

**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 20-F**

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

OR

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

For the fiscal year ended December 31, 2010

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

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  
(Translation of Registrant's name into English)

Israel  
(Jurisdiction of incorporation or organization)

2 Gav Yam Center  
7 Shenkar Street  
Herzliya 46120, Israel  
+972-73-7073700  
(Address of principal executive offices)

Mr. Amir Philips, Chief Financial Officer  
Telephone Number: 972-73-7073703, Fax Number: 972-73-7073701, Email: amirp@optibase-holdings.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  
Ordinary Shares, par-value NIS 0.13 each

Name of Each Exchange on Which Registered  
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 357,473 Ordinary Shares held by the Registrant and 34,000 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.

In connection with the Vitec Transaction, as defined below, we assigned all of our registered and non-registered trademarks to Optibase Technologies Ltd. and Stradis Inc. provided that it was specifically agreed that we and our affiliates may continue to use the term "Optibase" and any derivative or variant thereof in connection with our real estate, investments and holdings, as well as other businesses not related to the video solutions business. We currently have no other 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.

#### AMENDMENT NO. 16 TO THE COMPANIES LAW

On March 7, 2011 Amendment no. 16 to the Israeli Companies Law, 1999 ("the Companies Law"), or Amendment 16, was enacted by the Israeli Knesset. Amendment 16, which will come into effect on May 14, 2011 (excluding certain provisions which will come into effect on September 14, 2011), places a special emphasis on the autonomy of the board of directors and the external directors and on the composition and responsibilities of the audit committee.

The description of the provisions of the Companies Law and the arrangements thereunder, throughout this annual report on Form 20-F, assumes that Amendment 16 has already come into effect.

## 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*

Since our incorporation, we engaged, directly and indirectly, in Digital Video and Streaming Based Products and Services or the Video Technologies Business (collectively, "Video Solutions Business"), including 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.

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. and Stradis Inc., wholly owned subsidiaries of S.A. Vitec (also known as Vitec Multimedia) (S.A. Vitec, Optibase Technologies Ltd. and Stradis Inc., 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 occurred on July 1, 2010. For Further details see Item 10.C "Material Contracts".

Currently, the Company, directly and indirectly, engages mainly in investments in real estate.

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

We derived the consolidated statement of operations data for the years ended December 31, 2008, 2009 and 2010, and consolidated balance sheet data as of December 31, 2009 and 2010 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, 2006 and 2007 and the consolidated balance sheet data as of December 31, 2006, 2007 and 2008 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.

The results of operations for the Video solution business for the years ended December 31, 2006, 2007, 2008 and 2009, were reported separately and retroactively as discontinued operations.

**Consolidated Statement of Operations Data:**

	2006	2007	Year Ended December 31, 2008		2009	2010
			(U.S. dollars in thousands, except per share data)			
Fixed income real estate	-	-	-	\$	272	\$ 1,650
<b>Costs and expenses:</b>						
Cost of real estate operation	-	-	-		11	59
Real estate depreciation and amortization	-	-	-		115	695
General and Administrative	1,036	1,257	1,347		1,175	1,502
Total costs and expenses	1,036	1,257	1,347		1,301	2,256
Operating loss	(1,036)	(1,257)	(1,347)		(1,029)	(606)
Other loss	-	-	-		-	(600)
Financial income (loss), net	1,405	(31)	270		617	304
Net (loss) income before tax on income	369	(1,288)	(1,077)		(412)	(902)
Tax on income	-	-	-		-	(43)
Net income (loss) from continuing operations	369	(1,288)	(1,077)		(412)	(945)
Net income (loss) from discontinued operations	(3,489)	(5,885)	(8,468)		472	5,399
Net income (loss)	<u>\$ (3,120)</u>	<u>\$ (7,173)</u>	<u>\$ (9,545)</u>		<u>\$ 60</u>	<u>\$ 4,454</u>
Net earnings (loss) per share :						
Basic and Diluted net earnings (loss) per share from continuing operations	\$ 0.03	\$ (0.09)	\$ (0.07)		\$ (0.02)	\$ (0.06)
Basic and diluted net earnings (loss) per share from discontinued operations	\$ (0.26)	\$ (0.43)	\$ (0.56)		\$ 0.03	\$ 0.33
Basic and diluted net earnings (loss) per share	\$ (0.23)	\$ (0.53)	\$ (0.63)		\$ 0.00	\$ 0.27
Weighted average number of shares used in computing basic and diluted net earnings (loss) per share (in thousands):						
Basic and Diluted	13,431	13,602	15,159		16,534	16,555

**Consolidated Balance Sheet Data:**

	2006	2007	December 31, 2008		2009	2010
			(U.S. dollars in thousands)			
Cash, cash equivalents and short term investment in marketable securities net	\$ 44,331	\$ 19,021	\$ 11,386	\$	28,651	\$ 30,260
Working capital	41,487	38,366	34,200		29,621	26,415
Long term investment in marketable securities	2,207	-	-		-	-
Total assets	60,974	51,932	47,306		63,350	64,726
Long term loans and capital lease obligations, including current maturities	-	-	-		18,262	19,589
Capital Stock	119,720	120,706	126,142		126,299	126,378
Total shareholders' equity	<u>\$ 44,494</u>	<u>\$ 39,164</u>	<u>\$ 35,011</u>	\$	<u>\$ 35,238</u>	<u>\$ 40,392</u>

**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 the quarter ended June 30, 2004 and except for several non-continuous quarters during 2009 and 2010, we operated at a loss. As of December 31, 2010, we have accumulated losses of \$85.4 million. Given current market conditions, the recent economic downturn, the uncertainty regarding sale prices and the demand for our real estate properties and other expenses, 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 expand and engage in new profitable real-estate ventures. We cannot assure you that we will be able to increase our revenues and achieve profitability.

*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 purchase or failure to purchase real-estate assets;
- ❖ Changes in rent prices for our properties;
- ❖ Changes in presence of tenants and tenants' insolvency
- ❖ Changes in the availability, cost and terms of financing;
- ❖ The ongoing need for capital improvements;
- ❖ Changes in foreign exchange rates;
- ❖ Changes in interest rates;
- ❖ General economic conditions, particularly in those countries or regions where we sell our products; and

Historically, our results of operations derived mainly from our Video Solutions Business which was sold pursuant to the Vitec Transaction. More recently and to date, our results of operations are derived mainly from our Real Estate Business. 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.

***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 April 11, 2011, approximately 45.33% of our outstanding ordinary shares, of which Shlomo (Tom) Wyler, our President and Chief Executive Officer holds approximately 44.31% (calculated taking into consideration shares underlying options that are currently exercisable or exercisable within 60 days of April 11, 2011 which are deemed to be outstanding), see "Item 7.A. Major Shareholders" below. For details of an additional private placement to Mr. Wyler currently proposed to be approved by our shareholders, see "Item 7.B Related Party Agreements". 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 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 Mr. Wyler, our Chief Executive Officer and President and then Executive Chairman of our board of directors in consideration for \$5 million. For details of an additional private placement to Mr. Wyler currently proposed to be approved by our shareholders, see "Item 7.B Related Party Agreements".

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 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 2010, 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.

***The trading price of our ordinary shares has been volatile, and may continue to fluctuate 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;
- ❖ Quarterly variations in our results of operations or in our competitors' results of operations;
- ❖ Changes in earnings estimates or recommendations by securities analysts;
- ❖ 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;
- ❖ Changes in foreign exchange rates; 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 companies and which may not be related to the operating performance of those companies. 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 2010 through April 2011, the closing price of our ordinary shares fluctuated reaching a high of \$1.75 and decreasing to a low of \$1.2. 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, 2010, 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 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, 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, 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;
- ❖ 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 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 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. 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, 2010, 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 Real Estate Business**

***General***

On May 11, 2009, our board of directors resolved to expand and diversify 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 four transactions, the first - the acquisition of a stake in an office building located at 485 Lexington Avenue in Manhattan, New York for which was terminated, the second - the acquisition of a commercial building located in Rümlang, Switzerland, the third - the acquisition of apartments in a residential property located in Miami, Florida and the fourth - the acquisition of a stake in a Swiss company holding a commercial property in Geneva, Switzerland. For additional information on such transactions, see Item 4.B. "Real Estate Business", Item 8. "Financial Information - Legal Proceedings" and Item 10.C "Material Contracts".

The real estate sector presents risks which are, in their essence, materially different from our previous Video Technologies Business. Real estate investments are subject to varying degrees of risk and are relatively illiquid. Numerous factors may adversely affect the economic performance and value of our properties and the ability to realize that value. These factors include changes in the global, national, regional and local economic climates, local conditions such as an oversupply of properties or a reduction in demand for our properties, the attractiveness of our properties to tenants, competition from other properties and changes in market rental rates. Our performance also depends on our ability to collect rent from tenants and to pay for adequate maintenance, insurance and other operating costs, including real estate taxes, all of which could increase over time. Sources of labor and materials required for maintenance, repair, capital expenditure or development may be more expensive than anticipated. Also, the expenses of owning and operating a property are not necessarily reduced when circumstances such as market factors and competition cause a reduction in income from the property.

In addition, our 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 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 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 real-estate business, financial condition and results of operations.

***With respect to our commercial properties in Rümlang and Geneva, Switzerland, we are dependent on the continued tenant demand for our properties. If there is a decrease in tenant demand and an increase in vacancy of our commercial properties, it would adversely affect our financial condition and results of operations.***

We own, through our subsidiaries, an office building in Rümlang, Switzerland and fifty one percent in an office building complex in Geneva, Switzerland, which are currently leased to third parties. The office building in Rümlang includes approximately 12,500 square meters of leasable space (approximately 135,000 square feet), is currently leased to 7 tenants, and is currently 97.5% occupied. Three of the Rümlang tenants occupy approximately 9,700 square meters or 78% of the total leasable space and represent approximately 80% of the total rental income while the sole largest tenant occupies over 4,000 square meters representing approximately 34% of the rentable space and approximately 37% of the rental income. Expiration dates of the 3 tenants range from October 2011 and through June 2015, with notice periods ranging from three to six months and one lease with no break options at all. The Geneva property has approximately 35,000 square meters of leasable space, is currently leased to 47 tenants and is currently 96% occupied. Six of the Geneva tenants occupy approximately 23,700 square meters or 68% of the total leasable space and represent approximately 75% of the total rental income while the sole largest tenant occupies over 8,000 square meters representing approximately 24% of the rentable space and approximately 28% of the rental income. Expiration dates of the 6 tenants range from October 2011 and through March 2020, with notice periods ranging from one to twelve months and some leases with no break options at all. If such lease agreements are terminated, there is no assurance that we will be able to attract new lessees in favorable terms or at all.

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

We are currently, with respect to our real-estate properties in Rümlang and Geneva, Switzerland, and we may, in the future, own interests in real-estate assets or real-estate holding companies 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 or may not fulfill its financial obligations under our joint venture agreements, which may cause us to provide financing in excess of our ownership share or which may cause us to be unable to fulfill our financial obligations, possibly triggering a default under our bank financing agreements or, in the event of a liquidation, preventing 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 rely on two large properties for a significant portion of our revenue.***

As of April 11, 2011, two of our properties, Riedmattstrasse 9 in Rümlang, Switzerland and CTN in Geneva, Switzerland, accounted for all of our portfolio annualized rent, including our share of joint venture annualized rent. Our revenue would be materially adversely affected if any of these properties were materially damaged or destroyed. Additionally, our revenue would be materially adversely affected if tenants at these properties fail to timely make rental payments due to adverse financial conditions or otherwise, default under their leases or file for bankruptcy.

***With respect to our residential property in Miami, Florida, the success of our investment will depend on market conditions.***

On December 30, 2010, our wholly-owned subsidiary, had acquired 21 luxury condominium units in the Marquis Residences in Miami, Florida. To date, the units have not yet been completed and are unoccupied. For further information see Item 4.B. "Business Overview –Real Estate Business".

We intend to hold the units for investment purposes and will consider renting or selling the units in accordance with our business considerations and market conditions. Depending on our decision, we may be unable to sell or lease up these condominium properties on schedule or on favorable terms, which may result in a decrease in expected rental revenues and/or lower yields, if any. We may underestimate the costs necessary to bring the units up to standards established for its intended market position or to complete its development which may increase our costs and thereby adversely affect our results of operations.

***The strength of the real estate market may adversely affect the results of our operations.***

Future revenues from our real estate business are highly dependent on the overall strength of the real estate market. 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 and its effects on the real estate markets where our properties are located. A decrease in purchaser demand for condominiums of our residential property in Miami, Florida or a decrease in tenant demand for office space at our office properties may materially adversely affect our financial results.

***We may suffer adverse consequences if our revenues decline since our operating costs do not necessarily decline in proportion to our revenue.***

We earn a significant portion of our income from renting our properties. Our operating costs, however, do not fluctuate in relation to changes in our rental revenue. As a result, our costs will not necessarily decline even if our revenues do. Similarly, our operating costs could increase while our revenues stay flat or decline. In either such event, we may be forced to borrow to cover our costs or we may incur losses.

***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 financial 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.

***We face risks associated with property acquisitions.***

We may acquire individual properties and portfolios of properties, including large portfolios that could significantly increase our size and alter our capital structure. Our acquisition activities may be exposed to, and their success may be adversely affected by, the following risks:

- even if we enter into an acquisition agreement for a property, it is usually subject to customary conditions to closing, including due diligence investigations to our satisfaction;
- we may be unable to finance acquisitions on favorable terms or at all;
- acquired properties may fail to perform as we expected;
- we may not be able to obtain adequate insurance coverage for new properties; and
- we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into our existing operations, and therefore our results of operations and financial condition could be adversely affected.

We may acquire properties or property holding companies subject to liabilities and without any recourse, or with only limited recourse, with respect to unknown liabilities. As a result, if a liability were asserted against us arising from our ownership of those properties, we might have to pay substantial sums to settle it, which could adversely affect our cash flow. Unknown liabilities with respect to properties acquired might include:

- liabilities for clean-up of undisclosed environmental contamination;
- claims by tenants, vendors or other persons arising from dealing with the former owners of the properties;

- liabilities incurred in the ordinary course of business; and
- claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

***Competition for acquisitions may reduce the number of acquisition opportunities available to us and increase the costs of those acquisitions.***

We plan to continue to acquire properties as we are presented with attractive opportunities. We may face competition for acquisition opportunities from other investors, particularly private investors who can incur more leverage, and this competition may adversely affect us by subjecting us to the following risks:

- an inability to acquire a desired property because of competition from well-capitalized real estate investors, including publicly traded and privately held REITs, private real estate funds, domestic and foreign financial institutions, life insurance companies, sovereign wealth funds, pension trusts, partnerships and individual investors; and
- an increase in the purchase price for such acquisition property, in the event we are able to acquire such desired property.

**Risks Relating to the Sale of our Video Solutions Business**

On March 16, 2010 we and our subsidiary, Optibase Inc., entered into an asset purchase agreement with Vitec for the sale of all of the assets and liabilities related to our Video Solutions Business. Closing of the transaction occurred on July 1, 2010. For further details see Item 10.C "Material Contracts".

The following are risks related to the sale of our Video Solutions Business to Vitec:

***We are exposed to potential liabilities in connection with the sale of our business to Vitec.***

In connection with the sale of our Video business to Vitec, both parties agreed on 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.

A claim against us could result in substantial cost which would have a negative impact on our financial condition.

As of this date, Vitec and the Company have been unable to come to an agreement as to several disputes which arose between the parties and which relate, *inter alia*, to the adjustment amount to be added to the consideration, the collecting of sums payable from past clients and . To date, the company and Vitec are parties to legal proceedings which related to such disputes and the classification of previously paid sums by the Company's clients for service and maintenance to be provided by Vitec following the closing of the transaction. For further information see Item 8. "Financial Information - Legal Proceedings".

As the proceedings mentioned above are in their preliminary stages, we cannot assess their chances at this point in time.

There is no assurance that the abovementioned legal proceedings will succeed and that we will be granted the sought injunctions 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.

*We have been and may, in the future, be subject to further review in connection with government programs and tax benefits that we participated in or received.*

We received 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. We also received tax benefits under Israeli law for capital investments that are designated as "Approved Enterprises". In addition, we were also involved in joint research projects with 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.

In that respect, the funding we received from the European Union in several of such joint projects is currently under review the European Union. To date, the review process was only partially concluded and at this time, we believe that we have sufficient provisions to cover the outcome of such review process.

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

On March 16, 2010 we and our subsidiary, Optibase Inc., entered into an asset purchase agreement with Vitec for the sale of all of the assets and liabilities related to our Video Solutions Business in consideration of \$8 million. Closing of the transaction occurred on July 1, 2010.

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) was 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.

In addition, under the Agreement, it was agreed that Vitec would collect from customers the payment still owed to us, pay amounts due to vendors and also collect other amounts due from the Israeli Office of the Chief Scientist ("OCS") and the European Commission ("EC") and at the closing, we would provide Vitec with an estimate of the net amount owed to it. The overall consideration would then be adjusted accordingly. However, to date, the parties have been unable to come to an agreement as to the adjustment amount and Vitec has refrained from depositing any amount in escrow, despite the fact that Vitec has already collected payments owed to the Company from customers from the OCS and the EC and mistakenly received money that belongs to the Company. A dispute also arose between the Company and Vitec with respect to the classification of previously paid sums by the Company's clients for service and maintenance to be provided by Vitec following the closing of the transaction. There is no assurance that such adjustments to the consideration will be made in full or in part. For additional information see Item 8. "Financial Information - Legal Proceedings" and Item 10.C "Material Contracts" below.

## **Risks Relating to Operations in Israel**

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

Until the sale of our Video Solutions Business to Vitec on July 1, 2010, we generated most of our revenues in U.S. dollars but incurred a portion of our expenses in NIS. Since October 2009 following the acquisition of real estate properties in Switzerland and the obtaining of a loan to finance the purchase, we generate most of our revenues in CHF (Swiss Frank) but incurred a portion of our expenses in NIS and in U.S. dollars. As a result, we are exposed to currency fluctuation of the U.S. dollars and the CHF against the NIS, and to the CHF corresponding interest rate.

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 adversely affected in the future if inflation in Israel exceeds the fluctuation of NIS against the U.S. dollars and against the CHF or if the timing of such fluctuation lags behind increases in inflation in Israel.

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. These measures, however, may not adequately protect us from material adverse effects due to the impact of inflation in Israel.

The inflation rate in Israel was approximately 3.8% in 2008, approximately 3.9% in 2009 and approximately 2.7% in 2010. The appreciation of the NIS against the dollar was approximately 1.1% in 2008, 0.7% in 2009 and 6% in 2010 and the devaluation of the NIS against the CHF was approximately 2.9% in 2009 and 3.3% in 2010. The appreciation of the CHF against the dollar was 3.0% in 2009 and 9.8% in 2010.

***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. 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. 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. 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. In addition, during 2010 and 2011, political and military instability has dramatically increased in Middle Eastern countries neighboring Israel. Such countries facing political and military instability include Lebanon, Egypt, Syria, Jordan, Iran and Libya. 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.

***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 either (i) the shareholders who do not accept the offer hold less than 5% of the issued and outstanding share capital of the company or of the applicable class, and more than half of the shareholders who do not have a personal interest in the offer accept the offer, or (ii) the shareholder who do not accept the offer hold less than 2% of the issued and outstanding share capital of the company or of the applicable class. The shareholders, including those who indicated their acceptance of the tender offer (except if otherwise detailed in the tender offer document), may, at any time within six months following the completion of the tender offer, petition the court to alter the consideration for the acquisition. 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

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 +972-73-7073700. Our website is located at [www.optibase-holdings.com](http://www.optibase-holdings.com). Optibase is subject to the provisions of the Companies Law. Our subsidiary, Optibase, Inc., was incorporated in 1991 in California, and has a mailing address at P. O. Box 448, Mountain View, California 94042. Our European subsidiary, Optibase Real Estate Europe SARL, was incorporated in October 2009 as part of our decision to enter the real estate sector and is located at 6 Rue Jean Bertholet L-1233 Luxembourg. In addition, as part of our recent acquisition of an office complex in Geneva, Switzerland, we established our second European subsidiary, OPTCTN SA, which was incorporated in February 2011 and which is located at 6 Rue Jean Bertholet L-1233 Luxembourg.

During 2009, we resolved to expand and diversify our field of operations and to enter into the real estate sector. On March 16, 2010 we and our subsidiary, Optibase Inc., entered into an asset purchase agreement with Vitec for the sale of all of the assets and liabilities related to our Video Solutions Business. For further details regarding the diversification of our business and the sale of our Video Solutions business, see below.

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 \$28.7 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 diversify 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 certain agreements for the purchase of real estate assets. 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 Vitec, according to which Vitec will purchase all of the assets and liabilities related to our Video Solutions Business. Closing of the transaction occurred on July 1, 2010. 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. Through December 31, 2007, we have impaired our entire investment in V.Box. We did not invest additional amounts in 2009 and 2010.

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 approximately \$1 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. During the quarter ended December 31, 2010, Mobixell entered an additional financing round. As a result, our holdings in Mobixell, on a fully diluted basis, have decreased to 2.18% of its equity. Based on that recent financing round, we have decided to partially impair our investment which resulted at a loss of \$600,000 in the quarter ended December 31, 2010. We may participate in future financing rounds in Mobixell and our holdings may be further diluted.

#### 4.B. BUSINESS OVERVIEW

Our principal field of business is the investment in real-estate properties.

Until closing of the Vitec Transaction, the Company also engaged, directly and indirectly, in Digital Video and Streaming Based Products and Services or the Video Technologies Business (collectively, "Video Solutions Business"), including 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.

Below is a description of our principal fields of activity:

##### **Real Estate Business**

###### *General*

On May 11, 2009, our board of directors resolved to expand and diversify 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 real estate market includes the purchasing and operating of real estate properties intended for leasing and resale primarily for the purpose of commercial, industrial, office space, parking garage, warehouse use as well as for residential purposes. The real estate market is affected by growth or slowdown in the economy, and by changes in the demand and the available supply of commercial and/or residential properties, as well as the construction of additional commercial and/or residential properties. 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 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.

Our strategy in our real estate activities is to become a substantial owner of 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, residential and other real estate assets in light of market conditions, while diversifying our real estate property base.

*Properties*

As of the date of this annual report, we own three real-estate assets in Rümlang Switzerland, in Miami, Florida and in Geneva, Switzerland. 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".

Property	Acquisition date	Use	Net Rentable Square Meters Excluding Redevelopment Space <sup>(1)</sup>	Annualized Rent (\$000) <sup>(2)</sup>	Percent Leased <sup>(3)</sup>	Annualized Rent per Occupied Square Meter (\$) <sup>(4)</sup>
Geneva, Switzerland	March 2, 2011	Commercial	35,000	10,273	96	294
Marquis Residences in Miami, Florida	December 30, 2010	Condominium Units	3,229	-	-	-
Rümlang, Switzerland	October 29, 2009	Commercial	12,500	1,804	97.5	149
<b>Portfolio Total/Weighted Average</b>	-	-	<b>50,729</b>	<b>12,077</b>	<b>90</b>	<b>443</b>

(1) Net rentable square Meters at a building represents the current square meter at that building under lease as specified in the lease agreements plus management's estimate of space available for lease based on engineering drawings. Net rentable square meter includes tenants' proportional share of common areas but excludes space held for redevelopment.

(2) Annualized rent represents the monthly contractual rent under existing leases as of December 31, 2010 multiplied by 12.

(3) Excludes space held for redevelopment. Includes unoccupied space for which we are receiving rent and excludes space for which leases had been executed as of December 31, 2010, but for which we are not receiving rent. We estimate the total square meter available for lease based on a number of factors in addition to contractually leased square meter, including available power, required support space and common area.

(4) Annualized rent per square meter represents annualized rent as computed above, divided by the total square meter under lease as of the same date.

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

*Geneva, Switzerland*

On March 3, 2011, we acquired, through our jointly owned subsidiary, an office building complex in Geneva, Switzerland known as Centre des Technologies Nouvelles (CTN). The acquisition was undertaken by OPCTN S.A. ("OPCTN"), a Luxembourg company owned 51% by Optibase and 49% by The Phoenix Insurance Company Ltd and The Phoenix Comprehensive Pension (collectively, "The Phoenix"). OPCTN undertook the transaction by acquiring all of the shares of the Property owner Eldista GmbH, a Swiss Company ("Eldista"). The seller, Apollo CTN, S.a.r.l, is an entity majority owned by Area Property Partners.

Centre des Technologies Nouvelles (CTN) is a six-building complex located in the Plan-Les-Ouates business park in the outskirts of Geneva. The complex includes approximately 35,000 square meters of leasable space (approximately 377,000 square feet), is currently leased to 47 tenants, primarily in the field of advanced industries including biotech electronic and information technology industries, and is currently 96% occupied. Six of the Geneva tenants occupy approximately 23,700 square meters or 68% of the total leasable space and represent approximately 75% of the total rental income while the sole largest tenant occupies over 8,000 square meters representing approximately 24% of the rentable space and approximately 28% of the rental income. Expiration dates of the 6 tenants range from October 2011 and through March 2020, with notice periods ranging from one to twelve months and some leases with no break options at all. If such lease agreements are terminated, there is no assurance that we will be able to attract new lessees in favorable terms or at all.

The transaction was based on a value of CHF 126.5 million (approximately \$136.6 million as of the purchase date) including existing nonrecourse mortgage financing in the principal amount of CHF 85.3 million (approximately \$92.4 million as of the purchase date) provided by Credit Suisse. The purchase price for the Eldista shares was CHF 37.9 million (approximately \$40.9 million as of the purchase date) subject to a post-closing price adjustment to reflect Eldista's assets and liabilities as of the week of the closing date.

In connection with the transaction, Optibase and The Phoenix entered into an agreement regarding their shareholdings in OPCTN. The agreement provides that Optibase will make day-to-day decisions and provide The Phoenix with customary protective rights.

Following the transaction, Eldista will enter into a Consultancy Agreement with Swiss Pro Capital ("SPC"), a Cypriot company which had introduced Optibase and The Phoenix to the Property. Under the Consultancy Agreement, SPC will provide consultancy services to Eldista regarding the administration and supervision of the Property and its management. SPC will receive a monthly fee for its services and will also be entitled to a bonus based on future performance above a certain return on the investment.

For further information, see Item 10.C. "Material Contracts".

*Marquis Residences in Miami, Florida*

On December 30, 2010, our wholly-owned subsidiary, Optibase Real Estate Miami LLC, had acquired 21 luxury condominium units in the Marquis Residences in Miami, Florida. The condominium units were sold by Leviev Boymelgreen Marquis Developers, L.L.C., a Florida limited liability company.

The Marquis Residences is a 67-story tower with 292 luxury residential units ranging from 1,477 to 4,200 square feet, a hotel offering seventy suites, a spa and fitness center. To date, the units have not yet been completed and are unoccupied.

In consideration for the 21 condominium units, we paid a net purchase price of approximately \$8.6 million.

We intend to hold the units for investment purposes and will consider renting or selling the units in accordance with our business considerations and market conditions. For further information, see Item 10.C. "Material Contracts".

*Rümlang, Switzerland*

On October 29, 2009, our wholly-owned subsidiary, Optibase RE 1 s.a.r.l. 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 office building in Rümlang is currently leased to 7 tenants, and is currently 97.5% occupied. Three of the Rümlang tenants occupy approximately 9,700 square meters or 78% of the total leasable space and represent approximately 80% of the total rental income while the sole largest tenant occupies over 4,000 square meters representing approximately 34% of the rentable space and approximately 37% of the rental income. Expiration dates of the 3 tenants range from October 2011 and through June 2015, with notice periods ranging from three to six months and one lease with no break options at all.

The purchase price for the transaction was approximately CHF 23.5 million of which CHF 18.8 million (approximately \$22.8 million and \$18.1 million respectively, as of the purchase date) was financed by a local Swiss bank pursuant to a mortgage agreement.

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%) of the shares of Optibase RE 1 s.a.r.l, 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 and on July 2, 2010, Mazal filed a notice with the court to appeal the dismissal of Mazal's claim for specific performance. In January 2011, Mazal agreed to a full and final settlement of the lawsuit and appeal it had filed against SL Green Realty Corp. and certain of its subsidiaries in connection with the Purchase Agreement for interests in 485 Lexington Avenue, New York, NY.

Pursuant to the Settlement and Release Agreement, entered into by Mazal and SL Green, Mazal agreed to withdraw its appeal of the dismissal of Mazal's claim and to withdraw with prejudice the remaining causes of action under the lawsuit from the Supreme Court of New York. In addition, Mazal and SL Green agreed to a full waiver and release of any claims they may have against each other in connection with the litigation. For further information see Item 8.A "Financial Information – Legal Proceedings".

### **Competition**

The 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 most of our real estate is leased under long term agreements, we believe that we have limited exposure to the effects of the slowdown in the real estate market.

### **Video Solutions Business**

Until closing of the Vitec Transaction, we provided high quality equipment for a wide range of professional video applications in the broadband IPTV, broadcast, government, enterprise and post-production markets. Until closing of the Vitec Transaction, we developed and marketed two product lines: Video Technologies and IPTV. Our products were generally manufactured by the same subcontractors by the use of similar raw materials purchased from the same suppliers. We used to 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.

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 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".

The following is a description of our business prior to the closing of the Vitec Transaction:

### **Products**

#### *Video Technologies*

The Video Technologies product line included extension cards for personal computers and work stations that perform encoding of video, decoding of video, and the interconnecting of video devices using the DVB (Digital Video Broadcasting) network interface. In addition, this product line includes network devices, called Media Gateways for streaming video over computer networks and video ingest solutions.

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

#### *IPTV*

The IPTV product line consisted of the MGW5100, the MGW1100, the MGW HD, the MGW FlashStreamer and EZ TV, which are video streaming devices, high quality encoders and management applications.



The primary market of the IPTV product line consisted of telephone service operators and internet service providers worldwide who are offering broadband and telephone services over their access networks.

The IPTV product line also addresses the requirements of large Enterprises, Governments and the Military to deliver training material, corporate messages and to distribute surveillance feeds.

### ***Sales and Marketing***

Until the sale of our Video Solutions Business we sold our Video Technologies products through the combined efforts of our direct internal sales force and through indirect channels, including independent distributors, system integrators and resellers. Our marketing strategy for IPTV products included 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 used varied according to geographic region.

Our Video Technologies sales efforts in North America, Central America and South America were managed by Optibase, Inc., our wholly owned subsidiary, which was headquartered in Mountain View, California.

Outside of North America, the majority of sales were handled via a network of distributors and resellers that managed both small and large accounts.

Distributor and direct account relationships outside of North America were 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 brought with it many advantages related to culture and language. Our former office in Beijing, China directed our sales efforts in China and Hong Kong. In India, our products were sold through our former local sales office. Sales to Asia Pacific or APAC were managed directly from our headquarters in Israel.

### ***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.

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 servers with no keyboard, monitor or mouse that can be controlled remotely using a Web application. These products were called MediaGateways (or "MGW"s).

From 2000 and onwards we developed and marketed a family of MediaGateways designed to deliver video over the IP access networks of telephone companies and internet service providers. An access network is the part of the network which connects subscribers to the service provider. For these products we developed a variety of advanced technologies.

We implemented video encoding technologies in both the Video Technologies and IPTV product families. The video encoding technology is largely based on MPEG standards. Recently we developed standard definition and high definition video encoding capabilities that conform to the H.264 standard.

We implemented transcoding technologies and DVB streaming technologies in our IPTV products to enable them to adapt video feeds that originate from satellite and other sources to have the characteristics required for delivery over IP access networks. We acquired much of the DVB related expertise with our acquisition of Viewgraphics Inc. in December 2000

For our MediaGateways products we have developed management software using two technologies. For the Enterprise products we have developed Web applications. These applications run in a Web browser. For our IPTV products we have developed Java applications that use the Simple Network Management Protocol (SNMP). In addition to provisioning and status monitoring, the SNMP applications implement configurable fail-over mechanisms between devices to reduce service down-time to a minimum.

Such fail-over capabilities are mandatory for products sold to telephone companies. For these customers we developed additional carrier grade technologies such as service redundancy, high scalability and the assurance of no single point of failure.

