this Agreement as of the date first above written.

**SECURED PARTY:**

**MAZAL 485 LLC**, a Delaware limited liability company

By: _____
Name:
Title:

**PLEDGOR:**

**GREEN 485 HOLDINGS LLC**, a Delaware limited liability company

By: _____
Name:
Title:

Green 485 JV LLC, the Company referred to in this Agreement, by its signature:

(i) consents in all respect to the transactions effected by this Agreement,

(ii) agrees to make all Distributions payable to Pledgor directly to Secured Party, pursuant to instructions to be provided by Secured Party, until Secured Party provides written notice to Green 485 JV LLC to the contrary,

(iii) agrees to be bound by all of the terms, covenants and provisions of this Agreement, including, without limitation, the right of Secured Party to declare the Debt immediately due and payable in accordance with the provisions hereof.

**GREEN 485 JV LLC**,
a Delaware limited liability company

By: GREEN 485 HOLDINGS LLC, its managing member

By: _____
Name: Andrew S. Levine
Title: Executive Vice President

**EXHIBIT A**

| | | |
|---|---|---|
| 1. | Debt: | The term "Debt" as used in this Agreement shall mean, collectively, all principal, interest and other sums of a nature whatsoever which may or shall become due and payable under the Loan Documents. |
| 2. | Loan Documents: | The term "Loan Documents" as used in this Agreement shall mean, collectively, the following documents and instruments executed and delivered in connection with the Loan:<br><br>(A) This Agreement.<br><br>(B) The Note.<br><br>(C) All other documents and instruments of any nature whatsoever executed and delivered in connection with the Loan or otherwise relating thereto. |
| 3. | Material Adverse Effect: | The term "Material Adverse Effect" as used in this Agreement shall mean a material adverse effect on Pledgor's ability to perform its obligations under this Agreement. |
| 4. | LLC Agreement: | The term "LLC Agreement" as used in this Agreement shall mean that certain Amended and Restated Limited Liability Company Agreement of Green 485 JV LLC, dated as of _____, 2009, among Secured Party, Pledgor and [SLGOP Subsidiary], as the same may hereafter be amended, modified, restated or supplemented in accordance with its terms. |
| 5. | Note: | The term "Note" as used in this Agreement shall mean that certain Secured Note dated as of the date hereof in the principal sum of $_____ given by the Pledgor to the Secured Party, as the same may be hereafter amended, modified, restated or supplemented in accordance with its terms or by the mutual consent of Secured Party and Pledgor. |

**EXHIBIT "2(G)"**

-

**Assignment of Limited Liability Company Interest**

**ASSIGNMENT OF MEMBERSHIP INTEREST**

This **ASSIGNMENT OF MEMBERSHIP INTEREST**,dated as of _____, 2009 (this "Assignment"), is entered into by and among **GREEN 485 HOLDINGS LLC**, a Delaware limited liability company ("Assignor") and **MAZAL 485 LLC**, a Delaware limited liability company ("Assignee").

WITNESSETH:

WHEREAS, Green 485 JV LLC, (the "Company") is a limited liability company duly formed under the laws of the State of Delaware, pursuant to the (i) Certificate of Formation of the Company filed with the Secretary of State of the State of Delaware on December 8, 2006 and (ii) the Limited Liability Company Agreement, dated as of December 15, 2006 (the "Operating Agreement");

WHEREAS, Assignor is the owner and holder of a ninety-nine percent (99%) membership interest in the Company; and

WHEREAS, Assignor and Assignee have entered into that certain Sale-Purchase Agreement, dated as of August _____, 2009, pursuant to which Assignor has agreed to assign to Assignee a portion of its membership interest in the Company constituting a forty-nine percent (49.5%) membership interest therein (the "Interest").

NOW, THEREFORE, for value received, the receipt and sufficiency of which are hereby acknowledged, the undersigned, in consideration of the premises, covenants and agreement contained herein, do hereby agree as follows:

1. Assignment. Assignor hereby unconditionally and irrevocably assigns, transfers and conveys to Assignee, effective as of the date hereof, all of the right, title and interest of Assignor in and to the Interest, including, without limitation, all right, title and interest of Assignor, if any, in and to the properties (real and personal) and capital of the Company and all distributions and allocations made or to be made in respect of the Interest.

2. Assumption. Assignee hereby accepts the assignment of the Interest and expressly assumes the obligations of Assignor with respect to the Interest accruing from and after the date hereof.

3. Books and Records. The members of the Company shall take all actions necessary to evidence the admission of Assignee as a member of the Company.

4. Future Cooperation. Each of the parties hereto agrees to cooperate at all times from and after the date hereof with respect to all of the matters described herein, and to execute such further assignments, releases, assumptions, amendments of the Operating Agreement, notifications and other documents as may be reasonably requested for the purpose of giving effect to, or evidencing or giving notice of, the transaction contemplated by this Assignment.

5. Binding Effect. This Assignment shall be binding upon, and shall inure to the benefit of the parties hereto and their respective successors and assigns.

6. Execution in Counterparts. This Assignment may be (a) executed in counterparts, each of which shall be deemed an original, but all which shall constitute one and the same instrument and (b) by telecopy or other electronic signature (which shall be deemed an original for all purposes).

7. Governing Law. This Assignment shall be governed by, and construed under, the laws of the State of New York, all rights and remedies being governed by said laws, without regard to principles of conflict of law.

[REMAINDER OF THIS PAGE IS INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Assignment to be duly executed as of the day and year first-above written.

**ASSIGNOR:**

**GREEN 485 HOLDINGS LLC,**
a Delaware limited liability company

By: _____
Name: Andrew S. Levine
Title: Executive Vice President

**ASSIGNEE:**

**MAZAL 485 LLC,**
a Delaware limited liability company

By: _____
Name:
Title:

**Exhibit 4.4**

[An unofficial English translation of the original document in German]

Public Notarisation

# Purchase Agreement

Züblin Immobilien AG, with registered office in Zurich, Claridenstrasse 20, 8002 Zurich, as sole owner,
represented today by
- Bruno Schefer, born February 3, 1953, from Teufen AR, in Herrliberg, and
- Jonathan van Gelder, born January 7, 1974, from Winterthur ZH, in Zurich

- hereinafter referred to as the "Selling Party" -

hereby sells to

Optibase RE 1 s.a.r.l., limited liability company, with registered office in Luxembourg, 54, avenue de la Liberté, L-1930 Luxembourg,
represented today, pursuant to written power of attorney, by
- Thomas Ziegler, born October 26 1964, citizen of Solothurn, domiciled in Grellingen

- hereinafter referred to as the "Acquiring Party" -

the following:

- hereinafter referred to as the "subject property" -

**Land Registry District: Niederglatt**

**Commune/city borough: Rümlang**

Land register folio 1688, property, cadastre no. 4778,

**Official surveying information<:>**
<Cadastre no.< ><4778><, Riedmatt>, Plan no. <40>
<><5090> m², divided as follows:
<>

Premises:

| | |
|---|---|
| - Industrial building, no. 09700424, Riedmattstrasse 9 | 3344 m² |
| - Subsurface building, no. 09700424 | 397 m² |
| - Adjoining building | 28 m² |

<Types of ground cover:

| | |
|---|---|
| - Building | 3344 m² |
| - Garden | 125 m² |
| - Paved area | 1621 m² |

**Information from the building insurer:**
Commercial property, building no. 424, initial value 1939: Fr. 3'369'000.00, estimated value: Fr. 34'532'800.00, valuation date: 16.12.2002 Riedmattstrasse 9

**Annotations**

1. Public restriction on ownership / land planning and development legislation:
   Undertaking on disposal.
   Date 13.07.1988, doc. no. 128

2. Public restriction on ownership / land planning and development legislation:
   Undertaking on disposal.
   Date 22.07.1988, doc. no. 138

3. Public restriction on ownership / land planning and development legislation:
   Conditions re authorization for the anchoring of excavations on public land on Riedmattstrasse S-10.
   Date 13.09.1988, doc. no. 200

4. Public restriction on ownership / land planning and development legislation:
Undertaking on disposal.
Date 20.08.1990, doc. no. 192

5. Public restriction on ownership / land planning and development legislation:
Undertaking on parking area.
Date 16.08.1993, doc. no. 200

6. Public restriction on ownership / land planning and development legislation:
Undertaking on open spaces.
Date 16.08.1993, doc. no. 200

7. Public restriction on ownership / land planning and development legislation:
Undertaking on disposal and alignment.
Date 11.05.2006, doc. no. 78

**Easements**

a) **Burden:** right-of-way for vehicle. Date 10.07.1986, SP 1085.

b) **Burden:** right-of-way on foot and by vehicle. Date 16.08.1993, SP 1310.

c) **Burden:** right-of-way on foot and by vehicle. Date 16.08.1993, SP 1312.

d) **Right:** right-of-way on foot and by vehicle. Date 16.08.1993, SP 1313. Date 31.03. 1994.

e) **Right:** Right of joint use of the parking area for the handling of goods. Date 16.08.1993, SP 1314. Date 31.03.1994.

f) **Right:** Right to maintain and use of the heating equipment. Date 16. 08.1993, SP 1315.

g) **Burden:** Right to maintain the open areas and joint right of use during working hours. Date 16.08.1993, SP 1316.

h) **Right and Burden:** Reciprocal right to establish, maintain and jointly use connection and supply mains and equipment.
Date 16.08.1993, SP 1317.

i) **Burden:** Exclusive right to use the platform lift. Date 13.12.1996, SP 1417.

**Mortgages**

A

Fr. 12'500'000.-- Registered mortgage note, date 08.12.1980
1st rank
Maximum interest rate 8 % doc. no. 1980/213

B

| | | | |
|---|---|---|---|
| Fr. | 600'000.-- | Bearer mortgage note, date 30.03.1977<br>2nd rank<br>Maximum interest rate 8 %<br>Note: right to higher ranking | doc. no. 1977/34+35 |

C

| | | | |
|---|---|---|---|
| Fr. | 500'000.-- | Bearer mortgage note, date 30.03.1977<br>2nd rank<br>Maximum interest rate 8 %<br>Note: right to higher ranking | doc. no. 1977/35 |

D

| | | | |
|---|---|---|---|
| Fr. | 22'200'000.-- | Registered mortgage note, date 13.07.1988<br>3rd rank<br>Maximum interest rate 7 % | doc. no. 1988/126 |

Remark:

Mortgages B and C are both in second rank.

Limits / remarks

1. The limits are in accordance with the plan submitted for the Land Register. A photocopy will be appended to the deed and copies.

2. The Parties are aware of the wording of the annotations and easements; they agree not to include that wording in the present Agreement.

3. The purchase includes all integral parts and equipments of the subject property according to the Swiss Civil Law and local customs.

**The purchase price is Fr. 23'500'000.00** (twenty three million five hundred thousand francs) and shall be paid as follows:

| | | |
|---|---|---|
| Fr. | 15'000.00 | shall be paid as per the value on the date of the transfer of ownership to the finance administration of the commune of Rümlang, into account no. 80-151-4, IBAN CH15 0070 0112 5031 2268 6, ZKB 8010 Zurich, (with this note: land tax down payment in favour of Zublin Immobilien AG, property land register folio 1688, Land Register Rümlang) in payment of the capital gains tax in accordance with paragraph 8 of the “Additional Contract Provisions” below. |

| | | |
|---|---|---|
| Fr. | 60'000.00 | shall be paid by the Acquiring Party upon today's notarisation of the present Purchase Agreement as per the value on the date of the transfer of ownership into the Notary Client Account of VISCHER Ltd., in Basel, IBAN number CH47 0077 0016 5507 3451 8 with Basler Kantonalbank, Basel, in the name of VISCHER AG, Aeschenvorstadt 4, P.O. Box 526, 4010 Basel, for additional security for the guaranteed rent return of the tenants Polymed and DHL. |
| Fr. | 23'425'000.00 | shall be paid by the Acquiring Party upon notarisation today of the present Purchase Agreement to the Selling Party as per the value on the date of the transfer of ownership into account no. IBAN CH04 0070 0110 0002 9920 2, Zürcher Kantonalbank, Zurich.<br><br>The Acquiring Party is required today to submit in respect of the sale price payments an irrevocable promissory note issued by a Swiss-domiciled bank .This irrevocable promissory note is linked to the suspensive condition that the bank receives notice that the Purchase Agreement has been filed for registration in the journal.<br><br>If the bank is informed of the effective transfer of ownership only after the completion of clearing, payment shall first be possible as per the value on the date of the next bank working day. In this respect, the Selling Party shall not have any right against the Acquiring Party to claim default interest. |
| **Fr.** | **23'500'000.00** | **total purchase price.** |

The purchase price will be settled without any involvement or responsibility of the Niederglatt land registry office.

**Additional Provisions**

1. The transfer of ownership shall occur today, directly after the notarisation of the present Agreement.

2. The taking of possession, i.e. the transfer of rights and duties, benefits and risks relating to the subject property shall occur upon transfer of ownership today (date of taking of possession).

3. The Contracting Parties shall hold a separate accounting for all revenues and charges/ancillary costs (such as e.g. rents, waste charges, water/waste water disposal, building insurance, mortgage interest, energy supply) related to the subject property, as per the value date November 1, 2009. The statement of accounts shall be drawn up by the Selling Party within 90 days of transfer of benefits and risks and submitted to the Acquiring Party free of charge. The statement of accounts shall be deemed to have been accepted if it is not opposed in writing within 20 days of being submitted. A recognized outstanding balance shall become due for payment within 15 days of presentation of the statement of accounts. Invoices, which are not submitted within 90 days of the date of taking of possession, shall be paid within 30 days of receipt.

4. Every two weeks after the date of taking possession, the Selling Party settles and transfers to the Acquiring Party all prepaid rents and all rents received after transfer of ownership.

5. The Contracting Parties have been informed by the Notary Public of the content of Art. 192 - 196 of the Swiss Code of Obligations (SCO) on warranty of title and Art. 197 ff. and Art. 219 SCO on material warranty (liability for defects). The Acquiring Party acknowledges that it is aware of all the circumstances concerning the subject property, which are set forth in the documents supplied according to the list appended hereto in annex 1, which forms an integral part of the present Agreement.

   The Notary Public has informed the Parties that the Office for Waste, Water, Energy, and Air (AWEL) in Zurich, holds a register of contaminated sites and provides any relevant information; the general site plan of the register may be inspected at the public building authority. The Parties agree not to order an inspection or an expert opinion. The Selling Party confirms that the subject property is not registered in the register of contaminated sites.

   The Selling Party warrants that to its knowledge, the object of the contract is free from any legal environmental pollution at the date of taking of possession. If, according to the knowledge of the Selling Party, there are any contaminations and, as a consequence, these contaminations cause costs or any further damages to the Acquiring Party, the Selling Party shall indemnify the Acquiring Party. The Notary Public has indicated to the Parties that the contractual settlement of the costs is not necessarily binding for proceedings under public law. It can therefore not be excluded that the settlement of costs in a public law proceeding will differ from the settlement provided in this Agreement. If this was the case, the Parties would subsequently have to settle any compensation payment. Civil law claims concerning the warranties of environmental pollution can be asserted within three years from the signing of this Agreement.

   Any further warranty for title and any material warranty (liability for defects) according to the SCO for the object of the contract (land and premises) is hereby disclaimed.

   The exclusion of the warranties is not applicable with regard to damages that have been concealed by the Selling Party intentionally fraudulently or by gross negligence.

   The Parties have been informed of the statutory limitation periods under the Swiss Code of Obligations (Art. 219 (3) SCO).

   For civil claims that are not subject to Art. 219 (3) SCO the applicable limitation period shall be three years, starting with the signing of the present Agreement. Such claims have to be executed by the Acquiring Party within one year after detection, latest within the limitation period of three years. All such claims shall be announced by registered mail.

6. The Selling Party warrants to the Acquiring Party that:

a) There are no liens other than the ones registered in the Land Register;

b) There are no imminent claims regarding the registration of additional liens. In the last three months no (construction) work that might lead to claims of craftsmen to register a lien has been conducted on the subject property. The Selling Party further warrants to have paid all taxes, costs and other expenses concerning the subject property. If after the signing of this Agreement any craftsmen liens or other legal liens or public liens are noted or registered, provided that they are based on a cause of action occurred prior to the date of taking possession, the Selling Party is obliged to settle such claims immediately by paying or securing the relevant receivables and to delete any occurring entries in the land register;

c) There are no pending court or arbitration proceedings with tenants;

d) There are no pending neighbouring rights disputes or proceedings related to the subject property;

e) In the knowledge of the Acquiring Party, no government authorities have taken legal action against the Selling Party due to a breach of building provisions in relation to the subject property;

f) The Selling Party has not entered into any other lease agreements than those disclosed to the Acquiring Party;

g) The information on the table of tenants including the current rents and the current security deposits/guarantees of the tenants (see annex 2) as per reference date of the table of tenants - October 28. 2009 -is correct;

h) No rental agreement has been terminated and no rents are outstanding (other than indicated in the table of tenants) and

i) Currently no measures have been taken to open an insolvency procedure;

j) All accrued bills for non-recurring services up to the date of taking of possession have been paid or will be authorised for payment in due time;

k) There are no contracts concerning administration of the property.

The Selling Party shall bear the costs of installation of air-conditioning for the approx. 1‘600 m2 rental floor area of Arrow CE. The installation has been completed and the acceptance report shall be submitted to the Acquiring Party together with the remaining documents according to section. 10. The Parties hereby acknowledge that on October 5, 2009, the fire inspectorate inspected the object of the contract and found several irregularities. The corresponding draft of the minutes was handed over to the Acquiring Party. The Selling Party shall remedy all irregularities mentioned in these minutes within 3 months from the date of taking of possession. The Acquiring Party shall reasonably co-operate with the Selling Party to remedy the irregularities (access to premises, issue declarations, etc.). With regards to irregularities pertaining to obligations of tenants (e.g. related to tenant build-out), the Acquiring Party shall issue to tenants all necessary declarations or allow the Selling Party to enforce the tenants’ obligations. With regards to irregularities pertaining to tenant build-out, the Selling Party may require the tenants to restore the original condition of the premises, provided that the irregularities cannot be remedied otherwise with reasonable efforts.

7. The charges and expenses of the notary and the Land Register shall be paid jointly by both Parties, each Party in equal parts. The Parties know that each of them is liable to the Land Register for the entire charges and expenses.

8. The Acquiring Party has taken note of the norms regarding the statutory mortgage for the capital gains tax.

   Any capital gains tax to be paid by the Selling Party due to this transfer of ownership was provisorily calculated by Tax Partner AG. Prior to notarization of this agreement, the Selling Party delivered to the Acquiring Party a copy of the corresponding confirmation of the tax amount issued by Tax Partner AG. The estimated tax amount is according to the Parties Fr. 15'000.00 and shall be paid as per the value on the date corresponding to the transfer in ownership by the Acquiring Party, and deducted from the sale price, for the account of the Selling Party to the tax authority. The Acquiring Party waives its right to require further security for the capital gains tax.

9. The Acquiring Party shall be responsible for the administration of the subject property from November 1, 2009. The Selling Party confirms that there are no contracts regarding the administration of the subject property. The existing service agreements in respect of the subject property (including caretaker agreements), which the Selling Party is party to according to the list in annex 3, shall be taken over by the Acquiring Party. The Selling Party assigns all contractual rights and obligations under these agreements and the Acquiring Party assumes all the rights and obligations under these contracts, granting full relief from liability to the Selling Party in respect hereof. This provision shall not apply if a contract partner refuses the Acquiring Party’s replacing the Selling Party as contract party. The Selling Party warrants that all the financial claims of the Contracting Parties on the date of taking of possession related to the period before the taking of possession have been paid or shall be paid within reasonable delay.

10. Not later than 30 days after the date of taking of possession, the available documents relating to the subject property shall be handed over to the Acquiring Party against separate receipt (originals if available, or else copies), in particular of all the lease agreements, building descriptions, technical building information, property blueprints, maintenance agreements and the like, insofar as these documents are not already in its possession.

11. If renovation work has been carried out on the subject property in the past five years, the Selling Party shall assign any guarantee and warranty claims to the Acquiring Party for direct action. If an assignment of these claims is not legally permitted, the Selling Party shall be obliged to assist the Acquiring Party at no cost to a reasonable extent in the enforcement of such claims. The Selling Party has an obligation to transfer to the Purchasing Party any documents relevant to such claims.

12. The Contracting Parties have been informed of Article 54 of the Insurance Contracts Act (Versicherungsvertragsgesetzes, VVG). Pursuant to this provision, contracts on private damage and liability compensation in respect of real property are assigned at the time of change of hands (transfer of ownership) unless the buyer refuses the assignment in writing no later than 30 days after the change of hands. No such individual insurance policy in respect of the subject property and the Acquiring Party shall therefore be responsible for taking out insurance protection from the date of taking of possession.

    The mandatory insurance with the building insurance authority of the Canton of Zurich for fire and natural hazards shall pass *ipso iure* to the Acquiring Party.

13. The Parties are aware of the statutory provisions on the sale of the subject matter of lease (Art. 261 SCO) and tenure agreements (Art. 290 SCO).

    The Acquiring Party is fully aware of the contents of the lease agreements existing in respect of the subject property (including the table of tenants). The corresponding table of tenants is attached in annex 2. The Contracting Parties agree not to request a detailed reproduction of the contents of those lease agreements in this Deed.

    The lease agreements as set out in the table of tenants shall pass upon transfer of ownership *ipso iure* to the Acquiring Party (Art. 261 (1) SCO). Within 30 days after signing of this contract, the Selling Party shall provide the Acquiring Party with the power of disposition regarding the existing security deposits of the tenants.

    Prepaid rents and rents received after transfer of ownership will be settled and transferred directly and completely by the Selling Party to the Acquiring Party every two weeks after the date of taking possession (see also para. 4).

    The corresponding lease agreements and the relevant documents (and table of tenants) shall be handed over to the Acquiring Party. The Selling Party shall inform the tenants of the change of ownership.

    The Acquiring Party has been informed that the Selling Party notified a rent increase to the tenant Polymed, which Polymed however refused. The Selling Party renounced enforcing the rent increase. The Selling Party guarantees, within the meaning of Article 111 SCO, gross annual rental income from tenant Polymed and DHL Logistics of Fr. 1'068'004.15 for two years following the signing of this Agreement up to a maximum amount of Fr. 60'000 (minus the costs for depositing the Fr. 60'000 according to the paragraph below).

Each payment under this guarantee shall result in a reduction of the maximum guaranteed amount. The Acquiring Party is entitled to quarterly claim in writing a deficit amount, providing it submits the rent account statements for these two tenants. The Guarantee does not cover loss of rental income due to default in payment by the two tenants of acknowledged rental amounts. The guarantee shall expire in full three months after the expiry of the second year. Any further guarantee or warranty for future rent is hereby excluded.

