As filed with the Securities and Exchange Commission on April 30, 2012

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, 2011

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)**

10 Hasadnaot Street
Herzliya 46728, Israel
+972-73-7073700
(Address of principal executive offices)

Mr. Amir Philips, Chief Executive Officer
Telephone Number: 972-73-7073703, Fax Number: 972-73-7073701, Email: amirp@optibase-holdings.com
10 Hasadnaot Street
Herzliya 46728, Israel
(Name, Telephone, E-Mail and/or Facsimile and Address of Company Contact Person)

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

Title of Each Class	Name of Each Exchange on Which Registered
Ordinary Shares, par-value NIS 0.13 each	**The Nasdaq Global Market**

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

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

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: **19,414,281 Ordinary Shares, par value NIS 0.13 per share, including 313,473 Ordinary Shares held by the Registrant and 30,000 Ordinary Shares held by a trustee for the benefit of the Registrant's employees under the Registrant's incentive plan, both awarding their holders no voting or equity rights.**

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

Yes ☐ No ☒

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

Yes ☐ No ☒

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

Yes ☒ No ☐

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

Yes ☐ No ☐

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

Large Accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

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

U.S. GAAP ☒

International Financing Reporting Standards as issued by the International Accounting Standards Board ☐

Other ☐

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

Item 17 ☐ Item 18 ☐

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

Yes ☐ No ☒

TABLE OF CONTENTS

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

FORWARD-LOOKING STATEMENTS

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

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

Introduction

Since our incorporation, we engaged, directly and indirectly, in digital video and streaming based products and services, or the Video Solutions Business. 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, or APA, with Optibase Technologies Ltd. and Stradis Inc., wholly owned subsidiaries of S.A. Vitec (also known as Vitec Multimedia) or, collectively, Vitec, according to which Optibase Technologies Ltd. purchased all of the assets and liabilities related to our Video Solutions Business, or the Vitec Transaction. The closing of the Vitec Transaction occurred on July 1, 2010. For Further details see Item 10.C "Material Contracts". For details regarding arbitration proceedings in connection with the Vitec Transaction, See Item 8. "Financial Information - Legal Proceedings".

Currently, we, directly and indirectly, engage solely in the real estate sector.

3.A. SELECTED CONSOLIDATED FINANCIAL DATA

We derived the consolidated statement of operations data for the years ended December 31, 2009, 2010 and 2011, and consolidated balance sheet data as of December 31, 2010 and 2011 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, or U.S. GAAP. We derived the consolidated statement of operations data for the years ended December 31, 2007 and 2008 and the consolidated balance sheet data as of December 31, 2007, 2008 and 2009 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, 2007, 2008 and 2009, were reported separately and retroactively as discontinued operations.

Consolidated Statement of Operations Data:	**Year Ended December 31,**				
	2007	**2008**	**2009**	**2010**	**2011**
	(U.S. dollars in thousands, except per share data)				
Fixed income from real estate	-	-	$ 272	$ 1,650	$ 12,479
Costs and expenses:					
Cost of real estate operation	-	-	11	59	1,869
Real estate depreciation and amortization	-	-	115	695	2,153
General and Administrative	1,257	1,347	1,175	1,502	3,057
Total costs and expenses	1,257	1,347	1,301	2,256	7,079
Operating income (loss)	(1,257)	(1,347)	(1,029)	(606)	5,400
Gain on bargain purchase	-	-	-	-	4,412
Other income (loss)	-	-	-	(600)	-
Financial income (loss), net	(31)	270	617	304	(7,481)
Net income (loss) before tax on income	(1,288)	(1,077)	(412)	(902)	2,331
Taxes on income	-	-	-	(43)	(481)
Net income (loss) from continuing operations	(1,288)	(1,077)	(412)	(945)	1,850
Net income (loss) from discontinued operations	(5,885)	(8,468)	472	5,399	(51)
Net income (loss)	$ (7,173)	$ (9,545)	$ 60	$ 4,454	$ 1,799
Net income attributable to non-controlling interest	-	-	-	-	2,038
Net income (loss) attributable to Optibase LTD	$ (7,173)	$ (9,545)	$ 60	$ 4,454	$ (239)
Net earnings (loss) per share :					
Basic and Diluted net earnings (loss) per share from continuing operations	$ (0.09)	$ (0.07)	$ (0.02)	$ (0.06)	$ (0.01)
Basic and diluted net earnings (loss) per share from discontinued operations	$ (0.43)	$ (0.56)	$ 0.03	$ 0.33	$ (0.00)
Basic and diluted net earnings (loss) per share	$ (0.53)	$ (0.63)	$ 0.00	$ 0.27	$ (0.01)
Weighted average number of shares used in computing basic and diluted net earnings (loss) per share (in thousands):					
Basic and Diluted	13,602	15,159	16,534	16,555	18,210

Consolidated Balance Sheet Data:

	December 31,				
	2007	2008	2009	2010	2011
	(U.S. dollars in thousands)				
Cash, cash equivalents and short term investment in marketable securities net	$ 19,021	$ 11,386	$ 28,651	$ 30,260	$ 22,945
Working capital	38,366	34,200	29,621	26,415	16,361
Long term investment in marketable securities	-	-	-	-	-
Total assets	51,932	47,306	63,350	64,726	219,885
Long term loans, including current maturities	-	-	18,262	19,589	126,135
Capital Stock	120,706	126,142	126,299	126,378	131,478
Total shareholders' equity	$ 39,164	$ 35,011	$ 35,238	$ 40,392	$ 61,261

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.

In recent years, except for several non-continuous quarters during 2009, 2010 and 2011, we have been operating at a loss. As of December 31, 2011, we have accumulated losses of $85.7 million. Given current market conditions, the recent economic downturn, the uncertainty regarding rent and sale prices, 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. For further details regarding our cash flow, see Item 5.B. "Liquidity and Capital Resources".

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; and

❖ General economic conditions, particularly in those countries or regions in which we operate.

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 2, 2012, approximately 52.23% of our outstanding ordinary shares, of which Shlomo (Tom) Wyler, our president and a member of our board of directors holds approximately 51.3% (calculated taking into consideration shares underlying options that are currently exercisable or exercisable within 60 days of April 2, 2012 which are deemed to be outstanding), see Item 7.A. "Major Shareholders" below. Mr. Wyler 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 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 2011, 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:

- Availability of funding resources for the acquisition of new real estate assets;
- 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;
- Changes in interest rates;
- Changes in foreign exchange rates;
- The entering into new businesses;
- Quarterly variations in our results of operations or in our competitors' results of operations; and
- Changes in earnings estimates or recommendations by securities analysts.

This volatility may 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 2011 through April 2012, the closing price of our ordinary shares fluctuated reaching a high of $1.75 and decreasing to a low of $0.99. 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, 2011, 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 bargain purchase gain 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.

The impact of the extenuations given to us as a foreign private issuer.

As a foreign private issuer, we are permitted to file less information with the SEC than a company incorporated in the United States. Accordingly, there may be less publicly available information concerning us than there is for companies incorporated in the United States.

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 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, 2011, 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

The real estate sector continues to be cyclical and affected by changes in general economic, or other business conditions that could materially adversely affect our business or financial results.

The real estate sector has been cyclical historically and continues to be significantly affected by changes in industry conditions, as well as in general and local economic conditions, such as:

- employment levels;
- availability of financing for homebuyers and for real estate investors/funds;
- interest rates;
- consumer confidence and expenditure;
- levels of new and existing homes for sale;
- demographic trends;
- urban development and changes;
- housing demand;
- local laws and regulations; and
- acts of terror, floods or earthquakes.

These may occur on a global scale, like the recent housing downturn, or may affect some of the regions or markets in which we operate. An oversupply of alternatives to our real estate properties can also reduce our ability to lease spaces and depress lease prices, thus reducing our margins.

As a result of the foregoing matters, we may face difficulties in the leasing of our projects and we may not be able to recapture any increased costs by raising lease payments.

With respect to our commercial properties, 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 a 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 10 tenants, and is currently 100% occupied. Three of the Rümlang tenants occupy approximately 9,700 square meters or 78% of the total leasable space and represent approximately 78% 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 36% of the rental income. Expiration dates of the three 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 lease that has expired in October 2010 is still in effect as it still has a six months' notice. The Geneva property has approximately 35,000 square meters of leasable space, is currently leased to 45 tenants and is currently 99% occupied. Seven of the Geneva tenants occupy approximately 23,800 square meters or approximately 70% of the total leasable space and represent approximately 73% 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 26% of the rental income. Expiration dates of the seven tenants range from May 2012 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, which would materially adversely affect our financial condition and results of operations.

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 rely on two large properties for a significant portion of our revenue.

As of April 2, 2012, two of our properties, Riedmattstrasse 9 in Rümlang, Switzerland and CTN in Geneva, Switzerland, accounted for the majority of our portfolio 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.

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. In addition, we are dependent on our ability to enter into new leases on favorable terms with third parties, in order to receive a profitable price for each real-estate property. We may find it more difficult to engage tenants to enter into leases during periods when market rents are increasing, or when general consumer activity is decreasing, or if there is competition for tenants from competing properties. The existence of competitive alternatives could have a material adverse effect on our ability to lease space and on the level of rents we can obtain. The recent global economic recession, pressures that affect consumer confidence, job growth, energy costs and income gains can affect retail sales growth, 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 price obtainable for our real estate projects and adversely affect our financial condition and results of operations. The failure of tenants to abide by the terms of their agreements may cause delays or result in a temporary or long term decline in rental income, the effects of which we may not be able to offset due to difficulties in finding a suitable replacement tenant.

We are depended on the solvency of our tenants and may lease properties at below expected rental rates.

Rental leases may decrease below our expectations. In the case of such decrease, or if circumstances arise beyond our control, such as market prices, market demand and negative trends, we may have to sell a project at a price below our projections. In addition, we could be in the position where there will be no demand at acceptable prices and we shall be required to hold, operate and maintain the project until the financial environment will improve and allow its disposal.

In addition, 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.

We may experience future unanticipated expenses.

Our performance depends, among others, on our ability to pay for adequate maintenance, insurance and other operating costs, including real estate taxes. All of these expenditures could increase over time, and may be more expensive than anticipated. Sources of labor and materials required for maintenance, repair, capital expenditure or development may also be more expensive than we expected. An unplanned deviation from one of the above expenditures, and other, could increase our operating costs.

The fair value of our real estate may be harmed by certain factors, which may entail impairment losses not previously recorded which, in turn, will affect our financial results.

Certain circumstances may affect the fair value of our real estate assets, including, among other things, (i) the absence of or modifications to permits or approvals required for the operation of any real estate asset; (ii) lawsuits that are pending, whether or not we are a party thereto, may have a significant impact on our real estate assets and/or on certain of our shareholding rights in the companies owning such assets. In addition, certain laws and regulations, applicable to our business in certain countries where the legislation process undergoes constant changes, may be subject to frequent and substantially different interpretations; (iii) agreements which may be interpreted by governmental authorities so as to shorten the term of use of real estate, and which may be accompanied with a demolition order with or without compensation, may significantly affect the value of such real estate asset. The fair value of our real estate assets may be significantly decreased, thereby resulting in potential impairment losses not previously recorded in our financial results.