For the EZ TV we also developed Enterprise related technologies such as the ability to manage video streaming inside a Web browser and the implementation of user management using Active Directory.

#### ***Research and Development***

Prior to the sale of our Video Technologies Business to Vitec, we devoted significant human and financial resources to research and development as a result of our belief that our innovative and versatile technology was 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 was essential to our future success.

Since the beginning of 2009 and until the sale of our Video Solutions Business in July 2010, we redirected our efforts towards the enterprise, government and military markets, focusing our R&D efforts on EZ TV.

As part of the process of product development, we worked closely with current and potential customers, dealers, distributors and leading companies in relevant industries to identify market needs and define appropriate product specifications.

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.

Through December 31, 2010, we received grants from the OCS aggregating \$8.6 million for certain of our research and development projects. As of December 31, 2010, accrued and paid royalties to the OCS totaled \$4.3 million.

In addition, 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 obligation to pay royalties to the OCS. We previously participated in two consortia under the MAGNET program, MOST and STRIMM and prior to the sale of our Video Technologies Business to Vitec, we participated 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, 2010, we recorded grants from the MAGNET framework for participation and research in the MOST, STRIMM, NEGEV and Net-HD consortiums, aggregating \$6.9 million.

In connection with the sale of our Video Solutions Business to Vitec, we transferred all rights related to the support of the OCS for the period ending on the date of the closing of the Vitec Transaction to Vitec.

We were 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. In that respect, the funding we received from the European Union in several of such joint projects is currently under review the European Union. To date, the review process was only partially concluded and at this time, we believe that we have sufficient provisions to cover the outcome of such review process. In connection with the sale of our Video Solutions Business to Vitec, we transferred all rights related to our involvement in joint research projects with the European Union for the period ending on the date of the closing of the Vitec Transaction to Vitec. Under the Vitec Transaction, Vitec undertook to deposit in escrow a sum of \$100,000 per each of the three such projects which were to be transferred to Vitec. To date, we have yet to receive the remaining \$200,000 still in escrow and have consequently filed a motion in the Tel-Aviv District Court against the escrow agent. For additional information see Item 8. "Financial Information - Legal Proceedings".

#### ***Service and Support***

Prior to the sale of our Video Technologies Business, we provided a high level of customer service and support as was essential to our success. Our technical support personnel provided worldwide services through each of our main offices in Israel, United States, China and India. In the United States, we provided 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 provided the first-line of support in their respective territories, while in Israel, we provided a second-line of support to those customers. We also provided 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.

In connection with the sale of our Video Business to Vitec, Vitec took over the responsibility for service, maintenance and support to our clients. For additional information, see Item 10.C "Material Contracts".

#### ***Manufacturing and Sources of Supply***

Our manufacturing facilities were located in Herzliya, Israel, performed procurement of components, final assembly, testing and quality control of our products. We out-sourced assembly of hardware modules to multiple manufacturers in Israel who worked in accordance with our designs and specifications. This outsourcing strategy has improved product quality and our gross margins. Quality control of our products was 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 monitored printed circuit performance by way of statistical survey and a reporting system that tracks boards from initial inspection to shipment.

Although we generally did 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.

#### ***Intellectual Property***

Our Video Technologies Business' success and ability to compete were dependent, in part, upon our proprietary technology. Before the closing of the Vitec Transaction we relied on patent, trade secret, trademark, copyright law, and confidential agreements to protect our intellectual property.

Upon closing of the Vitec Transaction, all of our intellectual property related to the Video Technologies Business was transferred to Vitec. For further details see Item 10.C "Material Contracts".

#### *Effect of Government Regulation on our Video Technologies Business*

Regulation of our business by the Israeli government affected our business in several ways. We benefited 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 limited us from manufacturing products or transferring technologies developed using these grants outside of Israel without special approvals, which may or may not be granted.

In connection with the sale of our Video Solutions Business to Vitec, we transferred all rights related to the support of the OCS for the period ending on the date of the closing of the Vitec Transaction to Vitec. 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.

#### **4.C. ORGANIZATIONAL STRUCTURE**

The Company has two wholly-owned direct subsidiaries: Optibase Inc. which was incorporated in California, the United States in 1991 and Optibase Real Estate Europe SARL ("Optibase SARL") which was incorporated in Luxembourg in October 2009. In addition, the Company also holds a 51% interest in OPCTN S.A., which was incorporated in Luxembourg on February 24, 2011. Prior to the closing of the Vitec Transaction, our sales activities of the Video Solutions Business in the US operated directly and through Optibase Inc., which managed our North American sales, marketing and customer support activities and the sales activities in Europe (including Israel) were conducted through sales managers. Our real estate activity is managed through several subsidiaries held directly and indirectly by Optibase Ltd. or its abovementioned subsidiaries.

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 2.18% of Mobixel'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 15,350 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. Following the sale of our Video Solutions Business to Vitec, we are subleasing approximately 12,650 square feet to Optibase Technologies Ltd. a fully owned subsidiary of Vitec. The sublease can be canceled at any time with no notice.

Until July 2, 2010, Optibase, Inc. occupied approximately 3,517 square feet in Mountain View, California where Optibase Inc. maintained its headquarters. Following the sale of our Video Solutions Business to Vitec, Optibase Inc. sublet the entire premises to Stradis Inc. a fully owned subsidiary of Vitec. Stradis Inc. vacated the premises on October 31, 2010 in violation of the terms of the sublease as a result of which Optibase Inc. terminated the lease prior to the end of its term.

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 4E. 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

Our principal field of business is the investment in real-estate properties.

Until closing of the Vitec Transaction, the Company also engaged, directly and indirectly, in Digital Video and Streaming Based Products and Services or the Video Technologies Business (collectively, "Video Solutions Business"), including 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.

Below is a description of our principal field of activity

##### *Real Estate*

On May 11, 2009, our board of directors resolved to expand and diversify 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.

Since then, we have entered into four transactions, the first - the acquisition of a stake in an office building located at 485 Lexington Avenue in Manhattan, New York for which was terminated, the second - the acquisition of a commercial building located in Rümlang, Switzerland, the third - the acquisition of apartments in a residential property located in Miami, Florida and the fourth - the acquisition of a stake in a Swiss company holding a commercial property in Geneva, Switzerland. For further information see Item 4.B "Business Overview".

Our consolidated financial statements are presented in accordance with generally accepted accounting principles in the U.S., or U.S. GAAP.

The functional currency of the Company is the U.S Dollar.

The functional currencies of the Company subsidiaries are CHF and U.S dollar. The Company has elected to use U.S dollar as its reporting currency for all years presented.

Since the Company's financial statements are reported in Nasdaq in USD, 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 the 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.

As of December 31, 2010, we had available cash, cash equivalents, long term investments and other financial investments net of approximately \$30.3 million. As of April 11, 2011, we have available cash, cash equivalents, long term investments and other financial investments net of approximately \$8.5 million. For information regarding the investment of our available cash, see "Item 5.B. Liquidity and Capital Resources" below.

#### *Revenues and Sales*

Our fixed income real estate revenues remained stable at \$1.65 million in 2010 compared to \$272,000 in 2009 (revenues in 2009 are for a period of two months activity which represents approximately \$1.63 million annualized). 2009 was the first year we have record revenues from our real estate activity which began in November 2009.

Our level of net income fluctuated in recent years from a net loss of \$9.5 million in 2008 to a net income of \$60,000 in 2009 and to a net income of \$4.5 million in 2010. The increase in our net income in 2010 is mainly attributed to the capital gain resulting from the Vitec Transaction totaling to approximately \$6.3 million. 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 as discontinued operation in 2009 as a result of the sale of our holdings in Scopus. As of December 31, 2010, we had accumulated losses of \$85.4 million.

#### *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 and to the CHF.

#### *Taxes*

As of 2010, Israeli companies are generally subject to a corporate income tax rate of 25%. The income tax rate for Israeli companies will be reduced to 24% in 2011, 23% in 2012, 22% in 2013, 21% in 2014, 20% in 2015 and 18% in 2016 and thereafter.

Taxable income of Luxemburg and Switzerland companies is subject to tax at the rate of approximately 29% and 25% respectively in 2010.

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, 2010, we had approximately \$70.4 million of net operating loss carry-forwards for Israeli tax purposes. These net operating loss carry-forwards have no expiration date. Optibase Inc. had U.S. federal net operating loss carry-forward of approximately \$ 33.1 million that can be carried forward and offset against taxable income for 20 years, no later than 2011 to 2031. 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.

#### Discontinued operations

The results of operations of Video Solutions Business which was sold pursuant to the Vitec Transaction were reported separately and retroactively as discontinued operations in the consolidated statements of income.

#### 5.A. OPERATING RESULTS

The following table sets forth, for the years ended December 31, 2008, 2009 and 2010 statements of operations data as percentages of our total revenues:

	2008	Year Ended December 31 2009	2010
Fixed income real estate	0%	100.0%	100.0%
Costs and expenses:			
Cost of real estate operations	-	4	3.6
Real estate depreciation and amortization	-	42.3	42.1
General and administrative	-	432	91
Total costs and expenses	-	478.3	136.7
Operating loss	-	(378.3)	(36.7)
Other expenses, net	-	-	(36.4)
Financial income, net	-	226.8	18.4
Loss before provision for tax	-	(151.5)	(54.7)
Provision for tax	-	-	(2.6)
Net loss from continuing operations	-	(151.5)	(57.3)
Income from Discontinued Operations	-	173.5	327.2
Net income	-	22	269.9

2009 was the first year in which we generated revenues from our real estate activity.

#### Results of Operations for the Years Ended 2010 and 2009

*Total revenues.* Our fixed income real estate revenues remained stable at \$1.65 million in 2010 compared to \$272,000 in 2009 (revenues in 2009 are for a period of two months activity which represents approximately \$1.63 million annualized). 2009 was the first year we have record revenues from our real estate activity which began in November 2009.

*Cost of real estate operations.* 2009 was the first year in which we incurred 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. Our cost of real estate operation remained stable at \$59,000 compared to \$11,000 in 2009 (cost of real estate operations in 2009 are for a period of two months activity which represents approximately \$66,000 annualized).

*Real estate depreciation and amortization.* 2009 was the first year we incurred 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. Our real estate depreciation and amortization remained stable at \$695,000 compared to \$115,000 in 2009 (real estate depreciation and amortization in 2009 are for a period of two months activity represents approximately \$690,000 annualized).

*General and Administrative Expenses.* General and administrative expenses increase to \$1.5 million in 2010 from \$1.2 million in 2009. The increase in dollar amount can be mainly attributed to general and administrative expenses related to the real estate operation which in 2009 was operational only since November 2009.

*Operating Loss.* As a result of the foregoing, we recorded operating loss of \$606,000 in 2010 compared with an operating loss of \$1 million in 2009. The decrease in the operational loss can be primarily attributed to the overall increase in our revenues.

*Other Loss.* We recorded \$600,000 other loss in 2010 compared with no other income, net, in 2009. The other loss related to the impairment of the Company as investment in Mobixell.

*Financial Income, Net.* We recorded financial income, net of \$304,000 in 2010, compared with financial income, net of \$617,000 in 2009. The change can be mainly attributed to a loan interest payments as well as foreign currency translation differences.

*Taxes on income.* 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. We recorded tax expenses of \$43,000 related to our Luxemburg subsidiary.

*Net Loss from Continuing Operations.* We recorded net loss of \$945,000 in 2010, compared with a net loss of \$412,000 in 2009. The increase in our net loss from continuing operations can be mainly attributed to the increase in other loss of \$600,000 in 2010.

*Discontinued Operation.* We present the results of operations of the Video Solutions Business which was sold pursuant to the Vitec Transaction as discontinued operations. We recorded net income of \$5.4 million from discontinued operation in 2010 compared with net income of \$472,000 from discontinued operation in 2009. The increase in our net operation income from discontinuing operation can be mainly attribution to the capital gain resulting from this transaction of approximately \$6.3 million recorded in 2010.

*Net Income.* We recorded net income of \$4.5 million in 2010, compared with a net income of \$60,000 in 2009. The decrease in our income can be mainly attributed to the capital gain of approximately \$6.3 million resulting from the Vitec transaction, and the increase in total revenues partially offset by the increase in other loss of \$600,000 and by the decrease in our financial income.



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

*Total revenues.* Our fixed income real estate revenues amounted to \$272,000 in 2009 (revenues in 2009 are for a period of two months activity which represents approximately \$1.63 million annualized). 2009 was the first year we have record revenues from our real estate activity which began in November 2009.

*Cost of real estate operations.* 2009 was the first year in which we incurred 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 was the first year we Incurred 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.

*General and Administrative Expenses.* General and administrative expenses decreased by approximately 12.8% to \$1.2 million in 2009 from \$1.3 million in 2008. The decrease in dollar amount can be mainly attributed to a decrease in salaries and related expenses.

*Operating Loss.* As a result of the foregoing, we recorded operating loss of \$1 million in 2009 compared with an operating loss of \$1.3 million in 2008. The decrease in our operating loss can be primarily attributed to the slight decrease in overall costs and expenses and the revenues from fixed income real estate.

*Financial Income, 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.

*Taxes on Income.* 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.

*Net Loss from Continuing Operations.* We recorded net loss of \$412,000 in 2009, compared with a net loss of \$1.1 million in 2008. The decrease in our net loss from continuing operations can be mainly attributed to the decrease in overall costs and expenses as well as revenues from fixed income real estate and to the increase in financial income, net.

*Discontinued Operation.* We present the results of operations of the Video Solutions Business which was sold pursuant to the Vitec Transaction as discontinued operations. We recorded net income of \$472,000 from discontinued operation in 2009 compared with net loss of \$8.5 million from discontinued operation in 2008. The decrease in our net operation loss from discontinuing operation can by mainly attribution to the capital gain related to the disposal of our entire holding in Scopus shares, net of equity in losses.

*Net Income (Loss).* We recorded net income of \$60,000 in 2009, compared with a net loss of \$9.5 million in 2008. The increase in our income can be mainly attributed to the capital gain related to the disposal of our entire holding in Scopus shares, net of equity in losses, and the net income from discontinued operation in 2009 compared with the net loss from discontinued operations 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:

- ❖ Fixed income real-estate;
- ❖ Long-lived assets including intangible assets;
- ❖ Investment in companies
- ❖ Accounting for stock-based compensation
- ❖ Contingencies; and
- ❖ Income Taxes.

*Fixed income real-estate*

We generate revenues from fixed income-real-estate derived from our buildings in Switzerland.

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 common area maintenance costs, or common area maintenance fees ("CAM"). Revenue from tenant reimbursements of CAM is recognized in the period that the applicable costs are incurred in accordance with the lease agreements.

*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*", 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.

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, 2009 and 2010, no impairment losses have been identified.

#### *Investment in companies*

Investments in non-marketable equity securities of companies 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 non marketable equity securities 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.

#### *Accounting for stock-based compensation*

ASC Topic 718 "Compensation – Stock Compensation" ("ASC 718"), requires companies to estimate the fair value of share-based awards on the date of grant using an option-pricing model. Share-based compensation expense recognized in the Company's consolidated statements of income for 2008, 2009 and 2010 include compensation expense for share-based awards based on the grant date fair value estimated in accordance with ASC 718.

The Company recognizes these compensation costs net of a forfeiture rate 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.

In 2010, we recognized equity-based compensation expense under ASC 718 in the amount of approximately \$167,000.

As of December 31, 2010, there was \$ 180,000 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 4 years.

#### *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*". 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 accounts for income taxes in accordance with ASC Topic 740, "Income Taxes" ("ASC 740"), which 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 amounts more likely than not to be realized.

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.

### **Recent Accounting Pronouncements**

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 statements.

### **Conditions in Israel**

We are incorporated under the laws of the State of Israel, and our principal offices 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.

### *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*

Until the sale of our Video Solutions Business to Vitec on July 1, 2010, we generated most of our revenues in U.S. dollars but incurred a portion of our expenses in NIS. Since October 2009 following the acquisition of real estate properties in Switzerland and the obtaining of a loan to finance the purchase, we generate most of our revenues in CHF (Swiss Frank) but incurred a portion of our expenses in NIS and in U.S. dollars. As a result, we are exposed to currency fluctuation of the U.S. dollars and the CHF against the NIS, and to the CHF corresponding interest rate.

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 adversely affected in the future if inflation in Israel exceeds the fluctuation of NIS against the U.S. dollars and against the CHF or if the timing of such fluctuation lags behind increases in inflation in Israel.

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. These measures, however, may not adequately protect us from material adverse effects due to the impact of inflation in Israel.

As of April 11, 2011, the inflation rate in Israel has increased at a rate of 0.5%, the NIS had devaluated against the dollar by approximately 3% and devaluated against the CHF by approximately 0.1%. The inflation rate in Israel was approximately 3.8% in 2008, approximately 3.9% in 2009 and approximately 2.7% in 2010. At the same time the appreciation of the NIS against the dollar was approximately 1.1% in 2008, approximately 0.7% in 2009, and approximately 6% in 2010 and the devaluation of the NIS against the CHF was approximately 2.9% in 2009 and 3.3% in 2010. As a result of this differential, we experienced an increase in the dollar costs of operations in Israel in each of the years 2008, 2009 and 2010, 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 and against the CHF or if the timing of such devaluation lags behind increases in inflation in Israel.

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

We have funded our operations primarily through private and public sales of our equity securities, banks credit, and until closing of the Vitec Transaction we also received research and development grants from, among others, the Commission of the European Union and the OCS. As of December 31, 2010, we had cash and cash equivalents of \$30.3 million. Our operating activities used cash of \$183,000, \$2.9 million and \$3.3 million in 2010, 2009 and 2008 respectively. Cash used by operating activities in 2008 was primarily the result of our net loss for the period, as adjusted for discontinued operations, compensation related to the grant of option and unvested shares, and the net change in our working capital partially offset by the realized gain on the sale of our available-for-sales marketable. Cash used by operating activities in 2009 was primarily the result of our net income for the period, as adjusted for discontinued operations, compensation related to the grant of option and unvested shares, increase in accrued expenses and other accounts payable, partially offset by a decrease in other accounts receivable and prepaid expenses. Cash used by operating activities in 2010 was primarily the result of our net income for the period, as adjusted for discontinued operations including capital gain resulting from completion of the Vitec Transactions, transaction compensation related to the grant of option and unvested shares, depreciation and amortization, impairment of an investment in Mobixell partially offset by the decrease in accrued expenses and other accounts payables.

Net cash provided from investing activities in 2010 reflects primarily the proceeds from Vitec Transaction totaling \$6.8 million, proceeds from short term deposit repayment totaling \$3.8 million primarily offset by investment in real estate totaling \$8.8 million. In 2009 investment activities reflects primarily the proceeds from sale of Scopus totaling \$28.7 reported as investing activities from discontinued operation primarily offset by our investment in real estate and other assets totaling \$22.3 million and \$659,000 respectively. Net cash provided from investing activities in 2008 reflects primarily proceeds from redemption of available-for-sale marketable securities totaling \$8.5 million.

Net cash provided from financial activities in 2010 was primarily the result of repayment of a long term loan . Net cash provided from financial activities in 2009 was primarily the result of a long term loan totaling \$18.4 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) Wylter, 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. As of December 31, 2010, we have an authorized credit line in the amount of \$70,000 (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.

As of December 31, 2010, our available cash including cash and cash equivalent was \$30.3 million. As of April 11, 2011, we have available cash, and cash equivalents of approximately \$8.5 million. The decrease is mainly attributed to the consideration of \$20.1 million paid with respect to the acquisition of an office building complex in Geneva, Switzerland.

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 than 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 2010, we invested solely in interest bearing bank deposits and money market funds with various banks.

Following the approval of our audit committee and board of directors, the Company and Mr. Wyler, the Chief Executive Officer and President of the Company, who is also considered the controlling shareholder of the Company, have agreed to conduct a private placement of 2,500,000 newly issued ordinary shares of the Company, representing 13.11% of the Company's voting rights, to Mr. Wyler, in consideration for \$5 million to be paid to the Company by Mr. Wyler. Following such private placement Mr. Wyler is expected to hold approximately 51.28% of the voting rights in the Company. Such private placement is subject to the approval of our shareholders which is due on May 5, 2011.

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**

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

#### **5.D. TREND INFORMATION**

Starting in 2008 the global economic downturn caused a slowdown in the real estate market. In the later part of 2008 and through 2010, banks have lowered interest rates but at the same time were reluctant to provide financing or perform refinancing of existing debt. Although interest rates have increased during 2011, banks are still reluctant to provide financing or perform refinancing of existing debt.

Our financial income is 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.

Since the quarter ended June 30, 2004 and except for several non-continuous quarters during 2009 and 2010, we operated at a loss. If global economic conditions worsen resulting in increased vacancy in our real estate property, we may not be able to return to profitability in 2011.

#### **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, 2010:

Contractual Obligations	Total	Payments Due by Period (USD in thousands)			
		Less than 1 year	1- 3 years	4-5 years	After 5 years
Long-Term Debt	19,589	400	1,200	800	17,189
Capital Lease Obligations	--	--	--	--	--
Operating Leases	408	408	--	--	--
Purchase Obligations	--	--	--	--	--
Severance pay	--	--	--	--	--
Other Long-Term Obligations	--	--	--	--	--
<b>Total Contractual Cash Obligations</b>	<b>19,997</b>	<b>808</b>	<b>1,200</b>	<b>800</b>	<b>17,189</b>

Other Commercial Commitments	Total	Amount of Commitment Expiration Per Period (USD in thousands)			
		Less than 1 year	1- 3 years	4-5 years	After 5 years
Lines of Credit	70	--	70	--	--
Standby Letters of Credit	--	--	--	--	--
Guarantees	124	--	124	--	--
Standby Repurchase Obligations	--	--	--	--	--
Other Commercial Commitments	--	--	--	--	--
<b>Total Commercial Commitments</b>	<b>194</b>	<b>--</b>	<b>194</b>	<b>--</b>	<b>--</b>

## 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	58	Executive Chairman of the Board of Directors
Shlomo (Tom) Wyler <sup>(1)</sup>	59	President and Chief Executive Officer
Amir Philips	43	Chief Financial Officer
Dana Tamir-Tavor <sup>(2)</sup>	61	Director
Orli Garti Seroussi <sup>(1)(2)(3) (4)</sup>	50	Director
Danny Lustiger <sup>(2)</sup>	43	Director
Chaim Labenski <sup>(2)(3)(4)</sup>	63	Director

- On December 20, 2010 Itzhak Wulkan's term as external director of the Company ended.
- Dana Tamir-Tavor has notified the Company of her resignation from her position as director of the Company effective April 18, 2011.
- On January 31, 2011, Orli Garti Seroussi was appointed external director of the Company for an additional 3 year term.
- On December 29, 2010, Chaim Labenski was appointed external director of the Company for a 3 year term and in February, 2011 Chaim Labenski was appointed member of the audit committee and compensation committee.
- Following the signing of the asset purchase agreement between the Company, Optibase Inc. and Vitec on March 16, 2010, the Company terminated the employment of Yaron Comarov, Michael Chorpash, Ehud Ardel, Nir Shalev and Yaron Yunger, subject to the remainder of their early notice period. For further information, see Item 10.C "Material Contracts".

- (1) Member of the investment committee  
(2) Member of the audit committee  
(3) Member of the compensation committee  
(4) External Director



**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 an MBA from the Kellogg-Recanati School of Business and a B.B. degree in Accounting and Business Management from the Israeli College of Management.

**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 Converse after having served as the co-manager of the Indian offshore operation for Converse. 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. 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 & Associates, 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.

**Danny Lustiger** joined our board of directors in October 2009. 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.

**Chaim Labenski** joined our board of directors in December 2010. From 1977 to 1999, Mr. Labenski held a number of positions at Securities Division of Bank Hapoalim BM, including being First Vice President and Head of Foreign Securities and was involved in consulting, securities research, trading and I.P.O coordination with global investment houses. Since 1999 he acts as a private investor. Mr. Labenski holds a B.Sc degree in Civil Engineering from Astor University, U.K, a M.Sc degree in Engineering Management from Leeds University and D.B.A degree in Business Administration from Manchester Business School.

## **6.B. COMPENSATION**

The aggregate remuneration we paid to all persons as a group (13 persons) who served in the capacity of director or executive officer in the year ended December 31, 2010, including compensation to directors and officers whose employment was terminated during 2010, was \$1.1 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, 2010, 7 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 200,000 ordinary shares which have not vested on December 31, 2010 or within 60 days thereafter. The exercise price of the options was between \$1.192 and \$2, 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 April 11, 2011, our directors and executive officers beneficially owned 7,644,414 shares (of which 307,844 shares are issuable upon exercise of options that are currently vested or will vest within 60 days as of April 11, 2011).

### *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**

The description of the provisions of the Companies Law and the arrangements thereunder, throughout this annual report on Form 20-F, assumes that Amendment 16 has already come into effect. See "Amendment no. 16 to the Companies Law".

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. Dana Tamir-Tavor has notified the Company of her resignation from her position as director of the Company effective April 18, 2011. 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 2010 the appointment of Mr. Chaim Labenski and the reappointment of Ms. Ori Garti-Seroussi as our external directors as of December 29, 2010 and as of January 31, 2011, 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.

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 he or she is a relative of any of the controlling shareholders or 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 or entities which he or she are subject to their control, have or had any affiliation with us, with our controlling shareholder, or its relative 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.

Furthermore, under Israeli law, a person may not serve as an external director if he or she, or his or her relatives, partners, employers or a person or entity he or she is subordinate to directly or indirectly, or an entity controlled by the external director has business or professional relations (excluding insignificant relations) with a person or entity whose affiliation with such external director is forbidden.

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 (who are not a controlling shareholder or its relative) 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 the majority of the shares of non-controlling shareholders or with no personal interest excluding a personal interest not resulting from relation with controlling shareholders, voted at the meeting; or
- (ii) the total number of shares to total amount of shareholders listed in subsection (i) above, who voted against the election of the external director does not exceed two percent (2%) 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 two additional three-year terms subject to provision specified in the Companies Law. 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 and that the period which that person served as an external director together with the reasons for the extension given by the audit committee presented to the shareholders prior to such approval. 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. Chaim Labenski and Ms. Orli Garti Seroussi.

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

Our board of directors has a majority of independent directors required pursuant to the NASDAQ Global Market rules.

#### **Independent Directors**

Under the Companies Law, the majority of the members of the audit committee must be independent directors. A public company may classify a director as independent only if (i) the audit committee has determined that he or she is qualified to serve as an external director (with the exception that such director does not have to have professional qualifications or accounting and financial expertise in order to serve as an independent director), and (ii) he or she is not serving as a director in the company for more than consecutive nine years (only a period of two or more years, in which such person did not serve as a director in the company, shall be deemed to discontinue the nine year sequence).

#### **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, among others, identifying irregularities and deficiencies 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. In addition, the majority of its members shall be independent directors in accordance with the requirements of The Companies Law. However, the chairman of the board of directors, any director employed by the company or by its controlling shareholder or by any other entity controlled by such controlling shareholder or a director providing, on a regular basis, services to the company, to any controlling shareholder or to other entity controlled by such controlling shareholder, or any director whose livelihood relies on any controlling shareholder, may not be a member of the audit committee, or any controlling shareholder and any relative of a controlling shareholder may also not be a member of the audit committee. The chairman of the audit committee must be an external director, who has not been serving as a chairman of the audit committee for more than nine years.

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. The audit committee must also determine whether a transaction constitute an extraordinary transaction. 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.

Subject to the exceptions specified in the Companies Law, any person who is not eligible to serve in the audit committee shall not participate in its meetings.

Legal quorum shall be constituted when the majority members of the audit committee shall be present at the meeting, provided that: (a) the majority of the present members are independent directors; and, (b) at least one of the present members is an external director.

Under The Companies Law there are restrictions regarding engagement or benefits with a person who served as an external director (or his or her relative) for period of two years commencing the time when such external director leaves office.

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. Orli 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. Chaim Labenski , Ms. Dana Tamir –Tavor, Mr. Danny Lustiger and Ms. Orli 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. Chaim Labenski , 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 April 11, 2011, we had 6 employees, including employees in our subsidiaries. The following is a comparison of the breakdown of our employees by division and location, for the years ended December 31, 2010, 2009 and 2008.

Division	December 31,					
	2008		2009		2010	
	US	Israel	US	Israel	Europe	Israel
Research & Development	-	39	-	29	-	-
Sales and Technical Marketing	12	19 <sup>(1)</sup>	10	16 <sup>(2)</sup>	-	-
Marketing	3	7	1	6	-	-
Operations	-	19	-	17	-	-
General and Administrative, Finance and Human Resources	3	12	2	13	1	5
Total	18	96	13	81	1	5
	<b>114</b>		<b>94</b>		<b>6</b>	

(1) This number includes 8 employees in Asia.

(2) This number includes 8 employees in Asia.

The number of employees as of December 31, 2010 had decreased significantly from December 31, 2009 and December 31, 2008. The decrease is mainly the result of the sale of our Video Solutions Business to Vitec in July 1, 2010 and the reduction in work-force implemented across all departments in the Company during the quarters ended March 31, 2009 and December 31, 2008.



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 April 11, 2011, our current directors and executive officers (7 persons) beneficially owned an aggregate of 7,644,414 ordinary shares of our Company of which 307,844 shares are issuable upon exercise of options that may be exercisable within 60 days of April 11, 2011. Such number excludes 34,000 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 April 11, 2011 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 April 11, 2011, options and warrants to purchase 540,500 of our ordinary shares were outstanding, with exercise prices ranging from \$1.192 to \$6 per share. As of April 11, 2011, 540,010 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, 2009 and 2010, the number of options outstanding and reserved for issuance under our plans was 2,303,302 and 2,878,675, respectively. The following table shows the number of options outstanding and reserved for issuance under each of our incentive plans, as of April 11, 2011 or within 60 days thereafter.

Plan	Number of options outstanding	Number of options reserved for issuance
1999 Plans	488,000	2,440,715
2001 Non-statutory share option plan	52,500	440,560
<b>Total options</b>	<b>540,500</b>	<b>2,881,275</b>
Plan	Number of shares outstanding	Number of shares reserved for issuance
2006 Israeli Incentive Compensation Plan	34,000	92,450
<b>Total shares</b>	<b>34,000</b>	<b>92,450</b>

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 April 11, 2011, or within 60 days thereafter, an aggregate of 2,440,715 ordinary shares has been reserved for issuance under this plan, and 488,000 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 April 11, 2011, or within 60 days thereafter, an aggregate of 440,560 ordinary shares has been reserved for issuance under this plan, and 52,500 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 invested 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 April 11, 2011 or within 60 days thereafter, an aggregate of 92,450 ordinary shares has been reserved for issuance under the 2006 Plan, and 34,000 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 April 11, 2011 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 <sup>(1)</sup>	Percentage of Ordinary Shares Beneficially Owned
Shlomo (Tom) Wyler <sup>(2)</sup>	7,380,534	44.31
Arthur Mayer – Sommer <sup>(3)</sup>	1,200,000	7.25
Prescott Group Capital Management, L.L.C. <sup>(4)</sup>	2,006,698	12.12
Shareholding of all directors and officers as a group (7 persons) <sup>(5)</sup>	7,644,414	45.33

(1) Number of shares and percentage ownership is based on 16,556,808 ordinary shares outstanding as of April 11, 2011. Such number excludes: (i) 323,473 ordinary shares held by us or for our benefit, and (ii) 34,000 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 April 11, 2011 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 7,280,534 ordinary shares and 100,000 ordinary shares issuable upon exercise of option exercisable within 60 days of April 11, 2011 with an exercise price of \$6 per option and expiration date of December 2011 and 10,000 ordinary shares held by a trustee for the benefit of Mr. Shlomo (Tom) Wyler under our 2006 Plan. For details of an additional private placement to Mr. Wyler currently proposed to be approved by our shareholders, see "Item 7.B Related Party Agreements".

(3) To our knowledge, the information is accurate as of April 11, 2011.