The amount of Fr. 60'000.00 will be paid as per value on the date of taking possession to the Notary Client Account of VISCHER Ltd. Any claim regarding a deficiency in receipts shall be addressed by the Acquiring Party to Mr. Thomas Ziegler, certified tax expert and attorney at law in Basel. This can be done quarterly. The Acquiring Party has to prove the deficiency in receipts. After the presentation of the according documents Mr. Thomas Ziegler is authorised and instructed to compensate the Acquiring Party quarterly, and the Selling Party must be informed in writing five days before each payment. After the expiration of the warrantee period Mr. Thomas Ziegler is authorised and instructed to pay the remaining amount in the Notary Client Account immediately to the Selling Party, based on their instructions. The Parties take note of the fact that no interests are paid on the amount of the Notary Client Account of VISCHER Ltd. Further details between the Parties and Mr. Thomas Ziegler are stipulated in a separate agreement. The cost of drafting the separate agreement, the fees for Mr. Thomas Ziegler under the separate agreement and all further costs of executing this agreement (except attorney's and consultant's fees of the Selling and the Acquiring Party) shall be paid from the deposited amount.

14. The Notary Public has informed the Acquiring Party that public restrictions on ownership may validly exist irrespective of an Annotation in the Land Register. The Acquiring Party must therefore obtain information directly from the competent authorities on any such restrictions on ownership (use provisions and restrictions, building law provisions and conditions, contamination etc.).

15. The Parties are aware that according to Section 3 of the Appendix to the Ordinance on Electrical Low Voltage Equipment of November 7, 2001 (SR 734.27), low voltage equipment subject to ten or twenty year control periods must be checked upon change of ownership if the most recent check occurred over five years previously.

The Contracting Parties declare that the prescribed check of the electrical low voltage equipment in the subject property shall be arranged only after the change of ownership by the Acquiring Party. If this should generate any disadvantages of any kind (such as costs consequences), the Selling Party shall be fully released from any warranty obligation.

16. The Selling Party has not opted to subject the sale of the subject property to VAT. Accordingly, the purchase price does not include any VAT. The Selling Party has not opted to lease the subject property with VAT.

17. The following mortgage notes burdening the subject property have been registered:

- Fr. 12'500'000.--, registered mortgage note, date 08.12.1980, 1st rank
- Fr. 600'000.--, bearer mortgage note, date 30.03.1977, 2nd rank

- Fr. 500'000.--, bearer mortgage note, date 30.03.1977, 2nd rank
- Fr. 22'200'000.--, registered mortgage note, date 13.07.1988, 3rd rank

The Acquiring Party confirms it has received these mortgage notes (which have been endorsed, where necessary as required) and may freely dispose of them.

18. The Contracting Parties have been informed of the provisions of the Federal Act on the Purchase of Real Estate by Persons Abroad (*Erwerb von Grundstücken durch Personen im Ausland* [BewG]) and the relevant ordinance.

The Acquiring Party declares that

- It is purchasing the subject property to perform a commercial activity (as permanent operating premises) within the meaning of Art. 2 (2) (a) BewG,
- This use is in conformity with zoning regulations,
- The purchase is thus neither fully nor partially intended for use as residential premises,
- At least two thirds of the property's surface area shall be used by a company for its commercial activities and that no residential buildings shall be built on any reserved portion of the land,
- Thus the Acquiring Party does not require a permit to buy the subject property based on Art. 2 (2) (a) BewG in connection with Art. 18a (1) of the ordinance (BewV).

Furthermore, the Contracting Parties are aware of the civil and criminal consequences of a breach of the BewG.

19. The Parties confirm that fees of any assigned real estate broker will be paid only and completely by the party who has mandated the respective broker. No fees for the placement will be shifted to the counterparty. With regard to the possibility of the tax authority to secure taxes of real estate brokers that do not have domicile, registered office seat or effective place of management in Switzerland, the parties confirm that no broker was involved in the purchase at hand with domicile, registered office or place of management outside of Switzerland.

20. The Parties agree to the publication of this purchase by the parent company of the Selling and the Acquiring Party as required by the stock exchange regulations. The Parties coordinate the content of this publication in advance.

Niederglatt, October 29. 2009

The Selling Party:

Züblin Immobilien AG

/s/ Bruno Schefer
Bruno Schefer

/s/ Jonathan van Gelder
Jonathan van Gelder

The Acquiring Party:

Optibase RE 1 s.a.r.l:

/s/ Thomas Ziegler
Thomas Ziegler

This Deed including annex 1 - 3 contains the intent of the Parties as communicated to me. The Parties appearing named in this Deed have read it, acknowledged its accuracy and signed it.

Niederglatt, October 29, 2009, 10.15 hours

**NOTARIAL OFFICES NIEDERGLATT**

Christian Bucher, Assistant to the Notary Public

## Notification

Reported for registration by:

Züblin Immobilien AG, with registered office in Zurich, Claridenstrasse 20, 8002 Zurich, as sole owner,
represented today by
- Bruno Schefer, born February 3, 1953, of Teufen AR, in Herrliberg, and
- Jonathan van Gelder, born January 7, 1974, of Winterthur ZH, in Zurich

Commune/city borough**: Rümlang**
**Land register folio 1688, Cadastre no. 4778** "Riedmattstrasse 9"

Ownership transfer: purchase

Transfer of land register folio 1688, cadastre no. 4778, to the ownership of

Optibase RE s.a.r.l, Limited liability Company, with registered office in Luxembourg, 54, avenue de la Liberté, L-1930 Luxembourg
represented today pursuant to written power of attorney by
- Thomas Ziegler, born 26 October 1964, citizen of Solothurn, domiciled in Grellingen
for the price of Fr. 23'500'000.00

on the basis of the above Deed.

Niederglatt, October 29. 2009

The Selling Party:

Züblin Immobilien AG

Bruno Schefer Jonathan van Gelder

The Acquiring Party:

Optibase RE 1 s.a.r.l:

Thomas Ziegler

*Stamp: notarized and filed for registration Niederglatt, this 29th day of October 2009*
*Notarial Office and Land Registry Niederlatt Christian Bucher, Assistant to the Notary Public*

**Exhibit 4.5**

[An unofficial English translation of the original document in German]

**Basler**
**Kantonalbank**
fair banking

Copy of letter – return to BKB
Commercial customers

POB
CH-4002 Basel

Phone +41(0)612663333
Fax +41 (0)61
BKB-EasyTrading +41 (0)61 266 31 31
BKB-Lady-Consult +41 (0)61 266 30 00
BKB-Seniorenberatung +41 (0)61 266 33 66
welcome@bkb.ch
www.bkb.ch
Postkonto 40 - 61 - 4
MWST-Nr_ 116 650

Optibase RE 1 S.à.r.l.
54, avenue de la Liberté
L-1930 Luxembourg

Date: 28th October / SDM
Contact person: Sigrid Müller
Direct dial: +41 (0)61 266 22 32
E-Mail sigrid.mueller@bkb.ch

Credit Agreement General Limits

Dear Mr. Gross, dear Mr. Wyler,

Following the discussion of 23rd September 2009 between you and Mrs. Sigrid Müller, we are pleased to confirm to you the financing of the office and commercial building on Riedmattstrasse 9 in 8153 Rümlang as follows:

| | |
|---|---|
| Borrower | Optibase RE 1 S.à.r.l.<br>54, avenue de la Liberté<br>L-1930 Luxembourg<br>hereafter referred to as Borrower |
| Creditor | Basler Kantonalbank<br>Spiegelgasse 2<br>4051 Basel<br>hereafter referred to as BKB |
| | General limits (covered by mortgage) |
| Amount | CHF 18,800,000.00<br>(eighteen million eight hundred Swiss Francs) |
| Credit purpose | Financing of the property at Riedmattstrasse 9 in 8153 Rümlang |
| Use | The line of credit is available to the borrower any time alternatively - within the framework of the available limit components within the total limit of CHF 18.8 million.- for the following use variations:<br>● in the form of fixed advances in installments of at least CHF 0.5 million, usable within a time period of 1 to maximum 60 months<br><br>and/or<br>● in the form of a variable mortgage |

| | |
|---|---|
| Conditions | Fixed advance payments |
| Interest rate | The determination of the interest rate depends on the current situation on the money and capital markets (Reference rate: Libor/Swap), plus a margin of 0.80 % p.a. for all time periods.<br><br>The BKB reserves the right to adjust the margin anytime to the changed situation, should the credit standing of the borrower or the quality of the property deteriorate considerably.<br><br>Fresh receipts or extensions are dealt with on telephone under consideration of the two-day value position which is usual in money market business. The rates established in that way are net and fixed for the whole time duration. The borrower shall receive a relevant confirmation of the concluded money market business in a separate letter. |
| Calculation of interest | International Interest rate (exact days/360) |
| Interest dates | For a duration of up to 3 months the charging of interest takes place upon expiry of the period, for periods exceeding that it takes place quarterly.<br><br>If the due date for interest or capital happens to fall on a bank holiday, then the next bank working day shall serve as the pay day, unless this happens to fall in the next calendar month, in which case the previous bank working day shall be the pay day. Interests are calculated up to the actual pay date. |
| Re-imbursements | Not possible within the agreed time duration. As long as nothing else has been agreed on, fixed installments are due for re-imbursement upon expiry of the period. |

- Variable mortgage

| | |
|---|---|
| Interest rate | at the moment: 3.00 % p.a. net |
| Calculation of interest | German Interest rate (360/360 days) |
| Change in interest due dates | Possible any time with adherence to a three months notice |
| Interest due dates | Quarterly, on 31st March, 30th June, 30th September and 31st December respectively.<br><br>The BKB reserves the right to set the interest due dates differently any time at its discretion or to determine their number afresh. |
| Re-imbursements | Directly possible within the agreed duration with adherence to a three months notice. |

| | |
|---|---|
| Amortization | CHF 94,000.00 per quarter / the first time on 31st March 2010 Should one of the three main tenants (Polymed Medical Center, DHL Logistics (Switzerland) AG, Arrow CE International) drop out or cancel his existing tenancy relationship and the rooms cannot be rented out within a time limit of 6 months after cancellation in respect of an advert under similar conditions, the BKB reserves the right to possible adjustment of the amortizations.<br>Within the scope of the respective amortizations the available limit reduces. |
| Guarantee | - 12,500,000.00 registered bond in the 1st rank<br>- 600,000.00 bearer bond in the 2nd rank<br>- 500,000.00 bearer bond in the 2nd rank<br>- 22,200,000.00 registered bond in the 3rd rank<br><br>all signed in the land register Rümlang, Sheet No. 1688, land register No. 4778, Plan 40 holding 5.090 m2 with office and commercial buildings on Riedmattstrasse 9 in 8153 Rümlang.<br><br>Bond debtors and owners: Optibase RE 1 S.à.r.l.<br><br>BKB assumes this title using transfer of ownership as security on a debt on property.<br><br>**- Pledging of account credit**<br>All credit on the relevant rent account, in the names of the borrower, are pledged to BKB in accordance with the enclosed form „General Pledges".<br><br>**- Transfer of all existing and future rent demands with all rent guarantees from the aforementioned property.**<br>In this connection, the borrower commits himself to open/ maintain a rent account at the BKB, through which all rent of the categorized property is taken. BKB has to be informed at least annually without request, the first time on 31-12-2009, about the current rent level of the property. The transfer of the rent demands can be communicated to the tenants in writing through notification letters.<br><br>**- Transfer of the company capital of Optibase RE 1 S.à.r.l.** |

The disbursement of the credit amount can take place as soon as

Disbursement

a) all documents necessary for the identification of the borrower without problems in accordance with the VSB-agreement (in conjunction with the banks' obligation to care) are in the hands of BKB in proper arrangement;

b) either the bonds listed under the item „Securities" and recorded in the land register or the relevant interim receipts are in the hands of BKB;

c) all agreements (purchase agreement, all tenancy agreements, credit agreement, transfer of ownership as security on a debt, pledge agreements etc.) legally signed, are in the hands of BKB properly arranged, and

d) personal funds (difference between purchase price and grant plus hand change and other costs) have been realized in the process.

e) the pledging of company capital listed under item „Securities" can take place due to reasons of time and in exceptional cases also after the disbursement of funds, however latest by 31st December 2009.

Cancellation

The present general limit can be cancelled any time and by mutual agreement with 3 months notice.
The fixed agreed duration of the contract with fixed installments doesn't allow any early cancellation. If the total amount is used in the form of fixed installments by the time of the cancellation, then the cancellation becomes effective only on the due date respectively.

The BKB has the right with regard to this, to declare any time the whole line of credit and the relevant uses, including accrued interest and costs up to the day of the payment, due and payable immediately in the following cases:

- if the borrower is in delay with the payment of a due capital or interest amount by more than 30 days;
- if the borrower is no longer able to fulfill some of his probably existing legally binding obligations towards third parties, and this state of affairs cannot be resolved within 30 days;
- if any prosecution measures are instituted against the borrower (distraint, use of pledged articles, bankruptcy, notice to the judge of over indebtedness, and the like) or if the borrower personally seeks deferment of discounts; in case of considerable change, in the view of BKB, in the participation conditions, dissolution, merger (in which the borrower is not the company continuing to exist), shifting of location, change of legal form or reorganization (in which the substance deteriorates considerably, in the view of BKB), unless such reorganization guarantees enough security, in the view of the BKB;

- if the borrower violates fundamental regulations of this agreement;

- if there are other important reasons which BKB does not have to justify by itself, especially if the financial and/or profit situation of the borrower has deteriorated substantially or considerable financial danger has set in, according to the rational judgment of BKB.

- if the BKB willingly sells, sub-divides or reduces in value the property that was serving as security;

- if any due rent amounts from the renting out of the property serving as security to the BKB are confiscated in favor of a third party;

The aforementioned cancellation regulations take precedence over the cancellation regulations of the BKB in accordance with article 13 of the General Terms and Conditions and the cancellation regulations in accordance with the General Mortgage Regulations.

In case of contract termination by the BKB a pre-due date compensation at expense of the borrower becomes due.

In case of contract termination by the BKB in accordance with the General Terms and Conditions or the General Mortgage Regulations of the BKB a pre-due date compensation at expense of the borrower becomes due.

In case of contract termination by the BKB in accordance with the General Terms and Conditions of the BKB or the Contract Terms and Conditions a pre-due date compensation at expense of the borrower becomes due.

| | |
|---|---|
| Compensation for prematurely due payment | The compensation for prematurely due payment is calculated in percentages of the debt capital for the whole duration period. The standard percentage rate per year corresponds to the difference between the interest rate agreed upon by contract minus the rate applicable on the money and capital markets for the remaining duration at the time of repayment (reference rate: Euro market money rate). If this reference rate is higher than the agreed rate …..then this is a case of compensation for prematurely due payment. |
| Hand change or forced utilization | If hand change or forced utilization sets in for properties which serve as security to BKB, then all demand in connection with this general agreement by due agreement become due on the day of transfer of ownership or on the official day of repayment. |
| Encumbrance | The due interest as well as amortizations are paid directly into the new rent account to be opened in the names of the borrower with the BKB. |

Expenses

The compensation of BKB is measured according to the respective applicable tariff for the services listed there which are subject to expenses. The borrower is given a copy of it. The BKB reserves the right to make changes any time. Changes are made known to the borrower through circulation channels or other suitable means (e.g. through notice and circulation of relevant leaflets in the business hall of BKB), and are regarded as approved if there is no contradiction within one month.

The BKB can likewise charge separately for expenses (including delivery expenses) as well as extraordinary efforts of other nature than that mentioned in the tariff.

Other conditions

During the complete duration of the credit relationship, the borrower obliges himself to inform the BKB about essential changes immediately, namely if circumstances which can form reason for a cancellation according to the termination clause emerge or happen.

The borrower confirms that he shall submit his financial statement consisting of the income statement, the balance sheets and the appendix as well as the report of the auditing authority to the BKB within a useful period after conclusion of the financial year, without being asked.

The borrower obliges himself to maintain the building, for which the credit was granted, in good condition and to accomplish all necessary renovation and maintenance work professionally. To this end the borrower grants BKB access to the building any time after prior announcement and in keeping with the rental legal regulations.

Moreover, the borrower obliges himself during the validity of this general credit agreement, neither to further encumber the property serving the BKB as a security or to set up new mortgages on it, nor to lend out empty titles again or in the case of existing lending, to lend out mortgage titles becoming free through amortizations without consent of the BKB.

If the property serving the BKB as security is threatened by the danger of value depreciation, no matter for what reasons, then the BKB is also authorized but not obliged to undertake legal negotiations with the authorities, courts of law, etc, just like the owner himself.

According to article 818 ZGB the basic mortgage also offers security for processing expenses.

With the signature under this contract, the borrower authorizes the BKB to settle possible bills for the land register charges directly by debiting the mentioned rent account to be newly opened.

The BKB is the only credit granting bank and all of the sales of the borrower from the Swiss property on Riedmattstrasse 9 in 8153 Rümlang in respect of rental incomes are processed through the BKB.

The BKB is authorized to make the whole outstanding credit, including interest accrued up to the day of payment, due for immediate repayment any time, if a substantial change in the control relationships (shareholders, shares) emerge with the borrower.

Documents

The following documents form an integrated part of these credit agreement and with his legal signature under this agreement the borrower expressly confirms knowledge of the contents of the agreement:
- General terms and conditions
- General mortgage conditions
- Expenses leaflet
- Agreement (Transfer of ownership as security on a debt)
- Cession of rent
- General pledges

Place of jurisdiction

Swiss law applies. Place of jurisdiction is Basel city. Meanwhile, BKB also has the right to prosecute the borrower in every other responsible court.

A s a sign of your agreement with the contents of this credit agreement, would you please send the documents listed hereunder back to us dated and legally signed as soon as possible:

- Copy of the letter
- General mortgage conditions
- Agreement (Transfer of ownership as security on a debt)
- Cession of rent
- General pledges

We thank you very much for the confidence shown in us and look forward to further good and pleasant cooperation.

With best regards

| | |
|---|---|
| /s/ Basler Kantonalbank | /s/ Sigrid Müller |
| Stefan Käsermann | Sigrid Müller |
| Member of Board of Directors | Cadre member |

- Copy of the letter
- General mortgage conditions
- General terms and conditions
- Expenses leaflet
- Agreement (Transfer of ownership as security on a debt)
- General pledges
- Cession of rent
- Reply envelope

In complete agreement with the contents of this contract:

Optibase RE 1 S.à.r.l.

Niederglatt, October 29. 2009
(Place and date)

/s/ Thomas Ziegler
(Signatures)

(Thomas Ziegler)

Signature
30.10.09
/s/ Sigrid Müller
Sigrid Müller

**Exhibit 4.6**

**OPTION AGREEMENT**

This **OPTION AGREEMENT** (this "**Agreement**") is entered into as of this 1st day of March, 2010 and effective as of October 29, 2009 by and between **OPTIBASE REAL ESTATE EUROPE SARL.,** a company organized under the laws of Luxembourg ("**Optibase Europe**") **OPTIBASE RE 1 SARL,** a company organized under the laws of Luxembourg (the "**Company**" and **CHESSELL HOLDINGS LIMITED**, a company organized under the laws of Cyprus having its principal place of business at Agias Elenis, 36, GALAXIAS TOWER, 4th Floor Flat/Office 401, P.C. 1061, Lefkosia, Cyprus (the "**Investor**").

R E C I T A L S

**WHEREAS,** the Investor via Mr. Eyal Gross assisted the Company with the acquisition of the property located at Riedmattstrasse 9, Rumlang, Switzerland (the "**Property**");

**WHEREAS,** the Company has agreed to grant the Investor an option to acquire certain ownership interests in the Company, in consideration for the aggregate total amount of CHF 315,000 (Three Hundred and Fifteen Thousand Swiss Franks) (the "**Option Initial Price**"), pursuant to the terms and conditions set forth herein;

**NOW, THEREFORE**, in consideration of the foregoing, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, accepted and agreed to, the Company and the Investor, intending to be legally bound, agree to the terms set forth below.

**1. INVESTOR OPTION**

1.1. Option.

1.1.1. In full compensation for the Option Initial Price, which has been incurred as of the date of this Agreement and which shall be paid upon exercise of the Option, and subject to receipt by the Company of all consents, approvals, resolutions or actions required to be taken under applicable law, the Company grants the Investor an exclusive option to cause the Company to issue to the Investor twenty percent (20%) of the outstanding and issued share capital of the Company calculated as of the date of the exercise of the option (the "**Option Shares**" and the "**Option**").

1.2. Option Purchase Price. The exercise of the Option shall be subject to delivery by the Investor to the Company of the Purchase Price (as defined below) in cash and the satisfaction by the Investor of any and all applicable tax requirements. In addition, upon exercise of the Option, the Investor shall pay the Initial Option Price. In the event that the Purchase Price is a negative number, then, upon exercise of the Option, the Investor shall be entitled to a credit against the Option Initial Price equal to the difference between zero and the Purchase Price, up to an amount of CHF 315,000. Other than the aforementioned credit against the Option Initial Price, in no event shall the Company be obligated to pay the Investor as a result of the Investor exercising the Option.

1.3. Option Term. The Option may only be exercised during the period commencing as of the date hereof and for a period of eight (8) years thereafter (the "**Term**"). The Option may only be exercised in full may not be partially exercised by the Investor.

1.4. Definitions. For the purpose of this Section 1, the terms below shall be defined as follows:

1.4.1. "Purchase Price" means twenty percent (20%) multiplied by the Investment Amount (as defined below), calculated as of the date that the Option is exercised.

1.4.2. "Investment Amount" means (A) the Transaction Costs (as defined below) *plus* the Transaction Cost Adjustment; *less* (B) the Shareholder Proceeds.

1.4.3. The "**Transaction Cost Adjustment**" means ten percent of (x) the Transaction Costs *less* (y) any cash amounts distributed or deemed to be distributed as dividends; all as calculated on December 31st of each year.

1.4.4. **"Transaction Costs"** means the sum of (A) CHF 4,700,000 (four million and seven hundred thousand Swiss Franks**)**; *plus* (B) the Expenses.

1.4.5. **"Expenses"** means any of the following expenses that have been incurred by Optibase Ltd., Optibase Europe, or the Company as of the date when the option is exercised, as reasonably determined by the Company:

a. all legal and accounting fees incurred and paid in connection with the Transaction;

b. all other costs and expenses reasonably incurred in connection with the Transaction;

1.4.6. **"Shareholder Proceeds"** means all proceeds distributed by the Company to Optibase Europe as of the date that the Option is exercised, including without limitation:

c. any amount actually distributed to Optibase Europe SARL as a dividend (subject to applicable law) from the net cash flows of the Company; and

d. any amount of any proceeds that are actually distributed to Optibase Europe from: (i) a sale of all or part of the Property, or (ii) a refinancing of the existing mortgage loan on the Property or (iii) a sale of substantially all of the assets of the Company.