Since market conditions and other parameters (such as macroeconomic environment trends, and others), which affect the fair value of our real estate, vary from time to time, the fair value may not be adequate on a date other than the date the measurement was executed (in general, immediately after the annual balance sheet date). In the event the projected forecasts regarding the future cash flows generated by those assets are not met, we may have to record an additional impairment loss not previously recorded.

In addition, any change in the yield rate of any of our real estate assets may cause a significant decrease to the fair value of such assets, thereby resulting in potential impairment losses not previously recorded in our financial results.

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

Being a company that engages in investments in real-estate, finding a suitable real-estate property for investment is critical to our income. Such finding becomes difficult as the demand for real-estates in the markets we are involved in grows, and the supply decreases. Therefore, difficulties in finding suitable real-estate properties for investment, may affect our growth and the number of assets the Company has to offer, and therefore materially affect our potential profit and our business and results of operation.

The choice of suitable locations for real estate projects is an important factor in the success of the individual projects. For example, office space should ideally be located within, or near, the city center, with well-developed transportation infrastructure (road and rail) located in close proximity to facilitate customer access. If we are not able to find sites in the target cities which meet our criteria or which meet our price range, this may materially adversely affect our business and results of operation.

In addition, 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 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.

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.

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 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. Since then, we have only raised a total of $10 million from Mr. Wyler, our president and member of our board of directors, in two private placements, which took place in June 2008 and in May 2011. For further details on such placements see Item 7.B "Related Party Agreements".

It is probable that we will need to raise additional capital in the future to support 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. If we are unable to obtain additional financing, this could inhibit our growth and increase our operating costs.

An adverse change in the Swiss real estate market will adversely affect our results of operations.

Two out of our three investments are located in Switzerland. The Swiss economy led to a slight increase in demand in the office property market. In particular, Switzerland remains an attractive location for international service providers and corporate headquarters. There is also an ever-increasing demand for high-quality, modern spaces, which ultimately also has a positive impact on the rent level. However, while jobs were still being created at the beginning of 2011, the Swiss economy slowed down and consumer sentiment dimmed somewhat in the second half of the year. Towards the end of 2011, the demand for office space slowed down due to announced and expected job losses. Any significant adverse change in the real estate market in Switzerland, such as decline in the real estate rates or decrease in demand for the type of properties we own, will adversely affect our results of operations.

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 been fully constructed and are in rentable condition. Currently 20 of the units are occupied by tenants and the remaining unit is being marketed to potential tenants. For further information see Item 4.B. "Business Overview - Real Estate Business".

We intend to keep holding 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.

The illiquidity of real-estate properties may affect our ability to sell our properties.

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.

Cause of physical damages and other nature losses may affect our properties.

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.

Environmental discoveries may have a significant impact on the budget, schedule, viability and marketability of our assets.

We may encounter unforeseen compliance defaults due to factors beyond our control such as delays or defaults caused by previously unknown soil contamination or the discovery of archaeological findings which may have a significant impact on development budget and schedules and which may, in turn, have a detrimental effect on the viability or marketability of the development or cause legal liability in connection with real properties. We may be liable for the costs of removal, investigation or remedy of hazardous or toxic substances located on or in a site owned or leased by us, regardless of whether we were responsible for the presence of such hazardous or toxic substances. The costs of any required removal, investigation or remedy of such substances may be substantial and/or may result in significant budget overruns. The presence of such substances, or the failure to remedy such substances properly, may also adversely affect our ability to sell or lease such property or to obtain financing using the real estate as security. Additionally, any future sale of such property will be generally subject to indemnities and warranties to be provided by us to the purchaser against such environmental liabilities. Accordingly, we may continue to face potential environmental liabilities with respect to a particular property even after such property has been sold. Laws and regulations may also impose liability for the release of certain materials into the air or water from a property, and such release can form the basis for liability to third persons for personal injury or other damages. Other laws and regulations can limit the development of, and impose liability for, the disturbance of wetlands or the habitats of threatened or endangered species. Any environmental issue may significantly cause delays, which could have a material adverse effect on the profitability of that development and our results of operations and cash flows.

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

We are currently, with respect to our real-estate property in 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 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 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.

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

We plan to continue acquiring 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 currently undergoing arbitration proceedings in connection with the sale of our Video Solutions Business to Vitec.

As of this date, Vitec and us 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 collection of sums payable from past clients services and maintenance contracts and other obligations made towards us by Vitec. To date, we and Vitec are parties to arbitration proceedings in which Vitec submitted its statement of Claim against us demanding us to pay Vitec approximately $23 million and we submitted our statement of claim against Vitec demanding that Vitec pay us an aggregate sum of approximately $1.5 million. For further information, see Item 8. "Financial Information - Legal Proceedings". In case where the arbitration proceedings will be decided against us, such decision could materially adversely affect our cash flow.

In addition, in connection with the sale of our Video Solutions Business to Vitec, both parties agreed on mutual indemnification for a period of two years until July 2012 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, and for that purpose $1 million out of the aggregate consideration in the Vitec Transaction was put in escrow as security for such understanding. In light of the existing arbitration proceedings between Vitec and us, there is a risk that Vitec will object to the release of such indemnification escrow which will have an adverse affect on our cash flow. 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.

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. 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, during 2009 and 2010 we were audited by the European Union, or the EU, for grants received under three FP6 contracts. The results of the audit reflect an over payment by the EU of approximately Euro 280,000 to be repaid. In addition, the EU has inflicted a fine in the amount of Euro 115,000. In addition, we were required by the EU to review the non-audited FP6 contracts and analyze whether there is a need for any implementation of the audit findings for these contracts as well. Furthermore, we are currently undergoing an audit by the OCS for royalties paid before the sale of our Video Solutions Business. A payment to the EU and the OCS will adversely affect our cash flow, although from financial prospective, at this time, we believe that we have sufficient provisions to cover the final outcome of such review processes.

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 adversely 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 adverse effects due to the impact of inflation in Israel.

The inflation rate in Israel was approximately 3.9% in 2009, approximately 2.7% in 2010, and approximately 2.2% in 2011. The appreciation of the NIS against the dollar was approximately 0.7% in 2009, 6% in 2010, and a devaluation of 7.7% in 2011 and the devaluation of the NIS against the CHF was approximately 2.9% in 2009, 3.3% in 2010, and 7.2% in 2011. The appreciation of the CHF against the dollar was 1.7% in 2009, 9.4% in 2010, and 0.1% in 2011.

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. Moreover, since December 2010, there has been a wave of protests and civil resistance demonstrations in several countries in the Middle East and North Africa, including Egypt and Syria, which share a border with Israel. The demonstrations and acts of civil resistance in Egypt led to the resignation of the former Egyptian president Hosni Mubarak and to extensive revisions in the Egyptian governmental structure. It is not clear how this revolutionary wave, also known as the Arab Spring, will develop and how it will affect the political and security situation in the Middle East. It is also not clear how it will affect Israel and its relationship with its Arab neighbors. It is also widely believed that Iran, which has previously threatened to attack Israel, has been stepping up its efforts to achieve nuclear capability. Iran is also believed to have a strong influence among extremist groups in the region, such as Hamas in Gaza and Hezbollah in Lebanon. The tension between Israel and Iran may escalate in the future and turn violent, which could affect the Israeli economy generally and us in particular. 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 or voting rights 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. 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 10 Hasadnaot Street, Herzliya 46728, Israel, and our telephone number at that location is +972-73-7073700. Our website is located at www.optibase-holdings.com. We use a local agent in California for administrative purposes and domestic filings, which is Formation Solutions Inc. 400 Continental Boulevard, 6th Floor El Segundo, CA 90245.

Since our foundation we were engaged in the Video Solution Business. We sold that business to Vitec in March 2010 and we are currently engaged in the real estate sector. For further details, see below.

The following is a short description of our history since our foundation:

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. In addition, during 2008 and 2011, the Company issued an aggregate number of 5,316,901 ordinary shares in a private placement to Mr. Wyler. As of the date of this annual report, Mr. Wyler serves as our president and a member of our 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 diverse our operations and enter into the fixed-income real estate sector. Our 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, and determined that there are opportunities, especially in Central and Western Europe and North America that are potentially beneficial for us and our shareholders that should be pursued. At a special shareholders meeting held on June 25, 2009 our shareholders approved the diversification of our operations by entering into the fixed income real-estate sector. Such approval was sought solely for cautionary purposes and without any obligation 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".

In 2010, we sold our Video Solution Business for an aggregate consideration of $8 million. For further details regarding such sale and the arbitration proceedings entered into between us and the purchasers, see Item 3.D. "Risk Factors" and Item 8. "Financial Information - Legal Proceedings".

Following the abovementioned decision to diversify our operations, we have entered into three investments in the real estate sector, including purchases of an office building complex in Geneva, Switzerland known as Centre des Technologies Nouvelles, or CTN complex, a commercial building located at Rümlang, Switzerland, and 21 condominium units in the Marquis Residence in Miami, Florida.

For additional information see Item 4.B "Business Overview" and Item 10.C "Material Contracts".

In addition, we hold, on a fully diluted basis, approximately 2.08% of the issued and outstanding share capital of Mobixell Networks Inc., a private company which designs, develops and markets solutions for mobile rich media adaptation, optimization and delivery. Such investment is reported in our financial statements for 2011 at $100,000.

We also hold approximately 24% of V.Box Communication Ltd., on an as converted basis, a private company engaged in providing Digital TV and Data Broadcast receiver equipment for Video and Data applications. Such investment is reported in our financial statements for 2011 at zero.

4.B. BUSINESS OVERVIEW

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.

As of the date of this annual report, our portfolio includes a total of two operating commercial properties as well as condominium units in one residential project.

Properties

The following table provides details regarding all of our real-estate assets properties, as of the date of this annual report:

Property	Location	Acquisition date	Company Stake	Nature of Rights	Property Type	Net Rentable Square Meters Excluding Redevelopment Space(1)	Annualized Rent ($000)(2)	Rate of Occupancy (3)	Annualized Rent per Occupied Square Meter ($)(4)	NOI ($000)
Centre des Technologies Nouvelles (CTN)	Geneva, Switzerland	March 2, 2011	51%	Ownership with land lease	Commercial	35,000	11,245	100	321	6,439
Rümlang	Rümlang, Switzerland	October 29, 2009	100%	Ownership	Commercial	12,500	1,805	99	146	677
Marquis Residences	Miami, Florida	December 30, 2010	100%	Ownership	Residential - Condominium Units	3,229	574	67	267	(423)
Portfolio Total/Weighted Average	-	-			-	**50,729**	**13,624**	**98**	**275**	**6,693**

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

The CTN complex 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 45 tenants, primarily in the field of advanced industries including biotech electronic and information technology industries, and is currently 99% occupied. Seven of the Geneva tenants occupy approximately 23,800 square meters or 70% of the total leasable space and represent approximately 73% 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 26% of the rental income. Expiration dates of the seven tenants range from May 2012 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) and provided for the assumption of 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 total purchase price for the Eldista shares was CHF 37.7 million (approximately $40.6 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 addition as agreed, we paid CHF 1 million (approximately $1,075,000 as of the purchase date), or the Adjustment Escrow, into an escrow account. The release of the Adjustment Escrow depends on the consequence of the net assets adjustment. The net assets adjustment finally amounted to be a net liability of CHF 200,000. Accordingly, CHF 700,000 of the escrow is to be paid to us and the balance of the escrow of CHF 300,000 (approximately $214,000, $745,000 and $319,000, respectively) is to be paid to the seller.