(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 7,336,570 ordinary shares and 307,844 ordinary shares issuable upon exercise of options exercisable within 60 days of April 11, 2011. Excludes 34,000 ordinary shares held by a trustee for the benefit of our directors and executive officers under our 2006 Plan, which have not vested on April 11, 2011 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:

<b>Beneficial Owner –</b>	<b>Date of filing</b>	<b>No. Of Shares Beneficially Held</b>
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.

\*\* For further information regarding a private placement to Shlomo (Tom) Wyler, see "Item 7.B Related Party Agreements".

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:

<b>Beneficial Owner –</b>	<b>Date of filing</b>	<b>No. Of Shares Beneficially Held</b>
<b>Prescott Group Capital Management, L.L.C.</b>	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 April 11, 2011, there were approximately 62 registered shareholders of our ordinary shares. As of such date, 42 registered holders in the United States hold approximately 67.75% 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 (the "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 (kera 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. 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. 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. On December 29, 2010, our shareholders approved the terms of an agreement with substantially the same terms as the Employment Agreement (see below).

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 in August 2009, 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 were to include a limited guarantee and indemnity by Mr. Wyler for damage caused by exceptional events in favor of the bank servicing the loan for the property. Such events would 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. As a result of the termination of the 485 Lexington Avenue transaction, Mr. Wyler did not ultimately provide these guarantees. 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 10<sup>th</sup> 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 10<sup>th</sup> 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.

On December 29, 2010, our shareholders approved the grant by the company of 12,000 restricted shares of the Company, in three equal consecutive annual grants, to each of Mr. Alex Hilman, Ms. Dana Tamir-Tavor and Mr. Danny Lustiger, directors of the company, under the Company's 2006 Israeli Incentive Compensation Plan. The Restricted Shares shall be granted to the Recipients for no consideration. And shall vest after a two-year period (50% each year) from their Date of Grant, subject to the continued employment or service of the Recipients in the Company. Our shareholders have further approved on December 29, 2010 the compensation terms of Ms. Garti-Seroussi and Mr. Labenski as external directors of the Company, including the grant by the company of 12,000 restricted shares of the Company, in three equal consecutive annual grants, under the Company's 2006 Israeli Incentive Compensation Plan. The Restricted Shares shall be granted for no consideration and shall vest after a two-year period (50% each year) from their Date of Grant, subject to the continued employment or service in the Company. The compensation of Ms. Garti-Seroussi and Mr. Labenski for their service as external directors of the Company shall be an annual amount of US \$18,000, plus reimbursement of expenses, as approved by the Company's shareholders on December 5, 2002.

Following the approval of our audit committee and board of directors, the Company and Mr. Wyler, the Chief Executive Officer and President of the Company, who is also considered the controlling shareholder of the Company, have agreed to conduct a private placement of 2,500,000 newly issued ordinary shares of the Company, representing 13.11% of the Company's voting rights, to Mr. Wyler, in consideration for \$5 million to be paid to the Company by Mr. Wyler. Following such private placement Mr. Wyler is expected to hold approximately 51.28% of the voting rights in the Company. Such private placement is subject to the approval of our shareholders which is due on May 5, 2011.

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

##### *Vsoft*

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 \$2.1 million 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.

##### *485 Lexington, NY*

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. The lawsuit alleged that SL Green breached material terms of the Purchase Agreement and breached its covenant of good faith and fair dealing toward Mazal 485 LLC when it unlawfully notified Mazal of the termination of the Purchase Agreement. The lawsuit sought 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 specific performance was granted. On July 2, 2010, Mazal filed an appeal of the dismissal of Mazal's claim for specific performance. In January 2011, Mazal and the seller agreed to a full and final settlement of the lawsuit and entered into a full Settlement and Release Agreement.

Pursuant to the Settlement and Release Agreement, entered into by Mazal and SL Green, Mazal agreed to withdraw its appeal of the dismissal of Mazal's claim and to withdraw with prejudice the remaining causes of action under the lawsuit from the Supreme Court of New York. In addition, Mazal and SL Green agreed to a full waiver and release of any claims they may have against each other in connection with the litigation. For further information see Item 10.C "Material Contracts".

##### *Vitec*

On March 16, 2010, the Company and its subsidiary, Optibase Inc., entered into an asset purchase agreement (the "Agreement") with Optibase Technologies Ltd. and Stradis Inc., wholly owned subsidiaries of S.A. Vitec (also known as Vitec Multimedia) (S.A. Vitec, Optibase Technologies Ltd. and Stradis Inc., collectively "Vitec") pursuant to which Optibase Technologies Ltd. and Stradis Inc. will purchase all of the assets and liabilities related to the Company's Video Solutions Business (the "Business") against an aggregate consideration of \$8 million in cash, subject to certain adjustments and 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 the Company. Closing of the transaction occurred on July 1, 2010. Additionally, the Agreement contained an arbitration clause, stipulating that disputes under the Agreement will be resolved by arbitration.

Under the Agreement it was agreed that Vitec would collect from customers the payments still owed to the Company, pay amounts due to vendors and also collect other amounts due from the OCS and EC and at the closing, the Company would provide Vitec with an estimate of the net amount owed to it. The overall consideration would then be adjusted accordingly. At the closing, the parties were unable to come to an agreement as to the adjustment amount and on June 30, 2010, a side letter was signed pursuant to which the Company would provide a calculation of the adjustment amount within five days and Vitec would deposit in escrow an amount equal to the adjustment amount, to be released over a period of 12 months as Vitec collects amounts owed to the Company from customers.

However, the parties have been unable to come to an agreement as to the adjustment amount and Vitec has refrained from depositing any amount in escrow.

Under these circumstances, some customers of the Business continued sending payments addressed to the Company. Additionally, the Company informed the customers (that had an open balance at closing) that despite the existence of the Agreement, Vitec has not fulfilled their obligations and therefore the Company would collect the payment owed to it.

At this point, Vitec claimed that the fact that the Company contacted these customers and the fact that the Company continues to hold the above payments, causes damage to Vitec. Vitec's claim is that the Company currently holds approximately \$1.3 million that belongs to them.

The Company claims that Vitec holds approximately \$1 million which belong to it, and it is now holding on to the payments sent by customers as a security against the money owed to it. Additionally, the Company claims that it was within its rights in contacting the customers, as Vitec did not fulfill its obligation.

In addition, a dispute arose between the Company and Vitec with respect to the classification of previously paid sums by the Company's clients for service and maintenance to be provided by Vitec following the closing of the transaction. Such sums amount to \$1.1 million at closing and are currently estimated at \$923,000.

In that respect, since October 17, 2010, both parties have filed several and separate motions with the Tel-Aviv District Court, seeking, *inter alia*, fixed and temporary injunctions.

On April 4, 2011, following a Motion to Dismiss filed by Vitec, the court decided to dismiss the Company's claims due to the existence of an arbitration clause and has ordered that the proceedings

Additionally, on April 6, 2011, based on a request to dismiss filed by Vitec that same day, the court decided to dismiss Vitec's claim. Both the claim filed by Vitec and the claim filed by the Company will now be transferred to arbitration proceedings, which have yet to commence.

#### *Vitec Consortiums*

In addition, as part of the Agreement above, on June 30, 2010 the Company, Vitec and Adv. Afik as trustee (the "Trustee") entered into the Consortium Escrow Agreement (the "Consortium Agreement"). Under the Consortium Agreement, \$100,000 were to be held in escrow per each EC Consortium Agreement to be transferred from the Company to Vitec under the Agreement. Once such consortium agreement was transferred to Vitec, the Trustee was to transfer \$100,000 per consortium agreement to the Company.

On December 7, 2010, Vitec gave notice to the Company that one such agreement was transferred to the Company and on December 16, 2010 \$100,000 were transferred to the Company.

On February 9, 2011, an employee of Vitec notified the Company that according to the EC website the final two consortium agreements transferred to Vitec. Despite this the Trustee has refrained from transferring the remaining funds to the Company.



The Trustee has submitted a motion with the Tel-Aviv District Court requesting instructions from the court as what to do with the abovementioned escrow funds, which the Company has requested to dismiss due to lack of authority to file such a motion. Additionally, the Company has filed a claim with the Tel-Aviv District Court requesting that it order the Trustee to transfer the escrow funds to the Company. Vitec and the Trustee have filed a motion to dismiss this claim with the court.

As all the proceedings mentioned above are in their preliminary stages, we cannot assess their chances at this point in time. 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 2, 2011, we acquired, through our jointly owned subsidiary, an office building complex in Geneva, Switzerland known as Centre des Technologies Nouvelles (CTN). The acquisition was undertaken by OPCTN, a Luxembourg company owned 51% by Optibase and 49% by The Phoenix. OPCTN undertook the transaction by acquiring all of the ownership interest in the Property owner Eldista. The seller, Apollo CTN, S.a.r.l, is an entity majority owned by Area Property Partners. The transaction was based on a value of CHF 126.5 million (approximately \$136.5 million as of the purchase date) including existing nonrecourse mortgage financing in the principal amount of CHF 85.3 million (approximately \$92.4 million as of the purchase date) provided by Credit Suisse. The purchase price for the Eldista shares was CHF 37.9 million (approximately \$40.9 million as of the purchase date) subject to a post-closing price adjustment to reflect Eldista's assets and liabilities as of the closing date. In connection with the transaction, Optibase and The Phoenix entered into an agreement regarding their shareholdings in OPCTN. The agreement provides that Optibase will make day-to-day decisions and provides The Phoenix with customary protective rights. Following the transaction, Eldista will enter into a Consultancy Agreement with SPC, a Cypriot company which had introduced Optibase and The Phoenix to the Property. Under the Consultancy Agreement, SPC will provide consultancy services to Eldista regarding the administration and supervision of the Property and its management. SPC will receive a monthly fee for its services and will also be entitled to a bonus based on future performance above a certain return on the investment. For further information, see Item 10.C. "Material Contracts".

For details of an additional private placement to Mr. Wyler currently proposed to be approved by our shareholders, see "Item 7.B Related Party Agreements".

**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
<b>2006</b>		\$ 5.01	\$ 2.62
<b>2007</b>		\$ 4.52	\$ 2.52
<b>2008</b>		\$ 2.73	\$ 0.74
<b>2009</b>		\$ 1.50	\$ 0.93
<b>2010</b>		\$ 1.60	\$ 1.20
<b>2009</b>		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
<b>2010</b>		High	Low
	First Quarter	\$ 1.43	\$ 1.20
	Second Quarter	\$ 1.55	\$ 1.35
	Third Quarter	\$ 1.50	\$ 1.30
	Fourth Quarter	\$ 1.60	\$ 1.38
<b>2011</b>			
	First Quarter (until April 11, 2011)	\$ 1.75	\$ 1.42
<b>Most Recent Six Months</b>		High	Low
	September 2010	\$ 1.50	\$ 1.31
	October 2010	\$ 1.57	\$ 1.38
	November 2010	\$ 1.60	\$ 1.43
	December 2010	\$ 1.52	\$ 1.39
	January 2011	\$ 1.64	\$ 1.42
	February 2011	\$ 1.75	\$ 1.56
	March 2011	\$ 1.74	\$ 1.63
	April 2011 (until April 11, 2011)	\$ 1.74	\$ 1.68

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 April 11, 2011, the reported closing sale price of our ordinary shares on The NASDAQ Global Market, was \$1.68 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.

Under Israeli law each director must act with an independent and sole discretion. Director who does not act this way is in breach of his fiduciary duties.

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 April 11, 2011. 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 (who are not external 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 (who are not external 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, 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 directors or 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 determination whether such transaction is considered extraordinary or not is required to be made by audit committee.

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 a majority 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 two percent (2%) 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. Such an extraordinary transaction which shall last for a period exceeding 3 years shall be approved again by such company's audit committee, board of directors and general meeting of shareholders by the special majority described above once in every three years.

The Companies Law further provides that the engagement terms of a controlling shareholder or its relative (including by an entity controlled by such controlling shareholder or its relative) 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. Such an engagement which shall last for a period exceeding 3 years shall be approved again by such company's audit committee, board of directors and general meeting by the special majority described above once in every three years. However, an engagement described in the beginning of this paragraph only which may be approved for a period exceeding 3 years, provided that the audit committee approved the engagement term to be reasonable under the circumstances.

The Companies Law prohibits any person 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' (or the audit committee – as the case may be) has a personal interest in the matter. In case the majority has a personal interest in such matter then such matter must also be approved by the company's shareholders. An officer who has a personal interest may be present for the presentation of the transaction if the chairman of the audit committee or the chairman of the board of directors as the case may be, determined that such officer's presence is required for the presentation of the said transaction.

#### **Anti-Takeover Provisions; Mergers and Acquisitions**

*Special Tender Offer.* The Companies Law provides that an acquisition of shares of an Israeli public company must be made by means of a special tender offer if, as a result of the acquisition, the purchaser would become a holder of at least 25% of the voting rights in the company. This rule does not apply if there is already another holder of at least 25% of the voting rights in the company. Similarly, the Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if, as a result of the acquisition, the purchaser would become a holder of more than 45% of the voting rights in the company and no other shareholder of the company holds more than 45% of the voting rights in the company. These requirements do not apply if the acquisition (i) occurs in the context of a private placement by the company that received shareholder approval, (ii) was from a shareholder holding at least 25% of the voting rights in the company and resulted in the acquirer becoming a holder of at least 25% of the voting rights in the company, or (iii) was from a holder of more than 45% of the voting rights in the company and resulted in the acquirer becoming a holder of more than 45% of the voting rights in the company. The special tender offer may be consummated only if (a) at least 5% of the voting power attached to the company's outstanding shares will be acquired by the offeror and (b) the number of shares tendered in the offer exceeds the number of shares whose holders objected to the offer.

In the event that a special tender offer is made, a company's board of directors is required to express its opinion on the advisability of the offer or shall abstain from expressing any opinion if it is unable to do so, provided that it gives the reasons for its abstention. An office holder in a target company who, in his or her capacity as an office holder, performs an action the purpose of which is to cause the failure of an existing or foreseeable special tender offer or is to impair the chances of its acceptance, is liable to the potential purchaser and shareholders for damages, unless such office holder acted in good faith and had reasonable grounds to believe he or she was acting for the benefit of the company. However, office holders of the target company may negotiate with the potential purchaser in order to improve the terms of the special tender offer, and may further negotiate with third parties in order to obtain a competing offer.

A special tender offer may not be consummated unless a majority of the shareholders who announced their stand on such offer have accepted it (in counting the total votes of such shareholders, shares held by the controlling shareholder, shareholders who have personal interest in the offer, or shareholder who own 25% or more of the voting rights in the company, shall not be taken into account). If a special tender offer was accepted by a majority of the shareholders who announced their stand on such offer, then shareholders who did not announce their stand or who had objected to the offer may accept the offer within four days of the last day set for the acceptance of the offer.

In the event that a special tender offer is accepted, the purchaser or any person or entity controlling it at the time of the offer or under common control with the purchaser or such controlling person or entity shall refrain from making a subsequent tender offer for the purchase of shares of the target company and cannot execute a merger with the target company for a period of one year from the date of the offer, unless the purchaser or such person or entity undertook to effect such an offer or merger in the initial special tender offer.

*Full Tender Offer.* A person wishing to acquire shares or a class of shares of an Israeli public company and who would, as a result, hold over 90% of the target company's issued and outstanding share capital or that certain class of shares is required by the Companies Law to make a tender offer to all of the company's shareholders for the purchase of all of the issued and outstanding shares of the company or class of shares. If either (i) the shareholders who do not accept the offer hold less than 5% of the issued and outstanding share capital of the company or of the applicable class, and more than half of the shareholders who do not have a personal interest in the offer accept the offer, or (ii) the shareholder who do not accept the offer hold less than 2% of the issued and outstanding share capital of the company or of the applicable class, then all of the shares that the acquirer offered to purchase will be transferred to the acquirer by operation of law. However, a shareholder that had its shares so transferred, whether it accepted the tender offer or not, may, within six months from the date of acceptance of the tender offer, petition the court to determine that tender offer was for less than fair value and that the fair value should be paid as determined by the court. If the shareholders who did not accept the tender offer hold at least 5% of the issued and outstanding share capital of the company or of the applicable class of shares, the acquirer may not acquire shares of the company that will increase its holdings to more than 90% of the company's issued and outstanding share capital or of the applicable class from shareholders who accepted the tender offer.

*Merger.* The Companies Law permits merger transactions if approved by each party's board of directors and, unless certain requirements described under the Companies Law are met, a majority of each party's shares voted on the proposed merger at a shareholders' meeting called with at least 35 days' prior notice.

For purposes of the shareholder vote, unless a court rules otherwise, the merger will not be deemed approved if a majority of the shares represented at the shareholders meeting that are held by parties other than the other party to the merger, or by any person who holds 25% or more of the outstanding shares or the right to appoint 25% or more of the directors of the other party, vote against the merger. If the transaction would have been approved but for the separate approval of each class or the exclusion of the votes of certain shareholders as provided above, a court may still approve the merger upon the request of holders of at least 25% of the voting rights of a company if the court holds that the merger is fair and reasonable, taking into account the value of the parties to the merger and the consideration offered to the shareholders.

Upon the request of a creditor of either party to the proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that, as a result of the merger, the surviving company will be unable to satisfy the obligations of any of the parties to the merger, and may further give instructions to secure the rights of creditors.

In addition, a merger may not be completed unless at least 50 days have passed from the date that a proposal for approval of the merger was filed by each party with the Israeli Registrar of Companies and 30 days have passed from the date the merger was approved by the shareholders of each of the merging companies.

*Anti-Takeover Measures Under Israeli Law.* The Companies Law allows us to create and issue shares having rights different from those attached to our ordinary shares, including shares providing certain preferred rights, distributions or other matters and shares having preemptive rights. As of the date of this annual report, we do not have any authorized or issued shares other than our ordinary shares. In the future, if we do create and issue a class of shares other than ordinary shares, such class of shares, depending on the specific rights that may be attached to them, may delay or prevent a takeover or otherwise prevent our shareholders from realizing a potential premium over the market value of their ordinary shares. The authorization of a new class of shares will require an amendment to our articles of association which requires the prior approval of the holders of a majority of our ordinary shares at a general meeting.

*Tax Law.* Israeli tax law treats some acquisitions, such as a stock-for-stock swap between an Israeli company and a foreign company, less favorably than U.S. tax law. For example, Israeli tax law may subject a shareholder who exchanges his ordinary shares for shares in a foreign corporation to immediate taxation. Please see "Item 10E. Taxation."



## 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) Wylter*

In June 2008, we issued in a private placement 2,816,901 ordinary shares of the Company to Mr. Shlomo (Tom) Wylter, 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 Gilmore USA LLC, an unrelated party ("Mazal"), entered into a Sale-Purchase Agreement with a subsidiary of SL Green Realty Corp. ("SL Green"). Under the Sale-Purchase Agreement, Mazal was to 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 \$20.1 million (which was to be contributed in equal shares by Optibase and Gilmore).

If closing had occurred, Green 485 JV LLC would have had existing debt to an affiliate of the SL Green in the amount of \$12.2 million which would have become due in 2013.

Mazal 485 LLC paid an initial deposit of \$7.5 million into escrow in order to secure the payment of the purchase price under the Sale-Purchase Agreement. This amount was later returned to Mazal 485 LLC following the termination of the Sale-Purchase Agreement.

Under the agreement, upon completion of the transaction, Mazal was to have made an approximately \$20 million 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 was also to have acquired an option to purchase such additional ownership interests exercisable until December 31, 2022, subject to certain limitations.

The transactions above were 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 million serviced by Wachovia Bank.

Subsequently, the Sale-Purchase Agreement was terminated by the seller. 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 Rümliang, 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, Rümliang, Switzerland. Under the Purchase Agreement, Optibase RE 1 undertook to pay a purchase price of CHF 23.5 million (approximately \$22.8 million as of the purchase date) 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 a 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 18.8 million (approximately \$18.1 million as of the purchase date) (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 as of the purchase date). 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 Rümlang 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. and Stradis Inc., wholly owned subsidiaries of S.A. Vitec (also known as Vitec Multimedia) (S.A. Vitec, Optibase Technologies Ltd. and Stradis Inc., collectively "Vitec"), pursuant to which Optibase Technologies Ltd. and Stradis Inc. will purchase all of the assets and liabilities related to our Video Solutions Business (the "APA" and the "Transaction", respectively). Closing of the transaction occurred on July 1, 2010. The following is a short summary of the principal provisions of the APA:

#### *Acquired Assets and Liabilities*

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

The Acquired Assets included 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 also acquired all rights to the name "Optibase" and derivatives thereof provided, however, that we are 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 was not 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 paid 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 was paid in cash upon closing and \$1 million was 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. Following the closing of the Transaction, such sums were repaid 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 than 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.

#### *Assignment Notice and Joinder Agreement*

In connection with the closing of the Vitec Transaction, on June 30, 2010 the parties to the APA and Stradis Inc. signed an Assignment Notice and Joinder Agreement pursuant to which Optibase Technologies assigned Stradis Inc, the right to purchase all of the Acquired Assets (as defined in the APA) owned by Optibase Inc. and the Assumed Liabilities (as defined in the APA) related to such Acquired Assets and Stradis Inc. was deemed a signatory and party to the APA considered the "Purchaser" together with Optibase Technologies Ltd. under the APA and all representations, warranties, covenants, rights and obligations of the Purchaser under the APA shall apply jointly and severally to both Optibase Technologies Ltd. and Stradis, *mutatis mutandis*.

#### *Side Letter*

In connection with the closing of the Vitec Transaction, on June 30, 2010 the parties to the APA signed a Side Letter pursuant to which the parties agreed upon certain arrangements including, *inter alia*, the following: (i) closing of the transaction will occur on July 1, 2010; (ii) funds relating to 3 European Union consortium agreements which will be placed in a consortium escrow account to be released to the Company upon the transfer of each such agreement; and (iii) since the Company and Vitec could not reach an understanding with respect to the adjustment sums payable upon closing and in order to prevent postponement of the closing date, the Side Letter stipulated that the Company would provide a calculation of the adjustment amount within five days of the closing and Vitec would deposit in escrow an amount equal to the adjustment amount, to be released over a period of 12 months as Vitec collects amounts owed to the Company from customers.

To date, the Company and Vitec have been unable to come to an agreement as to the adjustment amount and Vitec has refrained from depositing any amount in escrow, despite the fact that Vitec has already collected payments owed to the Company from customers and mistakenly received money that belongs to the Company. For further information regarding the legal dispute between the Company and Vitec, including, *inter alia*, the disputes regarding such consortium escrow account and consideration adjustment escrow account, see Item 8. "Financial Information - Legal Proceedings".

#### *Marquis Residences in Miami Florida*

On December 30, 2010, our wholly-owned subsidiary, Optibase Real Estate Miami LLC, entered into an Agreement for Sale with Leviev Boymelgreen Marquis Developers LLC and acquired 21 new luxury condominium units in the Marquis Residences in Miami, Florida. The condominium units were sold by Leviev Boymelgreen Marquis Developers, L.L.C., a Florida limited liability company.

The Marquis Residences is a 67-story tower with 292 luxury residential units ranging from 1,477 to 4,200 square feet, a hotel offering seventy suites, and a spa and fitness center.

Optibase paid a net purchase price of approximately \$8.6 million for the 21 condominium units.

#### *Office Complex in Geneva, Switzerland*

On March 3, 2011 we acquired, through our subsidiary, an office building complex in Geneva, Switzerland known as Centre des Technologies Nouvelles (CTN) (the "Property"). The acquisition was undertaken by OPCTN S.A. ("OPCTN"), a Luxembourg company owned 51% by Optibase and 49% by The Phoenix Insurance Company Ltd and The Phoenix Comprehensive Pension (collectively, "The Phoenix"). OPCTN undertook the transaction by acquiring all of the ownership interest in the Property owner Eldista GmbH, a Swiss Company ("Eldista"). The seller, Apollo CTN. S.a.r.l. ("Apollo") is an entity majority owned by Area Property Partners.

Centre des Technologies Nouvelles (CTN) is a six-building complex located in the Plan-Les-Ouates business park in the outskirts of Geneva. The complex includes approximately 35,000 square meter (approximately 377,000 square feet) of primarily space and is a center for advanced industries including biotech electronic and information technology industries.

The transaction was based on a value of CHF 126.5 million (approximately \$136.5 million as of the purchase date) including existing nonrecourse mortgage financing in the principal amount of CHF 85.3 million (approximately \$92.4 million as of the purchase date) provided by Credit Suisse. The purchase price for the Eldista shares was CHF 37.9 million (approximately \$40.9 million as of the purchase date) subject to a post-closing price adjustment to reflect Eldista's assets and liabilities as of the closing date.

OPCTN and Apollo entered into a Share Purchase Agreement which included customary representations, and warranties as well as limited indemnities from Apollo regarding Eldista and the Property. The Seller's obligations under the SPA are guaranteed by Apollo Real Estate Fund II LP and Apollo European Real Estate Fund II (Euro) LP.

#### ***Shareholders Agreement with the Phoenix***

In connection with the purchase of the office complex in Geneva, Switzerland, we and The Phoenix entered into a Shareholders Agreement regarding our joint shareholdings in OPCTN. The Shareholders Agreement provides that Optibase will manage the day-to-day operations of OPCTN and Eldista but that certain actions of OPCTN and Eldista are subject to the joint approval of and the Phoenix. These actions include amendments to organizational documents, changes to business activity, financing arrangements, related party agreements, lease agreements exceeding twenty five percent of the leasable area of the Property, and requesting investments from shareholders in excess of CHF 1 million in a given year and CHF 2.5 million in aggregate.

The Shareholders Agreement also provides that Optibase and Phoenix will fund operating expenses and necessary capital expenditures for the Property that are not adequately funded by operating income, up to an amount of CHF 2 million per event or CHF 5 million per event if the capital expenditures are recommended by a third-party building engineering company. If we or The Phoenix do not provide our respective share of these expenses, the Shareholders Agreement provides that the OPCTN shareholdings (and shareholders loans) of the non-funding shareholder ownership will be diluted.

The Shareholders Agreement prohibits us and the The Phoenix from transferring shares in OPCTN until March 2012 and provides that any transfer of shares thereafter (other than to a related party) is subject to the reasonable approval of Optibase and The Phoenix. In addition the Shareholders Agreement includes right of first offer, tag along and drag along rights in favor of both Optibase and Phoenix. The agreement provides that Optibase will make day-to-day decisions and provides The Phoenix with customary protective rights.

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

Following the approval of our audit committee and board of directors, the Company and Mr. Wyler, the Chief Executive Officer and President of the Company, who is also considered the controlling shareholder of the Company, have agreed to conduct a private placement of 2,500,000 newly issued ordinary shares of the Company, representing 13.11% of the Company's voting rights, to Mr. Wyler, in consideration for \$5 million to be paid to the Company by Mr. Wyler. Following such private placement Mr. Wyler is expected to hold approximately 51.28% of the voting rights in the Company. Such private placement is subject to the approval of our shareholders which is due on May 5, 2011.

#### **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 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%.

###### *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.

### **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.

**Other Income Tax**

Taxable income of Luxembourg and Switzerland companies is subject to tax at the rate of approximately 29% and 25% respectively in 2010.

**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](http://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 CHF but a portion of our expenses is incurred in NIS and in U.S. dollars. Therefore, our results of operations may be seriously harmed by inflation in Israel and currency fluctuations.

The inflation rate in Israel was approximately 3.8% in 2008, approximately 3.9% in 2009 and approximately 2.7% in 2010. The appreciation of the NIS against the dollar was approximately 1.1% in 2008, 0.7% in 2009 and 6% in 2010 and the devaluation of the NIS against the CHF was approximately 2.9% in 2009 and 3.3% in 2010.

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 NIS against the U.S. dollar and against the CHF. These measures, however, may not adequately protect us from material adverse effects due to the impact of inflation in Israel.

The functional currency of the Company is the U.S Dollar.

The functional currencies of Optibase's subsidiaries are CHF and U.S dollar. The Company has elected to use U.S dollar as its reporting currency for all years presented.

Since the Company's financial statements are reported in Nasdaq in USD, 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 the 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, 2010, our available net cash was \$30.3 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, 2010, 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, 2010. 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, 2010 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, 2010.

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. Orli Garti-Seroussi 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, 2010, 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 2010 and 2009 (in thousands):

	<u>2009</u>	<u>2010</u>
Audit fees <sup>(1)</sup>	95	95
Audit-related fees <sup>(2)</sup>		--
Tax fees <sup>(3)</sup>		--
All other fees <sup>(4)</sup>	--	25
<b>Total</b>	<b>95</b>	<b>120</b>

- (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 2009 and 2010, 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 16.F. CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT**

None.

**ITEM 16.G. CORPORATE GOVERNANCE**

There are no 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 2010, are filed as part of this annual report:

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**ITEM 19. EXHIBITS**

See Exhibit Index.

OPTIBASE LTD. AND ITS SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2010  
U.S. DOLLARS IN THOUSANDS  
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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, 2009 and 2010, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We 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 provide a reasonable basis for our opinion.

In our opinion, 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, 2009 and 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with U.S. generally accounting principles.

Tel-Aviv, Israel  
April 17, 2011

/s/ Kost, Forer Gabbay & Kasierer  
KOST FORER GABBAY & KASIERER  
A Member of Ernst & Young Global

## CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31,	
	2009	2010
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 28,651	\$ 30,260
Other accounts receivable and prepaid expenses (Note 5)	4,113	334
Total assets attributed to discontinued operations (Note 1c)	7,072	966
<b>Total current assets</b>	<b>39,836</b>	<b>31,560</b>
<b>LONG-TERM INVESTMENTS:</b>		
Long-term deposits (Note 9)	100	157
Investments in companies (Note 6)	700	100
<b>Total long-term investments</b>	<b>800</b>	<b>257</b>
<b>PROPERTY, EQUIPMENT AND OTHER ASSETS, NET</b>		
Equipment, net	-	4
Real Estate Property, net (Note 3)	22,080	32,353
Other assets, net (Note 4)	634	552
<b>Total property, equipment and other assets</b>	<b>22,714</b>	<b>32,909</b>
<b>Total assets</b>	<b>\$ 63,350</b>	<b>\$ 64,726</b>

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,	
	2009	2010
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current maturities of long term loan (Note 8)	\$ 365	\$ 400
Trade payables	29	31
Other accounts payable and accrued expenses (Note 7)	1,908	1,708
Total liabilities attributed to discontinued operations (Note 1c)	7,913	3,006
<b>Total current liabilities</b>	<b>10,215</b>	<b>5,145</b>
<b>COMMITMENTS AND CONTINGENT LIABILITIES (Note 9)</b>		
<b>LONG TERM LOAN, NET OF CURRENT MATURITIES (Note 8)</b>	<b>17,897</b>	<b>19,189</b>
<b>SHAREHOLDERS' EQUITY (Note 11):</b>		
Share capital -		
Ordinary Shares of NIS 0.13 par value -		
Authorized: 30,000,000 shares at December 31, 2009 and 2010; Issued: 16,914,281		
shares at December 31, 2009 and 2010; Outstanding: 16,536,708 and 16,556,808 shares		
at December 31, 2009 and 2010, respectively	650	650
Additional paid-in capital	125,649	125,728
Treasury shares (377,573 and 357,473 shares at December 31, 2009 and 2010, respectively)	(1,208)	(1,074)
Accumulated other comprehensive income (loss)	(54)	479
Accumulated deficit	(89,799)	(85,391)
<b>Total shareholders' equity</b>	<b>35,238</b>	<b>40,392</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 63,350</b>	<b>\$ 64,726</b>

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

April 17, 2011  
Date of approval of the  
financial statements

/s/ Tom Wyler  
Tom Wyler  
President and Chief Executive Officer.