For Example: If the Investor decides to exercise the Option on the second anniversary of this Agreement; and the Transaction Costs equal to CHF 4,700,000 (i.e. assuming that no Expenses have been incurred), and the Shareholder Proceeds equal CHF 1,000,000 in each year, then on the second anniversary of this Agreement, the Purchase Price will be equal to:

Purchase Price = 20% * [CHF 4,700,000 + (CHF 4,700,000 * 10%) –CHF 1,000,000 + (CHF 4,170,000 * 10%) – CHF 1,000,000] = CHF 717,400

1.5. The Investor undertakes to execute any and all documents, including an option agreement (if and where applicable), as may be required by the Company, Optibase Ltd. or Optibase Europe in connection with the Option, and the grant of the Option shall be subject to the Investor's fulfillment of the aforesaid undertaking, provided, that any of the said documents shall not materially change (subject to applicable law) any of the parties' rights or undertakings as indicated in this Agreement.

1.6. By signing this Agreement, the Investor hereby gives an irrevocable proxy to the Optibase Europe (or any other person designated by the Board of Directors of Optibase Europe), to vote any shares that may be issued to the Investor following the exercise of the Option. If necessary, the Investor undertakes to execute a proxy form, upon exercise of the Option, in the form to be provided by the Optibase Europe.

1.7. In addition, for the removal of doubt, the shares that may be issued by the exercise of the Option shall not include any voting or veto rights with respect to the Company.

1.8. The Investor shall not have any rights as a shareholder with respect to the Option (including, without limitation, any rights to receive dividends or non-cash distributions), until such time as the Option is exercised into shares and registered in the Investor's name in the Company's register of shareholders. Except as provided in this Agreement, no adjustment shall be made for dividends or other rights for which the record date is prior to the date that such shares are registered in the Company's register of shareholders.

1.9. The Option is personal and no rights granted hereunder may be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) other than as set forth specifically in this Agreement. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of the Option or of such rights contrary to the provisions hereof, or upon the levy of any attachment or similar process upon the Option or such rights, the Option and such rights shall, at the election of the Company, shall become null and void.

1.10. To the extent the Option is not exercised by the Investor during the Term, then the Option Initial Price shall be reduced to CHF 1 and shall be paid upon the expiration of the Term.

1.11. **Drag Along Right.**

1.11.1. In the event of a Sale Transaction (as defined below), and subject to the exercise of the Option by the Investor, the Investor shall, upon the written request of Optibase Europe (i) exercise the Option and pay the Purchase Price (to the extent that the Option was not already exercised) or, at the Investor's discretion, waive all rights to the Option by delivering a written waiver in a form satisfactory to the Company; and (ii) sell, transfer and deliver, or cause to be sold, transferred and delivered, to the Buyer (as defined below) all of its shares in the Company on the same terms that apply to the Optibase Europe and all other selling shareholders, and/or (ii) execute and deliver such instruments of conveyance and transfer and take such other action, including voting such shares in favor of any Sale Transaction proposed by the Optibase Europe or the Company and executing any purchase agreements, indemnity agreements, escrow agreements or related documents, as the Company, Optibase Europe, and the Buyer execute that are reasonably required in order to carry out the terms and provisions of this Section 1.11.

1.11.2. Not less than thirty (30) days prior to the date proposed for the closing of any Sale Transaction, the Company or Optibase Europe shall give notice to the Investor setting forth in reasonable detail the name or names of the Buyer, the terms and conditions of the Sale Transaction, including the purchase price, and the proposed closing date.

1.11.3. In furtherance of the provisions of this Section 1.11, the Investor (i) irrevocably appoints the designee of Optibase Europe as its agent and attorney-in-fact (the "**Agent**") (with full power of substitution) to execute all agreements, instruments and certificates and take all actions necessary or desirable to effectuate any sale in accordance with the provisions of this Section 1.11; and (ii) grants to the Agent a proxy to vote all shares held by the Investor, whether now or in the future, in favor of any Sale Transaction hereunder in compliance with the provisions of this Section 1.11

1.11.4. "**Sale Transaction**" means a transaction with a third party (the "**Buyer**") in which (i) Optibase Europe as the case may be, has determined to (a) sell all of its shares, in the Company to the Buyer, (b) sell or otherwise dispose all or substantially all of the assets of the Company, or (c) to cause the Company to effect a merger or (ii) a transaction in which involves a change of the beneficial ownership or control of Optibase Europe or Optibase Ltd.

1.12. **Right of First Refusal**.

1.12.1. If at any time the Investor receives a bona fide offer to purchase all or part of the Option Shares (following the exercise of the Option), the Investor shall give the Company notice of its receipt of an offer to purchase the Option Shares describing the terms of such offer (the "**Offer Notice**"). The Company shall have a period of sixty (60) days from the date of receipt of the Offer Notice to elect to exercise its Right of First Refusal by delivering written notice to the Investor of its election to do so (the "**Election Notice**").

1.12.2. If the Company delivers an Election Notice, the Company shall repurchase the Option Shares from the Investor on the terms set forth in the Offer Notice within ninety (90) days from the date of the Offer Notice.

1.12.3. If the Company fails to deliver the Election Notice within sixty (60) days of receipt of the Offer Notice then its Right of First Refusal shall terminate. Thereafter, the Investor shall be permitted to sell the Project free of the Right of First Refusal.

1.13. **Tag Along Right**.

1.13.1. If Optibase Europe wishes to sell shares of the Company reflecting at least 50% of the issued and outstanding share capital of the Company (the "**Offered Shares**") to a third party purchaser (a "**Purchaser**"), Optibase Europe shall first notify the Investor of the terms of the proposed sale (a "**Tag Along Notice**").

1.13.2. Upon receipt of the Tag Along Notice, the Investor may notify Optibase Europe within ten (10) days (the "**Tag Along Period**") that the Investor intends to participate in Optibase Europe's 's sale of the Offered Shares (the "**Participating Notice**").

1.13.3. If the Investor delivered a Participating Notice during the Tag Along Period, (i) the Investor shall sell to the Purchaser a number of shares equal to the number of shares owned by the Investor in the Company multiplied by the Pro Rata Percentage (hereinafter defined) and (ii) the Optibase Europe will be entitled to sell to the Purchaser, a number of shares equal to the Offered Shares multiplied by the Pro Rata Percentage.

1.13.3.1. "**Pro Rata Percentage**" means the percentage calculated by dividing the Offered Shares by the total number of shares in the Company.

1.13.4. If the Investor does not deliver a Participating Notice during the Tag Along Period, Optibase Europe shall be permitted to proceed with the sale of the Offered Shares to the Purchaser.

1.13.5. Prior to the exercise of the Option the Optibase Europe shall not be obligated to deliver a Tag Along Notice and the Investor shall not be entitled to participate in a sale of the Offered Shares. In addition, if the Optibase Europe exercises its Drag Along Right (Section 1.11), this Section 1.13 shall not apply to such sale.

1.14. Total Consideration. Other than the Option, the Investor shall have no lawful right or claim to any compensation, fee or other consideration for services performed in connection with, or relating to, the Transaction. The Option shall constitute the total compensation due to the Investor under this Agreement and the Investor acknowledges that it shall not be entitled to any other form of compensation, commission, fee, bonus, reimbursement or any other form of payment for the Transaction and the Investor irrevocable waives and forever releases the Company, Optibase Ltd. and/or Optibase Europe and their respective officers, directors and affiliates from any claim or demand for any further alleged compensation.

1.15. Taxes. The Investor shall pay any and all taxes, duties, fees and/or other impositions that may be levied pursuant to applicable law upon the Investor with regard to the provision of the services under this Agreement, including, but not limited to, Value Added Tax and Income Tax, and the amounts of the aforesaid payments shall be deemed to have been included in the Option. In the event that pursuant to any law or regulation, tax is required to be withheld at source from any payment made to the Investor, the Company shall withhold said tax at the rate determined by said law or regulation.

**2. THE NATURE OF THE CONTRACTUAL RELATIONSHIP.**

The Investor and Mr. Eyal Gross shall at all times act as an independent third party, and shall not be, and/or claim to be, an employee of the Company. The Investor and Mr. Eyal Gross warrant that it/he is aware that this Agreement is only an agreement for investment herein, and does not create employer-employee relations between it/him and the Company and does not confer upon him any rights, except for those set forth herein explicitly.

**3. MISCELLANEOUS**.

3.1. Ownership of Investor. If the Investor is not an individual, the Investor represents and undertakes that at least 70% of the beneficial ownership of the Investor and the control of the Investor is and will be owned and controlled by Mr. Eyal Gross. Notwithstanding the foregoing, the Investor shall be permitted to reduce the ownership and control of Mr. Eyal Gross to a minimum of 51% provided that Optibase Europe and Optibase Ltd. have delivered their written consent to the Investor.

3.2. Waiver. Any waiver by the Company of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach of the same or any other provision hereof. All waivers by the Company shall be in writing.

3.3. Severability; Reformation**.** In case any one or more of the provisions (or parts of a provision) contained in this Agreement shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision (or part of a provision) of this Agreement; and this Agreement shall, to the fullest extent lawful, be reformed and construed as if such invalid or illegal or unenforceable provision (or part of a provision), had never been contained herein, and such provision (or part of the provision) reformed so that it would be valid, legal and enforceable to the maximum extent possible. Without limiting the foregoing, if any provision (or part of provision) contained in this Agreement shall for any reason be held to be excessively broad as to duration, activity or subject, it shall be construed by limiting and reducing it, so as to be enforceable to the fullest extent compatible with then existing applicable law.

3.4. Assignment**.** The Investor shall not have the right to assign his rights or obligations under this Agreement without the prior written consent of the Company, Optibase Europe and Optibase Ltd., except to a Permitted Transferee. "**Permitted Transferee**" means a sale, transfer, assignment or other disposition of the Investor's rights or obligations under this Agreement to the spouse, child, parent, sibling or descendants of Mr. Eyal Gross, or to any entity that is wholly owned and controlled by Mr. Eyal Gross; provided, however, that such transferee will take upon itself by written consent all the obligations of the Investor pursuant to this Agreement. This Agreement shall be binding upon and inure to the benefit of the Investor's heirs and legal representatives. If the Investor is not an individual, a transfer of the beneficial interest or control of the Investor to a person other than a Permitted Transferee shall be prohibited except with the written consent of the Company, Optibase Europe and Optibase Ltd. pursuant to Section 3.1 above. In the event of a prohibited transfer, the Investor's rights under this Agreement shall immediately terminate and become null and void, without any further action.

3.5. Headings; Interpretation**.** Headings and subheadings are for convenience only and shall not be deemed to be a part of this Agreement. The preamble, exhibits and schedules to this Agreement constitute an integral part hereof. Words in the singular shall include the plural and vice versa; words in the masculine shall include the feminine and vice versa; and reference to a person shall also include corporate bodies and other legal entities.

3.6. Amendments. This Agreement may be amended or modified, in whole or in part, only by an instrument in writing signed by all parties hereto.

3.7. Notices. Any notices or other communications required hereunder shall be in writing and shall be deemed given when delivered in person or when mailed, by certified or registered first class mail, postage prepaid, return receipt requested, addressed to the parties at their addresses specified in the preamble to this Agreement or to such other addresses of which a party shall have notified the others in accordance with the provisions of this Section 3.7, and shall be deemed effectively given upon the earlier of actual receipt or: (a) personal delivery to the party to be notified, (b), if sent by electronic mail or facsimile (with electronic confirmation of receipt) on the recipient's next business day, (c) three (3) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (d) one (1) business day after deposit with a nationally recognized overnight courier, freight prepaid, specifying next business day delivery, with written verification of receipt.

3.8. Governing Law. This Agreement shall be governed by the laws of the State Israel without reference to principles and laws relating to the conflict of laws. The competent courts of the District of Tel Aviv shall have exclusive jurisdiction over any matter in connection with this Agreement.

3.9. Entire Agreement. This Agreement supersedes all prior agreements, written or oral, between the parties hereto relating to the subject matter of this Agreement.

3.10. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall constitute an original and all of which shall be deemed a single agreement.

***[Remainder of Page Left Intentionally Blank]***

**IN WITNESS WHEREOF**, the parties hereto have caused this Agreement to be duly executed and delivered on and as of the Effective Date.

**COMPANY**
**OPTIBASE RE 1 SARL**

| | | |
|---|---|---|
| **By:** | /s/ Tom Wyler | /s/ Amir Philips |
| **Name:** | **Tom Wyler** | **Amir Philips** |
| **Title:** | **Authorized signers** | |

**INVESTOR**
**CHESSELL HOLDINGS LIMITED**

| | |
|---|---|
| **By:** | /s/ David Pavoncelo |
| **Name:** | **David Pavoncelo** |
| **Title:** | **1/3/10** |

**OPTIBASE EUROPE**
**OPTIBASE REAL ESTATE EUROPE SARL**

| | | |
|---|---|---|
| By: | /s/ Tom Wyler | /s/ Amir Philips |
| Name | **Tom Wyler** | **Amir Philips** |
| Title | **Authorized signers** | |

| | |
|---|---|
| **By:** | /s/ Eyal Gross |
| **Name:** | **Eyal Gross** |

***[Signature Page- Option Agreement - Optibase/Chessell Holdings Limited - Project Rumlang]***

**Exhibit 4.7**

# ASSET PURCHASE AGREEMENT

**dated**
March 16, 2010

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**ASSET PURCHASE AGREEMENT**

This asset purchase agreement ("**Agreement**") is entered into on March 16, 2010, by and between **Optibase Ltd**., a public company organized under the laws of the State of Israel, Israeli public company number 52-003707-8 ("**Optibase Ltd**.") and **Optibase Inc.,** a corporation organized under the laws of the State of California, ("**Optibase Inc.**" and together with Optibase Ltd., collectively referred to herein as the "**Seller**"), and Optibase Technologies Ltd., Israeli corporation number 51-442221-1 ( "**Purchaser**") (each a "**Party**" and, together, the "**Parties**").

WHEREAS, Seller wishes to sell to Purchaser, and Purchaser wishes to acquire from Seller, substantially all of Seller's assets related to its video business;

NOW, THEREFORE, in consideration of the premises, representations, warranties, and covenants herein contained, the Parties hereby agree as follows:

1. Definitions

In this Agreement, the following terms shall have the meaning ascribed to such terms below:

1.1 "Acquired Assets" shall mean all of Seller's rights, title and interest in and to all of Seller's assets related to the Business, wherever held, excluding the Excluded Assets, but including all:

1.1.1 inventories of raw materials, supplies, parts, work-in-progress and goods owned by Seller including those which are located at the Locations or in the process of being shipped to the Locations, or otherwise delivered or in the process of being delivered to Seller, or on consignment with third parties, including those described on the list attached hereto as **Schedule A**;

1.1.2 any furniture, tools or equipment owned by Seller and which are used in the Business (other than those used by the Seller's management which is not transferred to Purchaser), or otherwise delivered or in the process of being delivered to Seller, including any license rights to any non-proprietary computer software installed in any such equipment, and further including the assets described as owned by Seller on the Tangible Assets Schedule described on the list attached hereto as **Schedule B**;

1.1.3 to the full extent transferable under law, rights of Seller under the Assumed Agreements, including the agreements described in the Assumed Agreements Schedule and including all open purchase and sale orders, warranties, contracts, agreements, understandings, equipment leases and related maintenance agreements and licenses (whether of Intellectual Property Rights or otherwise);

1.1.4 prepaid expenses and similar assets, including those listed or described in the schedule attached hereto as **Schedule C**;

1.1.5 any receivables;

1.1.6 Intellectual Property Rights related to the Business, including those described in the Intellectual Rights Schedule, and any rights or licenses held thereby with respect to such Intellectual Property Rights owned by others and including: (i) all licenses and sublicenses granted and obtained with respect to Intellectual Property Rights, and rights thereunder; (ii) all Seller's all source code of all software developed or licensed by Seller, all electrical scheme, BOMs, manufacturing files, design documents of any kind (software, hardware); (iii) all of Seller's databases related to the Business (technical, commercial and Business specific, accounting and (iv) all rights to protection of interests therein;

1.1.7 the goodwill of Seller in the Business and the right to use the term "Optibase" and any derivative or variant thereof;

1.1.8 all Claims or rights (and benefits arising therefrom) relating to the Acquired Assets arising on or after the Closing only, to the full extent legally transferable, including rights under insurance policies applicable to Seller for Claims arising on or after the Closing Date, provided that such Claims specifically relate to the assets listed in this definition of the Acquired Assets;

1.1.9 originals or true and complete copies of all books and records relating to the Acquired Assets, including, customer and supplier lists, credit files, project files, quotations and bids, plans, specifications and sales literature; and

1.1.10 Permits and all pending applications therefor or renewals thereof, including the Permits described in the Permit Schedule, all relating to the Business only.

all as the same exist on the Closing Date.

Notwithstanding the foregoing, the Acquired Assets shall not include the Excluded Assets. For this purpose: "**Excluded Assets**" shall mean any of the following: (i) the corporate charter, taxpayer and other identification numbers, seals, minute books, stock transfer books, blank stock certificates, and other documents relating to the organization, maintenance, and existence of Optibase Ltd., Optibase Inc. and all of their subsidiaries or affiliates as corporate entities; (ii) shares, stock, convertible notes and loans in, or related to, Optibase Inc. and any other subsidiaries or affiliates of the Seller; (iii) rights of Seller as of Closing under any Grant received, or receivable as to period ending at Closing, by Seller, as listed in the Grants Schedule; (iv) rights and Claims related to the Acquired Assets arising prior to the Closing – provided that Seller may not pursue any Claim before first notifying Purchaser and enabling Purchaser reasonable time to purchase such Claim at a price equal to the amount of the Claim multiplied by the percentage legal counsel to Seller estimates the chances of such Claim in a written opinion addressed to Seller and Purchaser and attached to the notification to Purchaser; (v) rights and Claims under any D&O insurance policy; (vi) rights and Claims under insurance policies of Seller for Claims arising before, on or after the Closing Date, to the extent such Claims do not specifically relate to the Acquired Assets (vii) cash, cash equivalents and other investments; (viii) Location Leases (and related security deposits); (ix) rights of Seller under this Agreement and the Ancillary Agreements, all as the same exist on the Closing Date; (x) leased cars, the Location Leases and other leased properties and their related deposits; (xi) any furniture, tools or equipment owned by Seller and which are used by the Seller's management including any license rights to any non-proprietary computer software in any such equipment; (xii) Consortiums not transferred in accordance with Section 2.7.2; and (xiii) all assets of Seller not related to the Business, including, but not limited to real estate assets as well as other investments, held directly or indirectly, by the Seller.

It is specifically agreed that Seller and its affiliates may continue to use the term "Optibase" and any derivative or variant thereof in connection with Sellers' real estate, investments and holdings, as well as other businesses not related to the video solutions business;

1.2 "Adjustment Amount" Shall have the meaning ascribed to it in Section 2.4;

1.3 "Ancillary Agreements" shall mean:

1.3.1 A Bill of Sale substantially in the form attached hereto as **Exhibit A**;

1.3.2 Notice of general assignment substantially in the form attached hereto as **Exhibit B**;

1.3.3 A Trademark Assignment substantially in the form attached hereto as **Exhibit C**;

1.3.4 A Patent Assignment substantially in the form attached hereto as **Exhibit D**;

1.3.5 undertakings of Purchaser to (i) the Investment Center of the Israeli Ministry of Industry and Trade; (ii) the Office of the Chief Scientist (regarding the transfer of privileges and obligations relating to the applicable Grant programs), Israeli Ministry of Industry and Trade; and (iii) the Consortiums supported by the European Commission (regarding the transfer of privileges and obligations relating to the applicable Consortium agreements); all in the forms attached hereto as **Exhibit E**, pursuant to which Purchaser shall undertake to assume the relevant Grant related royalty and other obligations to such Government Bodies with respect to the Business;

1.3.6 Agreement to use of name substantially in the form attached hereto as **Exhibit F**;

1.3.7 An Escrow Deposit Agreement (**Exhibit G**); and

1.3.8 The Signing Deposit Escrow Agreement and confirmation , in the form attached hereto as **Exhibit H;** and

1.3.9 Such other documents required to effect or perfect the transfer of the Acquired Assets (including pursuant to Israeli law), certain of which are substantially in the form attached hereto as **Exhibit I**.