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 entered into a Consultancy Agreement with Swiss Pro Capital Limited, or Swiss Pro, a Cypriot company formerly known as Chessell Holdings which had introduced Optibase and The Phoenix to the Property. Under the Consultancy Agreement, Swiss Pro will provide consultancy services to Eldista regarding the administration and supervision of the Property and its management. Swiss Pro 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.

In September, 2010, Eldista was granted a mortgage loan from a financial institution in Switzerland, in the amount of CHF 85.3 million for the purpose of purchasing its real estate property located in Geneva, Switzerland. The loan bears an adjustable interest rate based on current money and capital markets in Switzerland plus the bank's customary margins (1.8%). 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. Eldista had the option to convert the mortgage into another mortgage product offered by the bank until April 30, 2015. 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**.**

On October 28, 2011, we entered into a refinancing arrangement with Credit Suisse for the CTN complex. The refinancing involved a new mezzanine loan that Credit Suisse provided to OPCTN and a refinancing of the existing mortgage loan of OPCTN's subsidiary, Eldista. Under the new financing agreement, Credit Suisse provided a new loan to OPCTN and Eldista which replaced the mortgage loan that Credit Suisse provided to Eldista. The combined interest rate of the new loans is 0.83% compared with 1.8% that Credit Suisse charged on the previous mortgage loan. The loans are repaid at a rate of CHF two million per year and are secured by a first mortgage over the property and by a pledge of Eldista's shares. For further information regarding the refinancing agreement, see Item 5.B "Liquidity and Capital Resources", and 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.

In consideration for the 21 condominium units, we paid a net purchase price of approximately $8.6 million. In addition to the purchase price, we have invested approximately $781,000 in finishing the units.

To date, 20 of the 21 units are rented out and the remaining unit is being offered for rental. We intend to hold the units for investment purposes and will consider to continue 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 135,000 square feet) of rentable space with office, laboratory and retail uses. The office building in Rümlang is currently leased to 10 tenants, and is currently 100% occupied. Three of the Rümlang tenants occupy approximately 9,700 square meters or 78% of the total leasable space and represent approximately 78% 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 36% of the rental income. Expiration dates of the three 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 lease that has expired in October 2010 is still in effect as it still has a six months' notice.

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".

Swiss Pro introduced Optibase to the Rümlang property through its beneficial owner. Swiss Pro also 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 Swiss Pro pursuant to which Swiss Pro 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".

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.

Material Tenants

Our commercial properties in Switzerland are supported by anchor tenants who, due to size, reputation and other factors are considered as such. Our largest tenants in the CTN complex are Lem SA, Addex Therapeutics, Novimune SA and Anteis SA. As of December 31, 2011 these tenants occupied approximately 21,000 square meters and accounted for approximately $7.1 million of rent income, or approximately 41% of our gross leasable area and approximately 54%, of our annual rent. No other tenant accounted for over 5% of our annual rent.

Remaining items of the Video Solution Business

As part of the Vitec Transaction, an earn-out mechanism was agreed upon pursuant to which 45% of Vitec's revenues deriving from the Video Solutions Business exceeding $14 million in the year following the closing of the transaction, will be paid to us.

In addition, 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 are currently undergoing an audit by the OCS, for royalties paid before the sale of our Video Solution Business. We believe we have sufficient provisions to cover the outcome of such review process.

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. 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". During 2009 and 2010 we were audited by the European Union for grants received under three FP6 contracts. The results of the audit reflect an over payment by the EU of approximately Euro 280,000 to be repaid. In addition, the EU has inflicted a fine in the amount of Euro 115,000. We were also requested to review the non-audited FP6 contracts and analyze whether there is a need for any implementation of the audit findings for these contracts as well. We are currently evaluating our position with respect to the audit and we believe that we have sufficient provisions to cover the final outcome of such review processes. For details regarding our arbitration proceedings with Vitec, including a personal claim against the trustee for the non-release of $200,000 put in escrow, see Item 8. "Financial Information - Legal Proceedings".

4.C. ORGANIZATIONAL STRUCTURE

We have two wholly-owned direct subsidiaries: Optibase Inc. which was incorporated in California, the United States in 1991 and Optibase Real Estate Europe SARL, or Optibase SARL, which was incorporated in Luxembourg in October 2009. In addition, we also hold 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 24% 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 2.08% of Mobixell's issued and outstanding share capital, which designs, develop and markets solutions for mobile rich media adaptation, optimization and delivery. For additional information, see Item 4.A. "History and Development of the Company" above.

4.D. PROPERTY, PLANTS AND EQUIPMENT

During 2011, our headquarters were located in offices in Herzliya Pituach, Israel. Our lease for this space expired on December 31, 2011. Following the sale of our Video Solutions Business to Vitec, we subleased approximately 12,650 square feet to Optibase Technologies Ltd. a fully owned subsidiary of Vitec.

Since December 2011, our headquarters are located in offices occupying approximately 1,399 square feet in Herzliya Pituach, Israel. Our lease for this space expires on December 24, 2013 with four consecutive 24 months extension options.

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 4A. UNRESOLVED STAFF COMMENTS

Not Applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

Overview

Since our foundation we were engaged in the Video Solution Business. We sold that business to Vitec in March 2010 and we are currently engaged in the real estate sector.

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.

Our functional currency is the U.S Dollar.

The functional currencies of our subsidiaries are CHF and U.S dollar. We have elected to use the U.S. dollar as our reporting currency for all years presented.

While the functional currency of our subsidiaries in the United States is the U.S dollars, the functional currency of the subsidiaries in Switzerland is their lead currency, i.e. CHF. Since our functional and reporting currency is the U.S dollars, the financial statements of Optibase Real Estate SARL and OPCTN S.A 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, 2011, we had available cash, cash equivalents, long term investments, restricted cash and other financial investments net of approximately $23.1 million. As of April 2, 2011, we have available cash, cash equivalents, long term investments, restricted cash and other financial investments net of approximately $23.8 million. For information regarding the investment of our available cash, see Item 5.B. "Liquidity and Capital Resources" below.

Our business may be affected by the condition in Israel, see Item 3.D. "Risk Factors".

Fixed income from real estate

Our fixed income real estate revenues increased substantially to $12.5 million in 2011 compared to $1.65 million in 2010 (revenues in 2011 increased substantially following the purchase of the CTN complex in Geneva, Switzerland in March 2011).

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 and a net loss of $239,000 in 2011. Our move into net loss in 2011 compared with our net income in 2010 is mainly attributed to the significant increase in our financial expenses associated with our real estate activity. 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 recorded as discontinued operations. 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 operations in 2009 as a result of the sale of our holdings in Scopus. As of December 31, 2011, we had accumulated losses of $85.7 million.

General and administrative expenses

General and administrative expenses consist primarily of fees to outside consultants, legal and accounting fees, expenses related to the purchase of real estate assets, 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, management company fees and property tax.

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.

Bargain purchase gain

Bargain purchase gain consists of bargain purchase gain represents the excess of 100% of the recognized bases of identifiable assets acquired, net of assumed liabilities, over the aggregate of the acquisition-date fair values of (1) the acquirer's interest in the acquiree, (2) any noncontrolling interests in the acquiree and (3) any equity interest held in the acquiree by the acquirer immediately before the acquisition date.

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, currency hedging transactions, 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 2011, Israeli companies are generally subject to a corporate income tax rate of 24%. The income tax rate for Israeli companies was increased to 25% in 2012 and thereafter.

Taxable income of Luxemburg , Switzerland and the United States is subject to tax at the rate of approximately 29% ,24% and 34% respectively in 2011.

We have final tax assessments through the tax year 2007.

As of December 31, 2011, we had approximately $66.1 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 $28.2 million that can be carried forward and offset against taxable income for 20 years, no later than 2012 to 2032. 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, 2009, 2010 and 2011 statements of operations data as percentages of our total revenues:

	Year Ended December 31		
	2009	2010	2011
Fixed income real estate	100.0%	100.0%	100.0%
Costs and expenses:			
Cost of real estate operations	4	3.6	15
Real estate depreciation and amortization	42.3	42.1	17.3
General and administrative	432	91	24.5
Total costs and expenses	478.3	136.7	56.8
Operating income (loss)	(378.3)	(36.7)	43.2
Gain on bargain purchase	-	-	35.5
Other income (expenses), net	-	(36.4)	-
Financial (expenses) income, net	226.8	18.4	(60)
Income (loss) before provision for tax	(151.5)	(54.7)	18.7
Provision for tax	-	(2.6)	(3.9)
Net income (loss) from continuing operations	(151.5)	(57.3)	14.8
(Loss) income from Discontinued Operations	173.5	327.2	(0.4)
Net income	22	269.9	14.4
Attributable to non controlling interest	-	-	16.3
Net income (loss) attributable to Optibase	22	269.9	(1.9)

Results of Operations for the Years Ended 2011 and 2010

Fixed income from real estate rent. Our fixed income real estate revenues increased substantially to $12.5 million in 2011 compared to $1.65 million in 2010 (principally, due to the purchase of the CTN complex in Geneva, Switzerland in March 2011).

Cost of real estate operations. Our cost of real estate operation increased substantially in 2011 at $1.9 million compared to $59,000 in 2010. Such costs increased substantially in 2011 following the purchase of the CTN complex in Geneva, Switzerland in March 2011.

Real estate depreciation and amortization. Our real estate depreciation and amortization in 2011 increased significantly to $2.2 million compared to $695,000 in 2010. Such costs increased substantially in 2011 following the purchase of the CTN complex in Geneva, Switzerland in March 2011.

General and Administrative Expenses. General and administrative expenses increased to $3.1 million in 2011 from $1.5 million in 2010. The increase in dollar amount can be mainly attributed to general and administrative expenses related to the real estate operation as well as costs associated with the purchase of the CTN complex in Geneva, Switzerland in March 2011.

Operating Income. As a result of the foregoing, we recorded operating income of $5.4 million in 2011 compared with an operating loss of $606,000 in 2010. The decrease in the operational loss and the turn to operating income can be primarily attributed to the overall increase in our revenues.

Gain on bargain purchase and Other Income. We recorded $4.4 million gain on bargain purchase associated with the acquisition of the CTN complex in Geneva, Switzerland in March 2011.