/s/ Amir Philips  
Amir Philips  
Chief Financial Officer

## CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Year ended December 31,		
	2008	2009	2010
Fixed income real estate rent	\$ -	\$ 272	\$ 1,650
Costs and expenses:			
Cost of real estate operations	-	11	59
Real estate depreciation and amortization	-	115	695
General and administrative	1,347	1,175	1,502
<u>Total costs and expenses</u>	<u>1,347</u>	<u>1,301</u>	<u>2,256</u>
Operating loss	(1,347)	(1,029)	(606)
Other loss (Note 6)	-	-	(600)
Financial income, net (Note 12)	270	617	304
Loss before taxes on income	(1,077)	(412)	(902)
Taxes on income (Note 10)	-	-	(43)
Net loss from continuing operations	(1,077)	(412)	(945)
Net income (loss) from discontinued operations (Note 1c)	(8,468)	472	5,399
Net income (loss)	<u>\$ (9,545)</u>	<u>\$ 60</u>	<u>\$ 4,454</u>
Net earnings (loss) per share:			
Basic and diluted net loss per share from continuing operations	<u>\$ (0.07)</u>	<u>\$ (0.02)</u>	<u>\$ (0.06)</u>
Basic and diluted net earnings (loss) per share from discontinued operations	<u>\$ (0.56)</u>	<u>\$ 0.03</u>	<u>\$ 0.33</u>
Basic and diluted net earnings (loss) per share	<u>\$ (0.63)</u>	<u>\$ 0.00</u>	<u>\$ 0.27</u>
Weighted average number of shares used in computing basic and diluted net earnings (loss) per share:			
Basic and Diluted	<u>15,158,580</u>	<u>16,533,586</u>	<u>16,554,870</u>

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 income (loss)	Total shareholders' equity
Balance as of January 1, 2008	\$ 541	\$ 120,165	\$ (1,778)	\$ 266	\$ (80,030)		\$ 39,164
Issuance of ordinary shares in a private placement (see Note 11a)	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 shares	-	(222)	472	-	(250)		-
Other comprehensive loss:							
Unrealized loss 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 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
Stock-based compensation related to options and unvested shares granted to employees	-	167	-	-	-		167
Issuance of treasury shares upon vesting of shares	-	(88)	134	-	(46)		-
Other comprehensive loss:							
Foreign currency translation adjustment	-	-	-	533	-	\$ 533	533
Net income	-	-	-	-	4,454	4,454	4,454
Total comprehensive income						\$ 4,987	
Balance as of December 31, 2010	\$ 650	\$ 125,728	\$ (1,074)	\$ 479	\$ (85,391)		\$ 40,392

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,		
	2008	2009	2010
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$ (9,545)	\$ 60	\$ 4,454
Loss (income) from discontinued operations	8,468	(472)	(5,399)
Loss from continued operation	(1,077)	(412)	(945)
Adjustments required to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	-	115	696
Impairment of an investment in company	-	-	600
Realized gain on sale of available-for-sale marketable securities	(274)	-	-
Stock-based compensation related to options and unvested shares granted to employees	658	221	167
Decrease (increase) in other accounts receivable and prepaid expenses	199	(218)	29
Increase in trade payables	-	29	2
Increase (decrease) in accrued expenses and other accounts payable	314	757	(164)
Net cash provided by (used in) from continuing operations	(180)	492	385
Net cash used in discontinued operations	(3,107)	(3,349)	(202)
Net cash provided by (used in) operating activities	(3,287)	(2,857)	183
<b>Cash flows from investing activities:</b>			
Purchase of equipment	-	-	(5)
Proceeds from (investment in) short-term deposit	-	(3,750)	3,750
Proceeds from redemption of available-for-sale marketable securities	8,482	-	-
Proceeds from (investment in) long-term lease deposits	(13)	11	(57)
Investment in real estate property	-	(22,282)	(8,786)
Investment in other assets	-	(659)	-
Sale of the Video activity	-	-	6,800
Net cash provided by (used in) investing activities from continuing operations	8,469	(26,680)	1,702
Net cash provided by (used in) investing activities from discontinued operations	(8,709)	28,481	-
Net cash provided by (used in) investing activities	(240)	1,801	1,702
<b>Cash flows from financing activities:</b>			
Issuance of ordinary shares in a private placement	5,000	-	-
Proceeds from (repayment of) bank loan	-	18,353	(406)
Short-term bank credit	(634)	-	-
Net cash provided by (used in) financing activities from continuing operations	4,366	18,353	(406)
Exchange differences on balances of cash and cash equivalents	-	(32)	130
Increase in cash and cash equivalents	839	17,265	1,609
Cash and cash equivalents at the beginning of the year	10,547	11,386	28,651
Cash and cash equivalents at the end of the year	\$ 11,386	\$ 28,651	\$ 30,260
<b>Supplemental disclosure of cash flow activities:</b>			
<b>Cash paid during the year for:</b>			
Taxes	\$ 26	\$ 88	\$ -
Interest	\$ 49	\$ 26	\$ 207

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



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 1:- GENERAL

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

During 2009 the Company had entered into the fixed-income real estate sector after an acquisition of commercial building as more described in paragraph b below.

Until the sale of its video solutions business to VITEC Multimedia ("Vitec") in July 2010 (See 1c below), the Company and its U.S subsidiary, Optibase Inc, provided 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 (collectively: the Video activity). Following the sale of the Video activity, the Company's only operation is the fixed-income real-estate.

As of December 31, 2010, the Company has three active wholly-owned subsidiaries: Optibase Inc. in the United States which was incorporated in 1991 ("Optibase Inc") Optibase Real Estate Miami LLC in the United States which was incorporated in 2010 ("Optibase Miami") and Optibase Real Estate Europe SARL ("Optibase SARL") in Luxembourg which was incorporated in October 2009 (collectively: "the Group").

- b. Acquisition of Real Estate:

2009 Acquisition:

1. Rümlang, Switzerland

On October 29, 2009, the Company through its subsidiary in Luxemburg, Optibase SARL, acquired a commercial building located in Switzerland. The five-story building includes 12,500 square meters of rentable space with offices, laboratory and retail uses. The purchase price for the transaction was approximately CHF 23,500 of which CHF 18,800 (approximately \$ 22,800 and \$ 18,100 respectively, as of the purchase date) was financed through a long-term loan from a Swiss bank (see details in Note 8).

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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 1:- GENERAL (Cont.)

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 (See also Note 4).

The total purchase price was allocated as follows:

Cash paid	\$ 22,828
Land	\$ 2,818
Building	19,354
Intangible assets-Lease contracts	656
Total purchase price	\$ 22,828

On March 1, 2010 Optibase SARL entered into an Option Agreement with a Cypriot company, Chessell Holdings Limited, with respect to the commercial building acquired by the Company, 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 Optibase SARL in consideration of initial price of CHF 315 (approximately \$335) that shall be paid upon exercise (the "initial price"). In addition to the initial price, upon exercise of the option, Chessell Holdings will pay 20% of the investment amount (as defined in the Option Agreement). 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. The Company estimated the fair value of option granted in accordance with ASC 718 using the Binominal model. The option was accounted for as a liability and as of December 31, 2010 the option's value was \$21.

2010 Acquisition:2. Marquis Residence in Miami, Florida

On December 30, 2010, the Company's wholly-owned subsidiary, Optibase Miami, had acquired 21 condominium units in the Marquis Residence in Miami, Florida, in consideration of approximately \$8,632 in cash. The acquisition of the above units was accounted for as acquisition of an asset. The Company intends to hold the units for investment purposes and will consider renting or selling the units in accordance with its business considerations and market conditions.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 1:- GENERAL (Cont.)

## c. Sale of the Video activity (Discontinued operations):

On March 16, 2010, the Company and its subsidiary, Optibase Inc., entered into an asset purchase agreement (the "Agreement") with Optibase Technologies Ltd. and Stradis Inc., wholly owned subsidiaries of S.A. Vitec (also known as Vitec Multimedia) (S.A. Vitec, Optibase Technologies Ltd. and Stradis Inc., collectively "Vitec") pursuant to which Vitec will purchase all of the assets and liabilities related to the Company's Video Solutions Business (the "Video activity") against an aggregate consideration of \$8,000, subject to certain adjustments and an earn-out mechanism pursuant to which 45% of Vitec's revenues deriving from the Video activity exceeding \$14,000 in the year following the closing of the transaction, will be paid to the Company. Closing of the transaction occurred on July 1, 2010. Additionally, the Agreement contained an arbitration clause, stipulating that disputes under the Agreement will be resolved by arbitration.

Under the Agreement, the Company and Vitec agreed on an adjustment mechanism to the initial consideration, upon which, Vitec shall add or subtract to the consideration an amount equal to accounts receivable, net plus other receivables and prepaid expenses minus accounts payable and other payables, all as of the Closing date. Based on the Company's calculation Vitec should add an amount of \$1,200 in accordance with the adjustment mechanism.

As of December 31, 2010, the parties have not been able to reach an agreement as to adjustment amount and Vitec has refrained from depositing any amount in escrow. This led to a dispute between the parties. (See details in Note 9e.1).

The Company recorded a capital gain of approximately \$6,300 resulting from this Sale of the Video activity.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 1:- GENERAL (Cont.)

The results of operations for Video activity for the years ended December 31, 2008, 2009 and 2010, which were reported separately and retroactively as discontinued operations in the consolidated statements of operations, are summarized as follows:

	Year ended December 31,		
	2008	2009	2010
Revenues	\$ 19,901	\$ 13,149	\$ 4,457
Operating income	\$ 10,147	\$ 6,612	\$ 2,874
Costs and expenses	\$ 16,923	\$ 10,914	\$ 3,779
Other Income (loss)	\$ (1,692)	\$ 4,774	\$ 6,304
Net income (loss) from discontinued operations	\$ (8,468)	\$ 472	\$ 5,399
Basic and Diluted net earnings (loss) per share from discontinued operations	\$ (0.56)	\$ 0.03	\$ 0.33

The assets and liabilities of the Video activity for the years ended December 31, 2009 and 2010, which relates to the discontinued operations and presented in the consolidated balance sheets, are summarized as follows:

	December 31,	
	2009	2010
<b>Assets:</b>		
Trade receivables	\$ 2,338	\$ -
Other accounts receivable	378	966
Inventories	2,356	-
Long term assets	1,364	-
Property and equipment, net	636	-
<b>Total assets</b>	<b>\$ 7,072</b>	<b>\$ 966</b>
<b>Liabilities:</b>		
Trade payables	\$ 1,113	\$ -
Other accounts payable and accrued expenses	4,362	3,006
Deferred Revenues	707	-
Accrued Severance pay	1,731	-
<b>Total liabilities</b>	<b>\$ 7,913</b>	<b>\$ 3,006</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

## 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:

The functional currency of the Company is the U.S Dollar.

The functional currencies of Optibase's subsidiaries are CHF and U.S dollar. The Company has elected to use U.S dollar as its reporting currency for all years presented.

Since the Company's financial statements are reported in Nasdaq in USD, 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 the 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.

## 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 at the date acquired.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

## e. Property and equipment:

Property and equipment are stated at cost net of accumulated depreciation. Costs include those related to acquisition, including tenant improvements.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, as follows:

	<u>Years</u>
Building and buildings' improvements	35
Tenant improvements	Minimum lease term or economic useful life
Computers and equipment	3

## f. 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*", 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.

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, 2009 and 2010, no impairment losses have been identified.

## g. Investments in companies:

Investments in non-marketable equity securities of companies 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

Management evaluates investments in non marketable equity securities 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 during 2010 see Note 6a.

## h. Revenue recognition:

The Company generates revenues from fixed income-real-estate derived from its building in Switzerland.

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 common area maintenance costs, or common area maintenance fees ("CAM"). Revenue from tenant reimbursements of CAM is recognized in the period that the applicable costs are incurred in accordance with the lease agreements.

## i. Contingencies:

The company periodically estimates the impact of various conditions, situations and/or circumstances involving uncertain outcomes to its financial condition and operating results. The Company accounts for contingent events as required by ASC 450 "*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 the Company's assumptions, the actual outcome of such proceedings or as a result of the effectiveness of the Company strategies related to these proceedings.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

## j. Income taxes:

The Company and its subsidiaries account for income taxes in accordance with ASC Topic 740, "Income Taxes" ("ASC 740"), which 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 amounts more likely than not to be realized.

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.

## k. 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 and long-term lease deposits.

Cash and cash equivalents are invested in U.S. dollar deposits with major banks in Israel, the United States and Switzerland. Cash and cash equivalents 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.

## l. Earnings (loss) 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". 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.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

- m. Accounting for stock-based compensation:

ASC Topic 718 "*Compensation – Stock Compensation*" ("ASC 718"), requires companies to estimate the fair value of share-based awards on the date of grant using an option-pricing model. Share-based compensation expense recognized in the Company's consolidated statements of operations for 2008, 2009 and 2010 include compensation expense for share-based awards based on the grant date fair value estimated in accordance with ASC 718.

The Company recognizes these compensation costs net of a forfeiture rate 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.

The fair value was estimated at the date of grant using the following weighted average assumptions for the Black-Scholes model:

	December 31,		
	2008	2009	2010
Dividend yield	0%	0%	0%
Volatility	58%	60%	61%
Risk free interest	3% - 4.6%	2.36% - 3.69%	1.8% - 2.22%
Expected term (years)	4.6	4.75	4.75

The stock-based compensation expenses for the years ended December 31, 2008, 2009 and 2010 were \$ 658, \$ 221 and \$ 167, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

## n. Treasury Shares:

During the 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. From time to time the Company reissues treasury shares under the stock purchase plan, upon exercise of option and upon vesting of restricted stock units. When treasury stock is reissued, the Company accounts for the re-issuance in accordance with ASC No. 505-30, "Treasury Stock" and charges the excess of the purchase cost, including related stock-based compensation expenses, over the re-issuance price to retained earnings. The purchase cost is calculated based on the specific identification method. In case the purchase cost is lower than the re-issuance price, the Company credits the difference to additional paid-in capital.

## o. Fair value of financial instruments:

The carrying amounts of the Company's financial instruments, including cash and cash equivalents, other 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 "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 and warrants measured at fair value under ASC 820 on a recurring basis as of December 31, 2010.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

- p. Impact of recently issued accounting standards:

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 statements.

## NOTE 3:- REAL ESTATE PROPERTY, NET

	<u>Land</u>	<u>Building</u>	<u>Condominium units</u>	<u>Currency translation adjustment</u>	<u>Total</u>
<b>Cost:</b>					
At January 1, 2009	\$ -	\$ -	\$ -	\$ -	\$ -
Additions	2,832	19,450	-	(110)	22,172
At December 31, 2009	2,832	19,450	-	(110)	22,172
Additions	-	154	8,632	2,102	10,888
At December 31, 2010	2,832	19,604	8,632	1,992	33,060
<b>Accumulated depreciation:</b>					
At January 1, 2009	-	-	-	-	-
Depreciation charge for the year	-	92	-	-	92
At December 31, 2009	-	92	-	-	92
Depreciation charge for the year	-	563	-	52	615
At December 31, 2010	-	655	-	52	707
<b>Net book value:</b>					
At December 31, 2010	\$ 2,832	\$ 18,949	\$ 8,632	\$ 1,940	\$ 32,353
At December 31, 2009	\$ 2,832	\$ 19,358	\$ -	\$ (110)	\$ 22,080

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 4- OTHER ASSETS, NET

	December 31,	
	2009	2010
Acquired intangible assets, net *)	\$ 634	\$ 552

Intangible assets consist of lease contracts with tenants deriving from the acquisition of a commercial building located in Switzerland (see details in Note 1b (1)).

\*) Amortization expenses amounted to \$ 0, \$ 22 and \$ 132 for the years ended December 31, 2008, 2009 and 2010, respectively.

Estimated amortization expenses for each of the five succeeding fiscal years are as follows:

Year	Estimated amortization expenses
2011	\$ 132
2012	\$ 132
2013	\$ 132
2014	\$ 132
2015	\$ 24

## NOTE 5- OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31,	
	2009	2010
Short-term deposit (1)	\$ 3,750	\$ -
Deferred tax asset	145	145
Prepaid expenses	-	96
Income receivable	131	20
Others	87	73
	<u>\$ 4,113</u>	<u>\$ 334</u>

(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. As of December 31, 2010, this transaction was terminated and the Company received the deposit from the third party.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 6:- INVESTMENTS IN COMPANIES

- a. During the years 2000-2004, the Company invested total amount of approximately \$2,060 in several investment rounds at Mobixell Networks Inc. (Mobixell), a privately held Company who is engaged in the design, development and marketing solutions for mobile rich media adaptation, optimization and delivery. As of December 31, 2010, the Company holds 4.05% of Mobixell's shares and 2.18% on a fully diluted basis. The Company's investment in Mobixell is presented at cost net of impairments recorded and as of December 31, 2009 and 2010 the investment amounted to \$700 and \$100, respectively, following an impairment of \$600 recorded during 2010.
- b. The Company holds approximately 32% on a fully diluted basis, of V.Box Communication Ltd. ("V. Box"), a privately held Company. As of December 31, 2007, the Company has impaired its entire investment. Optibase did not invest additional amounts thereafter.
- c. As of December 31, 2008, the Company held 5,105,223 Ordinary shares of Scopus, representing aggregate investment of approximately 37% of Scopus then issued share capital, at an aggregate purchase price of approximately \$ 28,459.

The Company accounted for the investment under the equity method of accounting in accordance with the provision of ASC 323 "Investment - Equity Method and Joint Ventures".

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.

On March 12, 2009 following the closing of the merger agreement between Scopus and Harmonic, the Company had disposed of its entire holding's in Scopus for a total consideration of approximately \$ 28,700.

## NOTE 7:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31,	
	2009	2010
Employees and payroll accruals	\$ 588	\$ 167
Accrued expenses	1,142	1,438
Other	178	103
	<u>\$ 1,908</u>	<u>\$ 1,708</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 8:- LONG TERM LOAN

- a. On October 29, 2009, Optibase SARL received a mortgage loan ("the loan") from a financial institution in Switzerland, in the amount of CHF 18,800 for the purpose of purchasing the 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 (0.8%). 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 the loan by years are as follows:

<u>Year ended December 31,</u>	
2011 (current maturity)	\$ 400
<u>Long-term portion:</u>	
2012	\$ 400
2013	400
2014	400
2015	400
2016	400
2017 and thereafter	<u>17,189</u>
	<u>\$ 19,189</u>

- b. As of December 31, 2009 and 2010, the Company and its subsidiaries had authorized lines of credit in the amount of \$ 395 and \$ 70, respectively which 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, 2009 and 2010.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 9:- 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 amounts to \$ 408.

As of December 31, 2010, the Company and its subsidiaries provided long-term deposits amounting to \$ 117 as collateral, in accordance with the lease agreements.

## b. Guarantees:

As of December 31, 2010, the Company has obtained bank guarantees in favor of a lessor in the amount of \$ 124.

## c. 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.

## d. Office of the Chief Scientist and European Commission commitments:

Until the sale of the Video activity the Company participated in programs sponsored by the Israeli Government and by the European Commission for the support of research and development activities.

The Company was 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, 2010, the Company has paid or accrued royalties to the OCS in the amount of \$ 4,308, and had an outstanding contingent obligation to pay royalties in the amount of approximately \$ 4,248 plus interest.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 9:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

In addition, the funding received by the Company from the European commission in several projects is currently under review of the European Union. To date, the review process was only partially concluded and at this time, the Company believes it has sufficient provisions to cover the outcome of such review process.

The provision for the above commitments was recorded under liabilities attributed to discontinued operations.

## e. Legal claim and contingent liabilities:

1. Under the Agreement related to the Sale of Video activity (as further described in Note 1c) it was agreed that Vitec would collect from customers the payment still owed to the Company, pay amounts due to vendors and also collect other amounts due from the OCS and EC at the closing, the Company would provide Vitec with an estimate of the net amount owed to it. The overall consideration would then be adjusted accordingly. At the closing, the parties have been unable to come to an agreement as to the adjustment amount and in order to prevent postponement of the closing date, on July 1, 2010, a side letter was signed pursuant to which the Company would provide a calculation of the adjustment amount within five days and Vitec would deposit in escrow an amount equal to the adjustment amount, to be released over a period of 12 months as Vitec collects amounts owed to the Company from customers.

However, the parties have been unable to come to an agreement as to the adjustment amount and Vitec has refrained from depositing any amount in escrow.

Vitec claimed that the fact that the Company continues to hold payments sent to it by the customers, causes damage to Vitec and that the money being held by the Company belongs to Vitec. Vitec's claim is that the Company currently holds approximately \$1,300 that belongs to them.

The Company claims that Vitec holds approximately \$1,000 which belong to the Company, and it is now holding on to the payments sent by customers as a security against the money owed to it and currently held by Vitec.

In addition, a dispute arose between the Company and Vitec with respect to the classification of previously paid sums by the Company's clients for service and maintenance to be provided by Vitec following the closing of the transaction. Such sums amount to approximately \$1,082 at closing.

In that respect, since October 17, 2010 Through April 6, 2011, both parties have filed several and separate motions with the Tel-Aviv District Court, seeking, inter alia, fixed and temporary injunctions. To date, the Tel-Aviv District Court has refused to grant temporary injunctions and a hearing regarding the fixed injunctions has yet to be held.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 9:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

On April 6, 2011, based on a request to dismiss filed by Vitec that same day, the court decided to dismiss the Vitec claim without granting expenses to either party. As a result, claims shall now be transferred to arbitration.

In addition, as part of the Agreement Company, Vitec and Adv. Afik as trustee (the "Trustee") entered into the Consortium Escrow Agreement of March 16, 2010 (the "Consortium Agreement"). Under the Consortium Agreement, \$300 of the consideration were held in escrow \$100 per each EC Consortium Agreement to be transferred from the Company to Vitec under the Agreement.

On December 7, 2010, Vitec gave notice to the Company that \$100 of the consortium agreement was transferred to the Company and accordingly, an amount of \$100 was transferred to the Company on December 16, 2010.

On February 9, 2011, an employee of Vitec notified that according to the EC website the final two consortium agreements transferred to Vitec. Despite this and despite repeated demands by the Company to the Trustee, who also serves as Vitec's attorney, to transfer the funds, the Trustee has refrained from doing so.

The Trustee has submitted a motion with the Tel-Aviv District Court requesting instructions from the court as what to do with the abovementioned escrow funds, which the Company has requested to dismiss due to lack of authority to file such a motion. Additionally, the Company has filed a claim with the Tel-Aviv District Court requesting that it orders the Trustee to transfer the escrow funds to the Company. Vitec and the Trustee have filed a motion to dismiss this claim with the court.

As all the proceedings mentioned above are in their preliminary stages, the Company cannot assess the outcome at this point in time.

2. In September 2005, the Company was served with a lawsuit filed by Vsoft Ltd., (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 a 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. 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 9:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

3. 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. The lawsuit alleged that SL Green breached material terms of the Purchase Agreement and breached its covenant of good faith and fair dealing toward Mazal 485 LLC when it unlawfully notified Mazal of the termination of the Purchase Agreement. The lawsuit sought 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 specific performance was granted. On July 2, 2010, Mazal filed an appeal of the dismissal of Mazal's claim for specific performance. In January 2011, Mazal and the seller agreed to a full and final settlement of the lawsuit and entered into a full Settlement and Release Agreement.

Pursuant to the Settlement and Release Agreement, entered into by Mazal and SL Green, Mazal agreed to withdraw its appeal of the dismissal of Mazal's claim and to withdraw with prejudice the remaining causes of action under the lawsuit from the Supreme Court of New York. In addition, Mazal and SL Green agreed to a full waiver and release of any claims they may have against each other in connection with the litigation.

4. 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 10:- 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/ U.S 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", the Company has not provided deferred income taxes on the difference between the functional currency and the tax bases of assets and liabilities.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 10:- TAXES ON INCOME

## b. Corporate tax rates:

Taxable income of Israeli companies is subject to tax at the rate of 25% in 2010, 24% in 2011, 23% in 2012, 22% in 2013, 21% in 2014, 20% in 2015, 18% in 2016 and thereafter.

Taxable income of Luxemburg and Switzerland companies is subject to tax at the rate of approximately 29% and 25% respectively in 2010.

## c. Tax assessments:

The Company has final tax assessments through the tax year 2005.

## d. 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,	
	2009	2010
Operating loss carry forward	\$ 17,969	\$ 24,627
Reserves and allowances	7,205	208
Net deferred tax asset before valuation allowance	25,174	24,835
Valuation allowance	(25,029)	(24,690)
Net deferred tax asset	\$ 145	\$ 145

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 2010, the valuation allowance was decreased by approximately \$ 339.

## e. Net operating losses carryforward:

Through December 31, 2010, Optibase Ltd. had a net operating losses carryforward for tax purposes in Israel of approximately \$ 70,369 which may be carried forward and offset against taxable income in the future, for an indefinite period.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 10:- TAXES ON INCOME (Cont.)

As of December 31, 2010, Optibase Inc. had U.S. federal net operating loss carryforward of approximately \$ 33,116 that can be carried forward and offset against taxable income for 20 years, no later than 2011 to 2031. 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.

- f. 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,		
	2008	2009	2010
Loss before taxes as reported	\$ (1,077)	\$ (412)	\$ (902)
Theoretical tax benefit computed at the statutory rate (27%, 26% and 25% for the years 2008, 2009 and 2010, respectively)	\$ (291)	\$ (107)	\$ (226)
Differences in tax rates on income deriving from foreign subsidiaries	(16)	(10)	(89)
Tax adjustments in respect of currency translation	203	341	643
Income and other items for which a valuation allowance was provided	(131)	(162)	(339)
Current adjustment of ASC 740-10	(73)	-	-
Settlement of prior years tax assessments	73	-	-
Other non-deductible expenses	235	(62)	54
Income tax expense	\$ -	\$ -	\$ 43

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 10:- TAXES ON INCOME (Cont.)

- g. Loss before taxes on income consists of the following:

	Year ended December 31,		
	2008	2009	2010
Domestic	\$ (1,593)	\$ (443)	\$ (1,343)
Foreign	516	31	441
	<u>\$ (1,077)</u>	<u>\$ (412)</u>	<u>\$ (902)</u>

- h. On January 1, 2007, the Company adopted the provisions of ASC Topic 740-10, "Income Taxes". Prior to 2007, the Company used the provisions of ASC 450 "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:

	2009	2010
Balance at the beginning of the year	\$ 145	\$ 145
Reduction related to settlements of tax matters	-	-
Additions related to tax positions taken during the year	-	-
Balance at the end of the year	<u>\$ 145</u>	<u>\$ 145</u>

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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 11:- 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 Executive Chairman of the Board of Directors, in consideration for \$ 5,000.

## 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, 2010 was 2,878,675.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 11:- SHAREHOLDERS' EQUITY (Cont.)

A summary of the Company's stock option activity, and related information, is as follows:

	Year ended December 31 2010	
	Amount	Weighted average exercise price
Outstanding at the beginning of the year	1,118,473	\$ 3.95
Granted	100,000	\$ 1.70
Forfeited	(675,373)	\$ 4.42
Outstanding at the end of the year	543,100	\$ 2.96
Exercisable options at the end of the year	343,100	\$ 3.84
Options vested and expected to vest at end of year	533,100	\$ 2.99

The weighted average fair value of options granted during the years ended December 31, 2008, 2009 and 2010 was \$0.98, \$1.308 and \$0.82, respectively.

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 2010 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2010. This amount changes based on the fair market value of the Company's stock. As of December 31, 2010, the total intrinsic value of outstanding options was \$ 25.

As of December 31, 2010, there was \$ 180 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 4 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, 2010 the pool consists of 300,000 Shares, where an aggregate of 112,450 ordinary shares has been reserved for issuance under the 2006 Plan.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 11:- SHAREHOLDERS' EQUITY (Cont.)

A summary of the status of the entity's nonvested shares as of December 31, 2010, and changes during the year ended December 31, 2010, is presented below:

Nonvested shares	Shares	Weighted average grant date fair value
Non-vested at January 1, 2010	30,000	\$ 1.39
Granted	24,000	\$ 1.33
Vested	(20,000)	\$ 1.56
Non-vested at December 31, 2010	34,000	\$ 1.27

As of December 31, 2010, there was \$ 12 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.

- d. The total equity-based compensation expense related to all of the Company's equity-based awards, recognized for the years ended December 31, 2009 and 2010, was comprised as follows:

	Year ended December 31,		
	2008	2009	2010
General and administrative from continued operations	\$ 246	\$ 79	\$ 112
Expenses recorded as discontinued operations	412	142	55
Total equity-based compensation expense	\$ 658	\$ 221	\$ 167



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 12:- SELECTED STATEMENT OF OPERATIONS DATA

- a. Financial income (expenses):

	Year ended December 31,		
	2008	2009	2010
Financial income:			
Interest	\$ 214	\$ 423	\$ 612
Foreign currency translation adjustments	-	257	-
Realized gains on sale of available-for-sale marketable securities	349	-	-
	<u>563</u>	<u>680</u>	<u>612</u>
Financial expenses:			
Interest	(79)	(63)	(207)
Foreign currency translation adjustments	(139)	-	(101)
Realized losses on sale of available-for-sale marketable securities	(75)	-	-
	<u>(293)</u>	<u>(63)</u>	<u>(308)</u>
	<u>\$ 270</u>	<u>\$ 617</u>	<u>\$ 304</u>

## NOTE 13:- SUBSEQUENT EVENT

- On March 2, 2011 the Company acquired through a newly established subsidiary an office building complex in Geneva, Switzerland known as Centre des Technologies Nouvelles (CTN) (the "Property"). The acquisition was undertaken by OPCTN S.A. ("OPCTN"), a Luxembourg company owned 51% by Optibase and 49% by The Phoenix Insurance Company Ltd and The Phoenix Comprehensive Pension (collectively, "The Phoenix"). OPCTN undertook the transaction by acquiring all of the ownership interest in the Property owner Eldista GmbH, a Swiss Company ("Eldista"). The seller, Apollo CTN. S.a.r.l. is an entity majority owned by Area Property Partners.

CTN is a six-building complex located in the Plan-Les-Ouates business park in the outskirts of Geneva. The complex includes approximately 35,000 square meter of primarily space and is a center for advanced industries including biotech electronic and information technology industries.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 13:- SUBSEQUENT EVENT (Cont.)

The transaction was based on a value of CHF 126,500 including existing nonrecourse mortgage financing in the principal amount of CHF 85,250 (approximately \$136,540 and \$ 92,387 respectively, as of the purchase date) provided by Credit Suisse. The purchase price for the Eldista shares was CHF 37,921 (plus the existing mortgage loan) out of which amount of CHF 19,340 (approximately \$40,943 and \$20,881 respectively, as of the purchase date) was paid by the company, subject to a post-closing price adjustment to reflect Eldista's assets and liabilities as of the closing date.

2. Following the approval of the Company audit committee and board of directors on March 30, 2011, it is currently proposed to approve a private placement of 2,500,000 ordinary shares of the Company to the Company's Chief Executive Officer and President, who is also considered the controlling shareholder of the Company, in consideration for \$5,000. Our shareholders are expected to vote on such proposal on May 5, 2011.

**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: April 18, 2011

OPTIBASE LTD.

By: /s/ *Shlomo (Tom) Wylor*

Name: Shlomo (Tom) Wylor

Title: President and Chief Executive Officer

## EXHIBIT INDEX

<b>Exhibit Number</b>	<b>Description of Document</b>
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 (incorporated by reference to Exhibit 4.3 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2009).
4.4	Agreement between Optibase RE 1 SARL and Zublin Immobilien AG dated October 29, 2009 (incorporated by reference to Exhibit 4.4 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2009).
4.5	Agreement between Optibase RE 1 SARL and Basler Kantonalbank dated October 28, 2009 (incorporated by reference to Exhibit 4.5 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2009).
4.6	Agreement between Optibase RE 1 SARL and Chessell Holdings Limited dated March 1, 2010 (incorporated by reference to Exhibit 4.6 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2009).
4.7	Agreement between Optibase Inc. and Optibase Technologies Ltd., a wholly owned subsidiary of S.A. Vitec dated March 16, 2010 (incorporated by reference to Exhibit 4.7 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2009).
4.8*	Agreement between Optibase Real Estate Miami LLC and Leviev Boymelgreen Marquis Developers, L.L.C. dated December 30, 2010.
4.9*	Agreement between Apollo CTN S.à.r.l. and OPCTN S.A. dated March 2, 2011.
4.10	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).
4.11	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).
4.12	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).
4.13	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).
4.14	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).
4.15	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).
4.16	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).
4.17	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).
4.18	2006 Israeli Incentive Compensation Plan (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-8 (File no. 333-137644)).
8.1*	List of the subsidiaries of the Company.
11.1*	Code of Business Conduct and Ethics.
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.