1.4 "Assumed Agreements Schedule" shall mean the schedule attached hereto as **Exhibit J** describing all of the Assumed Agreements;

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| 1.5 | "Assumed Agreements" | shall mean those agreements, contracts or commitments to which Seller is a party, and which are in full force and effect as of the Closing Date relating to the: (i) Intellectual Property Rights (ii) any lease or conditional sales agreement pursuant to which Seller has licensed or acquired equipment or other personal property; (iii) any sales, lease or service contract or customer purchase order outstanding; (iv) any currently effective supply contract or open purchase order providing for the acquisition of materials, supplies, inventory, equipment or services by Seller; (v) any research and development, distribution, dealership, franchise, OEM, advertising, agency, manufacturer's or sales representative or similar agreement; and (vi) any outstanding offer, agreement in principle or active ongoing negotiation, the acceptance or consummation of which would result in any of the foregoing; |
| 1.6 | "Assumed Employees" | shall have the meaning ascribed to it in §5.5.1 below; |
| 1.7 | "Assumed Liabilities" | shall mean all of the liabilities related to the Business and to the Acquired Assets, including, but not limited to, the following liabilities of Seller, as and when due: (i) Seller's obligations and liabilities under the Assumed Agreements; (ii) obligations and liabilities pursuant to any replacement or warranty claims against Seller arising after the Closing Date with regard to Current Products sold by Seller prior to the Closing Date; (iii) liabilities to provide maintenance services and technical support with regard to the Current Products sold or delivered by Seller prior to the Closing Date; (iv) all of the liabilities of Seller related to the Grants; (v) all payables; and (vi) the obligations and liabilities specified in the schedule as attached hereto as **Exhibit K**; |
| 1.8 | "Attorney-in-Fact" | shall have the meaning ascribed to it is §8.6.1 below; |
| 1.9 | "Benefit Plan" | shall mean any plan, fund, or program established or is maintained for the purpose of providing its participants or their beneficiaries, through the purchase of insurance or otherwise, medical, surgical, or hospital care or benefits, or benefits in the event of sickness, accident, disability, death or unemployment, or vacation benefits, apprenticeship or other training programs, or day care centers, scholarship funds, or prepaid legal services and all other bonus, pension, profit sharing, deferred compensation, stock ownership, stock bonus, stock option, phantom stock, retirement, vacation, disability, death benefit, unemployment, hospitalization, medical, severance, manager's insurance policies ("*bituach menahalim*"), provident funds ("*kupot gemel*") and any supplemental education funds ("*keren hishtalmut*") or other plans, 13th or 14th or other additional salary, agreements, arrangements or understandings providing benefits to any Employee to which Seller has any liability or obligation; |

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| 1.10 | "Business Day" | shall mean a day on which commercial banks are not required to be closed for business in Israel; |
| 1.11 | "Business" | shall mean the video business of Seller as conducted prior to the Closing Date, including the design, development, manufacture, production, supply, sale, marketing and distribution of video devices and related services but excluding any other business of Seller, including, but not limited to, Seller's real estate business and other investments; |
| 1.12 | "Claim" | shall mean any claim, action, suit, proceeding, investigation or criminal proceeding, at law or in equity, before any national, state or provincial, local or other Governmental Body or other forum; |
| 1.13 | "Closing Date" | shall have the meaning ascribed to it in §2.8 below; |
| 1.14 | "Closing" | shall have the meaning ascribed to it in §2.8 below; |
| 1.15 | "Compensation Agreements" | shall mean (i) each and every oral or written compensation contract, commitment or understanding between Seller, on the one hand, and any Employee of Seller, on the other, which is not terminable with 30 days or less notice by Seller without cost or other liability to Seller, in any case other than verbal "at-will" employment agreements with any Employee whose gross cost to employer is less than $20,000 per year, and (ii) each and every oral or written consulting agreement, deferred compensation agreement, severance agreement or sales representative or other agency agreement or any covenant not to compete or confidentiality agreement, to which Optibase Ltd. or Optibase Inc. is a party; |
| 1.16 | "Consideration" | shall mean, the sum of USD8 million plus the Adjustment Amount; |

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| 1.17 | "Consortiums" | Shall mean the Consortiums supported by the European Commission listed in the Grants Schedule. |
| 1.18 | “Credit Event” | shall mean, with regard to a corporation, an act of bankruptcy, including: failure to pay amounts due to a third person of more than $250,000 in the aggregate or an amount of $250,000 in aggregate debts being accelerated due to a breach of agreement by such corporation, institution or having instituted against such corporation a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency Law or other similar Law affecting creditors’ rights, having a resolution passed for its winding-up, official management or liquidation; seeking or becoming subject to the appointment of an administrator, provisional liquidation, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets and disaffirming, repudiating, disclaiming or rejecting obligations of more than $250,000 in the aggregate; |
| 1.19 | “Current Products” | shall mean, with respect to the Business: (i) all products manufactured, sold, developed or distributed, whether directly or indirectly, by the Seller, including third party equipment, service and software; and (ii) services provided to customers of Seller, whether directly or indirectly, at the date of this Agreement; |
| 1.20 | “Disclosure Schedule” | means the disclosure schedule of Seller attached hereto as **Schedule D**; |
| 1.21 | “Earn-Out” | shall mean the obligations of Purchaser under §2.4 below; |
| 1.22 | “Employee" | shall mean employees or independent consultants under contract of Seller on the date of this Agreement (all reference herein to Employees shall refer to consultants *mutatis mutandis*), all listed in the schedule attached hereto as **Exhibit L**; |
| 1.23 | “Employment Agreement" | shall mean an Employment Agreement substantially in the form attached hereto as **Exhibit M** with Exhibit A thereto in form and substance satisfactory to Purchaser in its sole discretion; It is agreed that such Employment Agreement shall be the existing employment agreement relevant to the employees of Seller prior to the date of this agreement, unless agreed otherwise in writing between the Parties. |
| 1.24 | “Excluded Liabilities” | shall mean any liability of Seller that is not an Assumed Liability; |

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| 1.25 | "Governmental Body" | shall mean any national, state, municipal or local government, governmental or regulatory body, regulatory or administrative agency, governmental commission, department, board, bureau, agency or instrumentality, political subdivision, commission, court, tribunal, official, arbitrator or arbitral body, all whether domestic or foreign; |
| 1.26 | "Grant" | shall mean any grant, tax benefit, incentive or subsidy from any Israeli or other Governmental Body, including (a) "Approved Enterprise Status" from the Investment Center of the Israeli Ministry of Industry and Trade; (b) grants from the Office of the Chief Scientist, Israeli Ministry of Industry and Trade; and (c) grants related to the Consortiums . |
| 1.27 | "Grants Schedule" | shall have the meaning ascribed to it in § 3.16.1 below; |
| 1.28 | "Indemnified Person" | shall mean any person(s) claiming indemnification under § 9 below; |
| 1.29 | "Indemnity Escrow Agent" | shall mean the escrow agent under the Escrow Deposit Agreement; |
| 1.30 | "Indemnity Escrow Deposit Agreement" | shall mean the agreement providing for the formation of the Escrow Deposit, pursuant to **Exhibit N** hereto; |
| 1.31 | "Indemnify Escrow Deposit" | shall mean cash in the amount of $1 million; |
| 1.32 | "Intellectual Property Rights Schedule" | all have the meaning ascribed to it in §3.9 below; |
| 1.33 | "Intellectual Property Rights | shall mean with regard to the Business only: (i) all copyrightable works, all copyrights, and all applications, registrations and renewals thereof, (ii) all trade names, fictional business names, trade dress rights, registered and unregistered trademarks and service marks and logos and corporate names, including any internet domain names, and applications therefor, together with all translations, adaptations, derivations and combinations and like intellectual property rightsand all applications, registrations and renewals thereof, (iii) all inventions (whether patentable or unpatentable and whether or not reduced to practice), all improvements thereto, and all patents, patent applications, and patent disclosures, together with all reissuances, divisions, continuations, continuations-in-part, substitutes, extensions, and reexaminations thereof, (iv) all proprietary formulations, know-how, confidential business information, trade secrets, research and development results, compositions, techniques, processes, information technology, technical data, designs, drawings, diagrams, specifications, catalogs, customer and supplier lists and contact information, pricing and cost information, business and marketing plans and proposals, and manufacturing, engineering, quality control, testing, operations, logistical, maintenance and other technical information and technology, (v) all mask works and all applications, registrations and renewals in connection therewith, (vi) all computer software (including data and related documentation), whether purchased, licensed or internally developed, and (vii) all copies and tangible embodiments thereof in whatever form or medium; |

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| 1.34 | "Interim Financial Statements" | shall have the meaning ascribed to it in §3.7 below; |
| 1.35 | "Law" | shall mean any applicable law, statute, rule, regulation, ordinance and other pronouncement having the effect of law of the State of Israel or any foreign country; |
| 1.36 | "Liability" | shall mean any liability of any nature, whether accrued, contingent or otherwise, and whether due or to become due; |
| 1.37 | "Lien" | shall mean any mortgage, pledge, lien, encumbrance, charge, or other security interest, other than (a) mechanic's, materialman's, and similar liens arising by operation of law; (b) liens for Taxes not yet due and payable or for Taxes that the taxpayer is contesting in good faith through appropriate proceedings; and (c) purchase money liens and liens securing rental payments under capital lease arrangements; that are not material in amount and that do not interfere with the ability of Seller to conduct the Business or to consummate the transactions contemplated by this Agreement; |
| 1.38 | "Location Leases" | shall mean the leases for each of the Locations; |
| 1.39 | "Location" | shall mean locations operated or maintained by Seller or relating to the Business including office, warehouse and home office locations, specifically the Seller offices located at 2 Gav Yam Center, 7 Shenkar Street, Herzliya 46120, Israel, 625 Ellis Street, Mountain View,, California 94043, USA, Galleria Tower, DLF City, Phase-4, Gurgaon, 122002, Haryana Delhi,, India and Room 2703, Building A, Cyber Tower, 2 Zhong Guan Cun South Ave. Haidian District, Beijing, China 100086; |

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| 1.40 | "Loss" or "Losses" | shall mean any direct liability, Claim, loss, damage, costs or expenses (including reasonable attorneys' fees and disbursements and the costs of litigation); |
| 1.41 | "Mandatory Severance Accounts | shall mean all amounts paid, withheld or held by Seller to satisfy the Mandatory Severance Accruals whether under Seller's control or otherwise ; |
| 1.42 | "Mandatory Severance Accruals" | shall mean the obligation arising under applicable Laws to make severance payments to the Employees; |
| 1.43 | "Material Adverse Change" | shall have the meaning ascribed to it in §3.7.3 below; For this purpose, the Parties agree that any effect or effects of more than $100,000 in the aggregate shall be deemed material; |
| 1.44 | "Material Adverse Effect" | shall mean, with regard to the Business, any circumstance, change or effect that, either individually or in the aggregate with all other circumstances, changes or effects, (a) has a material adverse effect on the Business, Acquired Assets, financial condition or results of operations of Seller with respect to the Business or the conduct of the Business taken as a whole, but excluding (i) effects or changes that are generally applicable to the industries and markets in which the Business operates, (ii) changes in the world financial markets or general economic conditions, or (iii) effects directly or primarily arising out of the execution or delivery of this Agreement or the transactions contemplated hereby or the public announcement thereof; or (b) would have a material adverse effect on the ability of Seller to perform its obligations under this Agreement and the Ancillary Agreements or on the ability of Seller to consummate the transactions contemplated hereby.<br><br>For this purpose, the Parties agree that any effect or effects of more than $100,000 in the aggregate shall be deemed material; |
| 1.45 | "Ordinary Course of Business" | means the ordinary course of business consistent with past custom and practice (including with respect to quantity and frequency); |
| 1.46 | "Organizational Documents" | shall mean Certificate of Incorporation, Articles of Association, By-laws or other organizational documents; |

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| 1.47 | “Permit” | shall mean any consent, license, certificates, registration, approvals, authorization or permit issued, granted, given or otherwise made available by or under the authority of any Governmental Body or pursuant to any Law; |
| 1.48 | “Permits Schedule” | shall have the meaning ascribed to it in §3.13.1 below; |
| 1.49 | “Required Authorization Schedule” | shall have the meaning ascribed to it in §3.4.1 below; |
| 1.50 | “Tangible Assets Schedule” | shall have the meaning ascribed to it in §1.1.2; |
| 1.51 | “Tax Returns” | shall mean all federal, state, foreign, provincial and local tax (including income tax, value added tax and stamp tax) returns, notices, reports and computations; |
| 1.52 | “Taxes” | shall mean all forms of taxation, whether direct or indirect and whether levied by reference to income, profits, gains (capital or otherwise), withholding, payroll, property, value-added, sales, use, supplies, net wealth, net worth, asset value, turnover, added value, benefits provided or deemed by applicable law to be provided to employees or any other matter, and statutory, franchise, governmental, state, provincial, local governmental or municipal impositions, duties, contributions and levies (including social security contributions), customs, import and excise taxes, duties and assessments in each case, applicable to Seller or Purchaser whenever imposed and in respect of any person (including an obligation to contribute to the payment of such on a consolidated, combined or unitary basis) and any other tax of any kind whatsoever, including any interest, penalty, or addition thereto, whether disputed or not; |
| 1.53 | "Vitec Multimedia" | shall mean S.A. Vitec, (also known as Vitec Multimedia) a private company incorporated in the French Republic, French corporation number 344 977 580 R.C.,S Paris which is the parent company of Purchaser holding 100% of Purchaser's share capital. |
| 1.54 | “Waiver” | shall mean a waiver, substantially in the form attached hereto as **Exhibit O,** in which an Employee confirms in writing that Purchaser is under no obligation to such employee for any employment-related liabilities (including severance pay, rehabilitation pay, accrued vacation and sick days) arising on or prior to the Closing Date, including any such liabilities with regard to any actual or deemed termination of employment with Seller; |

1.55 "Year-End Financial Statements" shall have the meaning ascribed to it in §3.7.1 below.

2. Basic Transaction

2.1 Purchase and Sale

Subject to the terms and conditions of this Agreement, on the Closing Date, Purchaser shall purchase from Seller, and Seller shall sell, convey, assign, transfer and deliver to Purchaser, for the consideration specified below, all of Seller's rights, titles and interests in and to the Acquired Assets and the Assumed Liabilities. For clarification purposes the Parties acknowledge that the Excluded Assets shall not be sold, assigned or transferred to Purchaser. The Acquired Assets shall be made available to the Purchaser at the relevant Locations at the Closing and Purchaser, at its sole expense, shall remove all Acquired Assets from such Location. The risk of Loss in and to the all of the Acquired Assets shall transfer to the Purchaser at the Closing.

2.2 Closing Purchase Price

2.2.1 As consideration for the purchase of the Acquired Assets and the assumption of the Assumed Liabilities, Purchaser shall transfer at Closing to the Seller, the Consideration plus any applicable VAT. In connection with and in complete fulfillment of any obligation hereunder to pay the Consideration, Purchaser shall transfer portions of the Consideration as follows:

2.2.1.1 to Seller, the sum of the Consideration plus the Adjustment Amount, minus the Indemnity Escrow Deposit.

2.2.1.2 to Indemnity Escrow Agent, the Indemnity Escrow Deposit.

2.2.2 Purchaser shall also transfer the complete fees of the Indemnity Escrow Agent to such escrow agents.

2.3 Signing Deposit

Attached hereto as **Schedule E** is a Signing Deposit Escrow Agreement and confirmation of Doron Afik, Esq. that an amount of USD 500,000 is held by such attorney in escrow in a bank account in France for the purpose of compensating Seller in the event that Closing does no occur and will be held in such account until such attorney will receive either: (i) instructions of Purchaser to transfer the full amount to Seller, in which case such attorney shall follow such instructions; (ii) confirmation that Closing took place, in which case such attorney shall return the funds to Purchaser; or (iii) notice of termination of this Agreement or a letter that Closing did not take place within 90 calendar days of the date of this Agreement, in which case such attorney shall notify both Purchaser and attorney Adva Bitan (pursuant to the contact information in Section 12.13) of receipt of such notice and: (a) if none of Purchaser and Seller demand that the funds will not be transferred within 5 business days in a letter detailing the legal or contractual grounds under which Seller is not entitled to the funds, shall transfer the funds to Seller; and (b) if either Seller or Purchaser demands otherwise, shall transfer the funds only pursuant to a joint notice of Seller and Purchaser or an arbitration award or Court order. Any notice under this provision shall be sent to both Parties and attorney Doron Afik. All transfers of funds shall be made within 3 business days in France. Section 5, 6, 7, 8 and 11 of the Indemnity Escrow Agreement shall apply *mutatis mutandis*. The fees of Doron Afik, Adv. in connection with the Signing Deposit shall be borne by the Purchaser.

2.4 Adjustments for Receivables and Payables

For the purpose of the adjustment of the Consideration pursuant to Section 2.2.1.1, at Closing, Seller shall present Purchaser with lists and calculations of the following, all as limited to the Acquired Assets and Assumed Liabilities, and all as showing on the Year-End Financial Statements, the Interim Results and/or other records or bookkeeping of the Sellers (all calculations shall be made as at Closing and the Consideration shall not be increased after Closing. Seller represents that no other payables are due and may be imposed on Purchaser):

A+B-C-D; (results of such calculation, "**Adjustment Amount**")

Where:

2.4.1 A = [Accounts Receivables, net of specific doubtful debt] - means all accounts receivable, notes receivable and other current rights to payment of Sellers, or any of its subsidiaries or other affiliates, together with any unpaid interest or fees accrued thereon or other amounts due with respect thereto, and any claim, remedy or other right related to any of the foregoing, including specific claims under the company receivables credit insurance policy];

2.4.2 B = [Other Receivables and Prepaid Expenses] - means all other accounts receivables, advance payments, payments made by Sellers on account of services or goods to be provided to Purchaser or received by Purchaser on or after the Closing, deposits, other current rights to payment of Sellers, or any of its subsidiaries or other affiliates, all together with any unpaid interest, fees or income accrued thereon or other amounts due with respect thereto, and any claim, remedy or other right related to any of the foregoing;

2.4.3 C = [Accounts Payables (other than ordered but unpaid for inventory)] - means all accounts payable owed to third parties with respect to the Business for raw materials or supplies received by or services rendered to Sellers;

2.4.4 D = [Other Payables] - means all other accounts payable owed to third parties with respect to the Business for services rendered to Sellers; and advance payment received by the European Commission on account of agreements to be executed after the Closing.

2.5 Earn-Out

2.5.1 The Consideration shall be adjusted 14 months after the Closing Date by making a calculation of the difference between the Current Product worldwide gross revenues of Purchaser (including any subsidiaries, affiliates, distributors or agents thereof) during the 12 months after the Closing Date and USD14 million and should such number be a positive number, Purchaser shall immediately pay Seller 45% of such difference.

2.5.2 For purposes of this §2.4, the calculation of revenues deriving from Current Products shall be as stated in the consolidated and audited financial statements (prepared in accordance with relevant generally accepted accounting principles (GAAP) and applicable Law) of Vitec Multimedia and shall include revenues from Current Products which have undergone any changes, amendments or modifications.

2.5.3 *Reports:* During the first 12 months after Closing, Purchaser shall deliver to Seller a report every 3 months (within 30 days of the end of the 3 months period) elaborating and detailing the accumulative sales subject to the payments under this Section 2.4 to such date and a final report relating to the entire 12 months period (in this §2.4, "**Earn-Out Accounting**") within 14 months of Closing. The Earn-Out Accounting shall be accompanied by a letter of the accounting firm making the annual reports of Vitec Multimedia which confirms that such report is properly made and audited, with respect to the final report, pursuant to relevant generally accepted accounting principals (GAAP) and applicable law.

2.5.4 *Disputes*. Unless Seller disputes the Earn-Out Accounting pursuant to this §2.5.4, the Earn-Out Accounting delivered by Purchaser to Seller shall be final, binding and conclusive on the Parties. Notwithstanding anything to the contrary herein, Seller may dispute the Earn-Out accounting only as follows in this §2.5.4. Seller shall send written notice of the dispute (In this §2.5.4, "**Earn-Out Dispute Notice**") to Purchaser within thirty days of receipt of the Earn-Out Accounting. The said thirty days period shall be extended by any period of time in which Purchaser failed to comply with its obligations in accordance with §8.4 after the 12 months anniversary of the Closing. The Earn-Out Dispute Notice must identify each disputed item on the Earn-Out Accounting, specify the amount of such dispute and set forth, in reasonable detail, the basis for such dispute. In the event of such a dispute, Purchaser and Seller shall attempt in good faith to reconcile their differences, and any resolution by them as to any disputed items shall be final, binding and conclusive on Purchaser and Seller. It is clarified that at such time, any undisputed Earn-Out amounts will be paid by Purchaser to Seller. If any such resolution by Purchaser and Seller leaves in dispute amounts, the net effect of which in the aggregate would not affect the Earn-Out amount to be paid for more than USD40,000, then all such amounts shall be deemed to be resolved in favor of the Earn-Out Accounting delivered by Purchaser. If Purchaser and the Seller are unable to reach a resolution with such effect within thirty days after delivery of the Earn-Out Dispute Notice to Purchaser, then the Seller and Purchaser shall promptly submit any remaining disputed items to any senior partner in one of the top four independent accounting firms of international reputation mutually acceptable to the Seller and Purchaser, and in lack of agreement, one of the firms chosen by the head of the Israeli Bar Association to which any Party may approach (in this §2.5.4, "**Earn-Out Independent Accountant**"). If any remaining disputed items are submitted to an Earn-Out Independent Accountant for resolution: (A) Each of the Seller and the Purchaser shall be entitled to furnish the Earn-Out Independent Accountant with its reasoning within 14 days of the first meeting with the Earn-Out Independent Accountant, which shall be held as soon as possible after its nomination, and either Party shall be entitled to then respond once to the reasoning of the other Party within 14 days of receipt of such reasoning. The Earn-Out Independent Accountant shall be entitled to request additional information from either or both parties. Any correspondence with the Earn-Out Independent Accountant shall be in writing with copy to attorneys Doron Afik and Adva Bitan. The Earn-Out Independent Accountant shall make its decision within 14 days following the expiration of the response period set herein by notifying attorneys Doron Afik and Adva Bitan of his decision in writing and with reasoning, failing which, the Earn-Out Independent Accountant shall not be entitled to payment and the matter shall be referred to another arbitrator; (B) the determination by the Earn-Out Independent Accountant, as set forth in a written notice to the Seller and Purchaser, shall be final, binding and conclusive on the Parties; and (C) the fees and disbursements of the Earn-Out Independent Accountant shall be allocated between the Seller and Purchaser in the same proportion that the aggregate amount of the remaining disputed items submitted to the Earn-Out Independent Accountant that is unsuccessfully disputed by each Party (as finally determined by the Earn-Out Independent Accountant) bears to the total amount of all remaining disputed items submitted to the Earn-Out Independent Accountant.

2.6 Assumption of Certain Liabilities

2.6.1 At Closing, Purchaser shall assume and agree to pay, perform and discharge all of the Assumed Liabilities. Purchaser shall not assume or be required to pay, perform or discharge any of the Excluded Liabilities.

2.6.2 Seller shall be responsible for payment, performance and discharge of all Excluded Liabilities.

2.7 Non-Assignable Contracts; Consortium Agreements

2.7.1 Nothing herein shall be construed as requiring or permitting Seller to assign to Purchaser any Assumed Agreement that by its terms cannot be assigned (unless any required consent shall have been obtained). If, notwithstanding the best efforts of the Parties pursuant to §5.3 below, any such consent to assignment shall not have been obtained, then, within a period of six (6) months following the Closing Date the Parties will use their respective best efforts to obtain such consent. Within said time frame, until such consent shall have been obtained or such restriction shall have been removed, Seller shall, by itself or by its agents, as agreed upon by the Seller and Purchaser and at the expense of Purchaser take all actions (i) in order that the rights and obligations of Seller under any such contract shall be preserved, (ii) for, and to facilitate, the performance of Seller's obligations under such contract; and (iii) to cause the other party or parties thereto to perform its or their obligations thereunder (which performance shall be for the benefit of Purchaser). If after such six (6) months period following the Closing, the Seller and Purchaser were not able to assign any such agreement that by its terms cannot be assigned, Seller will not be obligated to assign such agreement and shall have no further obligation under this Section 2.7.1.

2.7.2 Notwithstanding anything to the contrary in this Agreement, and subject to the provisions of Section 10.1.2.3, if any required consent to assign a Consortium shall not have been obtained as of the Closing Date, Seller, in its sole discretion may pay the Purchaser the amount of USD 100,000 (one hundred thousand US dollars) for such non-transferable Consortium and such Consortium shall not be assigned to Purchaser under this Agreement.

2.8 Closing; Deliveries

Closing of the transactions contemplated by this Agreement ("**Closing**") shall, unless otherwise noted, take place at the offices of Afik Turgeman, 3 Daniel Frisch St., Tel Aviv, Israel at 11:00 a.m. local time on the first day of the calendar month immediately following the expiration of 30 days after all conditions to Closing have been met, or such other time, date and place as may be mutually agreed upon in writing by the Parties ("**Closing Date**"). At Closing, Seller shall convey to Purchaser good and marketable title to the Acquired Assets, free and clear of any Liens against the receipt of the Consideration payable at the Closing. Additionally, the following instruments, agreements and documents shall be executed and delivered at Closing as described below and all such documents shall be deemed delivered simultaneously and all transactions contemplated hereby and thereby shall be deemed to take place simultaneously, and no such document shall be deemed delivered until all such transactions are completed and all such documents are delivered.