Other Income. We recorded other loss, net of $600,000 in 2010 related to the impairment of our investment in Mobixell**.**

Financial Expenses, Net. We recorded financial expenses, net of $7.5 million in 2011, compared with financial income, net of $304,000 in 2010. The change can be mainly attributed to interest payments of loans, interest SWAP transaction, currency SWAP transaction as well as foreign currency translation differences.

Taxes on Income. We and our subsidiaries account for income taxes in accordance with ASC Topic 740 *"Income Taxes"*, or ASC 740. Under the requirements of ASC 740, 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, we recorded tax expenses of $481,000 and $43,000 in 2011 and 2010 respectively, both related to our Luxemburg subsidiaries. The increase in our tax expenses in 2011 compared to 2010, is mainly due to the increase in taxable income associated with the purchase of the CTN complex in Geneva, Switzerland in March 2011.

Net Income from Continuing Operations. We recorded net income of $1.9 million in 2011, compared with a net loss of $945,000 in 2010. The increase in our net loss from continuing operations and our turn to net income, can be mainly attributed to the overall increase in revenues in 2011 as well as gain on bargain purchase which was offset by increased financial expenses.

Discontinued Operation. We present the results of our previous operations in the Video Solutions Business which was sold pursuant to the Vitec Transaction as discontinued operations. We recorded net loss of $51,000 from discontinued operations in 2011 compared with net income of $5.4 million from discontinued operation in 2010. Our net loss from discontinued operations in 2011 is mainly attributed to finalizing matters related to our previous business, whereas our net operation income from discontinuing operation in 2010 was mainly attributed to the capital gain resulting from this transaction of approximately $6.3 million.

Net Income. We recorded net income of $1.8 million in 2011, compared with a net income of $4.5 million in 2010. The decrease in our net income can be mainly attributed to the capital gain of approximately $6.3 million in 2010 resulting from the Vitec Transaction.

Net Income Attributable to Non-Controlling Interest. Net income attributed to non-controlling interest was first recorded in 2011 following the acquisition of the CTN property in Geneva, Switzerland in March 2011. We have entered the said transaction with The Phoenix group, who owns 49% of the property. Thus, 49% of the net operating results of the property are attributed to them.

Net income (loss) attributable to Optibase Ltd. Net income (loss) attributed to Optibase Ltd., is the result of net income as effected by net income attributed to non-controlling interest.

Results of Operations for the Years Ended 2010 and 2009

Fixed income from real estate rent. 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 or 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 by 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.

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, or the 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
- Principles of consolidation
- Non-controlling Interests
- Goodwill and bargain purchase gain
- Business Combinations
- 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.

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, 2010 and 2011, 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.

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.

Non-controlling Interests

Non-controlling interests generally represent the portion of equity that the Company does not own in those entities that it consolidates. The Company accounts for and reports its non-controlling interests in accordance with the provisions required under the Consolidation Topic of the FASB ASC 160. Non-controlling interests are separately presented within the equity section of the consolidated balance sheets. The amounts of consolidated net earnings attributable to the Company and to the non-controlling interests are presented on the consolidated statement of income.

Goodwill and bargain purchase gain

Goodwill reflects the excess of the fair value of the acquired business over the fair value of net identifiable assets acquired in various business acquisitions. The Company accounts for goodwill in accordance with the Intangibles - Goodwill and Other Topic of the FASB ASC 350. A bargain purchase gain, represents the excess of 100% of the recognized bases of identifiable assets acquired, net of assumed liabilities, over the aggregate of the acquisition-date fair values of (1) the acquirer‘s interest in the acquiree, (2) any noncontrolling interests in the acquiree and (3) any equity interest held in the acquiree by the acquirer immediately before the acquisition date.

Business Combinations

We allocate the purchase price of acquired properties to land, building, intangible assets and other liabilities in accordance with the Business Combinations Topic of the FASB ASC 805-10. We allocate the initial purchase price of assets acquired (net tangible and identifiable intangible assets) and liabilities assumed based on their relative fair values at the date of acquisition. There are two categories of intangible assets to be considered: (1) in-place leases; (2) above and below-market value of in-place leases. 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 depreciation expense over the estimated remaining term of the respective leases. The value of above-market and below-market in-place leases is amortized to rental revenue over the estimated remaining term of the 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, we have determined that our real estate properties do not have any other significant identifiable intangibles. The results of operations of acquired properties are included in our financial statements as of the dates they are acquired. The intangible assets and liabilities associated with property acquisitions are included in other assets and other liabilities in our consolidated balance sheets.

Accounting for stock-based compensation

ASC Topic 718 "Compensation – Stock Compensation" or ASC 718, requires companies to estimate the fair value of share-based awards on the date of grant using an option-pricing model.

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 simplified method. 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.

As of December 31, 2011, there was $277,000 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 four 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" or 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. Our policy is to accrued interest and penalties related to unrecognized tax benefits in it financial expenses. No adjustments were required upon the initial implementation of this guidance.

Recent Accounting Pronouncements

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP. This pronouncement is an authoritative guidance to amend certain measurement and disclosure requirements related to fair value measurements to improve consistency with international reporting standards. This guidance is effective prospectively for public entities for interim and annual reporting periods beginning after December 15, 2011, with early adoption prohibited. The Company is currently evaluating the effect of ASU No. 2011-04, but does not expect its adoption will have a material effect on its consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income, which specifies that the total of comprehensive income, the components of net income and the components of other comprehensive income are to be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. This update eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. No change has been made in the items to be reported in comprehensive income. ASU No. 2011-05 is effective for the interim and annual periods beginning after December 15, 2011, and should be applied retrospectively.

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, 2011, we had cash and cash equivalents long term investments, restricted cash and other financial investments net of $23.1 million.

As of April 2, 2012, we have available cash, and cash equivalents of approximately $23.6 million.

Net cash provided by our operating activities was $1.8 million and $183,000 in 2011 and 2010 compared to $2.9 million net cash used by operating activities in 2009.

Cash provided by operating activities in 2011 was primarily the result of our net loss for the period, as adjusted for discontinued operations, depreciation and amortization, minority interests in earnings of a subsidiary, increase in trade receivables, net, increase in other long-term liabilities, decrease in other accounts receivable and prepaid expenses partially offset by a gain from a bargain purchase, increase in deferred tax liabilities and a decrease in accrued expenses and other accounts payables. Cash provided 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. 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.

Net cash used in investing activities in 2011 totaling $23 million reflects primarily the acquisition of Eldista, the owner of the CTN complex in Geneva, Switzerland, totaling $20.7 million, investment in real estate properties totaling $1.2 million and investment in short term deposits totaling $1.1 million. 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 from discontinued operation reflects primarily the proceeds from sale of Scopus totaling $28.5 primarily offset by investment activities of our investment in real estate and other assets and short term deposit totaling $22.3 million, $659,000, and $3.8 million, respectively.

Net cash provided from financial activities in 2011 was primarily the result of proceeds of a long term loan totaling $106.4 million received for re-financing of our investment in real estate in Geneva, Switzerland, a private placement of 2,500,000 of our ordinary shares to Mr. Shlomo (Tom) Wyler, our president and a member of our board of directors, who is also considered as our controlling shareholder, in consideration for $5 million in cash, offset by repayment of a long term loan totaling $91.8 million and by repayment of loan to non-controlling interest totaling $5.6 million. Net cash used in financial activities in 2010 totaling $ 406,000 was primarily the result of repayments 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. As of December 31, 2011, we have an authorized credit line in the amount of $65,000 (none of which was utilized). As collateral for our lines of credit, a fixed charge has been placed on our property and equipment and shareholders' equity, and a floating charge (security interest in assets of the Company as they exist from time to time) has been placed on all of our other assets.

We manage our available cash on a discretionary basis, within the framework of an investment policy based upon an established set of guidelines approved by our board of directors. The main terms of the investment guidelines permit us to invest in the following securities: (i) U.S. treasury and government agency obligations (Government Securities); (ii) money market instruments of domestic and foreign issues denominated in U.S. dollars of commercial paper, bankers' acceptances, certificates of deposit, euro-dollar time deposits and variable rate issues (Money Market Instruments); (iii) up to 40% of the Company's assets, excluding Government Securities, cash and Money Market Instruments, or any combination of the following: (a) corporate notes and bonds rated investment grade (BAA/BBB- and above) on the date of their purchase, provided that investments in any one corporation or entity will not exceed $3 million; (b) investments in bonds and notes with lower rating then BBB- and higher rating of B, on their purchase date, provided that investments in any one corporation or entity will not exceed $1 million; (c) various financial instruments including structure range note products issued by a rated institution (A and above) in which the interest income may be subjected to changes in interests rate; (d) hedge funds up to $5 million of total portfolio pursuant to the following guidelines: (1) volatility below 10%; (2) minimum five 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 their 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 2011, we invested solely in interest bearing bank deposits and money market funds with various banks.

On October 28, 2011, we entered into a CHF 100 million bank loan refinancing with Credit Suisse for the CTN office building complex in Geneva, Switzerland. The refinancing was undertaken by OPCTN and by OPCTN's subsidiary, Eldista which is the owner of the CTN Complex.

Under the new financing agreements, Credit Suisse provided loans to OPCTN and Eldista which replaced a mortgage loan that Credit Suisse provided to Eldista in 2010 which had an outstanding balance of CHF 83 million. The combined interest rate of the new loans represents a 97 basis-point discount compared with the interest rate that Credit Suisse charged in the 2010 mortgage loan. The loans are amortized at a rate of CHF two million per year and are secured by a first mortgage over the CTN Complex and by a pledge of Eldista's shares.

The refinancing allowed us and our partners (51% and 49% respectively) to retrieve approximately CHF 15 million of the equity initially invested in the acquisition. As of the refinancing date the refinancing increased our overall liquidity and reduced principal payments by a total of CHF 3.75 million over the next four years period. Based on current interest rates and net of loan expenses, we also expect a reduction of interest expenses by approximately CHF 2.1 million, resulting in an overall expected improvement to cash flows due to the refinancing of approximately CHF 5.8 million for the four years period.

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. Moreover, in the past few years, several European countries were experiencing difficulties refinancing their governmental debts. Such difficulties influenced the European and entire world economy, and eventually brought to a sovereign debt crisis in Europe during 2011.

In addition, the Swiss economy led to a slight increase in demand in the office property market. In particular, Switzerland remains an attractive location for international service providers and corporate headquarters. There is also an ever-increasing demand for high-quality, modern spaces, which ultimately also has a positive impact on the rent level. However, while jobs were still being created at the beginning of 2011, the Swiss economy slowed down and consumer sentiment dimmed somewhat in the second half of the year. Towards the end of the year, the demand for office space slowed down due to announced and expected job losses.

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 and 2011, we operated at a loss.