\* Filed herewith

MARQUIS, A CONDOMINIUM
AGREEMENT FOR SALE

ORAL REPRESENTATIONS CANNOT BE RELIED UPON AS CORRECTLY STATING THE REPRESENTATIONS OF THE DEVELOPER. FOR CORRECT REPRESENTATIONS, REFERENCE SHOULD BE MADE TO THIS AGREEMENT AND THE DOCUMENTS REQUIRED BY SECTION 718.503, FLORIDA STATUTES, TO BE FURNISHED BY A DEVELOPER TO A BUYER OR LESSEE.

THIS AGREEMENT is between Leviev Boymelgreen Marquis Developers, L.L.C., a Florida limited liability company, with an address at 444 Brickell Avenue, Suite 650, Miami, Florida 33131 (referred to as "Seller" or "Developer") and the party or parties indicated below (referred to as "Buyer").

BUYER(S)

- 1. Optibase Real Estate Miami LLC, a Delaware limited liability company
2.
3.
4.

Buyer Address: P.O. Box 448
City: Mountain View State: California Zip: 94042 Country: United States
Home Telephone: Fax Number:
Cellular Telephone: Social Security/Passport No.
Business Telephone: Social Security/Passport No.
E-Mail:

Date of Purchase December 30, 2010 Units Purchased: 21 Units identified on Exhibit A attached hereto.

In this Agreement the words "I", "me", "my", "mine" and "Buyer" mean Buyer listed above who has signed this Agreement. The words "you", "your", "Seller" and "Developer" mean Leviev Boymelgreen Marquis Developers, L.L.C. "We" and "our" mean all parties to this Agreement.

This Agreement contains our respective legal rights and obligations concerning the sale by Seller and purchase by Buyer of the twenty-one (21) condominium units identified on Exhibit A attached hereto (collectively, the "Units" and each individually, a "Unit"). Buyer understands that this Agreement is intended to be legally enforceable and binding upon each of us.

1. Purchase and Sale. Buyer agrees to buy and Seller agrees to sell to Buyer (on terms contained below) the Units located in the City of Miami, County of Miami-Dade, Florida in the Marquis, a Condominium ("Condominium"), created by Declaration, recorded in Official Records Book 26920 Page 3495 of the Public Records of Miami-Dade County, Florida (as amended from time to time, the "Declaration"). The Units and the Condominium are described in greater detail in the Declaration, a copy of which is included in the Prospectus and its exhibits ("Condominium Documents") that the Buyer has received, which also describes Marquis Condominium Association, Inc. ("Condominium Association"), the entity responsible for the operation of the Condominium, Marquis Master Association, Inc. ("Master Association"), the entity that may be responsible for operation of a portion of the building in which the Condominium is located ("Building"), the hotel unit owner ("Hotel Unit Owner") maintaining certain facilities in the Building and the garage and parking areas. The purchase price shall also include the use of one parking space for each Unit, which parking spaces are identified on Exhibit B attached hereto. The purchase price also includes the use of one storage locker for each Unit, which storage lockers are numbered the same as each Unit number.

The Total Purchase Price for the Units is **\$8,822,790.13**. Buyer agrees to pay the Total Purchase Price by making the following payments in U.S. funds, as follows:

Deposit received this date	<b><u>\$ 100,000.00</u></b>
Balance Due at closing of title ("Closing") subject to prorations and adjustments set forth in this Agreement.	<b><u>\$8,722,790.13</u></b>
<b>TOTAL PURCHASE PRICE</b>	<b><u>\$8,822,790.13</u></b>

In addition to the foregoing, Buyer shall be obligated to pay certain other sums described in Section 9 and elsewhere in this Agreement. Buyer understands and agrees that the Total Purchase Price of the Units is not based solely upon the size of the Units, but is also based on a number of different factors, including, without limitation, the location of the Units within the Building, the floor level of the Units within the Building, ceiling heights within the Units and/or sizes of balconies, terraces, and/or patios and/or any other special appurtenant rights attached to the Units.

**Closing Date: On or before December 31, 2010 at 11:00 a.m. (See Section 7 below)**

The Units \_\_\_\_\_/have **XX** have not been previously occupied.

(INITIAL ONLY ONE)

\_\_\_X\_\_\_ At closing, the Units shall be conveyed free and clear of all tenancies and possessory rights, and as such, Seller shall convey exclusive possession of the Units at closing; or

\_\_\_\_\_ Buyer agrees to accept title to certain Units subject to a lease (and in that regard, this Agreement is also subject to the attached Leased Units Amendment). Buyer understands and agrees that there is no assurance as to a tenant's performance under a lease or that a tenant will remain in a Unit through closing or thereafter through the balance of the term of the lease, and Buyer hereby releases Seller from any and all liability resulting from such lease(s). To the extent that this item has been initialed, Buyer understands and agrees that:

**UNIT # \_\_\_ ARE SUBJECT TO LEASES (OR SUBLEASES)**

2. **Deposits.**

(a) Deposits shall be made by wire transfer. The balance due at closing must be paid by wire transfer of U.S. funds to an account designated by Seller.

(b) Inasmuch as construction of the improvements has been substantially completed in accordance with the requirements of Section 718.202, Florida Statutes, Seller is not required to hold Buyer's deposits in escrow. Notwithstanding the foregoing, Seller has agreed that all of Buyer's deposits shall be held in escrow by Feingold Schechter P.A. (the "Escrow Agent") until such time as same are to be disbursed in accordance with the terms of this Agreement. At closing, all deposits not previously disbursed to Seller (and any interest actually earned) will be released to Seller. Interest will not be credited against the Purchase Price. If Buyer defaults after the expiration of all applicable notice, cure and grace periods, Seller is entitled to retain all deposits (and any interest actually earned on them). If Buyer properly terminates this Agreement in the manner allowed by this Agreement and/or applicable law, all deposits (and any interest actually earned on them, if any) will be returned to Buyer within three (3) business days after the effective date of Buyer's cancellation. No interest will be assumed to be earned under any circumstances if not actually earned. Buyer recognizes that if all or any portion of the deposits are retained in non-interest bearing accounts, no interest will be earned or be deemed to be earned (even if Seller indirectly benefits from any such retention). Furthermore, the Escrow Agent may select the type of account in which to invest the deposits in its sole and absolute discretion, and nothing in this Agreement shall require the Escrow Agent to place the deposits in an interest bearing account. Notwithstanding the foregoing, the deposits shall be held in a state or federal bank or savings bank, whose accounts are generally insured by the FDIC.

3. **Payment of Purchase Price.**

(a) Buyer understands and agrees that Buyer will be obligated to pay "all cash" at closing. For purposes of this Agreement, "all cash" means immediately available wired federal funds in U.S. Dollars. Buyer understands that Buyer's obligation under this Agreement to purchase the Units will not depend on whether or not Buyer qualifies for or obtains a mortgage from any lender. Buyer will be solely responsible for making Buyer's own financial arrangements. Seller agrees, however, to cooperate with any lender Buyer chooses and to coordinate closing with such lender, if, but only if, such lender meets Seller's closing schedule and pays Seller the proceeds of its mortgage at closing. Should lender not pay Seller its proceeds at closing, Buyer will not be allowed to take possession of the Units until Seller actually receives the funds and they have cleared.

(b) Although Seller has no obligation to do so, if Seller agrees to delay closing until Buyer's lender is ready, to wait for funding from Buyer's lender until after closing, or to accept a portion of the sums due at closing in the form of a personal check (none of which Seller is obligated to do), Buyer agrees to pay Seller a late funding charge computed at the then highest applicable lawful rate on all funds due Seller which have not then been paid to Seller (with regard to personal checks, which have not then cleared) from the date Seller originally scheduled closing to the date of actual payment (and, with regard to personal checks, to the date of final clearance). The foregoing sentence will survive (continue to be effective after) closing. The late funding charge may be estimated by Seller at closing and adjusted thereafter based on actual clearance dates. In the event of any delayed closing, Seller may adjust prorations as of the date the closing was originally scheduled.

4. **Seller's Financing**

Seller may borrow (or may have borrowed) money from lenders for the acquisition, development, construction, operation and/or management of the Condominium and/or Units (and any other units/parcels owned by Seller, if any). Buyer agrees that any lender advancing funds for Seller's use in connection with such acquisition, development, construction, operation and/or management will have a prior mortgage on the Units until closing. At closing, Seller shall cause the then applicable mortgages to be released as an encumbrance against the Units and may use Buyer's closing proceeds for such purpose. Buyer agrees that neither this Agreement, nor Buyer's making the Deposits will give Buyer any lien (equitable or otherwise) or claim against the Units, the Condominium or the real property upon which the Condominium has been (or will be) created. Without limiting the generality of the foregoing, Buyer's rights under this Agreement (and the deposits made hereunder) do not provide any basis for establishing a lien against the Units or the property upon which the Condominium has been constructed, and, if a contrary determination is ever made, shall in all events be subordinate to all mortgages, mezzanine and any other forms of financing (and all modifications made to those mortgages, mezzanine and any other forms of financing) affecting the Units or the Condominium (or the real property upon which the Condominium is being developed) even if those mortgages, mezzanine and any other forms of financing (or modifications) are made or recorded after the date of this Agreement. Notwithstanding anything contained herein to the contrary, by execution hereof, the Seller hereby represents and warrants that the Seller's lender has consented to the terms hereof, including, but not limited to the Purchase Price, and has agreed to release the Units from its mortgage provided Seller's lender receives all Seller's proceeds as its partial release price.

5. **Existing Improvements and Other Matters**

(a) The construction, furnishing, and landscaping of the Condominium Property is substantially complete as of the date Buyer signs this Agreement. Buyer acknowledges that Seller has requested Buyer to inspect the condition of the Units, generally, and at that time also to make Buyer's own specific determinations as to the area and dimensions of the Units and the "Limited Common Elements" (as defined in the Declaration), if any. If any previous inspection did not include an examination of such general conditions or these areas and dimensions, Buyer agrees to make such inspection and examination within fifteen (15) days following the date Buyer signs this Agreement (that is, during the period in which Buyer may cancel this Agreement for any reason at all, but any such inspection must first be coordinated with Seller). If, within this time, Buyer conducts such inspection as permitted by the foregoing sentence, and does not cancel this Agreement, or if Buyer does not make this specific inspection at all, Buyer will be deemed to have accepted the Units and the respective Limited Common Elements, if any, without reservations or claims as to their general condition, area, dimensions, ceiling heights or otherwise (subject, however, to matters set forth on the punch-list prepared during the pre-closing inspection described below).

(b) Buyer recognizes that, during construction, Seller may have modified and adjusted plans and specifications for the improvements to the Condominium to reflect ongoing, "in the field" construction needs. Buyer acknowledges and agrees that (i) the plans and specifications for the Units and the Condominium on file with the applicable governmental authorities may not be identical in detail to Seller's plans and specifications, and (ii) because of the day-to-day nature of the changes described in this Section 5, the plans and specifications on file with applicable governmental authorities may not include some or any of these changes (there being no legal requirement to file all changes with such authorities). As a result of the foregoing, Buyer and Seller both acknowledge and agree that the Units and the Condominium may not have been constructed in accordance with the plans and specifications on file with applicable governmental authorities. Without limiting the generality of Section 13(l), Seller disclaims and Buyer waives any and all express or implied warranties that construction was accomplished in compliance with any plans and specifications on file with governmental authorities. Seller has not given and Buyer has not relied on or bargained for any such warranties. In furtherance of the foregoing, in the event of any conflict between the actual construction of the Units and/or the Building, and that which is set forth on the plans, Buyer agrees that the actual construction shall prevail and to accept the Units and Building as actually constructed (in lieu of what is set forth on the plans).

(c) Buyer further recognizes and agrees that because the Improvements have been operational for some time now, they are not new. The "Common Elements" (as defined in the Declaration) should be expected to show some wear and tear. Additionally, the condition of the Common Elements is dependent upon the operation and maintenance of same by the Association.

(d) Certain items which may be included with the Units, such as tile, cabinets, wood stain, grout, wall and ceiling textures, cultured marble, mica and carpeting, are subject to size and color variations, grain and quality variations, and may vary in accordance with price, availability and changes by manufacturer from those shown in the models or in illustrations or included in Seller's plans and specifications or in the published list of standard items (if any). If circumstances arise which, in Seller's reasonable opinion, warrant changes of suppliers, manufacturers, brand names or items, Seller may substitute equipment, material, appliances, etc., with items, which, in Seller's opinion, are of equal or better quality. Buyer also understands and acknowledges that Seller has the right to substitute or change materials and/or stain colors utilized in wood decor (if any). Buyer recognizes that certain colors as shown in displays or in the models, including, but not limited to, carpeting and wood stain, will weather and fade and may not be duplicated precisely.



(e) Buyer will be given an opportunity prior to closing, on the date and at the time scheduled by Seller, to inspect the Units with Seller's representative. At that time, Buyer will sign an inspection statement listing any defects in workmanship or materials (only within the boundaries of each Unit, itself) which Buyer discovers. If any item listed is actually defective in workmanship or materials in Seller's opinion (keeping in mind the construction standards applicable in Miami-Dade County, Florida for properties of similar, type, style and age), Seller shall, subject to the other provisions hereof, be obligated to correct those defects at its cost within a reasonable period of time after closing, but Seller's obligation to correct will not be grounds for deferring the closing, nor for imposing any condition on closing. **No escrows or holdbacks of closing funds will be permitted.** If Buyer fails to take advantage of the right to a pre-closing inspection on the date and time scheduled, Seller will not be obligated to reschedule an inspection prior to closing.

(f) No personal inspections (other than the one pre-closing inspection or as expressly provided herein) will be permitted. Buyer may not commence any work on the Units until after closing.

(g) Buyer acknowledges that in designing the Condominium certain areas serve a purely functional purpose and are not intended to have a finished appearance. These areas include stairwells within the Building intended primarily for ingress and egress, and the garage and utility pipes within the Building. These areas may be left unfinished. Buyer also acknowledges and agrees that sound, vibrations and/or odor transmission in a multi-story building such as the Condominium is very difficult to control, and that noises, vibration and/or odors from adjoining or nearby improvements and/or mechanical equipment can often be detected in other units. Without limiting the generality of Section 13(1), Seller does not make any representation or warranty as to the level of sound, vibration and/or odor transmission. Buyer waives and releases any such warranty and claim for loss or damages resulting from sound, vibration and/or odor transmission. Buyer also understands and agrees that there are various methods for calculating the square footage of a Unit, and that depending on the method of calculation, the quoted square footage of each Unit may vary by more than a nominal amount. Actual square footage of a Unit may also be affected as a result of in the field construction changes and other permitted changes to a Unit, as more fully described in this Section. Accordingly, during the pre-closing inspection, Buyer should, among other things, review the size and dimensions of each Unit. By closing, Buyer shall be deemed to have conclusively agreed to accept the size and dimensions of each Unit, regardless of any variances in the square footage from any disclosed to Buyer at any time prior to closing, whether or not included in the Condominium Documents, Seller's promotional materials or otherwise. Without limiting the generality of any other provision of this Agreement, Seller is not making any representation or warranty as to the actual size, dimensions or square footage of the Units. Buyer waives and releases any such warranty and claim for loss or damages resulting from any variances between any represented or otherwise disclosed square footage and the actual square footage. The agreements and waivers of Buyer contained in this Section will survive (continue to be effective after) closing.

From and after the closing, Buyer agrees to grant Seller and its agents access to the Units at reasonable times during normal business hours to complete any necessary repairs to the Unit, provided Seller provides Buyer prior written notice of the same and Buyer consents to the same in writing. If Buyer cannot be present at the time such work is to be performed to facilitate completion of such work, Buyer may authorize Seller, its agents, employees and contractors to enter the Unit for such purposes using a master key or a key maintained by the Association. Provided Buyer consents to Seller's access to the Units pursuant to the terms hereof, if Buyer elects not to be present at the time that Seller performs any such work, Buyer hereby waives and releases Seller (its partners, contractors, subcontractors, employees, agents, designees and assigns) from any and all claims that Buyer may have against Seller (its partners, contractors, subcontractors, employees, agents, designees and assigns) relating to damage to or theft of property from the Units that is not due to the negligence or intentional acts of Seller or its partners, contractors, subcontractors, employees, agents, designees and/or assigns. The Buyer acknowledges and agrees that the procedure set forth in this Section may cause delays in the completion of the repairs.

(h) Every new home contains products that have water, powders, solids and industrial chemicals that are used in constructing the home. The water, powders, solids and industrial chemicals will and do contain mold, mildew, fungus, spores and chemicals which may cause allergic or other bodily reactions in certain individuals. Buyer should consult Buyer's physician to determine the molds, mildews, fungus, spores or chemicals that may adversely affect Buyer or members of Buyer's family.

(i) LEAKS, WET FLOORING AND MOISTURE WILL CONTRIBUTE TO THE GROWTH OF MOLDS, MILDEWS, FUNGUS OR SPORES. BUYER UNDERSTANDS AND AGREES THAT THE DEVELOPER IS NOT RESPONSIBLE AND BUYER DISCLAIMS ANY RESPONSIBILITY FOR, ANY ILLNESS OR ALLERGIC REACTION WHICH BUYER MAY EXPERIENCE AS A RESULT OF MOLD, MILDEW, FUNGUS OR SPORES. BUYER UNDERSTANDS AND AGREES THAT IT IS BUYER'S RESPONSIBILITY TO KEEP THE UNITS CLEAN, DRY, WELL-VENTILATED AND FREE OF CONTAMINATION AFTER THE CLOSING.

6. **Damage Before Closing.** If the Condominium, the Building or any of the Units are damaged by fire or other casualty after this Agreement takes effect but before closing, Buyer shall have the right to elect whether to (i) terminate this Agreement, in which event the Escrow Agent shall refund the Buyer's deposit, if Buyer is not in default, and such refund will end any rights or responsibilities Buyer and Seller may have to each other, or (ii) close on the purchase of the Units and receive any insurance proceeds received by the Seller with respect to the Units. In the event the Buyer and the Seller agree to have the Seller repair the Condominium, the Building and/or the Units, and the Seller completes such repairs pursuant to said agreement, any money received in settlement of the damage from insurance or otherwise will belong to Seller and in such event, if Buyer receives any money in connection with the damage, Buyer will turn it over to Seller immediately.

7. **Closing Date.**

(a) Buyer and Seller agree that, except if changed by Seller in the manner provided herein, the closing shall be held on the date and at the time indicated on the first page of this Agreement. The date set forth in the notice of closing shall be the date utilized for calculation of all prorations and adjustments required by this Agreement. The closing shall be held at an office designated by Seller.

(b) Intentionally deleted.

(c) If Buyer fails to receive any notice because Buyer failed to advise Seller of any change of address or telephone, telex or facsimile number, or for any other reason, Buyer will not be relieved of Buyer's obligation to close on the scheduled date unless Seller agrees in writing to postpone the scheduled date. Buyer understands that Seller is not required to reschedule or to permit a delay in the closing and any request by Buyer to reschedule a closing will not be effective unless agreed to in writing signed by Seller. Buyer and Seller understand that time is of the essence under this Agreement.

(d) Intentionally deleted.

8. **Title to Units.** Title to each Unit will be conveyed by the Seller by delivery to Buyer of a special warranty deed (for a total of 21 special warranty deeds) and title will be good, marketable and insurable subject to the following matters ("Permitted Exceptions"):

- (a) Liability for all taxes and assessments on the Units for the year Buyer receives title and for all subsequent years, subject to the proration provisions hereof.
- (b) Restrictions, covenants, conditions, limitations or easements recorded in the public records, which shall be identified on **Exhibit C** attached hereto and made a part hereof.
- (c) Zoning, the major use special permit for this project, the covenant in lieu of unity of title and other restrictions, requirements or prohibitions imposed by governmental authority.
- (d) Restrictions, covenants, conditions, terms and other provisions imposed by the recorded Declaration of Condominium and the declaration of covenants and easements and their exhibits as they may be amended from time to time, which shall be identified on **Exhibit C** attached hereto and made a part hereof.
- (e) Liens for work, materials or services furnished on behalf of Buyer.
- (f) Any mortgage executed or assumed by Buyer that encumbers one or more Units.
- (g) Matters disclosed by the condominium survey and/or personal inspection and the Condominium Documents.
- (h) Pending liens for any public improvements which have not been certified as of the date of this Agreement.
- (i) Intentionally deleted.
- (j) Any standard printed exceptions contained in an ALTA's Owners title insurance policy issued in Miami-Dade County, Florida;
- (k) Any matters not listed above as long as affirmative title insurance is given for these matters.

If Seller cannot provide title as described above, Seller will have a reasonable time (no less than thirty (30) days) to correct any defects, but Seller is not obligated to do so, provided, however, Seller shall be obligated to escrow the prorata share of the Units from the face value of a title defect pursuant to Florida Statute Ch 713. If Seller cannot, after making reasonable efforts to do so (which shall not require the bringing of lawsuits or the payment or satisfaction of involuntary liens or judgments except as provided in this section) correct the title defects, Buyer will have two options: (1) Buyer may accept title in the condition Seller offers it (with defects) and pay the full Purchase Price for the Units; if Buyer elects this option, Buyer will not make, nor will Buyer have the right to make, any claims against Seller because of the defects; or (2) Buyer may cancel this Agreement and receive a full refund of all the deposits; if Buyer's deposits are refunded in accordance with the foregoing, Buyer agrees to accept them as full payment of Seller's liability to Buyer and Buyer will not make, and will not have the right to make additional claims against Seller.

Seller will not be required to provide the Buyer with an abstract of title for the Units. Title to the Units for all purposes shall conclusively be deemed good, marketable and insurable if Buyer is able to obtain an ALTA Form "B" owner's title insurance policy insuring the Units subject only to the Permitted Exceptions within a reasonable time following Closing.

At closing, Seller agrees to deliver to the title agent a signed title affidavit in the form attached hereto as **Exhibit D** and any such other document that the title agent may reasonably require in connection with the issuance of the owner's title insurance policy.

9. **Fees and Costs.** Buyer understands that in addition to the Purchase Price for the Units and the costs associated with any mortgage Buyer may secure, Buyer must pay certain other fees and costs when Buyer accepts ownership at the closing. Those extra charges are as follows:

(a) Intentionally deleted.

(b) Intentionally deleted.

(c) Intentionally deleted.

(d) Pending liens for any public improvements.

(e) Expenses of the Units such as, taxes, assessments, condominium maintenance charges and charges to the Hotel Unit Owner, which will be prorated between Buyer and Seller at closing. If real estate taxes are prorated pursuant to this paragraph prior to the issuance of the actual tax bill, there will be no re-proration of taxes after the issuance of the bill, even if the actual tax bill is higher or lower than the prior bill.

(f) A working capital contribution in the amount equal to two monthly payments of assessments to the Condominium Association for expenses incurred to establish and maintain the Condominium Association (which will not be credited against Buyer's obligation for assessments following closing).

(g) A working capital contribution to the Hotel Parcel Owner and to the Master Association, each in the amount of two monthly payments of the estimated annual assessments allocable to Buyer's Units (which will not be credited against Buyer's obligation for assessments following closing).

(h) Intentionally deleted.

(i) Intentionally deleted.

(j) The cost of an owner's title insurance policy insuring Buyer's interest in the Unit.

(k) Intentionally deleted.

In addition, if Buyer obtains a loan for any portion of the Purchase Price, Buyer will be obligated to pay any loan fees, closing costs, escrows, appraisals, credit fees, lender's title insurance premiums, prepayments and all other expenses charged by any lender giving Buyer a mortgage, if applicable. The amount of all lender's charges is now unknown. In addition, Buyer shall be obligated to pay the premiums (at promulgated rate) for any title endorsements requested by Buyer's lender. Notwithstanding any of the references in this paragraph to coordinating closing with any lender that Buyer may elect to obtain, nothing herein shall be deemed to make the Agreement, or the Buyer's obligations under the Agreement, conditional or contingent in any manner on the Buyer obtaining a loan to finance any portion of the Purchase Price; it being the agreement of the Buyer that the Buyer shall be obligated to close "all cash".

Buyer shall use a title company of Buyer's choice in connection with the purchase of the Units and Buyer hereby agrees to pay for the premium for an owner's policy of title insurance and the cost to record the deed. Buyer will pay the title search fee, if any, the settlement fee, and all financing costs, if any. The title agent selected by the Buyer shall also act as the closing agent.

Buyer agrees to pay one-half of the documentary stamp taxes due on each deed. In addition, Seller's broker, Cervera Real Estate, Inc. ("Cervera") agrees to provide Buyer a credit on the closing statement in an amount equal to one-half of the documentary stamp taxes due on each deed, for a total of \$26,468.37 (the "Documentary Stamp Tax Credit"). Seller hereby agrees that Cervera's agreement to provide the Buyer the Documentary Stamp Tax Credit is a condition to Buyer's obligation to close on the purchase of the Units pursuant to the terms hereof. Cervera has joined in the execution of this Agreement solely for the purposes of agreeing to the provisions of this paragraph. In no event shall the Seller be obligated to pay for the documentary stamps on the deed or surtax, if any, or any portion thereof.

For clarification purposes, Buyer shall not be obligated to pay (i) a administrative or developer's fee or (ii) any Move-In Fee at the time of closing.

10. **Default.** If Buyer fails to perform any of Buyer's obligations under this Agreement (including making scheduled deposits and other payments) Buyer will be in "default". If Buyer is still in default ten (10) days after Buyer receives Seller's written notice thereof, Seller shall be entitled to the remedies provided herein. If, however, Buyer's default is in failing to close on the scheduled date, then Seller can cancel this Agreement without giving Buyer any prior (or subsequent) notification or opportunity to close at a later date and Seller shall be entitled to keep the \$100,000 deposit paid by Buyer.

Upon Buyer's default (and the expiration of any notice period, if applicable), all Buyer's rights under this Agreement will end and Seller can resell the Units for a higher or lower price without any accounting to Buyer. Buyer understands that because Seller has taken the Units off the market for Buyer, has spent money on sales, advertising, promotion and construction and has incurred other costs incident to this sale, Buyer's default will damage Seller. As compensation for this damage, in the event Seller cancels this Agreement because of Buyer's default, Buyer authorizes Seller to keep, to the extent paid, the \$100,000 deposit Buyer has then made, as liquidated damages (and not as a penalty), as Seller's sole and exclusive remedy. Buyer and Seller agree to this because there is no other precise method of determining Seller's damages. Any damage or loss that occurs to the Condominium Property while Buyer is in default will not effect Seller's right to liquidated damages.

If Seller fails to perform any of Seller's obligations under this Agreement, Seller will be in "default". Subject to the terms of this Agreement, if Seller is still in default ten (10) days after Seller receives Buyer's written notice thereof, Buyer will have such rights as may be available in equity and/or under applicable law.

The provisions of this Section 10 will survive (continue to be effective after) closing.

11. **Litigation.** In the event of any litigation concerning the interpretation of, or rights or obligations under, this Agreement, the prevailing party shall be entitled to recover reasonable attorney's fees, paralegal fees and court costs through trial and any all appeals. Only those provisions and disclaimers in this Agreement, which specifically state that they shall have effect after closing, will survive (continue to be effective after) closing and delivery of the deed. All other provisions shall be deemed merged into the deed.

12. **Seller's Use of Condominium Property.** As long as Seller owns a unit or units in the Condominium, Seller and Seller's agents may maintain sales offices and models to assist Seller in selling units in the Condominium.

13. **Miscellaneous Provisions.**

(a) **Agreement not to be recorded.** Buyer will not record, nor permit others on Buyer's behalf to record, this Agreement, nor any notice or memorandum, in the Public Records of the County in which the Condominium is located. If Buyer does, Buyer shall be in default. Buyer acknowledges that Buyer has not acquired any right, title, interest, or lien right (equitable or otherwise) in the Units prior to closing and Buyer agrees not to file a lis pendens (except in connection with an action for specific performance), claim of lien or any other document concerning any dispute which Buyer may subsequently have with Seller concerning or arising out of this Agreement.

(b) **Sales Commissions.** Seller will pay all sales commissions of Seller's on-site sales personnel who are Seller's agents and not Buyer's agents or dual agents. Buyer and Seller agree to indemnify and hold each other harmless from the claims of any other persons claiming a real estate commission (other than any brokers described in the signature page) unless Seller has agreed in writing to pay commissions to any other party. Each party's indemnity and agreement to hold the other party harmless includes, without limitation, such party's obligation to pay or reimburse the other party for all commissions, damages and other sums for which one party may be held liable and all attorneys' fees and court costs actually incurred by such party (including those for appeals), regardless of whether a lawsuit(s) is actually brought or whether such party ultimately wins or loses. By signing this Agreement, Buyer is representing and warranting to Seller that Buyer has not consulted or dealt with any broker, salesperson, agent or finder other than Seller's sales personnel (and any broker described in the signature page), nor has the sale been procured by any real estate broker, salesperson, agent or finder other than Seller's sales personnel (and any broker described in the signature page). By signing this Agreement, Seller is representing and warranting to Buyer that Seller has not consulted or dealt with any broker, salesperson, agent or finder other than Seller's sales personnel (and any broker described in the signature page), nor has the sale been procured by any real estate broker, salesperson, agent or finder other than Seller's sales personnel (and any broker described in the signature page). This paragraph will survive (continue to be effective after) closing.

(c) **Notices.** Except with respect to fixing the closing date, any time Buyer and Seller are required to notify each other, the notice must be in writing. Written notices must be sent by facsimile, hand delivery, electronic mail (e-mail), air courier (such as DHL, UPS or Federal Express) or registered or certified mail, postage prepaid, with a return receipt requested. Seller will send written notices to Buyer to the address on page 1, with a copy to Feingold Schechter P.A., 3858-S Sheridan Street, Hollywood, Florida 33021, Attn.: Robert A. Feingold, Esq., Phone: 954.967.2575, Fax: 954.967.2576, Email: robert.feingold@feingoldschechter.com. Buyer will send any written notices to Seller at Seller's address on page 1 with a copy to Arnstein & Lehr LLP, c/o Yael Doron, Esq., 201 Alhambra Cir #601, Coral Gables, Florida 33134, Phone: 305 529 2467, Fax: 305 357 1002, Email: ydoron@arnstein.com. Either Buyer or Seller can change their respective addresses for notices by giving written notice to the other. A change of address notice is effective when it is received. Notices personally delivered or sent by overnight courier shall be deemed given on the date of receipt, notices sent via facsimile or electronic transmission shall be deemed given upon transmission and notices sent via certified mail in accordance with the foregoing shall be deemed given upon receipt, or refusal to take receipt, if earlier.

(d) **Transfer or Assignment.** Buyer has no right to assign, sell or transfer Buyer's interest in this Agreement without Seller's written consent, which shall not be unreasonably withheld and/or delayed.

Without requiring the consent of Seller, provided that all 21 Units are assigned simultaneously to a single assignee in single assignment of purchase agreement, Buyer shall be permitted to assign all of its rights and obligations under the Agreement and all of its interest in the Units once to any single immediate family member, any single trust for the benefit of Buyer and/or its immediate family members and/or any single corporation, partnership or other single entity which is beneficially owned by Buyer (or its immediate family members), or any single entity under the common control of the Buyer, provided only that the assignee assumes in writing, for the benefit of Seller, all of Buyer's duties and obligations under the Agreement and said assumption is delivered to Seller promptly following said assignment and in no event less than three (3) days prior to closing. For clarification, the Buyer has no right to assign some or a portion of the Units. Notwithstanding the foregoing, said assignment shall not release Buyer from any of its obligations under this Agreement.

Seller may freely assign, transfer or sell any or all of Seller's rights and obligations under this Agreement. If Seller decides to sell all or any part of the Condominium, Seller may assign or transfer Seller's interest in this Agreement and Buyer's consent will not be required. Notwithstanding the foregoing, said sale or assignment shall not release the named Seller from any duties, obligations or responsibilities under this Agreement or the Condominium Documents.