2.8.1 Seller will deliver to Purchaser at Closing:

2.8.1.1 the Ancillary Agreements duly executed by Seller;

2.8.1.2 a certificate of the Chief Executive Officer of Optibase Ltd. substantially in the form attached hereto as **Exhibit P**;

2.8.1.3 General Meeting resolutions and an Extract of the Board of Directors resolutions substantially in the form attached hereto as **Exhibit Q** to approve the execution and consummation of this Agreement by Seller;

2.8.1.4 a legal opinion of Gross, Kleinhendler, Hodak, Halevy, Greenberg & Co., counsel for Seller, substantially in the form attached hereto as **Exhibit R**, dated the Closing Date; and

2.8.2 Purchaser will deliver to Seller at Closing the following:

2.8.2.1 the Ancillary Agreements, duly executed by Purchaser, where relevant;

2.8.2.2 Board of Directors resolution substantially in the form attached hereto as **Exhibit S** to approve the execution and consummation of this Agreement by Purchaser;

2.8.2.3 An obligation of Vitec Multimedia to guarantee the full performance by Purchaser of this Agreement substantially in the form attached hereto as **Exhibit T**;

2.8.2.4 a legal opinion of Afik Turgeman, counsel for Purchaser substantially in the form attached hereto as **Exhibit U**, dated the Closing Date; and

2.8.2.5 the Consideration, as described in §2.2 above.

2.9 Allocation of Closing Purchase Price

The Consideration (and all other capitalizable costs) shall be allocated for all purposes (including financial accounting and Tax purposes) among the Acquired Assets purchased by Purchaser and the non-competition agreement set forth in §7.2 below in the manner set forth on the schedule attached hereto as **Exhibit V** which shall be binding on all Parties for all purposes, and the Parties agree that all Tax Returns filed by each of them shall be consistent with such schedule.

3. Representations and Warranties of Seller

Seller hereby represents and warrants to Purchaser that all Schedules hereto and the statements contained in this §3 are correct and complete as of the date of this Agreement (other than Exhibits and Schedules which derive from or include the Sellers' financial data which are correct and complete as of February 28, 2010) and will be amended (by way of an amendment to the Disclosure Schedule), to be true and correct and complete as of the Closing Date (as though made then and as though the Closing Date were substituted for the date of this Agreement throughout this §3), all except as set forth in the Disclosure Schedule, as amended. The Disclosure Schedule is arranged in paragraphs numbered and lettered in a manner corresponding to the lettering and numbering of paragraphs contained in this §3, it being understood that any information disclosed under any such exception shall be deemed to be disclosed and incorporated into any other Section, Subsection or clause of a single Section or Subsection hereof, as applicable, where such disclosure would otherwise be appropriate. Seller acknowledges that Purchaser is entering into this Agreement based on such representations and warranties and that Purchaser would not have entered into this Agreement without such representations and warranties.

3.1 Due Incorporation and Qualification of Seller

3.1.1 Optibase Ltd. is a corporation duly incorporated and validly existing under the laws of the State of Israel, with full power and authority to own, lease and operate its properties, to carry on the Business in the places and in the Ordinary Course of Business and to execute, deliver and perform its obligations under this Agreement and the Ancillary Agreements.

3.1.2 Seller is qualified to do business in each jurisdiction in which the nature of the activities conducted by it or the character of the properties owned or leased by it makes such qualification necessary except where the failure to so qualify would not have a Material Adverse Effect on the Seller.

3.1.3 Neither Optibase Ltd. nor Optibase Inc. has undergone a Credit Event.

3.1.4 Optibase Ltd. is the sole shareholder of Optibase Inc. Optibase Inc. has been duly organized and is validly existing and in good standing under the laws of the State of California, with full power and authority to own, lease and operate its properties and to carry on the Business in the places and in Ordinary Course of Business.

3.1.5 Seller has furnished to Purchaser correct and complete copies of the Organizational Documents of Optibase Ltd. and Optibase Inc.

3.2 Authority; Due Authorization; Valid Obligation.

3.2.1 Seller has taken all corporate action necessary for the execution and delivery by it of this Agreement and the Ancillary Agreements. Seller has taken, or at Closing will have taken, all corporate action necessary for the consummation of the transactions contemplated hereby and thereby.

3.2.2 This Agreement constitutes, and each of the Ancillary Agreements, when executed and delivered by Seller (to the extent that it is a party thereto), will constitute, the valid and binding obligations of Seller, enforceable against it in accordance with their respective terms, (i) subject to any applicable bankruptcy, insolvency, reorganization, moratorium or similar laws now or hereafter in effect relating to creditors' rights generally or to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law), (ii) except as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies, and (iii) except to the extent the indemnification provisions contained therein may be limited by applicable Law.

3.3 No Conflicts or Defaults

The execution and delivery by Seller of this Agreement and the Ancillary Agreements to which it is a Party and the consummation of the transactions contemplated hereby and thereby do not and will not: (a) contravene with the Organizational Documents of Seller in a manner that would have a Material Adverse Effect; (b) (i) violate or conflict with, or result in a breach of, or a default or loss of material rights under, (ii) terminate or give any party the right to terminate, abandon or refuse to perform; or (iii) accelerate or modify, or give any party the right to accelerate or modify, the time within which, or the terms under which, Seller is to perform any duties or obligations or receive any rights or benefits under, any agreement, instrument, permit to which Seller is a party or by which Seller or any of the Acquired Assets are bound, or any judgment, order, decree, law, rule or regulation to which Seller or any of the Acquired Assets are subject; except where such violation, termination, acceleration, modification etc. would not have a Material Adverse Effect; or (c) result in the imposition of any Lien on the Acquired Assets or the incurrence of any liabilities by Purchaser other than as specifically contemplated hereunder.

3.4 Government Body Authorizations

3.4.1 Attached hereto as **Schedule F** is a list describing any authorization, approval, order, license, permit or consent of, or filing or registration with, any Governmental Body, including (subject to the accuracy §3.18 below) any filing, notifications or consent under the Israeli Restrictive Trade Practices Law required in connection with the execution, delivery and performance by Seller of this Agreement and the Ancillary Agreements ("**Required Authorization Schedule**").

3.4.2 Except as set forth on the Required Authorization Schedule, there is no other authorization, approval, order, license, Permit or consent of, or filing or registration with, any Governmental Body, that is required in connection with the execution, delivery and performance by Seller of this Agreement and the Ancillary Agreements and consummation of the transactions contemplated hereby and thereby.

3.5 Title to Assets

Seller has good and marketable title to the Acquired Assets, free and clear of any Liens except as set forth in the Disclosure Schedule.

3.6 Litigation

Except as set forth on the Claims Schedule attached hereto as **Schedule G**, there is no Claim (except that as to investigations, such representation is limited to Seller's knowledge) pending against Seller or which otherwise relates to the Acquired Assets, the Business or the transactions contemplated by this Agreement, and Seller has no knowledge of any such threatened Claims.

3.7 Financial Statements; Liabilities

3.7.1 Attached hereto as **Schedule H** are: (i) unaudited consolidated balance sheets and statements of income as of and for the nine months ended September 30, 2009 for Optibase Ltd. ("**Interim Results**"); and (ii) audited consolidated balance sheets and statements of income, changes in stockholders' equity, and cash flow as of and for the fiscal years ended (a) December 31, 2007; and (b) December 31, 2008 for Optibase Ltd. (together, "**Year-End Financial Statements**").

3.7.2 All the Interim Results and the Year-End Financial Statements were prepared in accordance with US generally accepted accounting principals (in this §3.7, "GAAP") applied on a consistent basis, are reconcilable to the books and records of Optibase Ltd. and present fairly in all material respects the consolidated financial position of Optibase Ltd. as of the dates thereof and the consolidated results of Optibase Ltd.'s operations, cash flows and changes in equity for the periods then ended.

3.7.3 To its knowledge, Seller has no Liability (and there is no basis for any present or future Claim or demand against any of them giving rise to any Liability) that in accordance with GAAP would be required to be reflected on Seller's balance sheet and are not reflected on the Interim Results. To its knowledge, since September 30, 2009, Seller has not incurred any Liabilities other than those incurred in the Ordinary Course of Business. To its knowledge, all such Liabilities incurred since September 30, 2009 are listed in the schedule attached hereto as **Schedule I**.

3.7.4 Since September 30, 2009 and except as provided for in **Schedule J**, there has not been: (a) any material adverse change in the Business (including assets, condition (financial or otherwise)) or Business operations of Seller, taken as a whole ("**Material Adverse Change**"); (b) any material change (individually or in the aggregate) in the contingent obligations of Seller with respect to the Business only by way of guaranty, endorsement, indemnity, warranty or otherwise, other than in the Ordinary Course of Business; (c) any damage, destruction or Loss, whether or not covered by insurance, of any Acquired Assets that are (individually or in the aggregate) material to the Acquired Assets; (d) any waiver or compromise by Seller of a valuable right or of a material debt owed to it relating to the Business only; (e) any increases in the compensation of any of the Employees of Seller other than in the Ordinary Course of Business; (f) any entry into or amendment of any employment, consulting, agency, personal services, resulting in an increase compensation or severance agreement or arrangement with any party (other than hiring or dismissals of "at-will" employees in the Ordinary Course of Business); (g) any adoption or implementation of a new Benefit Plan, or any termination or significant change in the terms of (or benefits available under) any existing Benefit Plan, except where such adoption, implementation, termination or change would not have a Material Adverse Effect; (h) any agreement or commitment by Seller to do any of the things described in this §3.7.3.

3.7.5 The cash portion of the Consideration (exclusive of the Indemnity Escrow Deposit), together with cash in the accounts of Seller, is sufficient to cover for all the Excluded Liabilities.

3.8 Inventory

The inventory (raw material, work in progress and finished goods) is sufficient to supply at least the demand pursuant to past practices (both pursuant to past practice and actual current anticipated demand) and is valued, according to the basis which appears in the Year-End Financial Statements, in the amount of at least at USD2 million.

3.9 Intellectual Property Rights

3.9.1 The schedule attached hereto as **Schedule K** contains a list of all: (i) registered Intellectual Property Rights which are owned, possessed or used by Seller in the Business, or Intellectual Property Rights related to the Business licensed to Seller; (ii) unregistered Intellectual Property Rights material to the Business which are owned, possessed or used by Seller in the Business, or Intellectual Property Rights related to the Business licensed to Seller; and (iii) licenses and other rights (other than disclosure of confidential information pursuant to non disclosure agreements) granted by Seller to any third party (including any rights to indemnification) with respect to any Intellectual Property Rights and all licenses and other rights granted by any third party to Seller with respect to any Intellectual Property Rights (other than "shrink wrap" software licenses for readily available computer software), in each case identifying the subject Intellectual Property Rights and the third party.

3.9.2 Seller has delivered to Purchaser correct and complete copies of all such patents, registrations, applications, licenses, agreements and rights (as amended to date) and has made available to Purchaser correct and complete copies of all other written documentation evidencing ownership and prosecution (if applicable) of each such item. Seller owns, or has the right to use pursuant to a valid, legal, binding and enforceable license (which is in full force and effect and has not been breached by Seller or by any other party thereto), all Intellectual Property Rights necessary for or used in the operation of the Business as currently conducted.

3.9.3 With respect to the Intellectual Property Rights owned by Seller, (i) Seller owns and shall convey and deliver to Purchaser at Closing, all right, title, and interest in and to all of such Intellectual Property Rights related to the Business free and clear of all Liens; (ii) such Intellectual Property Rights do not infringe any rights of any third parties; (iii) there have been no Claims against Seller asserting the invalidity, misuse or unenforceability of any of such Intellectual Property Rights; (iv) Seller has not received any notices of any interference, infringement or misappropriation by, or conflict with, any third party with respect to such Intellectual Property Rights or the conduct of the Business; (v) to the Seller's knowledge, such Intellectual Property Rights have not been interfered with, infringed upon or misappropriated by, any other persons; and (vi) the transactions contemplated by this Agreement (including the transfer of the Intellectual Property Rights to Purchaser) will not have any Material Adverse Effect on the Intellectual Property Rights. Without limiting any other provision of this § 3.9 and to Seller's knowledge, the conduct of the Business has not interfered with, infringed upon or misappropriated, and does not interfere with, infringe upon or misappropriate, any Intellectual Property Rights of any other persons, nor would any future conduct as presently contemplated by Seller’s present management interfere with, infringe upon or misappropriate, any of the Intellectual Property Rights of any other persons.

3.9.4 To Seller's knowledge, each employee or consultant of Seller who is, or has been, involved in the development of Intellectual Property Rights related to the Business is bound by an appropriate form of confidentiality and intellectual property assignment agreement, and retains no rights (whether by contract, by operation of law or otherwise) in or to any such Intellectual Property Rights. To the Seller's knowledge, none of the employees of Seller have improperly disclosed any Intellectual Property Rights related to the Business to any person.

3.9.5 Subject to the terms hereof, as of Closing, Purchaser will have the same rights, titles and interest in the Intellectual Property Rights Seller owned or possessed or was entitled to prior to the Closing Date. Any of such Intellectual Property Rights that are, either at the date of this Agreement or immediately prior to Closing, exclusive to Seller shall, upon Closing, be exclusive to Purchaser.

3.10 Employment Matters

With regard to the Employees:

3.10.1 The schedule attached hereto as **Schedule L** describes the terms of employment with Seller of all Employees, other than the CEO and CFO of the Seller, including the Mandatory Severance Accruals, Benefit Plans and Compensation Agreements, accrued vacation for each Employee and describes any severance benefits for and the circumstances under which each Employee is or would be entitled to such severance benefits, the amount of severance benefits funding balances or shortfalls, as well as recuperation pay ("*d'mei havra'a*") balances, illness day balances, fringe benefits including balances in provident or pension funds, "13th and 14th salary," car, telephone, managers insurance and any profit sharing commission, incentive or discretionary bonus arrangements to which Seller is a part.

3.10.2 Seller has delivered to Purchaser true, complete and correct copies or descriptions of each Benefit Plan applicable to Seller and any amendments thereto.

3.10.3 The accrued obligations, if any, of Seller under all Benefit Plans, including, but not limited to, the Mandatory Severance Accruals, are reflected on the Interim Financial Statements and 2008 Year-End Financial Statements as of their respective dates and on the books of Optibase Ltd. for periods thereafter up to the Closing Date.

3.10.4 Each Benefit Plan and any related trust complies currently, and has complied at all times in the past, both as to form and operation, in all material respects with the terms of such Benefit Plan and with the applicable provisions of applicable Laws, including, but not limited to, the laws of the State of Israel.

3.10.5 Seller is not a party to any union or collective bargaining contracts with respect to any employees and there has not been, nor has Seller received written notice threatening, any representational or organizational activity, strike, slowdown, picketing or work stoppage by any union or other group of employees against Seller. Notwithstanding the aforementioned, Seller is a member of the Manufacturers Association of Israel.

3.10.6 All contributions and all payments and premiums required to have been made to or under any Benefit Plan have been timely and properly made (or otherwise properly accrued if not yet due), and nothing has occurred with respect to the operation of the Benefit Plans that would cause the imposition of any Liability on Purchaser, including penalty or Tax under any applicable Law.

3.10.7 A final calculation of the employment-related rights and benefits of all of the Assumed Employees shall be made as of the Closing, including all amounts due to the Assumed Employees under the Mandatory Severance Accruals, Benefit Plans and Compensation Agreements and any other rights under Law, as if terminated without cause by Seller immediately prior to Closing and such payments will be made in full before Closing.

3.11 Agreements

3.11.1 Each of the Assumed Agreements is legal, valid, binding and enforceable against Seller, and the other parties thereto in accordance with its terms in all material aspects.

3.11.2 Seller has performed in all material respects all obligations required to be performed by it to date under, and is not in default in any material respect in respect of, any of the Assumed Agreements, and no event has occurred which, with due notice or lapse of time or both, would constitute such a default.

3.11.3 To Sellers knowledge, no other party to any Assumed Agreement is in default in respect thereof in any material respect, and no event has occurred which, with due notice or lapse of time or both, would constitute such a default.

3.11.4 Except as set forth on **Exhibit J**, no approval or consent of any third party is required to effect the transfer of any of the Assumed Agreements to Purchaser in accordance with the terms of this Agreement.

3.12 Warranties

3.12.1 The schedule attached hereto as **Schedule M** describes all warranties made by Seller covering or relating to any of the services delivered or the products designed, developed, manufactured, produced, distributed, supplied or sold by Seller in connection with the Business.

3.12.2 To Seller's knowledge, and except as provided for in **Schedule M** , there are no material Losses, Claims, damages, expenses or Liabilities (whether absolute, accrued, contingent or otherwise) of Seller asserted and arising out of or based upon incidents occurring on or prior to the Closing Date with respect to: (i) any product liability or any similar Claim that relates to any of the products designed, developed, manufactured, produced, distributed, supplied or sold by Seller in connection with the Business to others; or (ii) the delivery of faulty services; or (iii) any Claim for the breach of any express or limited product warranty, and Seller has no knowledge of any product or service defects which could give rise to any such Losses, Claims, damages, expenses or Liabilities.

3.12.3 There are no defects in the designs, specifications, or process with respect to any Current Product, except for such defects which would not have a Material Adverse Effect. During the past five years, there has been no material recall, withdrawal, or suspension from the market of any product designed, manufactured, sold, supplied or distributed by Seller.

3.13 Permits; Compliance with Law

3.13.1 The schedule attached hereto as **Schedule N** lists all material Permits held by Seller and its employees relating to the conduct of the Business, including any such Permits relating to protection of the environment or the use or disposal of hazardous materials.

3.13.2 Seller has complied in all material respects with the terms of each the Permits described in the Permit Schedule and any applicable Law. Seller has not received any Claim arising out of the failure to obtain any Permit. To Seller's knowledge, the Business has not been, and is not being, conducted in material violation of any Law including any such Laws relating to protection of the environment or the use or disposal of hazardous materials. None of the Permits will terminate, fail to automatically be assigned to Purchaser or lose effect as a consequence of the transactions contemplated by this Agreement.

3.14 Insurance

3.14.1 All of the Acquired Assets are adequately insured against loss or damage by theft, fire and all other hazards and risks of a character usually insured against by persons operating similar properties in the localities where such properties are located, under valid and enforceable policies issued by reputable insurance carriers. Set forth on the schedule attached hereto as **Schedule O** is a complete list of insurance policies which Seller maintains relating to the Business. Such policies are in full force and effect and Seller has not received a notice of cancellation relating to any such policies. Neither the execution of this Agreement nor performance of any transaction contemplated hereby shall affect the insured’s rights under such insurance policies and all rights and benefits under such insurance policies are assignable to the name or benefit of Purchaser.

3.15 Suppliers, Customers and End of Life of Components

3.15.1 Set forth on the schedule attached hereto as **Schedule P** is a list of all suppliers (including assemblers or manufacturers of component or finished products) and customers accounting for 5% or more of the annual purchases and sales, respectively, of Seller. To Seller's knowledge, Seller has adequate sources of supply for all Current Products or the components thereof. **Schedule P** includes also a list of End of Life of any component known to Seller. In the opinion of Seller, the relationship of Seller with such suppliers and customers is good and there has been no expression of any intention to terminate or materially modify any of such relationships.

3.16 Grants, Incentives and Subsidies

3.16.1 **Schedule Q** describes all outstanding Grants to Seller, including the aggregate amounts of each Grant, and the aggregate outstanding obligations thereunder of Seller with respect to royalties, or the outstanding amounts to be paid to the Office of the Chief Scientist, Israeli Ministry of Industry and Trade and the composition of such obligations or amount by the product or product family that it relates to. No royalties are due to be paid to the Consortium. Except as provided in **Schedule Q** , there are no pending Grants to Seller.

3.16.2 Seller has made available to Purchaser, prior to the date hereof, correct copies of all applications for Grants submitted by Seller and of all letters of approval, and supplements thereto, granted to Seller, including those approved and appearing in the Grants Schedule. Seller is in material compliance with the terms and conditions of the Grants and has duly fulfilled all the undertakings relating thereto in all material respects. To Seller's knowledge, there is no event or other set of circumstances which might lead to the revocation or material modification of any of the Grants.

3.17 Brokers

No broker, investment banker, financial advisor or other person is entitled to any broker's, finder's, financial advisory or other similar fee or commission in connection with the transactions described in this Agreement based upon arrangements made by or on behalf of Seller.

3.18 Power of Attorney

There are no outstanding powers of attorney executed by or on behalf of Seller relating to the Acquired Assets that will survive Closing and that might empower any entity to act in a way that may influence the Acquired Assets.

3.19 Israeli Restrictive Trade Practices Law

The provisions set forth in Section 17 of the Restrictive Business Practices Law, 1988, do not apply to the transaction contemplated hereby. The relevant revenues of Seller or any of its affiliates within Israel for fiscal year 2009, was less than ILS 2 million. The relevant revenues of Seller or any of its affiliates in the United States for fiscal year 2009 was approximately USD 7.5 Million. The relevant revenues of Seller or any of its affiliates in the European Union for fiscal year 2009 was approximately USD 1.9 million.

Neither Seller nor any of its respective affiliates is a "Monopoly" in Israel, as such term is defined in Section 26 of the Restrictive Business Practices Law, 1988.

3.20 Disclosure

The representation and warranties made by Seller in this Agreement do not contain any untrue statement of a material fact, or omit any statement of a material fact required to be stated or necessary in order to make the statements contained herein not misleading.

4. Representations and Warranties of Purchaser

Purchaser hereby represents and warrants to Seller that the statements contained in this §4 are correct and complete as of the date of this Agreement and will be true and correct and complete as of the Closing Date (as though made then and as though the Closing Date were substituted for the date of this Agreement). Purchaser acknowledges that Seller is entering into this Agreement based on such representations and warranties and that Seller would not have entered into this Agreement without such representations and warranties.

Purchaser represents and warrants to Seller as follows:

4.1 Due Incorporation of Purchaser

Purchaser is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Israel with full power and authority to own, lease and operate its properties, to carry on its business in the places and in the manner currently conducted and to execute, deliver and perform its obligations under this Agreement and the Ancillary Agreements to which it is a party.

4.2 Knowledge, Sophistication and Experience; Financial Capability

Purchaser acknowledges that it (i) has such knowledge, sophistication and experience in financial and business matters such that Purchaser is capable of evaluating the merits and risks of this Agreement; and (ii) is able to bear the financial burden and risks associated with this Agreement and continuing forward with the Business.

4.3 Due Diligence

Without derogating in any way from any representation or warranty of Seller, Purchaser represents that it has been afforded the opportunity to (i) conduct a due diligence examination of the Seller and its Business; (ii) ask questions and receive answers from the Company regarding the Seller, the Business and the terms and conditions of this Agreement; and (iii) obtain additional information that the Seller possesses in order for Purchaser to make an informed decision with respect to the entering into of this Agreement. Specifically Purchaser was not afforded the opportunity to directly contact customers, suppliers and non-management level employees of Seller and Seller covenants to enable such contact after execution of this Agreement.

4.4 Business Ability

Purchaser represents that it has the ability to continue to operate the Business after the Closing and provide for the continued availability of the Current Products for customers, including, but not limited to, service, maintenance and support operations related to the Current Products.