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, 2011:

	Payments Due by Period (USD in thousands)				
Contractual Obligations	**Total**	**Less than 1 year**	**1- 3 years**	**4-5 years**	**After 5 years**
Long-Term Debt	126,135	2,529	7,587	5,058	110,961
Capital Lease Obligations	7,175	76	229	152	6,718
Lease Obligations	111	60	51	--	--
Purchase Obligations	--	--	--	--	--
Severance pay	--	--	--	--	--
Other Long-Term Obligations	--	--	--	--	--
Total Contractual Cash Obligations	133,421	2,665	7,867	5,210	117,679

	Amount of Commitment Expiration Per Period (USD in thousands)				
Other Commercial Commitments	**Total**	**Less than 1 year**	**1- 3 years**	**4-5 years**	**After 5 years**
Lines of Credit	65	--	65	--	--
Standby Letters of Credit	--	--	--	--	--
Guarantees	199	--	199	--	--
Standby Repurchase Obligations	--	--	--	--	--
Other Commercial Commitments	--	--	--	--	--
Total Commercial Commitments	264	--	264	--	--

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	59	Executive Chairman of the board of directors
Shlomo (Tom) Wyler	60	President and Director
Amir Philips	44	Chief Executive Officer
Yakir Ben-Naim	40	Chief Financial Officer
Orli Garti Seroussi (1)(2)	51	Director
Danny Lustiger(1)	44	Director
Chaim Labenski(1)(2)	64	Director

(1) Member of the Audit Committee
(2) External Director

On April 18, 2011 Ms. Dana Tamir-Tavor has notified us of her resignation from her position as director of the Company effective April 18, 2011. On May 31, 2011, Shlomo (Tom) Wyler's term as our Chief Executive Officer ended and on June 1, 2011, Amir Philips was appointed our Chief Executive Officer. On June 1, 2011, Ms. Yakir Ben-Naim was appointed our Chief Financial Officer of the Company. On January 31, 2011, Orli Garti Seroussi was appointed our external director for an additional three year term, and on November 17, 2011, our shareholders approved the re-election of Shlomo (Tom) Wyler, Alex Hilman and Danny Lustiger, as directors of the Company. On February 1, 2011, Chaim Labenski was appointed member of the Audit Committee.

Shlomo (Tom) Wyler serves as a president 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 Executive Officer. Mr. Philips has been serving in this position since June 2011. Prior to this position, Mr. Philips served as our Chief Financial Officer from May 2007, and 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.

Yakir Ben-Naim serves as our Chief Financial Officer. Ms. Ben-Naim has been serving in this position since June 2011. From 2004 until May 2011, Ms. Ben-Naim held the position of Corporate Controller and Financial Manager at Optibase Ltd. Before joining Optibase, Ms. Ben-Naim was a controller at V.Box Communications Ltd., and an accountant at Ernst & Young. Ms. Ben-Naim is a Certified Public Accountant in Israel.

Alex Hilman serves as Executive Chairman of our board of directors since September 2009. He has joined our 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 Income Tax Department (Ministry of Finance) and lectured Taxation in Tel Aviv University. 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 serves as Deputy Director and CFO of the Jerusalem Cinematheque - Israel Film Archive. From August 2001 until June 2011, Ms. Garti-Seroussi served as the General Manager of the Bureau of Municipal Corporation in the municipality of Tel-Aviv Jaffa since August 2001. From June 1999 until July 2001 Ms. Garti-Seroussi served as manager of consulting department in Shif-Hazenfrats & Associations, CPA firm. Prior to that, Ms. Garti-Seroussi served as Deputy Director of the Department of Market Regulation in the Israel Securities Authority and as an Auditor in the Tel Aviv Stock Exchange. Ms. Garti-Seroussi holds an M.P.A from Harvard University and M.B.A degree and a B.A degree in economics and accounting from Tel Aviv University.

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 directors and senior management (as listed above) as a group (seven persons) who served in the capacity of director or executive officer in the year ended December 31, 2011, and an additional director whose employment was terminated during 2011, was $497,000, 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, 2011, seven 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 424,577 ordinary shares which have not vested on December 31, 2011 or within 60 days thereafter. The exercise price of the options was between $1.192 and $2 per option, the vesting period is spread out over a 4-year period and the expiration date of such options is generally seven years as of their date of grant. In addition, as of April 2, 2012, our directors and executive officers beneficially owned 10,085,922 shares (of which 239,137 shares are issuable upon exercise of options that are currently vested or will vest within 60 days as of April 2, 2012). We undertook to grant additional 24,000 options to our directors and executive officers, from October 2012 to October 2013.

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.

In addition, the Israeli Securities Law of 1968, or the Securities Law, was recently amended to make the enforcement of violations of the Securities Law and certain provisions of the Companies Law more efficient by the Israel Securities Authority, or the ISA. Under these amendments, the ISA is allowed to initiate administrative proceedings against entities and individuals with respect to such violations, and to impose various sanctions, including fines, payment of damages to the person or entities harmed as a result of such violations, limitations on the service of any individual as director or officer and suspension or cancellation of certain permits granted to the entity. Under these amendments, a company is not allowed to indemnify or insure its directors and officers in connection with administrative proceedings initiated against them by the ISA, except that a company is allowed to insure and indemnify its directors and officers for any of the following: (i) financial liability imposed on any director or officer for payment to persons or entities harmed as a result of any violation for which an administrative proceedings has been initiated; (ii) expenses incurred by any director or officer in connection with administrative proceedings, including reasonable litigation fees, and including attorney fees.

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 or payment 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;
- Financial liability imposed on him for payment to persons or entities harmed as a result of violations in Administrative Proceedings, as detailed in section 52(54)(A)(1)(a) of the Israeli Securities Law;
- Expenses incurred by him in connection with Administrative Proceedings (as defined above) he was involved in, including reasonable litigation fees, and including attorney fees; 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.
- Financial liability he or she incurs for payment to persons or entities harmed as a result of violations in Administrative Proceedings, as detailed in section 52(54)(A)(1)(a) of the Securities Law. For this purpose "Administrative Proceeding" shall mean a proceeding pursuant to Chapters H3 (Imposition of Monetary Sanction by the Israel Securities Authority), H4 (Imposition of Administrative Enforcement Means by the Administrative Enforcement Committee) or I1 (Settlement for the Avoidance of Commencing Proceedings or Cessation of Proceedings, Conditioned upon Conditions) of the Securities Law, as shall be amended from time to time.
- Expenses that he or she incurs in connection with Administrative Proceedings (as defined above) he was involved in, including reasonable litigation fees, and including attorney fees.
- 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, as described below.

On November 17, 2011, following the approval by our Audit Committee and board of directors, our shareholders approved the future purchase by the Company of an insurance policy for directors' and officers' liability, including as directors or officers of the Company's subsidiaries, in substantially the same terms and conditions as the existing policy, for the period commencing on August 1, 2012 and ending on July 31, 2013. The maximum coverage amount under such policy and the maximum yearly premium to be paid by the Company for such policy shall not exceed US $10,000,000 and US $80,000, respectively.

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.

On November 17, 2011, our shareholders approved an amendment to the letters of indemnification issued by us to all of our directors and officers, with respect to recent amendments to the Israeli Securities Law, in connection with administrative proceedings.

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

6.C. BOARD PRACTICES

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

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

External Directors

Under the Companies Law, Israeli public companies are required to appoint at least two external directors to serve on their board of directors. Our shareholders approved in December 2010 the appointment of Mr. Chaim Labenski and the reappointment of Ms. Orli 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 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 <u>one</u> 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.

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. In addition, the Companies Law includes a corporate governance recommendation according to which the majority of the members of the board of directors in a public company that does not have a controlling shareholder should be independent directors, and in a company without a controlling shareholder at least third of the board of directors should be independent directors. A public company may classify an external director or an individual serving as a director, as an independent director 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

As of the date of this annual report, we have only one committee of the board of directors, which is the Audit Committee, as described below.

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 our Audit Committee are Mr. Chaim Labenski , 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 satisfy the requirements of Companies Law, the SEC's rules and NASDAQ rules.

The 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 Mr. Doron Cohen of Fahn Kanne & Co., a member firm of Grant Thornton International Ltd..

In 2011 our board of directors resolved to abolish our compensation committee and investment committee. We also do not have a nomination committee. The actions ordinarily taken by such committees 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 2, 2012, we had six 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, 2011, 2010 and 2009.

Division	**December 31,**					
	2009		**2010**		**2011**	
	US	**Israel**	**US**	**Israel**	**Europe**	**Israel**
Research & Development	-	29	-	-	-	-
Sales and Technical Marketing	10	16(1)	-	-	-	-
Marketing	1	6	-	-	-	-
Operations	-	17	-	-	-	-
General and Administrative, Finance and Human Resources	2	13	1	5	1	5
Total	13	81	1	5	1	5
	94		**6**		**6**	

(1) This number includes eight employees in Asia.

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

All of our employees are currently employed pursuant to personal employment agreements.

6.E. SHARE OWNERSHIP

As of April 2, 2012, our current directors and executive officers (seven persons) beneficially owned an aggregate of 10,085,921 ordinary shares of our Company of which 239,137 shares are issuable upon exercise of options that may be exercisable within 60 days of April 2, 2012. Such number excludes 30,000 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 2, 2012 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

As of April 2, 2012, options and warrants to purchase 645,500 of our ordinary shares were outstanding, with exercise prices ranging from $1.19 to $5.4 per share. As of April 2, 2102, 399,589 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 seven years from the date of their grant. As of December 31, 2010 and 2011, the number of options outstanding and reserved for issuance under our plans was 2,878,675 and 2,826,275, respectively. We undertook to grant additional 24,000 options to our directors and executive officers, from October 2012 to October 2013. The following table shows the number of options outstanding and reserved for issuance under each of our incentive plans, as of April 2, 2012 or within 60 days thereafter.