(e) **Others Bound by this Agreement.** As Buyer is a corporation or other business entity, this Agreement will bind Buyer's successors in interest. If Buyer has received Seller's written permission to assign or transfer this Agreement it will bind anyone receiving Buyer's interest.

(f) **Buyer's Right to Cancel.**

THIS AGREEMENT IS VOIDABLE BY BUYER BY DELIVERING WRITTEN NOTICE OF THE BUYER'S INTENTION TO CANCEL WITHIN 15 DAYS AFTER THE DATE OF EXECUTION OF THIS AGREEMENT BY THE BUYER AND THE SELLER (AND A COPY OF THE FULLY EXECUTED AGREEMENT IS DELIVERED TO THE BUYER), AND RECEIPT BY BUYER OF ALL OF THE ITEMS REQUIRED TO BE DELIVERED TO BUYER BY THE SELLER/DEVELOPER UNDER SECTION 718.503, FLORIDA STATUTES. THIS AGREEMENT IS ALSO VOIDABLE BY BUYER BY DELIVERING WRITTEN NOTICE OF THE BUYER'S INTENTION TO CANCEL WITHIN 15 DAYS AFTER THE DATE OF RECEIPT FROM THE SELLER/DEVELOPER OF ANY AMENDMENT WHICH MATERIALLY ALTERS OR MODIFIES THE OFFERING IN A MANNER THAT IS ADVERSE TO THE BUYER. ANY PURPORTED WAIVER OF THESE VOIDABILITY RIGHTS SHALL BE OF NO EFFECT. BUYER MAY EXTEND THE TIME FOR CLOSING FOR A PERIOD OF NOT MORE THAN 15 DAYS AFTER THE BUYER HAS RECEIVED ALL OF THE ITEMS REQUIRED. BUYER'S RIGHT TO VOID THIS AGREEMENT SHALL TERMINATE AT CLOSING. FIGURES CONTAINED IN ANY BUDGET DELIVERED TO THE BUYER PREPARED IN ACCORDANCE WITH THE CONDOMINIUM ACT ARE ESTIMATES ONLY AND REPRESENT AN APPROXIMATION OF FUTURE EXPENSES BASED ON FACTS AND CIRCUMSTANCES EXISTING AT THE TIME OF THE PREPARATION OF THE BUDGET BY THE SELLER/DEVELOPER. ACTUAL COSTS OF SUCH ITEMS MAY EXCEED THE ESTIMATED COSTS. SUCH CHANGES IN COST DO NOT CONSTITUTE MATERIAL ADVERSE CHANGES IN THE OFFERING.

If Buyer does not cancel this Agreement during this 15-day period in the manner set forth above, it means that Buyer ratifies this Agreement and the Condominium Documents and Buyer agrees that such provisions are fair and reasonable in Buyer's opinion.

(g) **Florida Law and Venue; Severability.** Any disputes that develop under this Agreement will be settled according to Florida law, in the courts of Miami-Dade County, without giving effect to principles of conflict of laws, except as specifically preempted by federal law. If any part of this Agreement violates a provision of Florida law, Florida law will control. In that event, however, the remainder of the Agreement will remain in force and effect.

Without limiting the generality of the foregoing, it is Buyer's and Seller's mutual desire and intention that all provisions of this Agreement be given full effect and be enforceable strictly in accordance with their terms. If, however, any part of this Agreement is not enforceable in accordance with its terms or would render other parts of this Agreement or this Agreement, in its entirety, unenforceable, the unenforceable part or parts are to be judicially modified, if at all possible, to come as close as possible to the expressed intent of such part or parts (and still be enforceable without jeopardy to other parts of this Agreement, or this Agreement in its entirety), and then are to be enforced as so modified. If the unenforceable part or parts cannot be so modified, such part or parts will be unenforceable and considered null and void in order that the mutual paramount goal (that this Agreement is to be enforced to the maximum extent possible strictly in accordance with its terms) can be achieved.

(h) **Association Membership.** When Buyer closes and acquires the Units, Buyer becomes a member of the Condominium Association and will accept the liabilities and obligations of such membership. Buyer will also be subject to those matters described in the declaration of covenants and easements appearing in the Condominium Documents. Buyer understands that Seller may advance money to the associations to permit them to pay for certain of their expenses (for example, insurance premiums, utility and/or cable or other interactive communication charges and deposits, permit and license fees, charges for service contracts, salaries of employees of the associations and other similar expenses). Seller may be entitled to be reimbursed by the associations for all or certain of the sums so advanced. No initial capital contributions to the Condominium Association may be used for such purposes as long as any guaranty by Seller of the Condominium Association's assessments is in effect.

(i) **Entire Agreement.** This Agreement contains the entire understanding between Buyer and Seller concerning the sale and purchase of the Units and can only be amended in writing, executed by both Buyer and Seller. Prior agreements, representations, understandings and oral statements not reflected in this Agreement and the Condominium Documents are void and have no effect. Buyer warrants that Buyer has not relied on any verbal representations, portrayals or promises other than as expressly contained herein and in the Condominium Documents, including, specifically, but without limitation, any representations as to: (a) potential appreciation in or resale value of the Units, (b) the existence of any "view" from the Units or that any existing "view" will not be obstructed in the future, (c) traffic conditions in, near or around the Condominium, (d) disturbance from nearby properties, or (e) disturbance from air or vehicular traffic. Buyer further acknowledges, warrants, represents and agrees that this Agreement is being entered into by Buyer without reliance upon any representations concerning any potential for future profit, any future appreciation in value, or rental income potential, tax advantages, depreciation or investment potential and without reliance upon any monetary or financial advantage. Buyer acknowledges and agrees that no such representations, including representations as to the ability or willingness of Seller or its affiliates to assist Buyer in renting or selling the Units, have been made by Seller or any of its agents, employees or representatives. Buyer further represents and warrants to Seller that Buyer is entering into this Agreement with the full intention of complying with each and every one of the obligations hereunder, including, without limitation, the obligation to close on the purchase of the Units. Neither Seller, nor anyone working by, through or under Seller, has made any statement or suggestion that Buyer would not be obligated to fully comply with the terms of this Agreement and to close on the purchase of the Units. Further, Buyer understands and agrees that neither Seller, nor any brokerage, in-house sales personnel and/or other persons working by, through or under Seller, are under any obligation whatsoever to assist Buyer with any resale of the Units. Buyer has fully reviewed this Agreement and sought all legal and other advice which Buyer deems necessary and agrees that no provision in this Agreement shall be more strictly construed against either Buyer or Seller than the other. Buyer acknowledges that this Agreement was negotiated in the English language.

(j) **Changes.** Buyer agrees that the Condominium Documents and other documents delivered to Buyer may be amended by Seller, the Condominium Association or the Master Association in any manner whatsoever, to the extent allowed under law and pursuant to the Condominium Documents. Seller may make changes in such documents in its sole discretion. Buyer will receive a copy of all such amendments that are made. As to these changes, Buyer will have 15 days from the date of receipt of such changes which materially alter or modify the offering of the Condominium in a manner adverse to Buyer in which to cancel this Agreement (by delivering written notice to Seller of such cancellation) and receive a refund of any deposits with applicable interest. If Buyer has the right to cancel this Agreement by reason of a material change in a manner adverse to Buyer, Buyer's failure to request cancellation in writing within the 15-day period will mean that Buyer accepts the changes and waives irrevocably Buyer's right to cancel. All rights of cancellation will terminate, if not sooner, then they will cancel absolutely at closing. After closing, Buyer will have no remedy for any changes Seller may make or has made. This Section will survive (continue to be effective) after closing.



(k) **Amendment to Declaration of Condominium.** Seller shall record or cause to be recorded an amendment to the Declaration of Condominium in the form attached hereto as Exhibit E.

(l) **Warranty.** To the maximum extent lawful, all implied warranties of fitness for a particular purpose, merchantability and habitability, all warranties imposed by statute (except only those imposed by the Florida Condominium Act to the extent they cannot be disclaimed and to the extent they have not expired by their terms) and all other implied or express warranties of any kind or character are specifically disclaimed. Without limiting the generality of the foregoing, Seller hereby disclaims any and all express or implied warranties as to design, construction, view, sound and/or odor transmission, furnishing and equipping of the Condominium Property and/or the Project, the existence of molds, mildew, spores, fungi and/or other toxins within the Condominium Property and/or the Project, except only those set forth in Section 718.203 of the Act, to the extent applicable and to the extent that same have not expired by their terms. Seller has not given and Buyer has not relied on or bargained for any such warranties, either with respect to any portions of the Condominium Property and/or the Project.

As to any implied warranty which cannot be disclaimed entirely, all secondary, incidental and consequential damages are specifically excluded and disclaimed (claims for such secondary, incidental and consequential damages being clearly unavailable in the case of implied warranties which are disclaimed entirely above). Buyer acknowledges and agrees that Seller does not guarantee, warrant or otherwise assure, and expressly disclaims, any right to view and/or natural light.

Further, given the climate and humid conditions in South Florida, molds, mildew, spores, fungi and/or other toxins may exist and/or develop within the Units, the Condominium Property and/or the Project. Buyer is hereby advised that certain molds, mildew, spores, fungi and/or other toxins may be, or if allowed to remain for a sufficient period may become, toxic and potentially pose a health risk. By executing and delivering this Agreement and closing, Buyer shall be deemed to have assumed the risks associated with molds, mildew, spores, fungi and/or other toxins and to have released and indemnified Declarant, Seller and the Hotel Parcel Owner from and against any and all liability or claims resulting from same, including, without limitation, any liability for incidental or consequential damages (which may result from, without limitation, the inability to possess the Unit, inconvenience, moving costs, hotel costs, storage costs, loss of time, lost wages, lost opportunities and/or personal injury and death to or suffered by any of "Buyer's Guests" (as defined below) and any other person or any pets). Without limiting the generality of the foregoing, leaks, leaving exterior doors or windows open, wet flooring and moisture will contribute to the growth of mold, mildew, fungus or spores. Buyer understands and agrees that neither Declarant, Hotel Parcel Owner nor Seller is responsible for, and Declarant, Hotel Parcel Owner and Seller hereby disclaim any responsibility for any illness or allergic reactions which may be experienced by Buyer, its pets, its family members and/or its or their guests, tenants and invitees (collectively "Buyer's Guests") as a result of mold, mildew, fungus or spores. It is solely the Buyer's responsibility to keep the Unit clean, dry, well-ventilated and free of contamination.

In the event a competent court of law determines that this disclaimer is ineffective the parties agree that any action brought under implied warranty must be brought within one year from the date of Buyer's closing. This clause shall survive the contemplated closing and the delivery of the deed to Buyer.

*No warranties or guaranties are given as to consumer products as defined in 15 U.S.C., Section 2301 et seq. (Magnuson-Moss Warranty Act). Seller has not given and Buyer has not relied on or bargained for any such warranties.*

As used in this Section, references to Declarant, Hotel Parcel Owner or Seller shall include each of the named parties, their members, managers, partners and its and their shareholders, directors, officers, committee and Board Members, employees, agents, contractors, subcontractors and its and their successors or assigns.

(m) **Time is of the Essence.** The performance of all obligations by Buyer and Seller on the precise times stated in this Agreement is of absolute importance and failure by Buyer or Seller to so perform on time is a default, time being of the essence as to the obligations hereunder.

(n) **Administrative Fee.** If this Agreement is terminated by either Buyer or Seller, Buyer agrees to pay a \$100 charge to Seller if Buyer does not return the Condominium Documents to Seller in good condition.

(o) **FIRPTA.** The parties agree to comply with the Foreign Investment Real Property Tax Act, as amended, and agree that there will be no withholding at closing on account of such Act.

(p) **Radon Disclosure.** In accordance with the provisions of Florida Statutes, Section 404.056(8), Seller is required to make and are making the following disclosure: "RADON GAS: Radon is a naturally occurring radioactive gas that, when it has accumulated in a building in sufficient quantities, may present health risks to persons who are exposed to it over time. Levels of radon that exceed federal and state guidelines have been found in buildings in Florida. Additional information regarding radon and radon testing may be obtained from your county health department" Buyer further acknowledges that Seller has made no representation or warranty concerning geological or environmental matters such as radon gas. Buyer understands that if Buyer requires more information concerning this potential risk, the U.S. Environmental Protection Agency and state and local authorities are best equipped to render advice.

(q) **Inducement.** Buyer understands that the Units may be completed and the closing scheduled while construction proceeds in other portions of the Building. Buyer understands such construction may give rise to noise and dust. Buyer also understands that construction in adjacent areas may give rise to noise and dust and may result in views from Buyer's Unit being blocked and Buyer's loss of light and air. Buyer agrees to accept the Unit subject to the foregoing factors.

(r) **Condominium Documents.** Buyer acknowledges receipt of those documents described as received in the receipt for condominium documents which Buyer has executed. Buyer agrees this Agreement is subject to all of the terms, conditions and disclosures set forth in the Condominium Documents. The terms used in this Agreement shall have the same definitions and meanings as those set forth in the Condominium Documents, unless otherwise provided in this Agreement or unless the context otherwise requires.

(s) **Insulation; Energy Efficiency.** Pursuant to title 16, Chapter 1, Section 460.16 of the Code of Federal Regulations, the type, thickness, and R-value of the insulation materials installed in the construction of the Units, are set forth below.

	Type	Thickness	R-Value
Exterior Walls	Stucco over CMU	8"	7
Partitions	GWB over metal stud	5"	11
Ceiling	Concrete slab	9" (10" min. at roof)	11 (19 at roof)
Floor	Concrete slab	9"	11

Seller will have the right to substitute insulation so long as the R-value is equal to or greater than that set forth above. Buyer understands the R-values set forth below are supplied by the manufacturer, and Seller will have no liability if the R-value is, in fact, different than that indicated.

(t) **Additional Disclosures.**

(1) To the extent required by applicable law, Buyer may have the building's energy efficiency rating determined for the Building in which the Units are located. Buyer acknowledges receipt of the Department of Community Affairs informational brochure regarding energy efficiency ratings.

(2) Pursuant to Section 489.1425 of the Florida Statutes, Seller provides the following notice. PAYMENT MAY BE AVAILABLE FROM THE CONSTRUCTION INDUSTRIES RECOVERY FUND IF BUYER LOSES MONEY ON A PROJECT PERFORMED UNDER CONTRACT, WHERE THE LOSS RESULTS FROM SPECIFIED VIOLATIONS OF FLORIDA LAW BY A STATE-LICENSED CONTRACTOR. FOR INFORMATION ABOUT THE RECOVERY FUND AND FILING A CLAIM, CONTACT THE FLORIDA CONSTRUCTION INDUSTRY LICENSING BOARD AT THE FOLLOWING TELEPHONE NUMBER AND ADDRESS (904) 727-6530, 7960 ARLINGTON EXPRESSWAY, SUITE 300, JACKSONVILLE, FLORIDA 32211. Seller makes no assurance as to the applicability of the foregoing provision, nor that funds from the Construction Industries Recovery Fund will be available to Buyer under any circumstances.

(3) FIGURES CONTAINED IN ANY BUDGET DELIVERED TO THE BUYER PREPARED IN ACCORDANCE WITH THE CONDOMINIUM ACT ARE ESTIMATES ONLY AND REPRESENT AN APPROXIMATION OF FUTURE EXPENSES BASED ON FACTS AND CIRCUMSTANCES EXISTING AT THE TIME OF THE PREPARATION OF THE BUDGET BY THE DEVELOPER. ACTUAL COSTS OF SUCH ITEMS MAY EXCEED THE ESTIMATED COSTS. SUCH CHANGES IN COST DO NOT CONSTITUTE MATERIAL ADVERSE CHANGES IN THE OFFERING.

(4) Pursuant to the mandates of Miami-Dade County Ordinance 93-2I and the provisions of Chapter 11C of the Miami-Dade County Code, Buyer is hereby advised that the Units are located in (i) a coastal high hazard area, and (ii) a special flood hazard area.

(5) Property Taxes. BUYER SHOULD NOT RELY ON THE SELLER'S CURRENT PROPERTY TAXES AS THE AMOUNT OF PROPERTY TAXES THAT THE BUYER MAY BE OBLIGATED TO PAY IN THE YEAR SUBSEQUENT TO PURCHASE. A CHANGE OF OWNERSHIP OR PROPERTY IMPROVEMENTS TRIGGERS REASSESSMENTS OF THE PROPERTY THAT COULD RESULT IN HIGHER PROPERTY TAXES. IF BUYER HAS ANY QUESTIONS CONCERNING VALUATION, CONTACT THE COUNTY PROPERTY APPRAISER'S OFFICE FOR INFORMATION.

(6) Prior to execution of this Agreement, Seller provided a Disclosure Summary to Buyer. Such Disclosure Summary is incorporated herein by reference. **BUYER HEREBY ACKNOWLEDGES THAT BUYER HAS RECEIVED AND READ THE DISCLOSURE SUMMARY. BUYER SHOULD NOT EXECUTE THIS AGREEMENT UNTIL BUYER HAS READ THE DISCLOSURE SUMMARY PROVIDED BY SELLER. BUYER'S SIGNATURE ON THIS AGREEMENT ACKNOWLEDGES BUYER'S RECEIPT, AND REVIEW, OF THE DISCLOSURE SUMMARY WHOSE TERMS ARE INCORPORATED BY SUMMARY.**

(7) While Seller does not believe that the disclosure required by Section 720.401, Florida Statutes is mandated to be delivered to buyers of Units in the Condominium, same has been provided. To the extent that Section 720.401 is deemed to mandate the delivery of the Disclosure Summary, same also requires provision of the following notice: IF THE DISCLOSURE SUMMARY REQUIRED BY SECTION 720.401, FLORIDA STATUTES, HAS NOT BEEN PROVIDED TO THE PROSPECTIVE BUYER BEFORE EXECUTING THIS AGREEMENT FOR SALE, THIS AGREEMENT IS VOIDABLE BY BUYER BY DELIVERING TO SELLER OR SELLER'S AGENT OR REPRESENTATIVE WRITTEN NOTICE OF THE BUYER'S INTENTION TO CANCEL WITHIN 3 DAYS AFTER RECEIPT OF THE DISCLOSURE SUMMARY OR PRIOR TO CLOSING, WHICHEVER OCCURS FIRST. ANY PURPORTED WAIVER OF THIS VOIDABILITY RIGHT HAS NO EFFECT. BUYER'S RIGHT TO VOID THIS AGREEMENT SHALL TERMINATE AT CLOSING.

(8) ANY CLAIMS FOR CONSTRUCTION DEFECTS ARE SUBJECT TO THE NOTICE AND CURE PROVISIONS OF CHAPTER 558, FLORIDA STATUTES.

(u) **Counterparts.** This Agreement may be executed in one or more counterparts, each of which shall be deemed an original. These counterparts taken together shall constitute but one and the same instrument, which may be sufficiently evidenced by one such counterpart, or by signed facsimile copies.

(v) **Maintenance Assessments.** The Estimated Operating Budget contained in the Prospectus contains estimated expenses of operating the Condominium Association and other parts of the Building during the fiscal year identified and the Schedule of Estimated Maintenance Charges indicates each Unit's share of such Budget. The Budget is an estimate only of costs to be incurred in the future. It is subject to modification at any time and from time to time to reflect changes in estimated expenses. Buyer understands that such modifications shall not affect Buyer's obligations to purchase in accordance with the terms of this Agreement nor Seller's obligation to honor any written guaranty of the budget undertaken by Seller. Buyer understands and agrees that because the Condominium and Master Associations are an on-going entities, the budgets of, and assessments payable to, the Associations may increase (based upon actual operating expenses and projections thereof), both before and after the closing under this Agreement.

(w) **Offer.** The submission by Seller of this Agreement to Buyer for examination does not constitute an offer by Seller to Buyer, or a reservation of or option for any Units in the Condominium. This Agreement shall not become binding until executed and delivered by both Buyer and Seller. Upon execution by Buyer and delivery of same to the Seller, a fully executed copy of this Agreement shall be sent to Buyer no later than 2 US business days from the date the Seller has received the Buyer's signed copy, otherwise the offer shall be considered rejected.

(x) **Interpretation.** Notwithstanding that this Agreement was prepared by one party hereto, it shall not be construed more strongly against or more favorably for either party; it being known that both parties have had equal bargaining power, have been represented (or have had the opportunity to be represented) by their own independent counsel and have equal business acumen such that any rule of construction that a document is to be construed against the drafting party shall not be applicable. Buyer acknowledges and agrees that Buyer has had ample opportunity to inspect other similar condominiums and condominium documents, that Seller has clearly disclosed to Buyer the right to cancel this Agreement for any reason whatsoever, including any dissatisfaction Buyer may have with this Agreement or the Condominium Documents, within fifteen (15) days of the date Buyer executes this Agreement or has received the Condominium Documents, whichever is later.

(y) **Miscellaneous.** The explanations, definitions, disclaimers and other provisions set forth in the Condominium Documents are incorporated into this Agreement as if repeated at length here. When the words "this Agreement" are used, they shall include in their meaning all modifications, riders and addenda to it signed by Buyer and Seller. Seller's waiver of any of its rights or remedies (which can only occur if Seller waives any right or remedy in writing) will not waive any other of Seller's rights or remedies or prevent Seller from later enforcing all of Seller's rights and remedies under other circumstances. To the extent that Buyer tenders a check to Seller as a portion of Buyer's deposits under the Agreement, which check was drawn on the account of a party other than Buyer (a "Third Party Check"), Buyer represents and warrants to Seller, in order to induce Seller to accept the Third Party Check, that the Third Party Check was given as an accommodation to Buyer, and that the party issuing the Third Party Check has no right, title or interest in and to the Units and/or the Agreement and/or any portion of the deposits. Seller shall have the right to litigate ad valorem tax matters, impact charges, service fees and interim and/or special assessments concerning the Units, the Common Elements or any other portion of the Condominium Property for prior years and/or the year of closing. Signatures of the parties hereto on copies of this Agreement transmitted electronically or by facsimile machine shall be deemed originals for all purposes hereunder, and shall be binding upon the parties hereto.

14. **Legal Advice.** This Agreement, the Condominium Documents, all disclosure materials including the sales brochure, if any, are important legal documents and if not understood, Buyer should seek legal advice.

**GENERAL INFORMATION:**

**Co-Broker Information:** (See Section 13(b) above; if the space for Co-Broker's name is left blank, it shall mean that Seller has not agreed to pay any co-broker)

**Co-Broker's Name:** Worldwide Development Services

**Co-Broker's Broker:** Eddy Martinez

**Co-Broker's Address:** 1500 Bay Road, Miami Beach, FL 33139

<b>Phone No.:</b> <u>786.286.4344</u>	<b>Fax No.:</b> <u>305.532.7935</u>
<b>E-Mail:</b> <u>emartinez@worldwideds.com</u>	<b>License No.:</b> <u>BK0678035</u>

15. **Co-Broker Commission and Credit.** Worldwide Development Services (the "Co-Broker") shall be entitled to a commission equal to five percent (5%) of the Purchase Price, if, as and when the transaction contemplated hereby closes, which commission is payable by the Seller. The Co-Broker has agreed to provide a credit to the Buyer in the amount of three percent (3%) of the Purchase Price (the "Buyer Co-Broker Credit"). Seller hereby agrees that the Co-Broker's agreement to provide the Buyer the Buyer Co-Broker Credit is a condition to Buyer's obligation to close on the purchase of the Units pursuant to the terms hereof. Co-Broker has joined in the execution of this Agreement for the purposes of agreeing to the provisions of this Section 15.

16. **Occupancy of the Units.** The Buyer agrees and acknowledges that prior to the first occupancy of each and any of the Units (whether by the Buyer, its Assignee, grantee or lessee) the Buyer shall pay or cause its first tenant to pay to the Condominium Association a \$500 move-in fee (the "Move-In Fee") which Move-In Fee is customarily paid by all buyers at closing. Any lease agreement and any contract for the purchase and sale of any one or more of the Units shall include, and if it does not include, shall be deemed to include, said Move-In Fee due and payable to the Condominium Association prior to the first occupancy of a unit.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year set forth below.

BUYER(S)

OPTIBASE REAL ESTATE MIAMI LLC, a Delaware limited liability company

By: /s/ Amir Philips  
Name: Amir Philips Title: Authorized Signatory  
Date of Signature: December 30, 2010

By: /s/ Tom Wyler  
Name: Tom Wyler Title: Authorized Signatory  
Date of Signature: December 30, 2010

SELLER

LEVIEV BOYMELGREEN MARQUIS  
DEVELOPERS, L.L.C.,  
a Florida limited liability company

/s/ Jack Jemal  
WITNESS

/s/ Joseph Damanti  
WITNESS

By: /s/ Damien Stein  
Name: Damien Stein  
Title: Limited Authorized Signatory  
Date of Signature: December 30, 2010

**Date of Acceptance:** December 30, 2010

**AGREED AND ACCEPTED TO SOLELY  
WITH RESPECT TO ITS OBLIGATIONS  
UNDER SECTION 15 HEREOF WITH RESPECT  
TO THE BUYER CO-BROKER CREDIT:**

**WORLDWIDE DEVELOPMENT SERVICES, INC.**

By: /s/ Eddy Martinez  
Name: Eddy Martinez  
Title: President  
Date: December 30, 2010

**AGREED AND ACCEPTED TO SOLELY  
WITH RESPECT TO ITS OBLIGATIONS  
UNDER THE SECOND TO LAST PARAGRAPH  
OF SECTION 9 HEREOF REGARDING THE  
DOCUMENTARY STAMP TAX CREDIT TO BUYER:**

**CERVERA REAL ESTATE, INC.**

By: /s/ Alicia Cervera  
Name: Alicia Cervera  
Title: President  
Date: December 30, 2010

**SHARE PURCHASE AGREEMENT**

dated 2 March 2011

between

**APOLLO CTN S.à.r.l.**, a company organised under the laws of Luxembourg, having its registered office at 43, Avenue John F. Kennedy, L-1855 Luxembourg R.C.S., Luxembourg: B106484.

(the "**Seller**")

and

**OPCTN S.A.**, a company organised under the laws of Luxembourg having its registered office at 6, rue Jean Bertholet, 1233 Luxembourg, Luxembourg.

(the "**Purchaser**")

concerning

the sale and purchase of the share in

**Eldista GmbH**

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**PREAMBLE**

- A. Whereas, Eldista GmbH is a Swiss limited liability company with registered seat in Geneva (the "**Company**");
- B. Whereas, the capital of the Company amounts to CHF 20'000, represented by one share of par value CHF 20'000.-, fully paid in (the "**Share**");
- C. Whereas, the Company owns and operates a property in the form of a leasehold interest (*droit de superficie*) on which has been erected six buildings referred to as the Centre des Technologies Nouvelles and located at Chemin des Aulx 8-18, Plan-les-Ouates in the canton of Geneva, Switzerland;
- D. Whereas, the Seller owns the Share;
- E. Whereas, the Seller is willing to sell its Share in the Company to the Purchaser, and the Purchaser is willing to purchase from the Seller such Share, in reliance upon the representations, warranties and undertakings contained in this Agreement.

**1. DEFINITIONS**

1.1.1 In this share purchase agreement, the following terms shall have the following meaning:

<b>"Adjustment Escrow"</b>	As defined in Clause 4.1.1.
<b>"Accounting Policies"</b>	The accounting policies described in <b>Exhibit 3.2.2</b> .
<b>"Accounts Date"</b>	The 31 December of the year of the respective Financial Statements.
<b>"Adjustment Date"</b>	As defined in Clause 4.2.1.
<b>"Agreement"</b>	This share purchase agreement, together with the Exhibits.
<b>"AREA Loan"</b>	Means the CHF 3'547'389 loan from the Company to Apollo European Real Estate Fund II, L.P.
<b>"Basic Price"</b>	CHF 37'920'640.81, representing: (i) CHF 126'500'000, <i>less</i> (ii) the Settlement Liability, <i>less</i> (iii) the Financial Indebtedness.

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<b>“Business”</b>	The business carried out by the Company, including as described in the Preamble (point C).
<b>“Business Day”</b>	Any day on which banks in Geneva and London, are open for business.
<b>“Charges”</b>	All charges and ancillary costs related to the lease agreements or to the Property and charged by the Company to the tenants, including, but not limited to, the following costs: heating, cooling, ventilation, air conditioning, electricity, water, garbage disposal, cleaning, maintenance costs (including, when applicable, acquisition, amortization or repair costs), management fees, etc.
<b>“CHF”</b>	Swiss Franc.
<b>“Claim Payment Date”</b>	As defined in Section 11.3.2.
<b>“CO”</b>	The Swiss Code of Obligations.
<b>“Company”</b>	As defined in the Preamble.
<b>“Completion Accounts”</b>	The financial statements of the Company as of 23:59 Central European Time on February 28, 2011, comprising a balance sheet drawn up pursuant to Clause 3 below.
<b>“Damage”</b>	Means any reduction or shortfall in assets, or any increase or surplus in liabilities whatsoever, and any prejudice, damage, loss, shortfall in earnings or costs which exist now or may exist in the future.
<b>“Data Room”</b>	Means all documents and information relating to the Company made available by the Seller to the Purchaser and which are listed at Exhibit 8.2.1(b) to this Agreement.
<b>“Encumbrance”</b>	Any claim, charge, pledge, mortgage, security, lien, option or other third party right, retention of title, purchase or sale right, right of pre-emption, right of first refusal or security interest of any kind.
<b>“Escrow Account”</b>	Means the deposit CHF account with UBS SA (IBAN CH 38000240024030136511N; SWIFT code: UBSWCHZH80A) opened by the Escrow Agent.
<b>“Escrow Agent”</b>	Means Me Vincent Solari of P.T.A.N. & Partners.
<b>“Escrow Agreement”</b>	Means the escrow agreement entered into on or about the date hereof between the Escrow Agent, the Seller and the Purchaser.

<b>“Expert”</b>	As defined in Clause 3.2.5 below.
<b>“Financial Indebtedness”</b>	The debt as of February 28, 2011 under the Loan Documentation (excluding any indebtedness under the Swap Agreement) being CHF 85'250'000.
<b>“Financial Period”</b>	Means the financial years ending 31 December 2007, 31 December 2008, 31 December 2009 and 31 December 2010.
<b>“2009 Financial Statements”</b>	The audited financial statements of the Company for the year ending 31 December 2009, comprising a balance sheet, a profit and loss account, the notes and the audit report, a copy of which is attached hereto as Exhibit 9.15.1.
<b>“2010 Financial Statements”</b>	The audited financial statements of the Company for the year ending 31 December 2010, comprising a balance sheet, a profit and loss account, the notes and the audit report, a copy of which is attached hereto as <b>Exhibit 9.15.2</b> .
<b>“Funds”</b>	As defined in Clause 12.
<b>“Guarantee”</b>	As defined in Clause 12.
<b>“including”</b>	When introducing an example, does not limit the meaning of the words to which the example relates to that example or examples of a similar kind.
<b>“Intellectual Property”</b>	Patents, trademarks, designs, corporate names, trade names, copyrightable works, domain names, and other intangible rights used to protect the results of any development or other type of creative efforts and work, and any intangible value arising out of such efforts pursuant to any jurisdiction and/or applicable law whatsoever, copies and tangible embodiments thereof, including, where such rights are created, protected or enhanced by registration, any registration of such rights and applications and rights to apply for such registrations.
<b>“Indemnified Tenant”</b>	Means all tenants of the Property in occupation during any part of the Financial Period, other than (a) only in respect of claims relating to CTN14, any tenant who is party to a Settlement Agreement; (b) Les Festins Genevois SA; (c) LEM SA; (d) CORTIX SWITZERLAND Sàrl; (e) IGC Conseils SA; (f) Les Chambres du CTN; and (g) QUALIMATEST SA.