4.5 Authority; Due Authorization; Valid Obligation

Purchaser has taken all corporate action necessary for the execution and delivery of this Agreement and the Ancillary Agreements to which it is party and for the consummation of the transactions contemplated hereby and thereby. This Agreement constitutes, and such Ancillary Agreements, when executed and delivered as contemplated by this Agreement, will constitute, the valid and binding obligations of Purchaser, enforceable against Purchaser in accordance with their respective terms, except as may be limited by principles of equity or by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally.

4.6 Restrictive Trade Practices Law

The relevant revenues of Purchaser or any of its parent companies and their respective affiliates within Israel for fiscal year 2009, was less than ILS 10,000. The relevant revenues of Purchaser or any of its parent companies and their respective affiliates in the United States for fiscal year 2009 was USD 17 million. The relevant revenues of Purchaser or any of its parent companies and their respective affiliates in the European Union for fiscal year 2009 was USD 2 million.

4.7 No Conflicts or Defaults

The execution and delivery by Purchaser of this Agreement and the Ancillary Agreements to which it is party and the consummation of the transactions contemplated hereby and thereby do not and will not (a) contravene the Organizational Documents of Purchaser; or (b) violate any provision of Law applicable to Purchaser; except where such contravention or violation would not have a material adverse effect on the ability of Purchaser to perform its obligations under this Agreement and the Ancillary Agreement to which it is a party.

4.8 Authorization

No authorization, approval, order, license, permit or consent of, or filing or registration with, any court or governmental authority, or consent of any other party, is required in connection with the execution, delivery and performance by Purchaser of this Agreement and the Ancillary Agreements to which it is party, including, but not limited to any anti-trust approvals required of Vitec Multimedia in connection with this Agreement.

4.9 Litigation

There are no Claims pending or, to Purchaser's knowledge, threatened against Purchaser which challenge the validity or propriety of the transactions contemplated by this Agreement.

4.10 Brokers

No broker, investment banker, financial advisor or other person is entitled to any broker's, finder's, financial advisory or other similar fee or commission in connection with the transactions described in this Agreement based upon arrangements made by or on behalf of Purchaser that might be borne by Seller.

4.11 Disclosure

The representations and warranties made by Purchaser in this §4 do not contain any untrue statement of a fact or omit to state any material fact necessary in order to make the statements contained in this §4 not misleading.

5. Pre-Closing Covenants

The Parties agree as follows with respect to the period between the execution of this Agreement and Closing:

5.1 Conduct of the Businesses Prior to Closing

5.1.1 Following the execution of this Agreement and prior to the Closing Date, Seller shall not, without prior written authorization of Purchaser, take any action that would otherwise be required to be disclosed on §3.7.3 above or any other action that is outside the Ordinary Course of Business or might prejudice the consummation of the transactions contemplated by this Agreement. Seller shall maintain such insurance as are currently in effect in respect of its assets and the Business until the Closing Date.

5.1.2 Prior to the earlier of the Closing Date and the termination of this Agreement pursuant to §9.6 below, Seller shall not, directly or indirectly, through any officer, director, employee, agent or otherwise: take any action to offer, solicit, initiate, encourage or assist the submission or acceptance of any proposal, negotiation or offer from any person or entity other than Purchaser relating to the acquisition, sale, or transfer of any of the Acquired Assets or change of control over Seller other than in the Ordinary Course of Business.

5.2 Further Information

Between the date of this Agreement and the Closing Date, and from and after the Closing Date to the extent reasonably requested by Purchaser, Seller shall allow Purchaser and its representatives full access during normal business hours, on reasonable prior notice, to such of its premises, files, books, records and Employees as are reasonably required in connection with the transactions contemplated hereby, and, at Purchaser's expense, shall cause its officers, employees and representatives to furnish such financial, operating and other data and information relevant to such purposes as the other shall from time to time reasonably request; *provided, however*, that any such investigation shall be conducted in such manner as not to interfere unreasonably with the operation of the Business. No such investigation by Purchaser or its representatives, whether undertaken before or after the date of this Agreement, shall affect any of the representations, warranties, or indemnification obligations of Seller.

5.3 Notice of Certain Events

Between the date of this Agreement and Closing, Seller shall promptly notify Purchaser in writing upon Seller becoming aware of the occurrence of any of the following: (i) the commencement of any material proceeding or litigation at law or in equity or before any Governmental Body involving Seller and related to the conduct of the Business; (ii) a material violation by Seller (or notice of potential violation) of any Law that could have a Material Adverse Effect on the Business or the Acquired Assets or that could impair the ability of Purchaser or Seller to consummate the transactions contemplated in this Agreement; (iii) the commencement or threat of any Claims against, relating to, involving or otherwise affecting any Party, which may impair the ability of Purchaser or Seller to consummate the transactions contemplated in this Agreement; (iv) any fact or circumstance which would make any representation or warranty set forth herein untrue or inaccurate in any material respect as of the Closing Date or as of the date of this Agreement; (v) damage to any of the Acquired Assets that is material or in an amount in excess of $100,000; (vi) any notice or other communication from any Person alleging that the consent of such Person is or may be required in connection with the transactions contemplated in this Agreement; (vii) if Seller undergoes or is about to undergo a Credit Event; or (vii) any other event which has had or might reasonably be expected to have a Material Adverse Effect.

5.4 Consents, Waivers and Filings

Upon the terms and subject to the conditions set forth in this Agreement, the Parties shall use their respective reasonable best efforts to take, or cause to be taken, all actions, and to do, or cause to be done, and to assist and cooperate with the other parties in doing, all things, reasonably necessary or desirable to consummate in an expeditious manner the transactions contemplated by this Agreement and achieve the Closing. Without limiting the foregoing, the parties shall cooperate to obtain from all relevant third parties and Governmental Bodies, all consents and waivers to, and permits, authorizations and licenses for, the transactions contemplated by this Agreement that may be required under any Agreement, lease, financing arrangement, license, Permit or other instrument or under any applicable Law, including those specified in the Required Authorizations Schedule or the Assumed Agreements Schedule, and to attempt to remove or vacate any legal prohibition or impediment to the consummation of the transactions contemplated hereby.

5.5 Employees

5.5.1 Prior to Closing, Purchaser will in good faith offer employment (but may, in the agreement with the Employees, specifically leave it open for its discretion not to hire any such Employees at Closing) to at least 80% of the Employees of the Seller (at Purchaser's complete discretion), provided that the non-hiring of such Employees does not cause Purchaser not to meet the closing condition in section 6.1.2 below, and will offer in good faith employment to additional Employees as required to fulfill the conditions to Closing. Such offers of employment and, with respect to consultants, continuation of services, shall be on terms no less favorable then their current terms of employment or service with the Seller and Purchaseer will employ all such Employees that have accepted employment (such employees and consultants, "**Assumed Employees**"); *provided, however*, that each Assumed Employees shall, as a condition precedent to such Employee's employment with Purchaser deliver to Purchaser an executed Waiver and an executed Employment Agreement. It is clarified that the Assumed Employees will be dismissed from Seller prior to the execution of the Waiver and the commencement of their employment with Purchaser. Seller hereby grants permission to Purchaser to contact the Employees with regard to making preliminary offers of employment as aforesaid, with any such employment to be effective subject to Closing taking place, provided such contact is coordinated with Seller.

5.5.2 Any Assumed Employee shall be deemed to have been terminated by Seller at or prior to Closing and rehired by Purchaser and Closing.

5.5.3 Seller shall have fulfilled its obligations under §3.10.7.

5.5.4 Notwithstanding the foregoing, nothing in this §5.5 shall be construed as requiring Purchaser to employ any current or former employee of Seller for any specified period of time after Closing, except to the extent otherwise provided in a written employment agreement between any such employee and Purchaser.

5.6 Risk of Loss

5.6.1 Except as otherwise provided for in this §5.5.4, from the date hereof through the Closing Date, all risk of Loss to the Acquired Assets shall be borne by Seller (other than Loss caused by the acts or negligence of Purchaser or any of its employees, officers, agents or representatives, which Loss or damage shall be the responsibility of Purchaser).

5.6.2 If, before Closing, all or any material portion of the Acquired Assets are (1) taken by eminent domain or are the subject of a pending or contemplated taking which has not been consummated, (2) damaged or destroyed by flood, fire or other casualty, or (3) are otherwise not in the ownership and possession of Seller immediately prior to Closing; Seller shall notify Purchaser promptly in writing of such fact and shall use its best efforts to cure such taking or Loss within 30 days. Subject to §5.6.3 below, if the fair market value of the Acquired Assets that are the subject of, or are adversely affected by, such taking or loss is adversely affected by such taking or loss and Seller has not notified Purchaser of its intention to cure such taking or Loss within 30 days after its occurrence, Purchaser and Seller shall negotiate in good faith a fair and equitable adjustment to the Consideration and, upon such settlement, consummate the transactions contemplated by this Agreement pursuant to the terms of this Agreement. If no such settlement is reached within 60 days after Seller has notified Purchaser of such taking or casualty, Purchaser may terminate this Agreement pursuant to § 9.6 below.

5.6.3 Any insurance proceeds received by either Purchaser or Seller from the insurance policies described herein on account of such Loss shall be applied to repair or replacement, with any excess amounts due to Purchaser, unless the Parties agree otherwise.

6. Closing Conditions

6.1 Conditions to the Obligations of Purchaser

All obligations of Purchaser with respect to Closing shall be subject to the receipt by Purchaser of the duly executed items set forth in §2.8.1 above, and to the satisfaction, on or prior to the Closing Date, of each of the following conditions, any one or more of which may be waived by Purchaser:

6.1.1 Any authorization, approval, order, license, permit or consent, or filing or registration listed on the Required Authorization Schedule shall have been obtained or made, except for any authorization appearing in the Required Authorization Schedule **as optional**;

6.1.2 At least fifty (50) of the Employees shall have executed and delivered a Waiver and an Employment Agreement; and

6.1.3 No order, injunction or decree shall have been issued and be continuing before a court and no action, suit or proceeding by any governmental authority shall have been instituted or threatened which questions or attacks the validity or legality of the transactions contemplated hereby or seeks to restrain or prevent the consummation of the acquisition of its assets pursuant to this Agreement or the other transactions contemplated hereby;

All actions to be taken by Seller in connection with consummation of the transactions contemplated hereby and all certificates, opinions, instruments, and other documents required to effect the transactions contemplated hereby shall have been satisfactory in form and substance to Purchaser.

Purchaser may waive any condition specified in this §6.1 (except for antitrust approval, if required) if it executes a writing so stating at or prior to Closing.

6.2 Conditions to the Obligations of Seller

All obligations of Seller to consummate the transactions contemplated hereby are subject to receipt by Seller of the items set forth in §2.8.2 above and to the satisfaction, on or prior to the Closing Date, of each of the following conditions, any one or more of which may be waived by Seller:

6.2.1 All representations and warranties of Purchaser set forth herein shall be true and correct in all material respects as of the Closing Date, with the same effect as if made at and as of the Closing Date and Seller shall have received a certificate signed by the CEO of Vitec Multimedia to such effect;

6.2.2 Purchaser shall have complied in all material respects with its covenants and agreements set forth in this Agreement, except as to those covenants and agreements to be performed or observed after the Closing Date and Seller shall have received a certificate signed by the CEO of Vitec Multimedia to such effect;

6.2.3 Any authorization, approval, order, license, permit or consent, or filing or registration listed on the Required Authorization Schedule shall have been obtained or made; except for any authorization appearing in the Required Authorization Schedule **as optional**;

6.2.4 No order, injunction or decree shall have been issued and be continuing before a court and no action, suit, or proceeding by any governmental authority shall have been instituted or threatened which questions or attacks the validity or legality of the transactions contemplated hereby or seeks to restrain or prevent the consummation of the acquisition of the Acquired Assets pursuant to this Agreement or the other transactions contemplated hereby.

6.2.5 The resolutions of the General Meeting of Optibase Ltd. approving the execution and consummation of this Agreement by Optibase Ltd.

Seller may waive any condition specified in this §6.2 if it executes a writing so stating at or prior to Closing.

7. Confidentiality; Non-Competition

7.1 Confidentiality

Seller acknowledges that, as a result of its past and contemplated future involvement with the Business, it necessarily has become and will become informed of, and have had and will have access to, Confidential Information (as defined below) that will be owned as of Closing by Purchaser. Seller shall not, at any time following Closing, reveal, report, publish, transfer or otherwise disclose to any person, corporation or other entity, or use for their own benefit or for the benefit of any party other than the party that then owns such Confidential Information, any of the Confidential Information without the written consent of such owning party. Seller, at any time following Closing refrain from using any of the Confidential Information except in connection with this Agreement, and deliver promptly to Purchaser or destroy, at the request and option of Purchaser, all tangible embodiments (and all copies) of the Confidential Information which are in its possession. In the event that Seller is requested or required (by oral question or request for information or documents in any legal proceeding, interrogatory, subpoena, civil investigative demand, or similar process) to disclose any Confidential Information, Seller will notify Purchaser promptly of the request or requirement so that Purchaser may seek an appropriate protective order or waive compliance with the provisions of this §7.1. If, in the absence of a protective order or the receipt of a waiver hereunder, Seller is, on the advice of counsel, compelled to disclose any Confidential Information to any tribunal authority or else stand liable for contempt or other penalties, Seller may disclose the Confidential Information to the tribunal; provided, however, that Seller shall use its best efforts to obtain, at the request of Purchaser, an order or other assurance that confidential treatment will be accorded to such portion of the Confidential Information required to be disclosed as Purchaser shall designate.

For this purpose, the term "**Confidential Information**" shall mean any information concerning the Business of Seller prior to Closing or of Purchaser after Closing including inventions, trade secrets, technical information, designs, circuit board layout and firmware, software, know-how, plans, specifications, financial information and marketing information; Notwithstanding the previous sentence, Confidential Information shall not include: (i) information that at the time of disclosure is in the public domain through no fault of Seller; (ii) information approved for release to third parties by the prior written authorization of Purchaser; (iii) Financial information related to the Business before the Closing Date; (iv) information required to be released in accordance with §12.1 .

7.2 Non-Competition

Seller agrees that, for a period beginning on the Closing Date and ending on the third anniversary of the Closing Date, it shall not anywhere in the world, directly or indirectly:

7.2.1 Engage in any manner in the design, development, manufacturing, marketing or servicing of, or services relating to (i) the Business or (ii) any other product, product line or services offered, sold, produced or under development by Purchaser's business unit associated with the Business during such period;

7.2.2 Solicit or attempt to solicit business of any customers of Seller or Purchaser for products or services the same or similar to those offered, sold, produced or under development by Purchaser;

7.2.3 Otherwise divert or attempt to divert from Purchaser any business related to the Business;

7.2.4 Solicit or attempt to solicit for any business endeavor any employee of Purchaser (including the Assumed Employees);

7.2.5 Interfere in any material respect with any business relationship related to the Business between Purchaser and any other person; or

7.2.6 Render any services to, or have any interest as a stockholder, partner, lender or otherwise in, any person which is engaged in activities which, if performed by Seller, would violate this §7.2 except if such interest amounts to no more than 10% of such person and does not provide the Seller control over such person (as such term is defined under the Securities Law, 1967).

7.3 Equitable Relief

Because Purchaser may not have an adequate remedy at law to protect its interest in its trade secrets, privileged, proprietary or confidential information and similar commercial assets, or to protect its business from competition by Seller in violation of §7.2 above, Purchaser shall be entitled to injunctive relief, in addition to such other remedies and relief that would, in the event of a breach of the provisions of § 7.1 or §7.2 above by Seller be available to it, all without requirement to post any guarantee for expenses.

8. Post-Closing Covenants

8.1 Further Assurances

8.1.1 Whenever reasonably requested to do so by Purchaser, on or after the Closing Date, Seller shall, at Purchaser's expense, do, execute, acknowledge and deliver all such acts, assignments, confirmations, consents, other instruments of assignment, transfer and conveyance, and any and all such further instruments and documents, in form reasonably satisfactory to Purchaser and its counsel, as shall be reasonably necessary or advisable to carry out the intent of this Agreement and to vest in Purchaser all right, title and interest in and to the Acquired Assets.

8.1.2 Each of the Parties shall take such further action (including the execution and delivery of such further instruments and documents) following Closing as the other party may reasonably request in order to carry out the purposes of this Agreement. In particular, Purchaser acknowledges that Seller may require, shortly after the Closing Date, some transitional assistance from Purchaser and its personnel (who are former employees of Seller) in respect of winding down Seller’s Business related operations, and Purchaser agrees to instruct and allow such personnel to reasonably assist Seller, after advance coordination with Purchaser.

8.1.3 Seller shall not cause or, to the extent within its control, permit the occurrence of any Credit Event with regard to Seller for the at least 3 months following Closing and shall take actions to cure any Credit Event otherwise caused.

8.2 Collection

From and after the Closing Date, Purchaser shall have the right and authority to collect and receive, on behalf of the Seller, all items transferred and assigned to it by Seller hereunder, including Account Receivables and Other Receivables and Prepaid Expenses and Seller shall endorse any instrument required to be endorsed within five (5) Business Days of first demand. Seller acknowledges that payments regarding some of the Acquired Assets or Assumed Agreements may be made to Seller and covenants to promptly transfer such payments to Purchaser and inform the payers that Purchaser is the holder of rights under the pertinent part of the Acquired Assets. Purchaser acknowledges that payments regarding some of the Acquired Assets, Assumed Liabilities or Assumed Agreements may be made by Seller and covenants to promptly reimburse such payments to Seller if such payment was made inadvertently.

8.3 Information

Each of Purchaser, on the one hand, and Seller, on the other, shall promptly notify the other of any written communication received by it from any third party or Governmental Body that relates to any obligations or undertakings by such other Party under this Agreement.

8.4 Access to Records

From and after the Closing Date and for so long as Purchaser has any outstanding obligations hereunder, Purchaser shall grant to Seller and its representatives, at Seller's reasonable request (subject to any limitations that are reasonably required to preserve any applicable privilege or confidentiality obligation), access during normal business hours and under reasonable circumstances to, and the right to make copies at Seller's sole expense of, those records and documents related to the Business or the Acquired Assets as may be reasonably necessary for calculation and payment of the Earn-Out, litigation and preparation of financial statements, Tax Returns and audits. If Purchaser elects to dispose of any of such records within six years after the Closing Date, Purchaser shall first give Seller thirty days prior written notice, during which period Seller shall have the right, at Seller's sole cost and expense, to take such records.

8.5 Assistance

At the reasonable request of Seller, Purchaser shall use commercially reasonable efforts to assist Seller in Seller's efforts in seeking its unconditional release from any and all obligations or liabilities under, or in respect of, any open purchase and sale orders, warranties, contracts, agreements, understandings, equipment leases and related maintenance agreements, licenses and the leases relating to the Locations (and any related security deposits), whether or not constituting an Acquired Asset.

8.6 Limited Power of Attorney

8.6.1 Seller hereby nominates, constitutes and appoints attorney Doron Afik (in this §8.6, an "**Attorney-in-Fact**") with full power of substitution to another attorney and if such attorney is not part of such Attorney-in-Fact's firm, shall notify Seller, to act as Seller's true and lawful agent and attorney-in-fact, for it and in its name, place and stead, to take any and all steps in the name and on behalf of Seller necessary or desirable, in the determination of any Attorney-in-Fact to take any and all actions necessary, or desirable in the opinion of such Attorney-in-Fact to fulfill Seller's obligations under §8.1.1 and 8.1.2 above, including to take any act required for enforcement or perfection of the transfer of the Acquired Assets to the name of Purchaser or any entity designated by Purchaser;

8.6.2 The Attorney-in-Fact shall have full power and authority to do and perform any and all acts and things requisite for the sole purpose set forth hereinabove as fully for all intents and purposes as Seller might or could do in person.

8.6.3 The limited power of attorney is coupled with an interest and is thus irrevocable.

8.7 Line of Business of Purchaser. Performance of Obligations.

Purchaser undertakes that for a period of twelve months following the Closing Date, it will endeavor to continue to operate the Business in the Ordinary Course of Business as at the Closing Date all subject to the exclusive reasonable business judgment of Purchaser and in this regard Purchaser will have adequate personnel and resources for continuing to operate the Business, including, but not limited to, service, maintenance and support operations related to the Current Products.

9. Indemnification; Survival

*9.1* Survival

All of the representations and warranties of the Parties contained in this Agreement shall survive Closing (even if the damaged Party specifically new of any misrepresentation or breach of warranty at the time of Closing)and continue in full force and effect for a period of twenty four months thereafter. No such limitation shall apply to: (1) Claims related to breach of 5.1.2, 7 and §8.1.3 in which case the relevant representations and warranties in such sections shall be limited to the relevant time periods referred to therein; (2) in the case of fraud or willful misconduct on the part of either Party; and (3) Purchaser's obligations to indemnify Seller under §9.2.2.3 for any Claim relating to the Acquired Assets or the Assumed Liabilities arising on or after the Closing.

9.2 Indemnification

*9.2.1* In the event (i) Seller breaches, or (ii) any third party alleges, in writing under circumstances which Purchaser may reasonably believe may lead to a judicial proceeding against Purchaser and Purchaser makes a written claim for indemnification pursuant to this Section 9 within the survival period set forth in § 9.1 above, then Seller shall indemnify and hold harmless Purchaser, each of Purchaser's affiliates, and each of their respective successors, assigns, officers, directors, employees and agents against any Loss suffered or incurred by any such Indemnified Person, arising or resulting from or based upon:

9.2.1.1 any breach or material inaccuracy of any representation or warranty of Seller contained in this Agreement or any of the Ancillary Agreements which survives Closing;

9.2.1.2 the breach of any covenant of Seller contained in this Agreement or any of the Ancillary Agreements;

9.2.1.3 any Excluded Liability; or

9.2.1.4 Claims made by any Employee in connection with any pre-Closing liabilities of Seller relating to Employees.

9.2.2 In the event (i) Purchaser breaches, or (ii) any third party alleges, in writing under circumstances which Seller may reasonably believe may lead to a judicial proceeding against Seller, and Seller makes a written claim for indemnification pursuant to this Section 9 within the survival period set forth in § 9.1 above, then Purchaser shall indemnify and hold harmless Seller, each of Seller's affiliates, and each of their respective successors, assigns, officers, directors, employees and agents against any Loss suffered or incurred by any such Indemnified Person, arising or resulting from or based upon:

9.2.2.1 any breach or material inaccuracy of any representation or warranty of Purchaser contained in this Agreement or any of the Ancillary Agreements which survives Closing;

9.2.2.2 the breach of any covenant of Purchaser contained in this Agreement or any of the Ancillary Agreements; or

9.2.2.3 any Claim relating to the Acquired Assets or the Assumed Liabilities arising on or after the Closing;

9.3 Matters Involving Third Parties

9.3.1 If any third party shall notify any Party with respect to any matter (in this §9.3, "**Third Party Claim**") which may give rise to a Claim for indemnification for Losses under this § 9, then the Indemnified Person shall promptly notify the other Party (in this §9.3, the "**Indemnifying Party**") thereof in writing; provided, however, that no delay on the part of the Indemnified Person in notifying the Indemnifying Party shall relieve the Indemnifying Party from any obligation hereunder unless (and then solely to the extent) the Indemnifying Party thereby is materially prejudiced.