Plan	Number of options outstanding	Number of options reserved for issuance
1999 Plans	643,000	2,335,715
2001 Non-statutory share option plan	2,500	490,560
Total options	645,500	2,826,275

Plan	Number of shares outstanding	Number of shares reserved for issuance
2006 Israeli Incentive Compensation Plan	30,000	62,450
Total shares	30,000	62,450

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 2, 2012, or within 60 days thereafter, an aggregate of 2,330,612 ordinary shares has been reserved for issuance under this plan, and 643,000 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 2, 2012, or within 60 days thereafter, an aggregate of 490,590 ordinary shares has been reserved for issuance under this plan, and 2,500 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 unvested restricted shares. All restricted shares are subject to earlier termination upon termination of the grantee’s employment or other relationship with us, generally no less than 90 days from termination. We may make certain exceptions, from time to time, in the vesting and expiration terms of the securities granted to certain grantees. As of April 2, 2012 or within 60 days thereafter, an aggregate of 62,450 ordinary shares has been reserved for issuance under the 2006 Plan, and 30,000 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 2, 2012 of (i) each person or group known by us to beneficially own 5% or more of the outstanding ordinary shares and (ii) the beneficial ownership of all officers and directors as a group, in each case as reported by such persons:

Name of Beneficial Owner	No. of Ordinary Shares Beneficially Owned (1)	Percentage of Ordinary Shares Beneficially Owned
Shlomo (Tom) Wyler(2)	9,782,535	51.3
Arthur Mayer – Sommer(3)	1,200,000	6.29
Gesafi Real Estate S.A(4)	2,441,098	12.8
Shareholding of all directors and officers as a group (7 persons)(5)	10,085,922	52.23

(1) Number of shares and percentage ownership is based on 19,070,808 ordinary shares outstanding as of April 2, 2012. Such number excludes: (i) 313,473 ordinary shares held by us or for our benefit, and (ii) 30,000 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 2, 2012 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 and a member in our board of directors. The information is based on Amendment No. 11 to Schedule 13D filed by Mr. Wyler on June 30, 2011. The information includes 9,770,534 ordinary shares and 12,000 ordinary shares held by a trustee for the benefit of Mr. Shlomo (Tom) Wyler under our 2006 Plan.
(3) To our knowledge, the information is accurate as of April 2, 2012.
(4) The information is accurate as of September 8, 2011 and based on Amendment No. 1 to Schedule 13D filed with the SEC by Gesafi Real Estate S.A.
(5) Includes 9,846,785 ordinary shares and 239,137 ordinary shares issuable upon exercise of options exercisable within 60 days of April 2, 2012. Excludes 30,000 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 2, 2012 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, 2009, regarding ownership of our shares, and to date:

Beneficial Owner –	Date of filing	No. Of Shares Beneficially Held
Shlomo (Tom) Wyler	August 13, 2009	7,285,934*
Shlomo (Tom) Wyler	June 30, 2011	9,880,534**

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

** Including options to purchase 100,000 Ordinary Shares and 10,000 vested restricted shares.

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, 2009, regarding ownership of our shares, and to date:

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

*To the best of our knowledge, all such shares were sold to Gesafi Real Estate S.A., see below.

The following table specifies significant changes in the ownership of our shares held by Gesafi Real Estate S.A. This information is based on Schedules 13D filed by Gesafi Real Estate S.A during the period beginning on January 1, 2009, regarding ownership of our shares, and to date:

Beneficial Owner –	Date of filing	No. Of Shares Beneficially Held
Gesafi Real Estate S.A	September 8, 2011	2,006,098
Gesafi Real Estate S.A	August 12, 2011	2,441,098

All of our shares have the same voting rights.

On April 2, 2012, there were approximately 60 registered shareholders of our ordinary shares other than shares held by Cede & Co. As of such date, 47 registered holders in the United States hold approximately 71% 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 December 20, 2007, our shareholders approved an employment agreement, or 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 (keren hishtalmut), 24 days annual vacation, sick leave and 10 days replenishment fees (dmey havraa). The Company has also undertaken to provide Mr. Wyler with a telephone, facsimile, mobile phone, internet connection, laptop and printer and bear all installation costs and all expenses related thereto. The agreement further provides that Mr. Wyler shall be entitled to a one-time bonus in the amount of $10,000 upon the execution of the employment agreement. In addition, our board of directors, at its sole discretion, may grant Mr. Wyler an annual bonus for each year commencing in 2008 (for the year 2007) which shall not exceed twice Mr. Wyler’s monthly salary. 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. Since that meeting, Mr. Amir Philips was appointed as the Company's Chief Executive Officer effective from June 1, 2011, and consequently, at such time, the Company and Mr. Wyler agreed to terminate the Employment Agreement as of May 31, 2011. In the Company's shareholders annual general meeting, held on November 17, 2011, and following the approval by the Company's Audit Committee and board of directors, the shareholders of the Company approved and ratified the Employment Agreement for the period commencing on October 1, 2010 and ending on May 31, 2011. The cost to the Company of Mr. Wyler's employment during such eight-month period is NIS 350,657.

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.

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

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

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 he 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.

On May 5, 2011, Following the approval of our Audit Committee and board of directors, our shareholders approved a private placement of 2,500,000 newly issued ordinary shares of the Company, to Mr. Wyler, president of the Company and a member of our board of directors, who is also considered the controlling shareholder of the Company, in consideration for $5 million. For Further details see Item 10.C "Material Contracts".

On December 20, 2007, the Company's shareholders approved the grant of 12,000 restricted shares of the Company to each of the then serving directors of the Company, including Ms. Dana Tamir-Tavor, a former member of our board of directors. As of April 18, 2011, the effective date of Ms. Tamir-Tavor's resignation from her service as a director of the Company, the vesting of 10,000 Restricted Shares (out of 12,000 Restricted Shares granted to Ms. Tamir-Tavor) had already lapsed and Ms. Tamir-Tavor was entitled to such 10,000 Restricted Shares. The vesting of the remaining 2,000 Restricted Shares, that were granted to Ms. Tamir-Tavor on February 1, 2010, was due on January 31, 2012 only. Since Ms. Tamir-Tavor had resigned from our board of directors under the terms of grant of such restricted shares, she was not entitled to the remaining 2,000 Restricted Shares. In spite of the above, acknowledging the great contribution of Ms. Tamir-Tavor to the Company during her service as a director, and following the approval of the Company's Audit Committee and board of directors, on November 17, 2011 our shareholders resolved to accelerate the vesting of the 2,000 remaining restricted shares granted to Ms. Tamir-Tavor as of the termination date of her service as a director of the Company, thus allowing Ms. Tamir-Tavor to receive such 2,000 Restricted Shares.

On November 17, 2011, and following the approval by the Audit Committee and board of directors, our shareholders approved another grant of 100,000 options exercisable into 100,000 ordinary shares NIS 0.13 nominal value each of the Company to Mr. Hilman, the Executive Chairman of the board of directors, under the Company's 1999 Israeli Share Option Plan . The Options was granted to a trustee for the benefit of Mr. Hilman in accordance with the requirements of the capital gains tax track chosen by the Company. The Options will be granted to Mr. Hilman without consideration and will vest during a four-year period as of their date of grant (25% each year), and may not be exercised following their 10^{th} anniversary, subject to an exercise price of $2 per Option. All other terms of the options are as stated in the Company's 1999 Israeli Share Option Plan. Along with the approval of the grant of options to Mr. Hilman, the Company's shareholders approved a similar grant of 100,000 options to Mr. Shlomo (Tom) Wyler, the Company's president and member of the board of directors, who is also considered the controlling shareholder of the Company. The terms of grant of such Options to Mr. Wyler are identical to the terms of grant of the options to Mr. Hilman as described above, except that the tax track available to Mr. Wyler, as the controlling shareholder of the Company, is different from the capital gains tax track afforded to all other directors and officers of the Company. Under this tax track, the Company will also not be able to recognize expenses pertaining to this grant.

On November 17, 2011, and following the approval by the Audit Committee and board of directors, our shareholders approved an agreement between the Company and BN Finance AG, or BN Finance, a company affiliated with Mr. Shlomo (Tom) Wyler, the Company's president and member of the board of directors, who is also considered the controlling shareholder of the Company, for the provision of business and financial consulting services to the Company and its subsidiaries and affiliates. According to the agreement, BN Finance will provide the Company with business and financial consulting services, or the services, which will include advising the Company on its financing agreements, negotiations with the financing banks and the service of directors and officers of BN Finance as directors of the Company's subsidiaries and affiliates, as requested by the Company and/or its subsidiaries and affiliates from time to time and at the sole discretion of the Company. BN Finance will render the services faithfully and diligently for the benefit of the Company, its subsidiaries and affiliates, and will devote all necessary time and attention for the performance of the services. BN Finance will also use its best efforts to implement the policies established by the Company, its subsidiaries and affiliates in the performance of the services. In consideration for the services, the Company will pay BN Finance a monthly fee of CHF 10,000 plus applicable value added tax. In the event the agreement is terminated during a certain month, BN Finance will be entitled for a pro rata fee based on the number of days that has lapsed until the termination date of this agreement. The agreement has taken effect since November 1, 2011 and for a period of three years thereafter. Each of BN Finance and the Company may terminate the agreement by giving a prior written notice of 30 days. During such advance notice period, BN Finance will be required to continue the provision of the services (unless the Company has instructed it otherwise) and in any event BN Finance will be entitled to receive the consideration for such period.

On November 17, 2011, and following the approval by the Audit Committee and board of directors, our shareholders approved the reimbursement of expenses incurred by Mr. Shlomo (Tom) Wyler in an aggregate annual amount not to exceed $50,000, beginning in 2012. Mr. Wyler was previously approved reimbursement of his expenses in his various managerial positions in the Company of up to $50,000 per annum as approved by the Company's shareholders on November 8, 2006. The reimbursement of expenses will be made against receipts only. The expenses with respect to which Mr. Wyler is and will be reimbursed are expenses directly incurred in connection with the performance of Mr. Wyler's duties in the Company. The Company's Audit Committee will receive a quarterly report reviewing the reimbursement of Mr. Wyler's expenses during the preceding quarter.

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.

On August 19, 2011 the Tel-Aviv District Court dismissed the lawsuit filed against the Company by Vsoft. Vsoft's claims were rejected by the Tel-Aviv District Court. In addition to the dismissal of the lawsuit, the Tel-Aviv District Court awarded the Company with expenses in the sum of NIS 150,000.

485 Lexington, NY

On February 2, 2010, Mazal 485 LLC, or Mazal, a company whose beneficial interest is jointly owned by us and by Gilmore USA LLC, filed a lawsuit against SL Green Realty Corp. and several of its subsidiaries, or 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 APA with Optibase Technologies Ltd. and Stradis Inc., wholly owned subsidiaries of S.A. Vitec (also known as Vitec Multimedia) (or, collectively, Vitec) pursuant to which Optibase Technologies Ltd. and Stradis Inc. undertook to purchase all of the assets and liabilities related to the Company's Video Solutions Business, or 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 would 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 the EU, and at the closing, Vitec would pay the Company, the amount estimated by the Company to be owed to it, or the Adjustment Amount. The overall consideration would then be adjusted accordingly. 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 following 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.

Until today, 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 its obligations towards the Company, and therefore, the Company would collect the payment owed to it.

At this point, Vitec claimed that the fact that the Company contacted its customers and the fact that the Company continued to hold the above payments, caused damage to Vitec. Vitec's claim at that point was that the Company held approximately $1.3 million that belong to Vitec.

The Company claims that Vitec holds approximately $1 million which belong to it, and that 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 breached its obligations towards the company.

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 amounted 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. Since then the motions filed by both parties have been dismissed by the court and were transferred to arbitration proceedings.

On November 10, 2011, the Company submitted its Statement of Claim in the arbitration proceedings against Vitec demanding that Vitec pay an aggregate sum of $1,505,966 for the Adjustment Amount owed to the Company, for sums received by Vitec from the Chief Scientist and that the Company was due to receive, for the Consortium Amounts (as detailed below) and breach by Stradis, Inc. of its Lease Agreement with Optibase, Inc

On November 13, 2011, Vitec submitted its Statement of Claim against Vitec demanding that the Company pay Optibase $20,166,598.91, €135,875.74 and NIS 9,451,616.78.