“LEM Dispute”	As defined in Clause 7.2.
“Les Chambres du CTN Dispute”	Means the Charges dispute between the Company and Les Chambres du CTN.
“Les Festins Dispute”	Means the Charges dispute between the Company and Les Festins Genevois SA.
“Loan Documentation”	The mortgage loan agreement entered into by the Company and Credit Suisse SA on November 5, 2009.
“Minerg Contract”	As defined in Clause 7.1.2 below.
“Net Asset Adjustment”	Means the net assets (excluding the Property, the Financial Indebtedness, the Swap Agreement, the AREA Loan and the Settlement Liability) set out in the Completion Accounts to be paid, subject to Clause 4.2.2, by the Seller to the Purchaser (where such amount is a negative figure) or to be paid by the Purchaser to the Seller (where such amount is a positive figure).
“Notice of Claims”	As defined in Clause 11.3.1 below.
“Notice of Objection”	As defined in Clause 3.2.4 below.
“Notice of Third Party Claim”	As defined in Clause 11.6.1.
“Party”	The Seller or the Purchaser, as the context may require.
“Parties”	The Seller and the Purchaser.
“Property”	The <i>droit de superficie</i> registered with the Geneva Land Registry as <i>droit distinct et permanent</i> n°11095 in the <i>Commune de Plan-les-Ouates</i> and grounded on the State of Geneva’s lot n° 11138, together with the six buildings erected on the land and a ground parking; said <i>droit de superficie</i> being effective until July 1 <sup>st</sup> , 2076.
“Property Documentation”	Ground lease agreement, as amended from time to time, as well as the excerpt of the Land registry regarding the plots 11’138 and 11’095 (Commune de Plan-les-Ouates), as attached as Exhibit 9.7.
“Purchaser”	As defined in the first page of the Agreement.
“Purchaser’s Group”	The Purchaser and its subsidiaries from time to time.

<b>“Purchaser Indemnified Person”</b>	As defined in Clause 7.4.1 below.
<b>“Purchase Price”</b>	As defined in Clause 3.1 below.
<b>“Rental Income 2010”</b>	The rental income of the Property for year 2010 and up to 23 February for year 2011, pursuant to the chart established by the Seller and attached hereto as <b>Exhibit 9.10.1</b> .
<b>“Roof Liability”</b>	Means an amount equal to CHF 240'835,74. in respect of repairs to the roof of CTN 12 pursuant to the terms of the Roof Contract.
<b>“Roof Contract”</b>	Means the contracts entered into between the Company and (i) Etanche Plus S.A.; (ii) EggTelsa S.A.; and (iii) Cofely S.A., relating to the repair of the roof of CTN12.
<b>“Seller”</b>	As defined in the first page of this Agreement.
<b>“Seller’s Bank Account”</b>	Means the account in the name of the Seller with Société Générale Bank and Trust with IBAN LU69 061 278024 2600 CHF
<b>“Seller Loan”</b>	Means the CHF 3'547'389 loan from the Company to the Seller, following the assignment of the AREA Loan to the Seller.
<b>“Seller’s Warranties”</b>	Means the warranties made by the Seller to the Purchaser in Clause 9.
<b>“Service Charge Claim”</b>	Means any claim against the Company made by an Indemnified Tenant relating to Charges (which, other than for the financial year ending 31 December 2010, have been invoiced to and then paid by such Indemnified Tenant) for the Financial Period.
<b>“Service Charge Damage”</b>	Means any amount which the Company is required to pay to an Indemnified Tenant in respect of a Service Charge Claim together with any reasonable third party advisers fees incurred in connection with settling or defending a Service Charge Claim.
<b>“Settlement Agreements”</b>	As defined in Clause 7.1.1 below.
<b>“Settlement Liability”</b>	Means: (i) liabilities of the Company described in the Settlement Agreements (of an amount equal to CHF1'693'304.-); (ii) liabilities of the Company associated with the settlement of the Les Festins Dispute (of an amount equal to 48'500.-); (iii) liabilities of the Company relating to the Minerg Contract (of an amount equal to CHF1'248'000.); (iv) liability of the Company relating to the LEM Dispute (of an amount equal to CHF 96'902.45). (v) the Roof Liability (of an amount equal to CHF240'835.74.); and (vi) liabilities of the Company associated with the settlement of the Les Chambres du CTN dispute (of an amount equal to CHF 1'817) which in aggregate are an amount equal to CHF 3'329'359.19.

<b>“Share”</b>	As defined in the Preamble.
<b>“SIG”</b>	Means Services Industriels de Genève
<b>“Signing” or “Signing Date”</b>	The date of this Agreement.
<b>“Swap Agreement”</b>	The Swiss Master Agreement for Over the Counter derivative instruments entered into between the Company and Credit Suisse SA on 18 March 2010.
<b>“Taxation” or “Tax(es)”</b>	All tax liabilities, including income taxes, capital taxes, stamp duties (both on the issuance and on the transfer of securities), gains taxes, withholding taxes, value added taxes, net wealth taxes, turnover taxes, asset value taxes, social security contributions and the like and all other taxes, duties, levies or imposts payable to any competent taxing authority in any jurisdiction (including, but not limited to, statutory, governmental, state, provincial, local governmental or municipal taxes), as well as any interest, penalties, costs and expenses related thereto.
<b>“Tax Returns”</b>	Any and all returns, reports and forms required to be filed with any authority with respect to Taxes.
<b>“Third Party Claim”</b>	As defined in Clause 11.6.
<b>“Transfer Deed”</b>	As defined in Clause 6.1.1 below.
<b>“Transaction”</b>	Any and all of the transactions contemplated by this Agreement.

## 2. SALE AND PURCHASE

Subject to the terms and conditions of this Agreement, the Seller hereby sells and assigns to the Purchaser, and the Purchaser hereby purchases and accepts the assignment from the Seller, of all the Share (as well as all rights attaching to the Share) with effect on Signing.

### 3. PURCHASE PRICE

#### 3.1 Definition of the Purchase Price

3.1.1 The consideration for the Share shall be an amount equal to the sum of:

- (i) The Basic Price, being CHF 37'920'640.81;
  - (ii) plus an amount equal to the sum owed to the Company under the Seller Loan;
  - (iii) plus or minus the Net Asset Adjustment,
- (the "**Purchase Price**").

#### 3.2 Adjustment of the Basic Price

3.2.1 The Net Asset Adjustment shall be derived from the Completion Accounts.

3.2.2 As soon as possible and, in any event, within 30 Business Days from the date of this Agreement, the Seller shall deliver to the Purchaser the draft Completion Accounts. The Completion Accounts shall be prepared by the Seller in accordance with the Accounting Policies attached hereto as **Exhibit 3.2.2**.

3.2.3 In order to enable the Seller to prepare and agree the Completion Accounts, the Purchaser shall, subject to reasonable notice, make available to the Seller's representatives and to the Seller's accountants all books and records relating to the Company during normal office hours and co-operate with them with regard to the preparation, review and agreement or determination of the Completion Accounts. The Purchaser agrees, in so far as it is reasonable to do so, to make available the services of the representatives of the Company and the Company's accountants to assist the Seller in the preparation and agreement of the Completion Accounts.

3.2.4 The Purchaser shall have 30 days from the date of receipt of the draft Completion Accounts to analyse the draft Completion Accounts and, if the Purchaser disagrees with the Completion Accounts or any item thereof, the Purchaser may send a notice of objection stating the corrections to be made to the Completion Accounts and the Net Asset Adjustment to the Seller (the "**Notice of Objection**"). The Completion Accounts and the Net Asset Adjustment shall be deemed to have been accepted and to be final and binding on the parties for all purposes if (a) the Purchaser has agreed with the draft Completion Accounts in writing within 30 days of receipt of the draft Completion Accounts; or (b) the Purchaser has not sent a Notice of Objection within 30 days of receipt of the draft Completion Accounts.

3.2.5 If a Notice of Objection is sent to the Seller and the Parties have failed in their attempt to reach an agreement within 30 days of receipt of the Notice of Objection by the Seller, the point of the Notice of Objection on which a disagreement remains shall be finally settled by a certified accountant from either PricewaterhouseCoopers or KPMG, member of the *Chambre fiduciaire suisse*, jointly designated by the Parties, or failing an agreement of the Parties, designated by the *Chambre de Commerce, d'Industrie et des Services de Genève*, at the request of either Party (the "**Expert**"). The Expert's fees and disbursements shall be borne by the Parties as determined by the Expert.



3.2.6 Notwithstanding any provision in this Clause 3 to the contrary, the Seller and the Purchaser shall, in respect of paragraph 19 (SIG Rebate) of the Accounting Policies only, be able to raise objections or queries for the Expert to decide upon up until the date the Completion Accounts are finally agreed in accordance with this Clause 3.

3.3 The Expert

3.3.1 Apart from procedural matters and as otherwise set out in this Agreement or agreed between the Seller and the Purchaser, the Expert shall determine only:

- (i) whether any of the arguments for an alteration to the Completion Accounts or the Net Asset Adjustment put forward in the Notice of Objection is correct in whole or in part; and
- (ii) if so, what alterations should be made to the Completion Accounts and the Net Asset Adjustment in order to correct the relevant inaccuracy in it.

3.3.2 The Expert shall apply the accounting principles, policies, procedures, practices and estimation techniques set out in Exhibit 3.2.2 (*Accounting Policies*);

3.3.3 The Expert shall make their determination pursuant to Clause 3.3.1 above as soon as is reasonably practicable;

3.3.4 The procedure of the Expert shall:

- (i) give the Seller and the Purchaser a reasonable opportunity to make written representations to them;
- (ii) require that each Party supply the other with a copy of any written representations at the same time as they are made to the Expert; and
- (iii) for the avoidance of doubt, the Expert shall not be entitled to determine the scope of their own jurisdiction.

3.4 The determination of the Expert pursuant to Clause 3.3.1 above shall:

3.4.1 be made in writing; and

3.4.2 unless otherwise agreed by the Seller and the Purchaser include reasons for each relevant determination.

3.5 The Expert shall act as an expert and not as arbitrator and the Expert's determination of any matter falling within the Expert's jurisdiction shall be final and binding on the Seller and the Purchaser save in the event of manifest error (when the relevant part of the Expert's determination shall be void and the matter shall be remitted to the Expert for correction). In particular, the Expert's determination shall be deemed to be incorporated into the Completion Accounts.

- 3.6 The Seller and Purchaser shall co-operate with the Company and comply with reasonable requests made in connection with the carrying out of the duties of the Parties under this Agreement. In particular, the Purchaser shall keep up-to-date and, subject to reasonable notice, make available to the Seller's representatives, the Seller's accountants and the Company all books and records relating to the Company during normal office hours as the Company may reasonably request during the period from the appointment of the Expert to the making of the relevant determination.
- 3.7 Each of the Seller and the Purchaser and the Company shall, and shall procure that its accountants and other advisers shall, keep all information and documents provided to them pursuant to this Clause 3 confidential and shall not use the same for any purpose, except for disclosure or use in connection with the preparation of the Completion Accounts, the proceedings of the Company or another matter arising out of this Agreement.
- 3.8 Dividends

The Purchaser will receive and be the sole beneficiary of the dividends relating to the Share voted after Signing or not yet distributed at Signing.

**4. PAYMENT OF THE PRICE**

4.1 Payment of the Basic Price

4.1.1 On the date of this Agreement:

- (i) The Purchaser shall pay CHF 37'420'640.81 (the "**Closing Cash Payment**"), representing:
  - (a) the Basic Price;
  - (b) less CHF 500,000,to the Seller to the Seller's Bank Account;
- (ii) In accordance with the terms of Clause 5 the Purchaser shall satisfy its obligation under Clause 3.1.1 to pay to the Seller an amount equal to the sum owed to the Company under the Seller Loan by assuming the Seller's obligations to repay the Seller Loan to the Company; and
- (iii) The Purchaser shall pay CHF 1'000'000 (the "**Adjustment Escrow**") into the Escrow Account in accordance with the procedural requirements of the Escrow Agreement.

4.2 Payment of the Net Asset Adjustment

- 4.2.1 Subject to Clause 4.2.2, the Net Asset Adjustment shall be paid by the Purchaser to the Seller, where it is a positive amount, or by the Seller to the Purchaser, where it is a negative amount, as the case may be, 10 days after it is finally decided as set forth in Clause 3 (the “**Adjustment Date**”).
- 4.2.2 The Net Asset Adjustment shall only be payable (whether a positive figure or a negative figure), provided the amount of the Net Asset Adjustment exceeds CHF 25'000.
- 4.2.3 On the Adjustment Date and subject to Clause 4.2.2 above and the procedural requirements of the Escrow Agreement:
- (i) If the Net Asset Adjustment is a positive amount, the Seller and the Purchaser shall procure that the Adjustment Escrow be distributed as follows:
    - (a) first, an amount equal to CHF500'000 will be paid to the Seller representing the balance of the Basic Price;
    - (b) then, an amount equal to the Net Asset Adjustment will be paid to the Seller;
    - (c) any amount of the Adjustment Escrow remaining shall be released to the Purchaser.

If following payment of the balance of the Basic Price the remaining amount of the Adjustment Escrow is insufficient to cover the full amount of the Net Asset Adjustment under paragraph (b) above, then the Purchaser shall pay the amount of the shortfall to the Seller.
  - (ii) If the Net Asset Adjustment is a negative amount and is a sum *less* than CHF 500'000, then the Seller and the Purchaser shall procure that the Adjustment Escrow be distributed as follows:
    - (a) An amount equal to the difference between CHF500'000 and the sum of the Net Asset Adjustment will be paid to the Seller; and
    - (b) any amount of the Adjustment Escrow remaining shall be released to the Purchaser.
  - (iii) If the Net Asset Adjustment is a negative amount and *exceeds* the sum of CHF500'000, then:
    - (a) the entire Adjustment Escrow shall be released to the Purchaser; and
    - (b) The Seller shall pay the Purchaser the amount by which the negative Net Asset Adjustment exceeds the sum of CHF500'000.
- 4.2.4 The Seller and the Purchaser undertake to instruct the Escrow Agent on the Adjustment Date, in accordance with the procedural requirements of the Escrow Agreement, to procure the distribution of the Adjustment Escrow in accordance with the provisions of Clause 4.2.3 above.

4.2.5 Any payment to be made in accordance with this Clause 4.2 shall include interest thereon calculated at the rate of interest applied to the Escrow Account.

**5. SELLER GROUP LOANS**

On the date of this Agreement and in satisfaction of the Purchaser's obligation under Clause 3.1.1 to pay to the Seller an amount equal to the sum owed by the Seller to the Company under the Seller Loan:

- 5.1 the Seller shall assign, and the Purchaser shall accept such assignment of, the Seller's obligations under the Seller Loan; and
- 5.2 the Purchaser shall then procure that the Company releases the Seller from all obligations under the Seller Loan.

**6. DELIVERABLES**

- 6.1 Documents to be delivered by the Seller

6.1.1 On the date of this Agreement, the Seller shall deliver to the Purchaser the following documents:

- (a) The original certificate representing the Share, duly endorsed in blank.
- (b) The minutes of the Company's Shareholders' Meeting whereby the Seller, as shareholder of the Company, resolves to approve the transfer of the Share to the Buyer.
- (c) The Company's share register evidencing the change of ownership in the Share.
- (d) The transfer deed between the Parties to be filed with the Geneva Trade Registry, duly signed by the Seller (the "**Transfer Deed**").
- (e) A request to the Trade registry in respect of the change of ownership in the Share, the change of managers and the change of auditor, duly signed by the managers.
- (f) The resignation letters of Martin Dunning and William Westbrook as managers of the Company with effect from the date of this Agreement, whereby the managers also confirm that they have no claim whatsoever against the Company.
- (g) Resignation letter of Deloitte SA, succursale de Meyrin, as external auditor of the Company with effect from the date of this Agreement, whereby the auditor also confirm that it has no claim whatsoever against the Company.
- (h) The Escrow Agreement, duly executed by the Seller.
- (i) The original of the Guarantee.

(j) A letter from Credit Suisse confirming that there will be no change to the terms and conditions of the Loan Documentation or the Swap Agreement as a result of the acquisition of the Company by the Purchaser.

(k) All books and records regarding the operation of the Company's business which are in the Seller's control or possession.

6.2 Documents to be delivered by the Purchaser

6.2.1 Upon the Seller's presentation of the documents referred to at Clause 6.1 above, the Purchaser shall sign the Transfer Deed and pay the Basic Price according to Clause 4.1 above.

6.2.2 On the date of this Agreement, the Purchaser shall deliver to the Seller the following documents:

(a) Evidence that the Purchaser is authorised to execute this agreement and the Escrow Agreement.

(b) A document, duly executed by the Purchaser, releasing the Seller from all its obligations under the Seller Loan.

(c) The Escrow Agreement, duly executed by the Purchaser.

6.2.3 Within five Business Days of Signing, the Purchaser shall deliver to the Seller a copy of the resolution of the Company contemplated by Clause 13.1.2 providing for an unconditional discharge for Will Westbrook and Martin Dunning in their capacity as managers of the Company in respect of their management of the Company prior to the date hereof.

6.3 Thereupon, the Parties shall exchange all documents enumerated above.

6.4 All actions taken at Signing shall be deemed to have occurred simultaneously.

**7. SETTLEMENT LIABILITIES**

7.1 Settlement Agreements

7.1.1 The Parties acknowledge that agreements have been entered into between the Company and Novimmune SA on 18 December 2010, the Company and Addex SA on 25 January 2011, the Company and Epithélix Sàrl on 25 January 2011, the Company and Ecllosion SA on 21 January 2011 and the Company and AMICOLAB SA on 25 January 2011 in order to settle various disputes relating to service and utility charges under the relevant lease agreements relating to the CTN building at 14 Plan-les-Ouates (the "**Settlement Agreements**"). Copies of the Settlement Agreements are attached hereto as **Exhibit 7.1.1**. The Seller hereby represents and warrants (i) that the Settlement Agreements attached hereto are original copies of the Settlement Agreements; (ii) that the Settlement Agreements settle all claims that Novimmune SA, Addex SA, Epithélix Sàrl, Ecllosion SA and AMICOLAB SA have raised under the relevant lease agreements for all periods prior to the date of the relevant Settlement Agreement; and (iii) that the terms of the Settlement Agreements preclude Novimmune SA, Addex SA, Epithélix Sàrl, Ecllosion SA or AMICOLAB SA from making any further claims against the Company in respect of Charges relating to the period prior to the date of the relevant Settlement Agreement.

- 7.1.2 The Parties refer to the turn-key agreement concluded on 24 January 2011 between the Company and Minerg-Appelsa Services SA (the “**Minerg Contract**”), a copy of which is attached hereto as **Exhibit 7.1.2.**
- 7.1.3 Copies of the Roof Contracts are attached hereto as **Exhibit 7.1.3.**
- 7.1.4 A copy of a draft agreement which has been negotiated with Les Festins Genevois in relation to the Les Festins Dispute is attached hereto as **Exhibit 7.1.4.**
- 7.1.5 A copy of the agreement which has been signed with Les Chambres du CTN in relation to the Les Chambres du CTN Dispute is attached hereto as **Exhibit 7.1.5.**

7.2 LEM Dispute

- 7.2.1 The Parties acknowledge that LEM SA has asserted certain claims against the Company relating to the calculation of service and utility charges under its lease agreement with the Company (the “**LEM Dispute**”). The Parties acknowledge that no settlement agreement has been signed with LEM SA and that LEM SA’s claims against the Company remain outstanding.
- 7.2.2 The Parties have agreed that an amount in settlement of the LEM Dispute has been included in the Settlement Liability for the purposes of Clause 7.3. Without prejudice to Clause 7.3, a draft agreement has been part negotiated with LEM S.A. and the draft agreement is appended hereto as Exhibit 7.1.1. The Seller agrees to offer its assistance to the Purchaser and to the Company in order to conclude the settlement agreement with LEM SA.

7.3 Settlement Liability

- 7.3.1 The Parties acknowledge and accept that an amount equal to the Settlement Liability will be deducted from the consideration for the Share in accordance with Clause 3.1.
- 7.3.2 Save in the case of inaccuracy of the representations and warranties in Clauses 7.1 and 7.2 above, neither the Seller nor the Purchaser shall have any further recourse against the other Party should the actual liabilities incurred by the Company under the Settlement Agreements, the Roof Contract and the Minerg Contract and in relation to the Les Festins Dispute, the LEM Dispute or the Les Chambres du CTN Dispute be greater or less than the Settlement Liability.
- 7.3.3 There will be no provision for the Settlement Liability included in the Completion Accounts.

7.4 Charges Indemnity

- 7.4.1 The Seller shall indemnify and keep indemnified the Company and the Purchaser (each a “**Purchaser Indemnified Person**”) from and against any Service Claim Damage suffered by any Purchaser Indemnified Person.

7.4.2 The Seller shall not be liable under the indemnity contained in Clause 7.4.1 above for any Damage to the extent that such Damage has been increased or exacerbated by any act or omission of a Purchaser Indemnified Person or any person acting under their authority or at their direction.

7.5 SIG Claims

7.5.1 The Purchaser will use reasonable efforts to cause the Company to enter into a settlement agreement with SIG within 60 days of the Signing Date which will provide that SIG will reimburse the Company of certain electricity charges incurred prior to the Signing Date. The Purchaser agrees to update the Seller regarding the progress of discussions with SIG on an ongoing basis and the Purchaser shall notify the Seller of any meetings to be held with SIG to discuss this rebate and (where reasonably possible), ensure that the Seller is invited to such meetings.

**8. WARRANTIES OF THE SELLER**

8.1 Introduction

8.1.1 Any Seller's Warranty qualified by the expression "so far as the Seller and/or the Company are aware", or any similar expression shall, unless otherwise stated, be deemed to refer to the actual knowledge of Will Westbrook, Martin Dunning, Société Privée de Gérance SA and SPG Intercity Geneva SA.

8.2 Seller's Disclosures

8.2.1 The Seller's Warranties in Clause 9 are subject to the following matters:

- (a) any matter which is contained or referred to in this Agreement ;
- (b) any information contained in and reasonably apparent from the documents provided in the Data Room and provided in a way which is not misleading;
- (c) all matters which would be revealed by making a search on the date of this Agreement on the public file at the Swiss Register of Land and the Swiss Register of Commerce;
- (d) all matters disclosed in and reasonably apparent from the 2009 Financial Statements and 2010 Financial Statements as supplied to the Purchaser, and provided in a way which is not misleading;
- (e) all matters reasonably apparent from the books and records of the Company as supplied to the Purchaser, and provided in a way which is not misleading.

**9. SELLER'S REPRESENTATIONS AND WARRANTIES AT SIGNING**

The Seller hereby makes the following representations and warranties to the Purchaser which are true as of the date of this Agreement:

9.1 Capacity of the Seller/Ownership

- 9.1.1 The Seller is the sole legal and beneficial owner of the Share, free and clear of any Encumbrances, and it has the right and power to execute this Agreement and to perform the Transaction.
- 9.1.2 There is no decision, judgment, proceedings or investigations whatsoever pending against the Seller which could prevent the completion of the Transaction.
- 9.1.3 The Seller requires no consent whatsoever of any third party to execute this Agreement and to complete the Transaction, subject to the Loan Documentation.
- 9.1.4 The execution of this Agreement and/or the completion of the Transaction does not constitute a breach of contract to which the Seller or the Company is a party.

#### 9.2 Corporate organisation

- 9.2.1 The Company is duly incorporated in Switzerland and validly existing under Swiss law and it has the full corporate authority and power to carry out the Business as presently conducted.
- 9.2.2 The Articles of incorporation of the Company dated June 5, 2008 and attached hereto as **Exhibit 9.2.2** are a true, complete and correct copy of the Articles of incorporation of the Company, and have not been modified since June 5, 2008.
- 9.2.3 The extract of the Trade Registry of the Company attached herein as **Exhibit 9.2.3** is a true, complete and correct copy of the extract of the Trade Registry of the Company.
- 9.2.4 The Company has not adopted internal regulations.
- 9.2.5 Only Mr. Martin Dunning and Mr. William Westbrook have had the capacity to represent the Company. The Company (including its managers) has not granted a power of attorney to a third party that is still valid.

#### 9.3 Capital Structure

- 9.3.1 The share capital of the Company is CHF 20'000.- and is divided into one single share of CHF 20'000.-, fully paid up.
- 9.3.2 The Share has been validly issued and is validly represented in a share certificate dated March 9, 2007.
- 9.3.3 No shares have been issued by the Company other than the Share.
- 9.3.4 There are no outstanding rights that could require the Company to issue or sell any shares of its capital.

#### 9.4 Distributions to the Seller

- 9.4.1 The net retained earnings of the Company as reflected in the 2010 Financial Statements and which are distributable reserves in accordance with Swiss law have been entirely distributed to the Seller as the shareholder of the Company in full compliance with Swiss corporate law. No other distribution subject to restitution to the Company has been decided and/or occurred to the Seller.



- 9.4.2 All Taxes, if any, have been paid by the Company in connection with dividends paid by the Company, and such distribution will result in no tax liabilities whatsoever for the Company.
- 9.4.3 No interim dividends have been distributed by the Company in 2010 in relation to the financial year 2010.
- 9.5 Intercompany loans and agreements with affiliated parties
- 9.5.1 Other than the Seller Loan, there are no other loans between the Company and the Seller or any affiliated companies.
- 9.5.2 All other claims of the Company against the Seller, affiliated companies or related individuals, if any, have been settled in full at arm's length, without potential liabilities for the Company.
- 9.5.3 Other than the Seller Loan, there is no material agreement in force between the Company, the Seller or affiliated companies or related individuals and none of them may claim any rights, benefits or compensation against the Company.
- 9.6 Ordinary Course of Business
- 9.6.1 Since December 31, 2010, the Business has been operated in the ordinary course and consistent with past practice and with the terms and conditions of this Agreement.
- 9.7 The Property
- 9.7.1 Subject to public law, the Property Documentation comprises all agreements and documents governing the rights and obligations of the Company vis-à-vis the State of Geneva and related public bodies in connection with the Property.
- 9.7.2 The Company is the sole owner of the Property. It does not own the Property on a fiduciary basis for a third party, no third party has been granted a right of pre-emption or a right to purchase or repurchase the Property, except those set forth in the Property Documentation.
- 9.7.3 The Seller and/or the Company are not aware of any easements, charges, Encumbrances whatsoever on the Property, except for the easements restrictions and mortgage notes registered in the Land registry.
- 9.7.4 No mortgage has been and/or will be registered on the Property in application to art. 837 al. 1 ch. 3 of the Swiss Civil Code in relation to works that occurred and/or material that was delivered prior to the Signing.
- 9.7.5 The rental of the Property (or any fraction thereof) and the use of the rented premises by the tenants is an allowable use of the Property under the Property Documentation. To the knowledge of the Seller, there are neither any (i) applications, ordinances, petitions, resolutions or other matters pending before any governmental authority having jurisdiction to act on zoning changes that would prohibit or make nonconforming the current use of the Property or any fraction thereof nor (ii) any pending or threatened condemnation or eminent domain proceedings (*expropriation formelle*), or proposed sale in lieu thereof.

- 9.7.6 The Company has customary real estate insurance coverage (in particular building insurance and liability insurance) in connection with the Property (including all its buildings or constructions).
- 9.8 Construction permits
- 9.8.1 Other than work being carried out in relation to the Minerg Contract and repairs to the roof of CTN 12 under the Roof Contract, all works carried out on the Property by the Company have been performed pursuant to a valid and enforceable construction permit, when required.
- 9.9 Lease agreements
- 9.9.1 The FTI and/or the State of Geneva have accepted the names and activities of tenants of all the lease agreements that have been concluded up to the Signing with the various tenants (former or existing) of the Property.
- 9.9.2 The list of the lease agreements over the Property's premises in force at Signing, attached hereto as **Exhibit 9.9.2** is true and accurate. The lease agreements that have been terminated (but that are still in force at the Signing), as well as the lease agreements that are not yet in force at the Signing but that have already been concluded are mentioned as such in Exhibit 7.10.4. There are no adverse or other parties in possession of the Property or any portion or portions thereof, and the Property is free and clear of any and all leases, licenses, occupants, or tenants other than those listed in Exhibit 7.10.4.
- 9.9.3 No written communication has been received by the Company from any tenant of the Property expressing an intention to terminate its lease.
- 9.9.4 Except in the cases listed in **Exhibit 9.9.4**, each tenant pays VAT on the rent and the Charges. Any increase of the VAT (including that which entered into force on January 1st, 2011) can be fully passed on to the tenants. The fact that certain lease agreements do not specifically mention that the VAT is due by the tenant has and will have no adverse consequences for the Company
- 9.9.5 So far as the Seller and/or the Company are aware, the tenants use the Property in compliance with all laws and regulations. The authorities have not made any claim in writing against the Company in respect of the use of the Property made by the tenants, in particular in respect of the A/C devices installed by some tenants.
- 9.10 Rental Income
- 9.10.1 All information and figures contained in the chart describing *inter alia* the Rental Income 2010, as attached in **Exhibit 9.10.1** are true and accurate in every material respect.
- 9.11 Management and maintenance agreements
- 9.11.1 The agreements to which the Company and entities of the SPG Group (and, as the case may be, the Seller) are both parties can be terminated by the Company at any time, subject to their contractual term, without financial consequences.

9.12 Environmental and safety considerations

- 9.12.1 The Company has not received a written notice of non-compliance with applicable environmental regulations.
- 9.12.2 The Property is not listed at the *Cadastre des sites pollués*. The Seller and/or the Company are not aware of any fact or circumstance that could lead to the registration of all or part of the Property on said cadastre.
- 9.12.3 The Company has not received a written notice of non-compliance with Article 121 Geneva Law on Constructions. No written correspondence has been received from or exchanged with the authorities of Geneva in the past four years in relation to fire and safety issues.
- 9.12.4 No third party has a claim against the Company in relation to the fire that occurred on April 15, 2008 on the Property. The Company has taken all necessary and appropriate actions after the aforementioned fire, in particular the measures recommended Axa Winterthur in its report regarding the accident.

9.13 Business in compliance with laws and regulations

- 9.13.1 So far as the Seller and/or the Company is aware, the Company carries on the Business in material compliance with all applicable laws and regulations.

9.14 Litigation

- 9.14.1 The Company (or any person for whose acts or omissions it may be liable) is not involved, whether as plaintiff, defendant or other party, in any claim, legal action, proceeding, suit, litigation, prosecution, investigation, enquiry or arbitration of any kind whether domestic or foreign, civil, administrative or criminal which is material to the Business and/or the Property. So far as the Seller and/or the Company are aware, no such proceedings are threatened, by or against the Company.
- 9.14.2 Each Indemnified Tenant has paid in full (i) in respect of the Financial Period, all Charges owed to the Company; and (ii) in respect of the financial year ending 31 December 2010, the estimate of Charges provided for in each Indemnified Tenant's lease with the Company.

9.15 Financial Statements

- 9.15.1 The 2009 Financial Statements and the 2010 Financial Statements have been prepared in accordance with Swiss applicable laws on a basis consistent with that adopted in preparing the audited accounts of the Company for the previous two financial years, as well as in accordance with the principles and methods generally accepted at the Accounts Date in Switzerland and have been duly approved by the statutory auditor. The 2009 Financial Statements and the 2010 Financial Statements comply with Swiss law and the Company's articles of association at the Accounts Date.
- 9.15.2 The 2010 Financial Statements are not misleading having regard to the purpose for which they are drawn up and do not materially misstate the net assets of the Company as at 31 December 2010.

9.16 Employees

9.16.1 The Company does not have and never has had any employees.

9.17 Taxes

- 9.17.1 All Tax returns, computations, notices and information required to be made, given or filed with the competent tax authorities for any Tax purpose by or with respect to the Company for all taxable periods ending on or prior to the Signing Date have been made, given or filed in accordance with all laws, regulations and directives within the requisite periods and are up-to-date and correct in all respects and none of them is the subject of any dispute with any tax authorities.
- 9.17.2 All direct, indirect and other Taxes for which the Company is liable in every jurisdiction have been duly paid or appropriately provided for in the 2009 Financial Statements and the 2010 Financial Statements, and the Company has not incurred any liabilities to interest or penalties in respect of them and, in particular, the Company has made all such deductions, withholdings and retentions as it was obliged or entitled to make and all such payments as it should have made.
- 9.17.3 The Company has not received from any tax authority any payment to which it was not entitled nor has it received any tax assessment in which its tax liability was understated. The Company is not liable to pay, to reimburse or to indemnify any person (including a tax authority) in respect of the Tax liability of any other person.
- 9.17.4 The Company was never subject to, and is presently not subject to, any inspection, investigation, audit or other administrative proceeding in relation to Taxes.
- 9.17.5 The Company has not paid any constructive or hidden dividends, or performed any actions or disposals that may be regarded by the tax authorities as constructive dividends.
- 9.17.6 The Company will have no liability for Swiss withholding tax with respect to any distribution made prior to the date hereof.
- 9.17.7 The Seller shall refrain from any action that could result in the sale of the Share being subject to the Geneva property transfer tax ("*droit d'enregistrement*").