9.3.2 The Indemnifying Party will have the right to defend the Indemnified Person against the Third Party Claim with counsel of its choice reasonably satisfactory to the Indemnified Person so long as:

9.3.2.1 The Indemnifying Party notifies the Indemnified Person in writing within 10 Business Days after the Indemnified Person has given notice of the Third Party Claim that the Indemnifying Party will indemnify the Indemnified Person from and against any Loss the Indemnified Person may suffer resulting from, arising out of, relating to, in the nature of, or caused by the Third Party Claim;

9.3.2.2 The Indemnifying Party provides the Indemnified Person with evidence reasonably acceptable to the Indemnified Person that the Indemnifying Party will have the financial resources to defend against the Third Party Claim and fulfill its indemnification obligations hereunder;

9.3.2.3 settlement of, or an adverse judgment with respect to, the Third Party Claim is not, in the good faith judgment of the Indemnified Person, likely to establish a precedential custom or practice materially adverse to the continuing business interests of the Indemnified Person; and

9.3.2.4 The Indemnifying Party conducts the defense of the Third Party Claim actively and diligently.

9.3.3 So long as the Indemnifying Party conducts the defense of the Third Party Claim in accordance with §9.3.2 above:

9.3.3.1 the Indemnified Person may retain separate co-counsel at its sole cost and expense and participate in the defense of the Third Party Claim;

9.3.3.2 the Indemnified Person will not consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim without the prior written consent of the Indemnifying Party (not to be withheld unreasonably); and

9.3.3.3 The Indemnifying Party will not consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim without the prior written consent of the Indemnified Person (not to be withheld unreasonably).

9.3.4 In the event any of the conditions in §9.3.2 above is or becomes unsatisfied, however:

9.3.4.1 the Indemnified Person may defend against, and consent to the entry of any judgment or enter into any settlement with respect to, the Third Party Claim in any manner it reasonably may deem appropriate (and the Indemnified Person need not consult with, or obtain any consent from, the Indemnifying Party in connection therewith);

9.3.4.2 The Indemnifying Party will reimburse the Indemnified Person promptly and periodically for the costs of defending against the Third Party Claim (including reasonable attorneys' fees and expenses); and

9.3.4.3 The Indemnifying Party will remain responsible for any Losses the Indemnified Person may suffer resulting from, arising out of, relating to, in the nature of, or caused by the Third Party Claim to the fullest extent provided in this §9.

9.4 Maximum Indemnification

The aggregate amount of indemnification payable by any Party in respect of claims brought pursuant to this Agreement shall not exceed six million US Dollars ($6,000,000), and indemnification shall only be paid by any party with respect to Losses exceeding $50,000 in the aggregate.

9.5 Exclusive Remedy

From and after the Closing, the rights of the parties under this § 9 shall be the exclusive remedy of the Parties with respect to Claims resulting from or relating to any representation, warranty, covenant or agreement contained in this Agreement.

9.6 Determination of Indemnity

All indemnification payments under this §9 shall be deemed adjustments to the Consideration.

10. Termination

*10.1* Termination of Agreement

Certain of the Parties may terminate this Agreement by a written notice to the other Party, as the case may be, at any time prior to Closing, as provided below:

10.1.1 Purchaser may terminate this Agreement

10.1.1.1 if Seller has breached any material representation, warranty, or covenant contained in this Agreement in any material respect, Purchaser has notified Seller of the breach, and the breach has continued without cure for a period of 30 days after the notice of breach;

10.1.1.2 if Closing shall not have occurred on or before the lapse of 120 calendar days from the date of this Agreement (or such later date as may be designated by mutual written agreement of the Parties) by reason of the failure of any condition precedent under §6.1 above (unless the failure results primarily from Purchaser itself breaching any representation, warranty, or covenant contained in this Agreement (including any failure to satisfy any condition to the obligations of Purchaser); or

10.1.1.3 pursuant to § 5.6.2 above.

10.1.2 Seller may terminate this Agreement:

10.1.2.1 if Purchaser has breached any material representation, warranty, or covenant contained in this Agreement in any material respect, Seller has notified Purchaser of the breach, and the breach has continued without cure for a period of 30 days after the notice of breach;

10.1.2.2 if Closing shall not have occurred on or before the lapse of 120 calender days from the date of this Agreement (or such later date as may be designated by mutual written agreement of the Parties) by reason of the failure of any condition precedent under §6.2 above (unless the failure results primarily from Seller itself breaching any representation, warranty, or covenant contained in this Agreement (including any failure to satisfy any condition to the obligations of Seller)); or

10.1.2.3 in its sole discretion if any required consent to assign a Consortium shall not have been obtained as of the Closing Date.

*10.2* Effect of Termination

If either Party terminates this Agreement pursuant to §10.1 above, all rights and obligations of the Parties hereunder shall terminate without any Liability of any Party to the other Party, except for any Liability of any Party then in breach, or as provided in §2.3 above (Signing Deposit Provision). The Parties specifically disclaim any right each may have to terminate this Agreement after Closing.

11. Dispute Resolution

11.1 Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the State of Israel, without giving effect to the rules of conflict of laws thereof other than when application of Israeli law would render this Agreement, or any material provision herein, void or unenforceable.

11.2 Submission to Jurisdiction

Subject to §11.3 below, each of the Parties submits to the exclusive jurisdiction of any court sitting in Tel Aviv, Israel, in any action or proceeding arising out of or relating to this Agreement. Each of the Parties waives any defense of inconvenient forum to the maintenance of any action or proceeding so brought and waives any bond, surety, or other security that might be required of any other Party with respect thereto. Each Party agrees that a final judgment in any action or proceeding so brought shall be conclusive and may be enforced anywhere in the world by suit on the judgment or in any other manner provided by law or in equity.

11.3 Arbitration

11.3.1 Arbitration.

Notwithstanding § 11.2 above, any Claims related to this Agreement shall be exclusively resolved by arbitration in accordance with this § 11.3. Any such arbitration shall be conducted in the English language, in Tel Aviv, Israel, by a single arbitrator who is an attorney admitted to practice in Israel and appointed by the President of the Israeli Bar Association, unless the Parties agree on the identity of the arbitrator within 15 days of a request for arbitration. The arbitrator shall not be bound by rules of civil procedure or the principals governing admissibility of evidence. The arbitrator shall have the right to order discovery. This § 11.3 shall be deemed Arbitration agreements.

11.3.2 Interim Relief.

Notwithstanding anything in this § 11, each Party may seek interim injunctive relief from a court of competent jurisdiction provided that such interim injunction relief shall be until an arbitrator is appointed. The continuance of such interim relief may be determined by the arbitrator. No arbitration pursuant to this Agreement shall be stayed or delayed pending the outcome of any judicial or other proceedings.

11.3.3 Arbitral Award.

The award of the arbitrator shall be issued in a written opinion, which shall set forth the arbitrator's finding of facts, reasoning and conclusions, and shall be conclusive and binding upon the Parties. Judgment upon an arbitral award may be entered in any court of competent jurisdiction. The arbitrator shall have the right to order injunctive relief and the payment of attorneys' fees, costs and other damages.

12. Miscellaneous

*12.1* Press Releases and Public Announcements

No Party shall issue any press release or make any public announcement relating to the subject matter of this Agreement prior to Closing without the prior written approval of the other Party; provided, however, that any Party may make any public disclosure it believes in good faith is required by Law or any listing or trading agreement concerning its publicly-traded securities (in which case the disclosing Party will use its best efforts to advise the other Party prior to making the disclosure and to provide the other party with any data to be disclosed reasonable time prior to disclosure). The aforesaid shall include all public reporting and disclosure requirements applicable to Seller as a publicly traded company, including, but not limited to, the requirement that it report and disclose the execution of this Agreement, its Closing and describe and include it in its annual report. The Parties shall make all reasonable efforts to coordinate all press releases or any other public announcements relating to the subject matter of this Agreement.

*12.2* Relationship of the Parties

This Agreement shall not create an agency, partnership, employer-employee or joint venture relationship between the Parties or any employees of the Parties, and nothing hereunder shall be deemed to authorize any Party to act for, represent or bind the others except as expressly provided in this Agreement.

*12.3* No Benefit to Others

This Agreement is for the sole benefit of the Parties and their successors and permitted assigns and shall not be construed as conferring any rights on any others.

*12.4* Integration of Terms

This Agreement constitutes the entire agreement and understanding between the Parties with respect to the subject matter hereof, and supersedes any and all prior drafts, agreements, understandings, promises, representation, warrant and covenant, whether written or oral, between the Parties with respect to the subject matter hereof. Drafts exchanged during the negotiations of this Agreement shall not be used to construe the intentions of the Parties.

12.5 Succession and Assignment

This Agreement shall be binding upon and inure to the benefit of the Parties named herein and their respective successors, permitted assigns, heirs, executors, and administrators and permitted assigns. No Party may assign either this Agreement or any of its rights, interests, or obligations hereunder without the prior written approval of the other Party; provided however, that Purchaser may: (i) assign any or all of its rights and interests hereunder to one or more of its affiliates; and (ii) designate one or more of its affiliates to perform its obligations hereunder (in any or all of which cases Purchaser nonetheless shall remain responsible for the performance of all of its obligations hereunder). Any purported assignment in violation of this § 12.5 shall be void and of no effect.

*12.6* Counterparts

This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which together will constitute one and the same instrument.

12.7 Construction

12.7.1 The recitals and schedules hereto consist an integral part hereof. The Exhibits and Schedules identified in this Agreement are incorporated herein by reference and made a part hereof.

12.7.2 The headings in this Agreement and their associated numbers are included for ease of reference only and shall have no legal, constructive or interpretive effect.

12.7.3 The word "**including**" shall mean including without limitation.

12.7.4 The word "**person**" shall mean any legal entity, including an individual, a partnership, a corporation, an association, a joint stock company, a trust, a joint venture, an unincorporated organization, or a Governmental Body;

12.7.5 This Agreement shall be construed as if drafted jointly by the parties and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any of the provisions of this Agreement.

*12.8* Amendments and Waivers

This Agreement may not be amended, modified, released, or discharged in any manner except by an instrument in writing, referring to this Agreement, and signed by all Parties. No waiver of any right under this Agreement shall be deemed effective unless contained in writing and signed by the Party charged with such waiver, and no waiver of any right shall be deemed to be a waiver of any future right or any other right arising under this Agreement. No waiver by any Party of any default, misrepresentation, or breach of warranty or covenant hereunder, whether intentional or not, shall be deemed to extend to any prior or subsequent default, misrepresentation, or breach of warranty or covenant hereunder or affect in any way any rights arising by virtue of any prior or subsequent such occurrence.

12.9 Transfer Taxes

Each Party will bear any Taxes (and any related interest and penalties) assessed or arising out of the transactions contemplated by this Agreement as imposed on such Party under any Law. All amounts hereunder, including the Consideration, are (i) VAT (if applicable) exclusive and VAT (if applicable) shall be paid against an appropriate tax receipt; and (ii) exclusive of withholding taxes, if applicable (any amount withheld under Law shall be deemed to have been paid to Seller).

12.10 Expenses

Each of the Parties shall bear and pay, without any right of reimbursement from any other party, and indemnify, defend and hold harmless the other party against, all costs, expenses and fees incurred by it or on its or his behalf incident to the preparation, execution and delivery of this Agreement and the performance of such party's obligations hereunder, whether or not the transactions contemplated by this Agreement are consummated, including the fees and disbursements of attorneys, accountants and consultants employed by such Party, and all brokers, investment bankers, finders and financial advisors retained or utilized by it, or otherwise acting on its behalf, or otherwise making any Claim in the nature of a broker's or finder's fee arising out of or resulting from any action or agreement of the indemnifying party or its affiliated parties, in connection with the transactions contemplated by this Agreement, and shall indemnify and hold harmless the other parties from and against all such fees, costs and expenses. Notwithstanding the aforesaid, Purchaser shall bear all expenses related to the transfer of all Intellectual Property Rights with the relevant Government Body.

12.11 Specific Performance

The Parties acknowledge and agree that the other Party would be damaged irreparably in the event any of the provisions of this Agreement are not performed in accordance with their specific terms or otherwise are breached. Accordingly, each of the Parties agrees that the other Party shall be entitled to an injunction or injunctions to prevent breaches of the provisions of this Agreement and to enforce specifically this Agreement and the terms and provisions hereof, in addition to any other remedy to which it may be entitled.

12.12 Severability and Blue Penciling

12.12.1 If, and solely to the extent that, any provision of this Agreement shall for any reason be held to be excessively broad, the term shall be construed in a manner to enable it to be enforced to the extent compatible with applicable law. If, and solely to the extent that, any provision of this Agreement shall be invalid or unenforceable, or shall render this entire Agreement to be unenforceable or invalid, such offending provision shall be of no effect and shall not affect the validity of the remainder of this Agreement; provided, however, the Parties shall use their respective reasonable efforts to renegotiate the offending provisions to best accomplish the original intentions of the Parties.

12.12.2 If the final judgment of a court of competent jurisdiction declares that any item or provision hereof is invalid or unenforceable, the parties hereto agree that the court making the determination of invalidity or unenforceability shall have the power to reduce the scope, duration or area of the term or provision, or to delete specific words or phrases, and to replace any invalid or unenforceable term or provision with a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision, and this Agreement shall be enforceable as so modified.

*12.13* Notices

All notices, consents, or other notifications given or made pursuant hereto shall be in writing and shall be deemed duly given or made (i) upon delivery or refusal of such notice if sent by a recognized courier service; (ii) seven Business Days after it is mailed by prepaid registered mail; or (iii) upon delivery to a fax machine capable of confirming receipt, and in each case addressed as follows (or at such other address for a Party as shall be specified in a notice so given):

Seller: Optibase Ltd.
7 Shenkar St.
P.O. Box 2170
Herzlia, 46120
Israel
Fax: +972-9-970-9222
Attention: CEO, CFO

Optibase Inc.
c/o Optibase Ltd..
7 Shenkar St.
P.O. Box 2170
Herzlia, 46120
Israel
Fax: +972-9-970-9222
Attention: President, CEO, CFO

With copy (which shall not constitute a notice) to:

Gross, Kleinhendler, Hodak, Halevy, Greenberg & Co.
Attention: Adva Bitan, Adv.
One Azrieli Center (Round Building)
Tel Aviv 67021, Israel
Fax: +972 (3) 607.4464

Purchaser:
Optibase Technologies Ltd.
3 Daniel Frisch St. Tel Aviv 64731 c/o Afik Turgeman
Israel
Attention: CEO

With copy (which shall not constitute a notice) to:
Afik Turgeman
Attention: Doron Afik, Esq.
3 Daniel Frisch St, Tel Aviv 64731 Israel
Fax: +972 (3) 609.1.609

Any Party may send any notice, request, demand, Claim, or other communication hereunder to the intended recipient at the address set forth above using any other means, but no such notice, request, demand, Claim, or other communication shall be deemed to have been duly given unless and until it actually is received by the intended recipient. Any Party may change the address to which notices, requests, demands, Claims, and other communications hereunder are to be delivered by giving the other Party notice in the manner herein set forth.

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IN WITNESS WHEREOF the parties have signed this Agreement as of the date first hereinabove set forth.

| | | |
|---|---|---|
| /s/ Shlomo (Tom) Wyler | /s/ Amir Philips | /s/ Yaron Comarov |
| Optibase Ltd. | Optibase Ltd. | Optibase Ltd. |
| By: Shlomo (Tom) Wyler<br>Title: C.E.O | By: Amir Philips<br>Title: C.F.O | By: Yaron Comarov<br>Title: VP Operations |
| /s/ Shlomo (Tom) Wyler | /s/ Amir Philips | /s/ Philip Wetzel |
| Optibase Inc. | Optibase Inc. | Optibase Technologies Ltd. |
| By: Shlomo (Tom) Wyler<br>Title: Director | By: Amir Philips<br>Title: Director | By: Philip Wetzel<br>Title: CEO |

EXHIBIT **N – INDEMNITY ESCROW AGREEMENT**

This Escrow Agreement ("**Agreement**") is made as of this March 16, 2010 by and between ADAD Trust Company Ltd. ("**Indemnity Escrow Agent**"), Optibase Ltd., an Israeli corporation ("**Seller**") and Optibase Technologies Ltd., an Israeli corporation ("**Purchaser**").

WHEREAS, Seller and Purchaser have entered into that certain Asset Purchase Agreement dated as of March 16, 2010 for the sale by Seller, and the purchase by Purchaser, of the Acquired Assets, and for the assumption by Purchaser of the Assumed Liabilities (such agreement, as amended, supplemented or restated from time to time, herein called the "**APA**"). Capitalized terms that are used herein, except as otherwise defined herein, shall be as defined in the APA.

WHEREAS, under § **2.2.1.3** of the APA, the Parties agreed to transfer to the Indemnity Escrow Agent, on the Closing Date, cash comprising the Indemnity Escrow Deposit (i.e., USD 1,000,000) plus VAT if applicable.

WHEREAS, the Parties desire that the Indemnity Escrow Deposit be deposited by the Indemnity Escrow Agent into an escrow account maintained by the Indemnity Escrow Agent, in accordance with the terms of this Escrow Agreement.

WHEREAS, the Parties hereto desire to establish the terms and conditions for the mode of operation for the Indemnity Escrow Agent in connection with the escrowed amount maintained by the Indemnity Escrow Agent.

NOW THEREFORE, in consideration of the mutual promises contained herein and other good and valid consideration, the receipt and adequacy of which are hereby acknowledged, the parties agree as follows:

**1. Establishment of Escrow; Account**

As soon as practical before Closing, the Indemnity Escrow Agent shall establish a separate escrow Dollar account ("**Escrow Account**") in the name of the Indemnity Escrow Agent, as Indemnity Escrow Agent for Seller and Purchaser under the APA. At Closing, Purchaser, on behalf of Seller, shall deposit into the Escrow Account the Indemnity Escrow Deposit (such deposited amount, "**Escrow Money**"). In no event shall the Indemnity Escrow Agent be charged with a duty to solicit the Indemnity Escrow Deposit or liabilities to the size of such amount. Additionally, upon Closing the Seller shall pay the Indemnity Escrow Agent the Fee.

The Escrow Money deposited into the Escrow Account, together with any interest (minus bank charges) earned thereon, if any, less any disbursements, taxes, releases or withdrawals pursuant to § 4 below shall constitute the "**Escrowed Funds**." Unless otherwise agreed in writing by Seller and Purchaser, the Indemnity Escrow Agent shall maintain the Escrow Account at all times until the termination of this Escrow Agreement in accordance herewith. The Indemnity Escrow Agent shall hold, invest and dispose of the Escrowed Funds in accordance with the terms and conditions of this Escrow Agreement.

**2. Escrow Ledger**

The Indemnity Escrow Agent shall maintain account records setting forth (i) the amount and date of all funds deposited in the Escrow Account, (ii) all interest earned on and all items charged against the Escrowed Funds, and (iii) the amount, date and recipient of any disbursement, release or withdrawal from the Escrowed Funds pursuant to § 4 below. The Indemnity Escrow Agent shall provide to Seller and Purchaser, if so requested, reports at least quarterly setting forth the information described in this section, if such information materially changes from the last report.

**3. Resolution of Demands**

The Indemnity Escrow Agent shall disburse the funds escrowed with it as follows, all by way of bank transfer:

*3.1 Indemnification Obligations*

From time to time, the Indemnity Escrow Agent shall disburse the Escrowed Funds in accordance with this Escrow Agreement to (i) pay any amounts payable pursuant to the provisions hereof in respect of fees, expenses or costs of administering the Escrow Account; provided, however, that the fees set forth in § 11 below shall be paid in accordance with such Section, (ii) satisfy demands of Purchaser pursuant to § **9** of the APA as set forth in this § 4, provided all the terms and conditions hereof have been met (the foregoing payment obligations set forth in this clause (ii) are collectively referred to herein as the "**Indemnity Obligations**"), and (iii) to release Escrowed Funds as set forth in § 4.4.6 of this Agreement. The Indemnity Escrow Agent is not a party to the APA, shall have no obligation to review or ensure the compliance of any party with the APA and may treat any document received by it, whether original, copy, fax or scan, as an original.

Payment of any amount determined as provided below to be owing to Purchaser as Indemnity Obligations ("**Damages**") shall be made by releasing Escrowed Funds to Purchaser as provided in this Escrow Agreement.

The Indemnity Escrow Agent shall not withdraw or disburse funds in the Escrow Account except as expressly provided in this Escrow Agreement. Any amounts to be paid hereunder shall be paid by wire transfer of immediately available funds from the Escrow Account unless specified otherwise in writing.

*3.2 Notice of Demands*

If Purchaser seeks indemnification pursuant to § 9 of the APA ("**Demand**"), Purchaser shall promptly notify the Indemnity Escrow Agent and the Seller, specifying the nature of the Demand and the total monetary amount sought. Each notice of a Demand by Purchaser ("**Notice of Demand**") shall be in writing and delivered to the Indemnity Escrow Agent and the Seller on or before the Final Release Date (as defined below).

*3.3 Resolution of Demands*

Any Notice of Demand received by Seller pursuant to § 4.2 above shall be resolved as follows:

3.3.1 Uncontested Demands. In the event that Seller does not contest, in accordance with § 4.3.2 below, a Notice of Demand within thirty (30) Business Days of receiving such Notice of Demand from the Purchaser, in accordance with § 4.2 above, Purchaser may deliver to the Indemnity Escrow Agent, with a copy to Seller, a written demand by Purchaser (a "**Purchaser Demand**") stating that a Notice of Demand has been delivered to the Indemnity Escrow Agent, the date of delivery of such Notice of Demand to the Indemnity Escrow Agent, and that no notice of contest has been received from Seller within thirty (30) Business Days of the Purchaser delivering the Notice of Demand to Seller, in accordance with § 4.3.2 below, and further stating the amount of Escrowed Funds to be released to Purchaser in accordance with this §4.3.1. The Indemnity Escrow Agent shall, as soon as practicable following receipt of such Purchaser Demand, release to Purchaser the amount of Escrowed Funds stipulated in the Purchaser Demand and shall notify Seller of such transfer.