The Statement of Claim brought by Vitec is based, *inter alia*¸ on the following main causes of action: (i) loss of business opportunities (mainly Merges and Acquisitions transactions) for lack of available cash; (ii) mail fraud; (iii) defamation; (iv) expenditures related to the legal proceedings between the parties; and (v) several additional causes of action, among others, based on Vitec's claim mentioned above.

On January 5, 2012, both parties submitted their Statements of Defense mutually denying all of the other party's claims.

Following submission of the party's pleadings, it was decided that Vitec would submit an expert opinion to prove its accusation and that the Company would be entitled to submit a counter opinion on its behalf. On March 17, 2012, Vitec submitted their expert opinion by Dr. Adi Ayal. The Company has until May 15, 2012 to submit the expert opinion on its behalf.

During the end of March 2012, evidentiary hearings were held before the Arbitrator. In these hearings Vitec's witnesses provided their primary testimony and were cross-examined by the Company's attorneys. Additional evidentiary hearings for Vitec's witnesses are scheduled for the beginning of May 2012. Evidentiary hearings for the Company's witnesses are scheduled for June 2012.

As the proceedings are currently in the midst of evidentiary hearings, and as the Company's witnesses have yet to provide their testimony, we cannot at this time assess the likelihood of success of these proceedings.

Vitec Consortiums

As part of the above agreement, on June 30, 2010 the Company, Vitec and Adv. Doron Afik, acting as trustee, or the Trustee, entered into the Consortium Escrow Agreement, or the Consortium Agreement. Under the Consortium Agreement, $100,000 were to be held in escrow per each EU 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 by the Trustee to the Company.

On February 9, 2011, an employee of Vitec notified the Company that according to the EU website the final two Consortium Agreements had been transferred to Vitec. Despite such notice the Trustee has refrained from transferring the remaining funds to the Company.

The Trustee submitted a motion with the Tel-Aviv District Court requesting instructions from the court as to what to do with the abovementioned escrow funds following the Company's request. This motion was dismissed by the court due to lack of authority, in accordance with the Company's request. The Company also 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. This proceeding was later transferred to arbitration proceedings with the consent of the parties. Additionally, the amount of $200,000 which has been held by the Trustee was deposited with the court's fund office.

In the following months, the Company received official confirmations as to the transfer of the second and third consortium agreement to Vitec.

This proceeding is currently pending before the Arbitrator in the Company's statement of claim as mentioned above.

We believe that the Company has strong legal and factual arguments to defend itself from the claims in the Vitec arbitration.

Personal Claim against Adv. Doron Afik

Due to the Trustee's refusal to transfer the escrow funds relating to the two remaining Consortium Agreements to the Company, the Company believes the Trustee breached his duties as Trustee and caused damage to the Company. Therefore, on June 9, 2011, the Company filed a statement of claim for damages of NIS 1,000,000 against the Trustee, along with an *ex-parte* motion for a lien on all of the Trustee's bank accounts.

On June 16, 2011, the court rendered its decision granting the lien subject to the Company depositing certain securities. The Trustee then filed a motion to cancel the lien and the court decided to transfer the proceedings to the District Court, but that the lien would remain in effect until a decision by the District Court. The District Court for Tel Aviv-Yaffo ordered the removal of the lien, and later on at the parties' mutual request, the court ordered to transfer these proceedings to arbitration.

On November 10, 2011 the Company submitted its statement of claim against Adv. Afik to the Arbitrator, in the same form as previously submitted to the court.

On January 15, 2012, Adv. Afik submitted his Statement of Defense to the claim against him, denying all of the Company's claims against him. Also on January 15, 2012, Adv. Afik submitted a counterclaim against Optibase, or the Afik Counter-Claim. In the Afik Counter Claim Adv. Afik demands to receive an aggregate sum of NIS 2,474,693.18 from the Company. Adv. Afik's claim is based on three main claims: (i) The Company's response to an article published in the website www.sponsor.co.il constitutes libel against Adv. Afik for which he is owed damages of NIS 500,000; (ii) By obtaining liens on Adv. Afik's assets, the Company caused Adv. Afik damages of NIS 1,465,494.46; and (iii) That a publication about the liens obtained on Adv. Afik's assets also constitutes libel against Adv. Afik for which he is owed NIS 509,198.72.

The Statement of Defense on behalf of the Company was submitted on March 4, 2012.

Evidentiary hearings on the Vitec Arbitration are scheduled for July 8-10, 2012.

We believe that the Company has strong legal and factual arguments to defend itself from the claims in the Afik Counter Claim.

Dispute between our subsidiary and Apollo CTN Sarl

There is a dispute under the Share Purchase Agreement entered into between OPCTN S.A., a Luxembourg company which is 51% owned by the Company (OPCTN), and Apollo CTN Sarl, or Apollo. Under the Share Purchase Agreement, OPCTN acquired all of the shares of Eldista, a Swiss company that owns an office complex in Geneva, Switzerland.

The dispute relates to the release of CHF 1,000,000 that was placed in escrow at the closing of the acquisition in March 2011, or the Escrow. Under the Share Purchase Agreement, the Escrow is to be released according to completion accounts that Apollo prepared post-closing which state the net asset value of Eldista as of the closing date, or the Completion Accounts. According to the Completion Accounts submitted by Apollo, approximately CHF 323,000 of the Escrow is to be paid to OPCTN and the balance of the Escrow of approximately CHF 677,000 is to be paid to Apollo.

In September 2011, OPCTN submitted an objection letter to Apollo claiming that Apollo’s calculations in the Completion Accounts were incorrect and that full CHF 1,000,000 escrow should be paid to OPCTN and that Apollo should pay an additional amount of approximately CHF 216,000 to OPCTN. OPCTN included a Notice of Claim in the objection letter and asserting breaches of Apollo’s representations and warranties under the Share Purchase Agreement and stating that OPCTN will suffer damages if the Completion Accounts are not finally determined in OPCTN’s favor.

Apollo has asserted that it accurately prepared the Completion Accounts and denies any breach of representations and warranties under the Share Purchase Agreement.

In March 2012, OPCTN and Apollo entered into an Addendum to the Share Purchase Agreement whereby they agreed that CHF 300,000 plus accrued interest of the Escrow be paid to Apollo and CHF 700,000 plus accrued interest of the Escrow be paid to OPCTN.

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 our 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

Since the date of our financial statements for the year ended December 31, 2011, there has been a further progress in the arbitration between us and Vitec, as more fully described in Item 8. "Financial Information - Legal Proceedings".

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**
2007	$ 4.52	$ 2.52
2008	$ 2.73	$ 0.74
2009	$ 1.50	$ 0.93
2010	$ 1.60	$ 1.20
2011	$ 1.75	$ 0.99

	High	Low
2010		
First Quarter	$ 1.43	$ 1.20
Second Quarter	$ 1.55	$ 1.35
Third Quarter	$ 1.50	$ 1.30
Fourth Quarter	$ 1.60	$ 1.38
2011		
First Quarter	$ 1.75	$ 1.42
Second Quarter	$ 1.75	$ 1.36
Third Quarter	$ 1.51	$ 1.32
Fourth Quarter	$ 1.52	$ 0.99
2012		
First Quarter	$ 1.29	$ 1.05

	High	Low
Most Recent Six Months		
October 2011	$ 1.40	$ 1.11
November 2011	$ 1.52	$ 1.30
December 2011	$ 1.50	$ 0.99
January 2012	$ 1.16	$ 1.05
February 2012	$ 1.29	$ 1.06
March 2012	$ 1.29	$ 1.07

On April 23, 2012, the reported closing sale price of our ordinary shares on The NASDAQ Global Market, was $1.28 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 52-003707-8.

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. A consideration to the Company's purpose and objectives can be found in Chapter 1 to the Company's articles of association.

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 19,414,281 ordinary shares were outstanding as of April 2, 2012. 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 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 three 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 three 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 three 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 officers 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 then 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

Rümlang, Switzerland

On October 29, 2009, we, through our 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 23.5 million of which CHF 18.8 million (approximately $22.8 million and $18.1 million respectively, as of the purchase date) was financed through a long-term loan from a Swiss bank.

Swiss Pro Capital Limited

On March 1, 2010, the Company's subsidiary in Luxembourg Optibase RE 1 SARL or Optibase RE 1 entered into an Option Agreement, or the Option Agreement, with a Cypriot company, Swiss Pro, with respect to a commercial building acquired by the Company in October, 2009 in Rümlang, Switzerland. Through its beneficial owner, Swiss Pro introduced Optibase to the Rümlang property and facilitated Optibase's acquisition and financing of the property. Under the Option Agreement, Optibase RE 1 granted Swiss Pro an option to purchase twenty percent (20%) of the share capital of Optibase RE 1. Swiss Pro 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 twenty percent (20%) 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 Swiss Pro 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 APA with Optibase Technologies Ltd. and Stradis Inc., wholly owned subsidiaries of S.A. Vitec (also known as Vitec Multimedia), pursuant to which Optibase Technologies Ltd. and Stradis Inc. will purchase all of the assets and liabilities related to our Video Solutions Business. 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 or the Acquired Assets. Our Video Solutions Business included the design, development, manufacture, production, supply, sale, marketing and distribution of video devices and related services or 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, or 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. According to information recently received from Vitec, we will not receive any proceeds from the "earn-out" mechanism.

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 cannot be assigned to Vitec.

Additional Undertakings

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

Indemnification

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

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

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

Termination

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

Guaranty of S.A. Vitec

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

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 three 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, we and Vitec commenced an arbitration proceedings, 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), or the Property. The acquisition was undertaken by OPCTN S.A., or 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. The seller, Apollo CTN. S.a.r.l, or 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) and included the assumption of an 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 37.7 million (approximately $40.6 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.

On the date of the agreement, we paid to Apollo CTN S.A.R.L, or the Seller, CHF 37.4 million (the Closing cash payment), which represent the purchase price less CHF 500,000 (approximately $40.2 million and $538,000 respectively as of the purchase date). In addition, we paid CHF one million (approximately $1.1 million as of the purchase date), or the Adjustment Escrow, into an escrow account. The release of the Adjustment Escrow depends on the consequence of the net assets adjustment.

The net assets adjustment finally amounted to be a net liability of CHF 200,000. Accordingly, CHF 700,000 of the Escrow is to be paid to us and the balance of the Escrow of CHF 300,000 (approximately $214,000, $745,000 and $ 319,000, respectively) is to be paid to the seller.

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 on February 8, 2011 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 one 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 two million per event or CHF five 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 prohibited 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, and the approval of our shareholders during a special general meeting of our shareholders held on May 5, 2011, the Company issued to Mr. Wyler, the president of the Company and a member of our board of directors, who is also considered the controlling shareholder of the Company 2,500,000 ordinary shares of the Company, then representing 13.11% of the Company's voting rights in consideration for $5 million. The Company further undertook to make best efforts to register for resale all the shares issued to Mr. Wyler in the private placement, and the existing shares then held by Mr. Wyler under the Securities Act within six months as of their issue date.