9.18 Intellectual Property

9.18.1 The Company owns no Intellectual Property.

9.19 Agreements

- 9.19.1 All material agreements, commitments and arrangements to which the Company is a party and which are in writing have been included in the Data Room. The Company has fulfilled all its obligations under the Loan Documentation.
- 9.19.2 All agreements, commitments and arrangements to which the Company is party and which are material to the Business, to the Property and/or to the Transaction (including change of control clauses) are in writing.

9.19.3 Other than this Agreement, the Seller has not entered into any agreement regarding its shareholding in the Company.

9.20 Guarantees

9.20.1 There is no outstanding guarantee, indemnity, suretyship, letter of comfort or any commitment given by the Company.

9.21 Events occurring after the Date of Completion Accounts

9.21.1 The bank statements of the Company appended out as **Exhibit 9.21** are true copies of the statements of those bank accounts of the Company at 8am on March 2<sup>nd</sup>, 2011.

9.22 LEM

9.22.1 So far as the Seller is aware, the summary of discussions with LEM appended at **Exhibit 9.22.1** is true and accurate.

9.22.2 The Data Room includes all written and electronic correspondence between the Company and LEM in respect of the LEM Dispute.

**10. REPRESENTATIONS AND WARRANTIES OF THE PURCHASER**

10.1 Introduction

10.1.1 The Purchaser makes the following representations and warranties to the Seller which are true as of the date of this Agreement.

10.2 Incorporation and Authority

10.2.1 The Purchaser is duly incorporated and validly existing under the laws of Luxembourg and has the full corporate power and authority to execute this Agreement, to carry out its obligations thereunder and to complete the purchase of the Share.

10.2.2 The Purchaser has taken all corporate action required by it to authorise it to enter into and perform this Agreement and any other documents to be executed by it pursuant to or in connection with this Agreement.

10.3 Effect of Execution of the Agreement

10.3.1 The execution of this Agreement by the Purchaser does not violate any provisions of the articles of association of the Purchaser. The Purchaser does not require any governmental consent of any nature to execute this Agreement and to complete the purchase of the Share and this Agreement constitutes valid and binding obligations on the Purchaser in accordance with its terms.

10.4 Financing

At the relevant time for payment, the Purchaser will be able to pay the Basic Purchase Price and any Basic Price Adjustment from its existing banking facilities and available cash.

10.5 Knowledge

None of the directors, officers, employees, agents or financial, accounting or legal advisers of the Purchaser involved in negotiating the acquisition of the Company is aware of any facts, matters or circumstances which could reasonably be expected to give rise to a claim being made against the Seller for breach of this Agreement.

**11. CONDUCT OF CLAIMS AND LIMITATIONS**

11.1 Reliance

The Purchaser is entering into this agreement on the basis of, and in reliance on, the Representations and Warranties of the Seller.

11.2 Time Limitation for Claims

The Seller shall not be liable under this Agreement in respect of any claim unless a Notice of the Claim (as defined hereafter) is given by the Purchaser to the Seller within 18 months following the date of this Agreement. Notwithstanding the provisions of Article 210 CO, the Purchaser shall not be restricted by law from filing a breach of warranty claim against the Seller provided that a Notice of Claim was delivered to the Seller within the aforementioned eighteen (18) month period.

11.3 Notice of Claims.

11.3.1 All claims sent by the Purchaser to the Seller shall be the subject of a written notification setting forth the information as is available to the Purchaser, the Purchaser's estimate of the amount and evidence reasonably satisfactory to the Seller of the amount payable. Such notification is hereinafter referred to as a "**Notice of Claims**".

11.3.2 Subject to the limitations herein and absent any objection notified by the Seller to the Purchaser within 45 days of receipt by it of a Notice of Claims (the "**Claim Payment Date**"), payment shall become due. If the Seller notifies their objection prior to the Claim Payment Date, and the dispute cannot be settled amicably, the dispute shall be decided in accordance with the provisions of Clause 17 below. If a dispute over a claim is decided in favour of the Purchaser, then the arbitrator shall include interest calculated from the Claim Payment Date on any award made by the arbitrator.

11.3.3 Subject to the limitations herein, Notice of Claims shall be given no later than 6 months after the date on which the notifying Party has obtained full knowledge of the existence of such claims. The provisions of Article 201 CO are hereby waived and replaced by the above.

11.4 Measure of Damages

If any Seller representation or warranty is breached or proves to be untrue or misleading (a "**Warranty Breach**"), the Seller shall pay to the Purchaser:

11.4.1 the full amount of any shortfall or diminution in value of any assets (including loss of profit proved and calculated under Swiss Law) or increase in liabilities of the Company or of the Company's business, measured as of the date of this Agreement, as a result of a Warranty Breach; and

11.4.2 all reasonable costs and expenses (including, legal and other professional fees) incurred by the Purchaser or the Company as a result of the Warranty Breach.

11.5 Purchaser's Actual Knowledge

Without prejudice to knowledge imputed to a Purchaser under Swiss law, the Seller shall not be liable in respect of any claim arising out of a breach of a representation or warranty to the extent that the facts, matters or circumstances giving rise to the relevant claim were notified in writing by the Seller to the Purchaser prior to the date of this Agreement.

11.6 Third Party Claims

If the matter or circumstance that may give rise to a claim against the Seller under this Agreement is a result of or in connection with a claim by a third party (a "**Third Party Claim**") then:

11.6.1 The Purchaser shall notify the Seller (providing such information as is required in a Notice of Claims pursuant to Clause 11.3.1.) as soon as reasonably practicable after it becomes aware of a Third Party Claim ("**Notice of Third Party Claim**").

11.6.2 Within ten (10) Business Days of receipt of a Notice of Third Party Claim, the Seller may elect to assume the defence of the Third Party Claim with counsel of reputable standing to act on behalf of the Purchaser or the Company (but in accordance with the Seller's instructions) that is reasonably acceptable to the Purchaser by delivering notice to the Purchaser (a "**Defence Notice**"). If the Seller delivers a Defence Notice, then:

- (i) The Seller and the Purchaser shall reasonably co-operate in the defence of such Third Party Claim. The Purchaser shall, and the Purchaser shall procure that the Company shall, make available to the Seller and its counsel, all such information and assistance including access to premises and personnel and the right to examine and copy or photograph any assets, relevant accounts, records and documents and take such other action (subject to being paid all reasonable costs) and sign such documents as are reasonably necessary to defend such Third Party Claim in a timely manner;
- (ii) the Purchaser and the Seller shall consult with each other regarding the conduct of the Third Party Claim and the Purchaser shall take reasonable account of the views of the Seller before taking any action in relation to the Third Party Claim; and
- (iii) the Purchaser shall not, and the Purchaser shall procure that the Company shall not, make an admission in relation to the Third Party Claim nor shall the Purchaser, and the Purchaser shall procure that the Company shall not, compromise, dispose of or settle such Third Party Claim without the written consent of the Seller (such consent not to be unreasonably withheld or delayed);

- (iv) the Purchaser shall, and the Purchaser shall procure that the Company shall, take such action as the Seller may reasonably request to avoid, dispute, deny, defend, resist, appeal, compromise or contest the Third Party Claim; and
- (v) the Seller shall be entitled at its own expense and in its absolute discretion (having consulted with the Purchaser and taken reasonable account of the Purchaser's views) to take such action as it shall deem necessary to avoid, dispute, deny, defend, resist, appeal, compromise or contest the Third Party Claim (including making counterclaims or other claims against third parties, if such claims are made on a reasonable basis and will not cause the Purchaser or the Company material harm) in the name of and on behalf of the Purchaser or the Company and to have the conduct of any related proceedings, negotiations or appeals.

11.6.3 If the Seller does not deliver a Defence Notice, the Purchaser or the Company, as the case may be, shall have the full right to defend such Third Party Claim, and shall be entitled to reasonably settle or agree to pay in full such claim, provided that the Purchaser first consults with the Seller and takes reasonable account of the views of the Seller.

11.7 Minimum Claims

11.7.1 Save in the case of any claim under Clause 9.1.1, the Seller shall not be liable under this Agreement in respect of any individual claim (or a series of claims arising from substantially identical facts or circumstances) where the liability agreed or determined in respect of any such claim or series of claims does not exceed CHF20'000.

11.7.2 Where the liability agreed or determined in respect of any such claim or series of claims exceeds CHF20'000, subject as provided elsewhere in this Clause 11, the Seller shall be liable for the amount of the claim or series of claims as agreed or determined.

11.8 Aggregate Minimum Claims

11.8.1 Save in the case of any claim under Clause 9.1.1, the Seller shall not be liable under this Agreement in respect of any claim unless the aggregate amount of all claims for which the Seller would otherwise be liable under this Agreement exceeds CHF 75,000.

11.8.2 Where the amount agreed or determined in respect of all claims referred to in Clause 11.8.1 exceeds CHF 75,000 subject as provided elsewhere in this Clause 11, the Seller shall be liable for the aggregate amount of all claims as agreed or determined.



11.9 Maximum Liability

Save in the case of any claim for a Warranty Breach under Clauses 9.1. (Capacity of the Seller/ownership) 9.2 (Corporate Organisation), 9.3 (Capital Structure), the aggregate liability of the Seller in respect of all breaches of this Agreement shall not exceed CHF 4,125,000. Notwithstanding the foregoing, nothing herein shall prevent the Purchaser from obligating the Seller to specifically perform its obligations under this Agreement.

11.10 Contingent Liabilities

The Seller shall not be liable under this Agreement in respect of any liability which is contingent unless and until such contingent liability becomes an actual liability and is due and payable.

11.11 Provisions

The Seller shall not be liable under this Agreement in respect of any claim if allowance, provision or reserve is made in the Completion Accounts for the matter giving rise to the claim, thus reducing the Net Asset Adjustment accordingly.

11.12 Matters Arising Subsequent to this Agreement

The Seller shall not be liable under this Agreement in respect of any matter, act, omission or circumstance (or any combination thereof), including the aggravation of a matter or circumstance and any Damage arising therefrom, to the extent that the same would with certainty not have occurred but for:

(a) Agreed matters

any matter or thing done or omitted to be done pursuant to and in compliance with this Agreement or otherwise at the request in writing or with the approval in writing of the Purchaser.

(b) Acts of the Purchaser

any act, omission or transaction of the Purchaser or any member of the Purchaser's Group or the Company, or their respective directors, officers, employees or agents or successors in title, after Signing;

(c) Changes in legislation

(i) the passing of, or any change in, after the date of this Agreement any law, rule, regulation or administrative practice of any government, governmental department, agency or regulatory body including (without prejudice to the generality of the foregoing) any increase in the rates of Taxation or any imposition of Taxation or any withdrawal of relief from Taxation not actually (or prospectively) in effect at the date of this Agreement; or

(ii) any change after Signing of any generally accepted interpretation or application of any legislation;

(d) Accounting and Taxation Policies

any change in accounting or Taxation policy, bases or practice of the Purchaser or the Company introduced or having effect after Signing.

11.13 Insurance

11.13.1 The Seller shall not be liable under this Agreement for any claim to the extent that compensation has been paid to the Purchaser or the Company under the terms of an insurance policy. Provided that the Seller shall be liable for the amount of any deductibles and increased insurance costs which are incurred by the Company or the Purchaser in claiming under such insurance policy.

11.13.2 If the Purchaser wishes to assert a claim against the Seller for a matter that is covered by the Company's or the Purchaser's insurance, the Purchaser shall, and shall procure that the Company shall, first make a claim under that insurance policy before seeking compensation from the Seller.

11.14 Mitigation of Damage

The Purchaser shall procure that all reasonable steps are taken and all reasonable assistance is given to avoid or mitigate any Damage which in the absence of mitigation might give rise to a liability in respect of any claim under this Agreement.

**12. GUARANTEE**

On the date of this Agreement, Apollo European Real Estate Fund II, L.P. and Apollo European Real Estate Fund II (Euro), L.P. (the "**Funds**") shall issue a guarantee, subject to the governing law and arbitration clauses as per this Agreement, whereby the Funds shall guarantee the performance of the obligations of the Seller under this Agreement in the form attached hereto as **Exhibit 12** (the "**Guarantee**").

**13. COVENANTS**

13.1.1 Each Party agrees that it will co-operate with and make available to the other Party, during normal business hours, all books and records and information retained and remaining in existence after the Signing Date which are necessary or relevant in connection with any tax filing, inquiry or dispute, third party litigation, lease agreement, or any other matter requiring any such records or information in relation to the performance of this Agreement. The Party requesting any such information shall bear all reasonable out of pocket costs and expenses incurred in connection with providing such information.

13.1.2 The Purchaser:

- (i) shall procure that an annual general meeting of the Company shall be held within five Business Days of the date of this Agreement and the Purchaser shall vote or cause the relevant quotaholders to vote in favour of a resolution to provide for an unconditional discharge for Will Westbrook and Martin Dunning in their capacity as managers of the Company in respect of their management of the Company prior to the date hereof; and

- (ii) undertakes that it shall not make any claim against either Will Westbrook or Martin Dunning in their capacity as managers or former managers of the Company in connection with their management of the Company or in connection with the transaction contemplated by this Agreement.

13.1.3 The Seller and the Purchaser agree that they will comply with the terms of the Escrow Agreement and each of the Seller and the Purchaser agree to take such steps as are necessary to enable the payments contemplated by Clause 4 to be made in accordance with Clause 4 and the procedural requirements of the Escrow Agreement.

13.1.4 If at any time after the Signing, any further action is necessary or desirable to carry out the purpose of this Agreement, each Party hereto shall, at its own expense, execute and deliver such documents and take such further actions as may be reasonably required to carry out the provisions of this Agreement and give effect to the transaction contemplated by this Agreement.

**14. REFERENCE TO THE ARTICLES OF INCORPORATION**

14.1.1 Pursuant to Art. 785 § 2 CO, the parties hereby make reference to Article 8 of the articles of incorporation of the Company (“Devoir de fidélité et interdiction de faire concurrence”), which provides that the shareholders of the Company (*associés*) shall not compete with the Company.

**15. MISCELLANEOUS**

15.1 Transaction Costs

All costs relating to the preparation and negotiation of this Agreement shall be borne by the Parties, with each Party bearing its own costs.

15.2 Confidentiality

Subject to Clause 15.7, the Parties undertake to keep the contents of this Agreement confidential and not to inform any third party about its content unless required to do so by law or unless mutually agreed upon by the Parties.

15.3 Waiver/Remedies

Except if this Agreement requires the exercise of a right within a certain period of time, no delay on the part of any Party in exercising any right, power or privilege under this Agreement shall operate as a waiver thereof. Save to the extent this Agreement provides otherwise, a waiver or a partial exercise on the part of the Parties of any right, power or privilege under this Agreement or the completion of the Transaction shall not preclude any other or further exercise thereof or the exercise of any other right, power or privilege under this Agreement.

15.4 Entire Agreement

This Agreement together with the Exhibits, the Guarantee and all documents referred to herein, (including the Escrow Agreement and the assignment of the Seller Loan) constitute the entire agreement between the Parties with respect to the Transaction and shall replace all other prior agreements or understandings of the Parties relating thereto.

15.5 Amendments and Modifications

This Agreement may not be amended or modified except by a document in writing duly executed by the Parties. The Parties agree that they jointly negotiated and prepared this Agreement and that it shall not be construed against any Party on the grounds that such Party prepared or drafted the same.

15.6 Duty to co-operate

Each Party undertakes to co-operate fully, as and to the extent reasonably requested by the other Party, in connection with the filing of Tax Returns and any audit, litigation or other proceedings in order to safeguard its interests vis-à-vis third parties.

15.7 Announcements

For 12 months after the date of this Agreement, no announcement or circular in connection with the existence or the subject matter of this Agreement shall be made or issued by or on behalf of any member of the Seller's Group or the Purchaser's Group without the prior written approval of the Seller and the Purchaser. This shall not affect any announcement or circular required by law or any regulatory body or the rules of any stock exchange on which the shares of either party (or its holding company) are listed but the party with an obligation to make an announcement or issue a circular (or whose holding company has such an obligation) shall consult with the other party (or shall procure that its holding company consults with the other party) insofar as is reasonably practicable before complying with such an obligation.

15.8 Counterparts

This Agreement may be entered into in any number of counterparts, all of which taken together shall constitute one and the same instrument. The Seller and the Purchaser may enter into this Agreement by executing any such counterpart.

15.9 Notices

Notices hereunder shall be in writing. Notice shall be deemed received upon receipt of a registered letter or fax with confirmation of receipt addressed as follows:

**If to the Seller:**

Apollo CTN Sàrl  
43 Avenue J.F. Kennedy  
L-1855 Luxembourg  
Attention: Anne Delord

Fax: +352 2620 1546

with a copy to

AREA Property Partners  
1 Knightsbridge  
3<sup>rd</sup> Floor  
London SW1X 7LX

Attention: Will Westbrook and Luke Hamill  
Fax: +44 207 655 2980

**If to the Purchaser:**

OPCTN SA  
6, rue Jean Bertholet,  
1233 Luxembourg,  
Luxembourg

with copies to

BCCC Attorneys-at-law LLC  
5, rue Jacques-Balmat  
1204 Genève

Attention: Manuel Bianchi della Porta & Mathieu Simona

Telephone (for verification purposes only): +41 22 704 36 00  
Fax: + 41 22 704 36 01;

and

Optibase Ltd.  
7 Shenkar Street  
Herzliya 46725, Israel

Attention: Amir Philips

15.10 Severability

Each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be unenforceable or invalid under applicable law, such provision shall be ineffective only to the extent of such unenforceability or invalidity and be replaced by such valid and enforceable provision which the Parties consider, in good faith, to match as closely as possible the invalid or unenforceable provision and attaining the same or a similar economic effect. The remaining provisions of this Agreement shall continue to be binding and in full force and effect.

15.11 Assignment

15.11.1 The Purchaser might transfer the present Agreement, including all rights and obligations hereunder, to any entity or entities (in which case the rights and obligations of the entities under the present Agreement will be joint and several) controlled by the Purchaser or controlling the Purchaser. The Seller hereby already gives its consent to such a transfer of contract.

15.11.2 Subject to Clause 15.11.1 above, no Party may assign or transfer, in whole or in part, or delegate all or any part of its rights, interests or obligations under this Agreement to any person without the prior written approval of the other Party. Any assignment or delegation made without such required approval shall be null and void.

**16. GOVERNING LAW**

This Agreement shall be governed and construed in accordance with the laws of Switzerland.

**17. ARBITRATION**

Any dispute, controversy or claim arising out of or in relation to this agreement, including the validity, invalidity, breach or termination thereof, shall be settled by arbitration in accordance with the Swiss Rules of International Arbitration of the Swiss Chambers of Commerce in force on the date when the Notice of Arbitration is submitted in accordance with these Rules.

The number of arbitrators shall be one.

The seat of the arbitration shall be in Geneva, Switzerland.

The arbitral proceedings shall be conducted in English.

This Agreement is executed in two copies, each of which shall be deemed an original but all of which shall constitute one and the same instrument.

*signatures on following page*

This Share Purchase Agreement is entered into as of the 2nd day of March, 2011 in two original copies.

**APOLO CTN S.à.r.l.**

By: /s/ Luke Hamill

Name:

Position: As per proxy dated 27 January 2011.

**OPCTN SA**

By: /s/ Manuel Bianchi della Porta

Name: Manuel Bianchi della Porta

Position: As per proxy dated as of 1st of March, 2011

By: \_\_\_\_\_

Name:

Position:

By: \_\_\_\_\_

Name:

Position:

- Exhibit 3.2.2:** Accounting Policies;
- Exhibit 7.1.1:** Settlement Agreements;
- Exhibit 7.1.2:** Minerg Contract;
- Exhibit 7.1.3:** Roof Contract;
- Exhibit 7.1.4 :** Draft agreement re Les Festins Dispute ;
- Exhibit 7.1.5 :** Agreement re Les Chambres du CTN Dispute.
- Exhibit 8.2.1(b):** Data Room List;
- Exhibit 9.2.2:** Articles of incorporation of the Company;
- Exhibit 9.2.3:** Excerpt of the Trade Registry of the Company;
- Exhibit 9.7:** Property Documentation;
- Exhibit 9.9.2:** List of the lease agreements in force at Signing;
- Exhibit 9.9.4:** List of the tenants that do not pay VAT;
- Exhibit 9.10.1:** Chart describing inter alia the Rental Income 2010;
- Exhibit 9.15.1:** Audited 2009 Financial Statements of the Company;
- Exhibit 9.15.2:** Audited 2010 Financial Statements of the Company.
- Exhibit 9.21 :** Bank statements of the Company as of March 2, 2011, 8am ;
- Exhibit 9.22.1 :** Summary of the discussion with LEM ;
- Exhibit 12:** Guarantee.



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 Miami LLC, a Delaware limited liability company

Optibase Real Estate Europe Sarl, a Luxemburg company

Optibase RE1 Sarl, a Luxemburg company

OPCTN SA, a Luxemburg company

Eldista GmbH, a Swiss company

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CODE OF BUSINESS CONDUCT AND ETHICS

OF

OPTIBASE LTD.

(as adopted by the Board of Directors on February 8, 2011)

**Introduction**

This Code of Business Conduct and Ethics (the “Code”) of Optibase Ltd. and any of its subsidiaries (the “Company”) covers a wide range of business practices and procedures. It does not cover every issue that may arise, but it sets out basic principles to guide all employees of the Company. All of our employees must conduct themselves accordingly and seek to avoid even the appearance of improper behavior.

Those who violate the standards in this Code will be subject to disciplinary action, up to and including termination of employment. If you are in a situation that you believe may violate or lead to a violation of this Code, follow the guidelines described in *Section 12* of this Code.

1. Compliance with Laws, Rules and Regulations

Obeying the law, both in letter and in spirit, is the foundation on which this Company’s ethical standards are built. All employees must respect and obey the laws of the cities, states and countries in which we operate. Although not all employees are expected to know the details of these laws, it is important to know enough to determine when to seek advice from immediate supervisors, managers or other appropriate personnel.

2. Conflicts of Interest

A conflict of interest exists when a person’s private interest interferes in any way with the interests of the Company.

You must avoid any personal activity, investment or association that could appear to interfere with good judgment concerning the Company’s best interests. You may not exploit your position for personal gain. You should avoid even the appearance of such a conflict. For example, there is a likely conflict of interest if you:

- cause the Company to engage in business transactions with relatives or friends;
- have more than a modest financial interest in the Company’s vendors, clients or competitors; or
- compete, or prepare to compete, with the Company while still employed by the Company and a reasonable time thereafter.

There are many other situations in which a conflict of interest may arise.

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It is almost always a conflict of interest for a Company employee to work simultaneously for a competitor, customer or supplier. You are not allowed to work for a competitor as a consultant or board member. The best policy is to avoid any direct or indirect business connection with our customers, suppliers or competitors, except on our behalf.

Conflicts of interest may not always be clear-cut, so if you have a question, you should consult with higher levels of management. Any employee, director or officer who becomes aware of a conflict or potential conflict should bring it to the attention of an immediate supervisor, manager or other appropriate personnel or consult the procedures described in *Section 12* of this Code.

3. Insider Trading

Employees who have access to confidential information are not permitted to use or share that information for stock trading purposes or for any other purpose except the conduct of our business. All non-public information about the Company should be considered confidential information. To use non-public information for personal financial benefit or to "tip" others who might make an investment decision on the basis of this information is not only unethical but also illegal. In order to assist with compliance with laws against insider trading, the Company has adopted a specific policy governing employees' trading in securities of the Company. This policy has been distributed to all relevant employees. If you have any questions, please consult the Company's Chief Financial Officer.

4. Corporate Opportunities

Employees, officers and directors are prohibited from taking for themselves personal opportunities that are discovered through the use of corporate property, information or position without the consent of the Board of Directors (and/or the audit committee if required by any applicable law). No employee may use corporate property, information, or position for improper personal gain, and no employee may compete with the Company directly or indirectly. Employees, officers and directors owe a duty to the Company to advance its legitimate interests when the opportunity to do so arises.

5. Competition and Fair Dealing

We seek to outperform our competition fairly and honestly. Stealing proprietary information, possessing trade secret information that was obtained without the owner's consent, or inducing such disclosures by past or present employees of other companies are prohibited.

Each employee should endeavor to respect the rights of and deal fairly with the Company's customers, suppliers, competitors and employees. No employee should take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other intentional unfair-dealing practice.

Aggressive selling should not include misstatements, innuendo or rumors about our competition or their products and financial condition. Do not make unsupportable promises concerning the Company's products.

6. Gifts

The purpose of business entertainment and gifts in a commercial setting is to create good-will and sound working relationships, and not to gain unfair advantage with customers. No gift or entertainment should ever be offered, given, provided or accepted by any Company employee, family member of an employee or agent unless it complies with all of the following: (1) is not a cash gift, (2) is consistent with customary business practices, (3) is not excessive in value, (4) cannot be construed as a bribe or payoff and (5) does not violate any laws or regulations. Please discuss with your immediate supervisor any gifts or proposed gifts that you are not certain are appropriate.

7. Record-Keeping

The Company requires honest and accurate recording and reporting of information in order to make responsible business decisions. For example, only the true and actual number of hours worked should be reported.

Many employees regularly use business expense accounts, which must be documented and recorded accurately. If you are not sure whether a certain expense is legitimate, ask your immediate supervisor or the Company's controller.

All of the Company's books, records, accounts and financial statements must be maintained in reasonable detail, must appropriately reflect the Company's transactions and must conform both to applicable legal requirements and to the Company's system of internal controls. Unrecorded or "off the books" funds or assets should not be maintained.

Mistakes should never be covered up, but should be immediately fully disclosed and corrected. Falsification of any record is prohibited.

8. Protection and Proper Use of Company Assets

All employees should endeavor to protect the Company's assets and ensure their efficient use. Theft, carelessness, and waste have a direct impact on the Company's profitability. Any suspected incident of fraud or theft should be immediately reported for investigation.

Company equipment should not be used for non-Company business, though incidental personal use may be permitted.

The obligation of employees to protect the Company's assets includes its proprietary information. Proprietary information includes intellectual property such as trade secrets, patents, trademarks, and copyrights, as well as business, marketing and service plans, engineering and manufacturing ideas, designs, databases, records, salary information and any unpublished financial data and reports. Unauthorized use or distribution of this information would violate Company policy. It could also be illegal and result in civil or even criminal penalties.

9. Payments to Government Personnel

Because the Company is required to report to the U.S. Securities and Exchange Commission (“SEC”), the Company is subject to the U.S. Foreign Corrupt Practices Act, which prohibits giving anything of value, directly or indirectly, to officials of foreign governments or foreign political candidates in order to obtain or retain business. It is strictly prohibited to make illegal payments to government officials of any country.

In addition, there are a number of laws and regulations in various countries regarding business gratuities that may be accepted by government personnel. The promise, offer or delivery to a government official or employee of a gift, favor or other gratuity in violation of these rules would not only violate Company policy but could also be a criminal offense.

10. Waivers of the Code of Business Conduct and Ethics

Any waiver of this Code may be made only by the Company’s Board of Directors and will be promptly disclosed as required by any applicable law or regulations of the Nasdaq NM.

11. CEO and Senior Financial Officers

The Company’s Chief Executive Officer and Senior Financial Officers are also subject to an additional set of rules regarding the disclosure made in the Company’s periodic reports, as described in the Addendum for CEO and Senior Financial Officers, attached to this Code.

12. Reporting any Illegal or Unethical Behavior

If you are in a situation that you believe may violate or lead to a violation of this Code, or if you are powerless to stop suspected misconduct or discover it after it has occurred, you must report it to the appropriate level of management at your location. Employees are encouraged to talk to their immediate supervisors, managers or other appropriate personnel about observed illegal or unethical behavior and when in doubt about the best course of action in a particular situation. Your conduct can reinforce an ethical atmosphere and positively influence the conduct of fellow employees.

If you are still concerned after speaking with your immediate management or feel uncomfortable speaking with them (for whatever reason), you may directly contact Mr. Chaim Labenski, a member of the Audit Committee of the Company’s Board of Directors by sending a detailed note, with relevant documents, to the following address: Phone +972-54-4722721; Fax +972-3-5234041; Email c\_labenski@hotmail.com.

**It is the policy of the Company not to allow retaliation for reports of misconduct by others made in good faith by employees. Your calls, detailed notes and/or emails will be dealt with confidentially. You have the commitment of the Company and of the Audit Committee of our Board of Directors that you will be protected from retaliation.**

**ACKNOWLEDGMENT AND AGREEMENT  
REGARDING THE CODE OF BUSINESS CONDUCT AND ETHICS**

I acknowledge that I have been received and read Optibase's Code of Business Conduct and Ethics and understand my obligations as an employee, director or officer of the Company to comply with the principles, policies and laws outlined in the Policy.

\_\_\_\_\_  
Employee's/Director's/Officer's signature

\_\_\_\_\_  
Employee's/Director's/Officer's Name [printed]

\_\_\_\_\_  
Position

\_\_\_\_\_  
Date

#### ADDENDUM FOR CEO AND SENIOR FINANCIAL OFFICERS

The Company has a Code of Business Conduct and Ethics applicable to all directors, officers and employees of the Company. The CEO and all senior financial officers, including the CFO and principal accounting officer, are bound by the provisions set forth therein relating to ethical conduct, conflicts of interest and compliance with law. In addition to the Code of Business Conduct and Ethics, the CEO and senior financial officers are subject to the following additional specific policies:

1. The CEO and all senior financial officers are responsible for full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the Company with the SEC. Accordingly, it is the responsibility of the CEO and each senior financial officer promptly to bring to the attention of the CEO and Audit Committee, as the case may be, any material information of which he or she may become aware that affects the disclosures made by the Company in its public filings.
2. The CEO and each senior financial officer shall promptly bring to the attention of the CEO and the Audit Committee, as the case may be, any information he or she may have concerning (a) significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data or (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's financial reporting, disclosures or internal controls.
3. The CEO and each senior financial officer shall promptly bring to the attention of the CEO and of the Audit Committee, as the case may be, any information he or she may have concerning any violation of the Company's Code of Business Conduct and Ethics, including any actual or apparent conflicts of interest between personal and professional relationships, involving any management or other employees who have a significant role in the Company's financial reporting, disclosures or internal controls.
4. The CEO and each senior financial officer shall promptly bring to the attention of the CEO and to the Audit Committee, as the case may be, any information he or she may have concerning evidence of a material violation of the securities or other laws, rules or regulations applicable to the Company and the operation of its business, by the Company or any agent thereof, or of violation of the Code of Business Conduct and Ethics or of these additional procedures.
5. The Company's Audit Committee and Board of Directors shall determine, or designate appropriate persons to determine, appropriate actions to be taken in the event of violations of the Code of Business Conduct and Ethics or of these additional procedures by the CEO or the Company's senior financial officers.

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: April 18, 2011

/s/ Shlomo (Tom) Wyler  
Shlomo (Tom) Wyler  
Chief Executive Officer

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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: April 18, 2011

/s/ Amir Philips  
Amir Philips  
Chief Financial Officer

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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, 2010, 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: April 18, 2011

/s/ Shlomo (Tom) Wyler  
Name: Shlomo (Tom) Wyler  
Title: Chief Executive Officer

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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, 2010, 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: April 18, 2011

/s/ Amir Philips  
Name: Amir Philips  
Title: Chief Financial Officer

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**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 April 17, 2011, with respect to the consolidated financial statements of Optibase Ltd., included in the Annual Report (Form 20-F) for the year ended December 31, 2010.

/s/ Kost Forer Gabbay & Kasierer

Tel-Aviv, Israel  
April 17, 2011

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

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