3.3.2 Contested Demands. In the event Seller gives written notice contesting all or a portion of a Notice of Demand to the Indemnity Escrow Agent and Purchaser (a "**Contested Demand**") within the thirty day period provided above, which notice shall not be valid unless setting forth the amount contested, such Contested Demand shall be settled in accordance with §4.4 below. Any portion of a Notice of Demand that is not contested shall be resolved as set forth above in §4.3.1 above. The Seller shell send a copy of its written notice to the Purchaser, in which it shall set forth in reasonable detail the reason(s) for contesting such Notice of Demand. If notice is received by the Indemnity Escrow Agent that a Notice of Demand will be a Contested Demand by Seller, then the Indemnity Escrow Agent shall hold in the Escrow Account, after what would otherwise be the Final Release Date (as defined below), the amount contested under the Contested Demand (such amount, "**Projected Indemnifiable Amount**") until the earlier of (i) receipt of a settlement agreement executed by Purchaser and Seller setting forth a resolution of the Contested Demand and an accounting for all Projected Indemnifiable Amounts associated with settling the Contested Demand, which shall set forth the amount of Escrowed Funds to be released to Purchaser and/or Seller as a result of settling such Contested Demand; or (ii) receipt of a written notice from either Purchaser or Seller (a copy of which shall have been delivered to the other Party) attaching a copy of the final award or decision of the arbitrator and an accounting for all Projected Indemnifiable Amounts associated with the Contested Demand, which shall set forth the amount of Escrowed Funds to be released to and/or Seller Purchaser as a result of contesting such Contested Demand (both 4.3.2 (i) and 4.3.2(ii) are collectively referred to herein as a "**Purchaser Distribution Notice**"). Upon the Purchaser delivering a Purchaser Distribution Notice to the Indemnity Escrow Agent, the Indemnity Escrow Agent shall, as soon as practicable following ten days after receipt of such Purchaser Distribution Notice, release to Purchaser that amount of the Escrowed Funds specified in the Purchaser Distribution Notice.

*3.4 Dispute Resolution*

3.4.1 *Governing Law*. This Agreement shall be governed by and construed in accordance with the laws of the State of Israel, without giving effect to the rules of conflict of laws thereof other than when application of Israeli law would render this Agreement, or any material provision herein, void or unenforceable.

3.4.2 *Arbitration*. Any controversy or claim arising out of or relating to this Agreement, including questions of arbitrability, shall be settled solely by arbitration in accordance with this Section 4.4. Any such arbitration shall be conducted in the English language, in Tel Aviv, Israel, by a single arbitrator mutually agreed upon by the relevant Parties who is an attorney, and in the event that the identity of an arbitrator cannot be agreed upon within 15 days following submission to arbitration - by an arbitrator who is an attorney admitted to practice in Israel and appointed by the President of the Israeli Bar Association. The arbitrator shall not be bound by rules of civil procedure or the principals governing admissibility of evidence. The arbitrator shall have the right to order discovery as the arbitrator deem appropriate. This § 4.4 shall be deemed as an Arbitration Agreement.

3.4.3 *Payment of Costs*. The Indemnity Escrow Agent and the prevailing party in any dispute will be entitled to an award of attorneys' fees and costs, including those provided for above, and as between the Purchaser and the Seller, all costs and expenses of the Indemnity Escrow Agent in connection with the subject dispute, will be paid by the losing party, subject in each case to a determination by the court as to which party is the prevailing party and the amount of such fees and costs to be allocated to such party.

3.4.4 *Interim Relief*. Notwithstanding anything in this Section 4.4 each Party may seek interim injunctive relief from a court of competent jurisdiction provided that such interim injunction relief shall be until an arbitrator is appointed. The continuance of such interim relief may be determined by the arbitrator. No arbitration pursuant to this Agreement shall be stayed or delayed pending the outcome of any judicial or other proceedings.

3.4.5 *Arbitral Award*. The award of the arbitrator shall be issued in a written opinion, which shall set forth the arbitrator's finding of facts and conclusions, and shall be conclusive and binding upon the Parties. Judgment upon an arbitral award may be entered in any court of competent jurisdiction. The arbitrator shall have the right to order injunctive relief and the payment of attorneys' fees, costs and other damages.

3.4.6 *No Release to Purchaser until Resolution*. Purchaser shall not deliver to the Indemnity Escrow Agent a Purchaser Distribution Notice (as defined below) requesting the Indemnity Escrow Agent to release to Purchaser any of the Escrowed Funds held in the Escrow Account pursuant to a Notice of Demand, and Indemnity Escrow Agent shall not acknowledge such a notice, until such Demand has been resolved in accordance with § 4.3 above.

**4. Release of Escrowed Funds**

The Indemnity Escrow Agent shall, 24 months after Closing Date or, if such date is not a Business Day, on the first business day thereafter (the "Final Release Date"), release the following amount to Seller or its successor pursuant to written wiring instructions received by the Indemnity Escrow Agent from the Seller prior thereto:

4.1. the Escrowed Funds, less

4.2 the aggregate Projected Indemnifiable Amounts (to the extent that the Indemnity Escrow Agent has received copies of all such Notices of Demands in accordance with § 4.2 above; and less

4.3 all fees and expenses of the Indemnity Escrow Agent incurred to date and anticipated to be incurred in connection with outstanding Notices of Demands; plus the ratable amount of interest on the Projected Indemnifiable Amounts which remains in escrow.

**5. Indemnity Escrow Agent**

5.1 Duties; Liabilities

The duties of the Indemnity Escrow Agent shall be entirely administrative and not discretionary. The Indemnity Escrow Agent will incur no liability with respect to any action or inaction taken or suffered by the Indemnity Escrow Agent, except his own willful conduct or bad faith. Purchaser and Seller hereby jointly and individually waive any suit, claim, demand or cause of action of any kind which they may have or may assert against the Indemnity Escrow Agent arising out of or in connection with this Agreement, including without limitation, the acceptance, performance or administration of the Indemnity Escrow Agent's duties, unless such suit, claim, demand or cause of action is based upon the willful misconduct or bad faith of the Indemnity Escrow Agent. The Indemnity Escrow Agent shall be obligated to act only in accordance with written instructions received by it as provided in this Escrow Agreement and shall not be liable, and shall not be deemed to have acted with willful misconduct or bad faith, as a result of its compliance with the same. The Indemnity Escrow Agent may consult its own legal counsel, in connection with its duties hereunder or as to any other matter relating to this Escrow Agreement, and such reasonable fees and expenses may be charged to, and paid from, the Escrow Account, in respect of any question arising under this Escrow Agreement, and the Indemnity Escrow Agent shall not be liable, and shall not be deemed to have acted with willful misconduct for any action taken or omitted upon advice of such counsel.

5.2 Instructions

The Indemnity Escrow Agent may rely absolutely upon, and shall be protected and held harmless by, the parties in acting upon the joint instruction of Purchaser and Seller.

5.3 Signatures

The Indemnity Escrow Agent may rely absolutely upon the genuineness and authorization of the signature and purported signature of any party upon any instruction, notice, release, receipt or other document delivered to it pursuant to this Escrow Agreement. Purchaser and Seller shall provide to the Indemnity Escrow Agent certificates designating an authorized signatory and, upon request by the Indemnity Escrow Agent, other parties shall provide signature certification or certificates designating authorized signatories, as appropriate.

5.4 Interpleader

If any controversy arises between the parties hereto or with any third person, the Indemnity Escrow Agent shall not be required to determine the same or to take any action, but the Indemnity Escrow Agent in its discretion may institute such interpleader or other proceedings, in connection therewith as the Indemnity Escrow Agent may deem proper, and in following either course, the Indemnity Escrow Agent shall not be liable and shall be indemnified and held harmless in respect thereof to the Indemnity Escrow Agent's satisfaction.

**6. Indemnity**

6.1 Waiver and Indemnification

Notwithstanding anything to the contrary herein, Purchaser and Seller hereby jointly and individually waive any suit, claim, demand or cause of action of any kind which they may have or may assert against the Indemnity Escrow Agent arising out of or relating to the execution or performance by the Indemnity Escrow Agent of the Escrow Agreement, unless such suit, claim, demand or cause of action is based upon the willful misconduct or bad faith of the Indemnity Escrow Agent. Notwithstanding anything to the contrary herein, Purchaser and Seller shall jointly and severally indemnify the Indemnity Escrow Agent, and jointly and severally hold the Indemnity Escrow Agent harmless, against and from any and all claims, demands, costs, liabilities and expenses, including reasonable counsel fees and costs (including without limitation such fees and costs on appeal), which may be asserted against it or to which it may be exposed or which it may incur by reason of its execution or performance of this Escrow Agreement, except to the extent attributable to the Indemnity Escrow Agent's willful misconduct or bad faith.

6.2 Conditions to Indemnification Relating to Legal Proceedings

In case any litigation is brought against the Indemnity Escrow Agent in respect of which indemnity may be sought hereunder, the Indemnity Escrow Agent shall give prompt notice of that litigation to the other parties hereto, and the Purchaser (unless the Purchaser is the counter-party ), upon receipt of that notice shall have the obligation and the right to assume the defense of such litigation, provided that failure of the Indemnity Escrow Agent to give that notice shall not relieve the parties hereto from any of their obligations under this § 8 unless and to the extent that failure prejudices the defense of such litigation by said parties. The parties hereto shall not be liable for any settlement without their respective consents.

6.3 Survival

The rights and obligation under § 7, 8.1 and 8.2 above shall survive the resignation or removal of the Indemnity Escrow Agent pursuant to § 10 below.

**7. Acknowledgment by Indemnity Escrow Agent**

By execution and delivery of this Escrow Agreement, the Indemnity Escrow Agent acknowledges that the terms and provisions of this Escrow Agreement are acceptable and it agrees to carry out the provisions of this Escrow Agreement on its part.

**8. Resignation or Removal of Indemnity Escrow Agent; Successor**

8.1 Resignation and Removal.

8.1.1 The Indemnity Escrow Agent may resign as such thirty days after giving written notice of its resignation to the other parties hereto. Similarly, the Indemnity Escrow Agent may be removed and replaced thirty days after receiving written notice of its removal and replacement delivered jointly by Purchaser and Seller, which notice shall not be valid unless it includes the details of the successor escrow agent. In either event, the duties of the Indemnity Escrow Agent shall terminate thirty days after the date of such notice (or as of such earlier date as may be mutually agreeable); and the Indemnity Escrow Agent shall then deliver the balance of the Escrowed Funds then in its possession to a successor escrow agent as shall be appointed within such period (in the event the Indemnity Escrow Agent resigns) by Purchaser and Seller as evidenced by a written notice filed with the Indemnity Escrow Agent.

8.1.2 If the Indemnity Escrow Agent resigned and the parties hereto are unable to agree upon a successor escrow agent or shall have failed to appoint a successor prior to the expiration of thirty days following the date of the notice of resignation or removal, then any of the Parties may initiate arbitration in accordance to § 4.4.2 for the appointment of a successor escrow agent or other appropriate relief, any such resulting appointment shall be binding upon all of the parties hereto.

8.2 Successors

Every successor escrow agent appointed hereunder shall execute, acknowledge and deliver to its predecessor, and also to Purchaser and Seller, an instrument in writing accepting such appointment hereunder, and thereupon such successor, without any further act, shall become fully vested with all the duties, responsibilities and obligations of its predecessor; but such predecessor shall, nevertheless, on the written request of its successor or any of the parties hereto, execute and deliver an instrument or instruments transferring to such successor all the rights of such predecessor hereunder, and shall duly assign, transfer and deliver all property, securities and monies held by it pursuant to this Escrow Agreement to its successor.

8.3 New Indemnity Escrow Agent

In the event of an appointment of a successor escrow agent, the predecessor shall cease to be escrow agent of any Escrowed Funds it may hold pursuant to this Escrow Agreement, and the successor shall become such escrow agent.

8.4 Release

Upon proof of transfer of the then remaining balance of the Escrowed Funds, the then acting Indemnity Escrow Agent shall be fully released and relieved of all duties, responsibilities and obligations under this Escrow Agreement that may arise and accrue thereafter.

**9. Fee**

The Indemnity Escrow Agent shall be paid for services hereunder payment in the amount of US$ 3,000 plus VAT per annum ("**Fee**") and any additional fees and expenses incurred until distribution of the Escrow Funds in full. Subject to §4.4.3 above, the fees and expenses of the Indemnity Escrow Agent shall be borne by the Seller. If the Indemnity Escrow Agent continues to hold any Projected Indemnifiable Amount in the Escrow Account after the Final Release Date due to the provisions herein, the Indemnity Escrow Agent shall be paid an additional amount of US$ 3,000 plus VAT and US$ 250 to cover banking fees and charges for each additional year or part thereof that the Escrow Agent continues to hold such amounts. The Indemnity Escrow Agent may set off any payment due to it plus interest from distributions otherwise due to the party in debt to the Indemnity Escrow Agent. The Purchaser may choose to pay the Indemnity Escrow Agent any payment due to the Indemnity Escrow Agent by the Seller and set off such payment plus interest from amounts due from Purchaser to Seller.

**10. Termination**

This Escrow Agreement and the escrow created thereby shall terminate as soon as practicable following (i) delivery of a joint written instruction of Purchaser and Seller terminating this Escrow Agreement, including detailed instructions as to the remaining funds in the escrow, if any; or (ii) the Indemnity Escrow Agent's delivery or release of all remaining Escrowed Funds pursuant to this Escrow Agreement.

**11. Miscellaneous**

This Escrow Agreement and the escrow created thereby shall terminate as soon as practicable following (i) delivery of a joint written instruction of Purchaser and Seller terminating this Escrow Agreement, including detailed instructions as to the remaining funds in the escrow, if any; or (ii) the Indemnity Escrow Agent's delivery or release of all remaining Escrowed Funds pursuant to this Escrow Agreement.

11.2 Relationship of the Parties

This Agreement shall not create an agency, partnership, employer-employee or joint venture relationship between the Parties or any employees of the Parties, and nothing hereunder shall be deemed to authorize any Party to act for, represent or bind the others except as expressly provided in this Agreement.

11.3 No Benefit to Others

This Agreement is for the sole benefit of the Parties and their successors and permitted assigns and shall not be construed as conferring any rights on any others.

11.4 Integration of Terms

This Agreement constitutes the entire agreement and understanding between the Parties with respect to the subject matter hereof, and supersedes any and all prior drafts, agreements, understandings, promises, representation, warrant and covenant, whether written or oral, between the Parties with respect to the subject matter hereof. Drafts exchanged during the negotiations of this Agreement shall not be used to construe the intentions of the Parties.

11.5 Succession and Assignment

This Agreement shall be binding upon and inure to the benefit of the Parties named herein and their respective successors, permitted assigns, heirs, executors, and administrators and permitted assigns. No Party may assign either this Agreement or any of its rights, interests, or obligations hereunder without the prior written approval of the other Party provided however, that Purchaser may: (i) assign any or all of its rights and interests hereunder to one or more of its affiliates; and (ii) designate one or more of its affiliates to perform its obligations hereunder (in any or all of which cases Purchaser nonetheless shall remain responsible for the performance of all of its obligations hereunder). Any purported assignment in violation of this § 13.5 shall be void and of no effect.

11.6 Counterparts

This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which together will constitute one and the same instrument.

11.7 Construction

11.7.1 The recitals and schedules hereto consist an integral part hereof. The Exhibits and Schedules identified in this Agreement are incorporated herein by reference and made a part hereof.

11.7.2 The headings in this Agreement and their associated numbers are included for ease of reference only and shall have no legal, constructive or interpretive effect.

11.7.3 The word "**including**" shall mean including without limitation.

11.7.4 The word "**person**" shall mean any legal entity, including an individual, a partnership, a corporation, an association, a joint stock company, a trust, a joint venture, an unincorporated organization, or a Governmental Body;

11.7.5 This Agreement shall be construed as if drafted jointly by the Parties and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any of the provisions of this Agreement.

11.7.7 The Parties intend that each representation, warranty and covenant contained herein shall have independent significance. If any Party has breached any representation, warranty, or covenant contained herein in any respect, the fact that there exists another representation, warranty, or covenant relating to the same subject matter (regardless of the relative levels of specificity) which the Party has not breached shall not detract from or mitigate the fact that the Party is in breach of the first representation, warranty, or covenant.

11.8 Amendments and Waivers

This Agreement may not be amended, modified, released, or discharged in any manner except by an instrument in writing, referring to this Agreement, and signed by all Parties. No waiver of any right under this Agreement shall be deemed effective unless contained in writing and signed by the Party charged with such waiver, and no waiver of any right shall be deemed to be a waiver of any future right or any other right arising under this Agreement. No waiver by any Party of any default, misrepresentation, or breach of warranty or covenant hereunder, whether intentional or not, shall be deemed to extend to any prior or subsequent default, misrepresentation, or breach of warranty or covenant hereunder or affect in any way any rights arising by virtue of any prior or subsequent such occurrence.

11.9 Transfer Taxes; Expenses.

11.9.1 Each of Seller and Purchaser will bear any taxes assessed or arising out of the transactions contemplated by this Agreement as imposed on such party under any law, including stamp tax, if applicable, and fees related to perfection of right under this Agreement.

11.10 Specific Performance

Each Party acknowledges and agrees that the other Party may be damaged irreparably in the event any of the provisions of this Agreement are not performed in accordance with their specific terms or otherwise are breached. Accordingly, each Party agrees that the other Party shall be entitled to an injunction or injunctions to prevent breaches of the provisions of this Agreement and to enforce specifically this Agreement and the terms and provisions hereof, in addition to any other remedy to which it may be entitled, at law or in equity.

11.11 Severability and Blue Penciling

11.11.1 If, and solely to the extent that, any provision of this Agreement shall for any reason be held to be excessively broad, the term shall be construed in a manner to enable it to be enforced to the extent compatible with applicable law. If, and solely to the extent that, any provision of this Agreement shall be invalid or unenforceable, or shall render this entire Agreement to be unenforceable or invalid, such offending provision shall be of no effect and shall not affect the validity of the remainder of this Agreement; provided, however, the Seller and the Purchaser shall use their respective reasonable efforts to renegotiate the offending provisions to best accomplish the original intentions of the parties, with no liability in connection therewith to be imposed on the Indemnity Escrow Agent.

11.11.2 If the final judgment of a court of competent jurisdiction declares that any item or provision hereof is invalid or unenforceable, the parties hereto agree that the court making the determination of invalidity or unenforceability shall have the power to reduce the scope, duration or area of the term or provision, or to delete specific words or phrases, and to replace any invalid or unenforceable term or provision with a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision, and this Agreement shall be enforceable as so modified.

11.12 Notices

All notices, consents, or other notifications given or made pursuant hereto shall be in writing and shall be deemed duly given or made (i) upon delivery or refusal of such notice if sent by a recognized courier service; (ii) three Business Days after it is mailed by prepaid registered mail; or (iii) upon delivery to a fax machine capable of confirming receipt, and in each case addressed as follows (or at such other address for a Party as shall be specified in a notice so given):

Indemnity Escrow Agent:
ADAD Trust Company Ltd.
c/o Gross, Kleinhendler, Hodak, Halevy, Greenberg & Co.
Azrieli 1
Tel Aviv, Israel
Fax: + 972-3-607-4499

Seller:
Optibase Ltd.
7 Shenkar St.
P.O. Box 2170
Herzlia, 46120
Israel
Fax: +972-9-970-9222

With copy (which shall not constitute a notice) to:
Gross, Kleinhendler, Hodak, Halevy, Greenberg & Co.
Attention: Adva Bitan, Adv.
One Azrieli Center (Round Building)
Tel Aviv 67021, Israel
Fax: +972 (3) 607.4464

Purchaser:
Optibase Technologies Ltd.
3 Daniel Frisch St.
Tel Aviv, 64731, Israel
c/o Afik Turgeman
Israel
Attention: CEO

With copy (which shall not constitute a notice) to:
Afik Turgeman, attorneys at law
Attention: Doron Afik, Esq.
3 Daniel Frisch St.
Tel Aviv, 64731, Israel
Fax: +972 (3) 609.0.609

Any Party may send any notice, request, demand, claim, or other communication hereunder to the intended recipient at the address set forth above using any other means, but no such notice, request, demand, claim, or other communication shall be deemed to have been duly given unless and until it actually is received by the intended recipient. Any Party may change the address to which notices, requests, demands, claims, and other communications hereunder are to be delivered by giving the other Party notice in the manner herein set forth.

IN WITNESS WHEREOF the parties have signed this Agreement as of the date first hereinabove set forth.

| | | |
|---|---|---|
| ADAD Trust Company Ltd.By: _____ | Optibase Ltd. | Optibase Technologies Ltd. |
| Title: _____ | By: _____ | By: _____ |
| | Title: _____ | Title: _____ |

**Exhibit 8.1**

List of Subsidiaries

Optibase Inc., a California corporation

Optibase Real Estate LLC, a Delaware limited liability company

Mazal 485 LLC, a Delaware limited liability company

Optibase Real Estate Europe Sarl, a Luxemburg company

Optibase Re 1 Sarl, a Luxemburg company

**Exhibit 12.1**

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Tom Wyler, certify that:

1. I have reviewed this annual report on Form 20-F of Optibase Ltd.

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-115(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of company's board of directors (or persons performing the equivalent function):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: June 30, 2010

/s/ Shlomo (Tom) Wyler
Shlomo (Tom) Wyler
Chief Executive Officer

**Exhibit 12.2**

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Amir Philips, certify that:

1. I have reviewed this annual report on Form 20-F of Optibase Ltd.

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-115(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of company's board of directors (or persons performing the equivalent function):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: June 30, 2010

/s/ Amir Philips
Amir Philips
Chief Financial Officer

**Exhibit 13.1**

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Optibase Ltd. (the "Company") on Form 20-F for the period ending December 31, 2009, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certify that to the best of our knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 30, 2010

/s/ Shlomo (Tom) Wyler
Name: Shlomo (Tom) Wyler
Title: Chief Executive Officer

**Exhibit 13.2**

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Optiabse Ltd. (the "Company") on Form 20-F for the period ending December 31, 2009, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certify that to the best of our knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 30, 2010

/s/ Amir Philips
Name: Amir Philips
Title: Chief Financial Officer

**Exhibit 15.1**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statements (Form S-8 File No. 333-10840; Form S-8 File No. 333-12814; Form S-8 File No. 333-13186; Form S-8 File No. 333-91650; Form S-8 File No. 333-122128; S-8 File No. 333-137644; Form S-8 File No. 333-139688; Form S-8 File No. 333-148774;) pertaining to Optibase Ltd. of our report, dated June 30, 2010, with respect to the consolidated financial statements of Optibase Ltd., included in the Annual Report (Form 20-F) for the year ended December 31, 2009.

/s/ Kost Forer Gabbay & Kasierer

Tel-Aviv, Israel
June 30, 2010

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

**Exhibit 15.2**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statements (Form S-8 File No. 333-10840; Form S-8 File No. 333-12814; Form S-8 File No. 333-13186; Form S-8 File No. 333-91650; Form S-8 File No. 333-122128; S-8 File No. 333-137644; Form S-8 File No. 333-139688; Form S-8 File No. 333-148774;) pertaining to Optibase Ltd. of our report, dated June 30, 2010, with respect to the consolidated financial statements of Scopus Video Networks Ltd., included in the Annual Report (Form 20-F) for the year ended December 31, 2009.

/s/ Brightman Almagor Zohar & Co.
Brightman Almagor Zohar & Co.
Certified Public Accountants
A member firm of Deloitte Touche Tohmatsu

June 30, 2010