Office Complex in Geneva, Switzerland (CTN) refinancing agreement

On October 28, 2011 we entered into a CHF 15 million mezzanine bank loan and a CHF 85 million refinancing mortgage loan with Credit Suisse for the Company's Centre de Technologies Nouvelles (CTN) office building complex in Geneva, Switzerland. The refinancing was undertaken by OPCTN and by OPCTN's subsidiary, Eldista which is the owner of the Property.

Under the new financing agreements, Credit Suisse provided the mezzanine loan to OPCTN and refinanced the existing mortgage loan that Credit Suisse had provided to Eldista in 2010 that had an outstanding balance of CHF 83 million with a new CHF 85 million mortgage loan. . The combined interest rate of the two new loans represents a 97 basis-point discount compared with the interest rate that Credit Suisse charged in the 2010 mortgage loan. The loans are amortized at a rate of CHF two million per year. The loans are secured by a first mortgage over the Property and by a pledge of Eldista's shares.

The refinancing allowed us and our partners (51% and 49% respectively) to retrieve approximately CHF 15 million of the equity initially invested in the acquisition. As of the refinancing date the refinancing increased our overall liquidity and reduced principal payments by a total of CHF 3.75 million over the next four years period. Based on current interest rates and net of loan expenses, we also expect a reduction of interest expenses by approximately CHF 2.1 million, resulting in an overall expected improvement to cash flows due to the refinancing of approximately CHF 5.8 million for the four years period.

On October 2, 2011, the Company's board of directors approved the refinancing agreement. Following the approval of the Company's board of directors of the Refinancing Loan and the Mezzanine Loan, the loan documents were completed and the loan was executed on October 28, 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, we cannot assure you that the tax authorities or the courts will accept the views expressed in this section. 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%.

In December 2011, the Israeli Parliament passed the Law for Socioeconomic Change (Legislative Amendments) (Taxes) , 2011(the "Tax Burden Law") which prescribes, among others, to cancel, effective from 2012, the scheduled progressive reduction in the corporate tax rate and to raise the statutory corporate tax rate to 25% in 2012. In view of the increase in the corporate tax rate to 25% in 2012, the real capital gains tax rate and the real betterment tax rate will also be increased. The Amendment was enacted effective as of January 1, 2012. The adoption of the amendment had no effect on the financial statements.

Beginning as of 2010, Israeli companies are subject to regular corporate tax rate for their capital gains. In 2009, Israeli companies were generally subject to capital gains tax at a rate of 25% for such gains (other than capital gains from the sale of listed securities derived by companies with respect to which the provisions of Section 6 of the Israeli Income Tax Law (Inflationary Adjustments) 5745-1985 (the “Inflationary Adjustments Law”), or the provisions of Section 130A of the Income Tax Ordinance, 1961 (the “Ordinance”), applied immediately before the 2006 tax reform came into force, which were instead subject to the regular corporate tax rate).

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 or 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

The following is a short summary of the material provisions of the tax environment to which shareholders may be subject. This summary is based on the current provisions of tax law. To the extent that the discussion is based on new tax legislation that has not been subject to judicial or administrative interpretation, we cannot assure you that the views expressed in the discussion will be accepted by the appropriate tax authorities or the courts.

The summary does not address all of the tax consequences that may be relevant to all purchasers of our common shares in light of each purchaser’s particular circumstances and specific tax treatment. For example, the summary below does not address the tax treatment of residents of Israel and traders in securities who are subject to specific tax regimes. As individual circumstances may differ, holders of our common shares should consult their own tax adviser as to the United States, Israeli or other tax consequences of the purchase, ownership and disposition of common shares. The following is not intended, and should not be construed, as legal or professional tax advice and is not exhaustive of all possible tax considerations. Each individual should consult his or her own tax or legal adviser.

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 (CPI) 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" (generally a shareholder who holds directly or indirectly 10% or more of the rights to profits, right to nominate a director or voting rights) of the company issuing the shares, 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).

Notwithstanding the foregoing, pursuant to the Tax Burden Law, the capital gain tax rate applicable to individuals was raised from 20% to 25% from 2012 and onwards (or from 25% to 30% if the selling individual shareholder is a Substantial Shareholder at any time during the 12-month period preceding the sale). With respect to assets (not shares that are listed on a stock exchange) purchased on or after January 1, 2003, the portion of the gain generated from the date of acquisition until December 31, 2011 will be subject to the previous capital gains tax rates (20% or 25%) and the portion of the gain generated from January 1, 2012 until the date of sale will be subject to the new tax rates (25% or 30%).

The determination of whether the individual is a substantial shareholder will be made on the date that the securities are sold. In addition, the individual will be deemed to be a substantial shareholder if at any time during the 12 months preceding this date he had been a substantial shareholder.

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 (including corporations) 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, or 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 Israeli Shareholders on Receipt of Dividends

Israeli Resident Individuals. Israeli residents who are individuals are generally subject to Israeli income tax for dividends paid on our common shares (other than bonus shares or share dividends) at 20%, or 25% if the recipient of such dividend is a Substantial Shareholder at the time of distribution or at any time during the preceding 12-month period. Pursuant to the Tax Burden Law, as of 2012 such tax rate is 25%, or 30% if the dividend recipient is a Substantial Shareholder at the time of distribution or at any time during the preceding 12-month period. However, dividends distributed from taxable income accrued during the period of benefit of an Approved Enterprise, Benefited Enterprise or Preferred Enterprise are subject to withholding tax at the rate of 15%, if the dividend is distributed during the tax benefit period under the Investment Law or within 12 years after that period. An average rate will be set in case the dividend is distributed from mixed types of income (regular and Approved/ Benefited/ Preferred income).

Israeli Resident Corporations. Israeli resident corporations are generally exempt from Israeli corporate tax for dividends paid on our common shares.

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% or 25% if considered a "material shareholder" (25% and 30% if considered a "material shareholder", as of 2012 – The Burden Law), 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%.

A non-resident of Israel who receives dividends from which tax was withheld is generally exempt from the duty to file returns in Israel in respect of such income, provided such income was not derived from a business conducted in Israel by the taxpayer, and the taxpayer has no other taxable sources of income in Israel.

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 or the Code, as amended, 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, or 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 the Company's subsidiary in Luxemburg, Switzerland and the United States is subject to tax at the rate of approximately 29%, 25% and 34% respectively in 2011.

10.F. DIVIDEND AND PAYING AGENTS

Not applicable.

10.G. STATEMENT BY EXPERTS

Not applicable.

10.H. DOCUMENTS ON DISPLAY

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

10.I. SUBSIDIARY INFORMATION

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Most of our revenues are generated in 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 3.9% in 2009, approximately 2.7% in 2010, and approximately 2.2% in 2011. The appreciation of the NIS against the dollar was approximately 0.7% in 2009, 6% in 2010, and a devaluation of 7.7% in 2011 and the devaluation of the NIS against the CHF was approximately 2.9% in 2009, 3.3% in 2010, and 7.2% in 2011. The appreciation of the CHF against the dollar was 1.7% in 2009, 9.4% in 2010, and 0.1% in 2011.

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.

Our functional currency is the U.S Dollar.

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

While the functional currency of our subsidiaries in the United States is the U.S dollars, the functional currency of our subsidiaries in Switzerland is their lead currency, *i.e.* CHF. Since our functional and reporting currency is the U.S dollars, the financial statements of Optibase Real Estate SARL and OPCTN S.A 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, 2011, our available net cash was $22.9 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, 2011, 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 15. 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, 2011. 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, 2011 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, 2011.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting, because we are neither a "large accelerated filer" nor an "accelerated filer" as those terms are defined in the Securities Exchange Act.

(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 16A. 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 16B. 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 is attached as Exhibit 11.1 to this annual report, and published on our website in the address: http://www.optibase-holdings.com/homesites/PageGen.asp?page=18523.

ITEM 16C. 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, 2011, 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 2011 (in thousands):

	2010	2011
Audit fees (1)	95	115
Audit-related fees (2)	--	20
Tax fees (3)	--	--
All other fees (4)	25	--
Total	120	135

(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 2010 and 2011, 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 16D. 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 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Not applicable.

ITEM 16F. CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT

None.

ITEM 16G. 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, 2011, are filed as part of this annual report:

ITEM 19. EXHIBITS

See Exhibit Index.

OPTIBASE LTD. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2011

U.S. DOLLARS IN THOUSANDS

INDEX

Kost Forer Gabbay & Kasierer
3 Aminadav St.
Tel-Aviv 67067, Israel

Tel: 972 (3)6232525
Fax: 972 (3)5622555
www.ey.com

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, 2010 and 2011, 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, 2011. 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, 2010 and 2011, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accounting principles.

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

Tel-Aviv, Israel
April 30, 2012

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31, 2010	December 31, 2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 30,260	$ 22,945
Restricted cash	-	131
Trade receivables	-	732
Other accounts receivable and prepaid expenses (Note 5)	334	1,260
Total assets attributed to discontinued operations (Note 1c)	966	969
Total current assets	31,560	26,037
LONG-TERM INVESTMENTS:		
Long-term deposits (Note 9)	157	56
Investments in companies (Note 6)	100	100
Total long-term investments	257	156
PROPERTY, EQUIPMENT AND OTHER ASSETS, NET		
Equipment, net	4	7
Real Estate Property, net (Note 3)	32,353	192,173
Other assets, net (Note 4)	552	1,512
Total property, equipment and other assets	32,909	193,692
Total assets	$ 64,726	$ 219,885

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

CONSOLIDATED BALANCE SHEETS

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

	December 31,	
	2010	2011
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long term loan (Note 8)	$ 400	$ 2,529
Trade payables	31	27
Other accounts payable and accrued expenses (Note 7)	1,708	4,130
Total liabilities attributed to discontinued operations (Note 1c)	3,006	2,990
Total current liabilities	5,145	9,676
COMMITMENTS AND CONTINGENT LIABILITIES (Note 9)		
LONG-TERM LIABILITIES:		
Deferred tax liabilities (Note 10)	-	14,608
Land lease liability, net	-	7,175
Other Long-Term Liabilities	-	3,559
Long term loans, net of current maturities (Note 8)	19,189	123,606
Total long-term liabilities	19,189	148,948
SHAREHOLDERS' EQUITY (Note 11):		
Share capital -		
Ordinary Shares of NIS 0.13 par value -		
Authorized: 30,000,000 shares at December 31, 2010 and 2011;		
Issued: 19,414,281 shares at December 31, 2010 and 2011;		
Outstanding: 16,556,808 and 19,070,808 shares at December 31, 2010 and 2011, respectively	650	744
Additional paid-in capital	125,728	130,734
Treasury shares (357,473 and 343,473 shares at December 31, 2010 and 2011, respectively)	(1,074)	(954)
Accumulated other comprehensive income	479	305
Accumulated deficit	(85,391)	(85,730)
Total shareholders' equity of Optibase Ltd.	40,392	45,099
Non-controlling interests	-	16,162
Total shareholders' equity	40,392	61,261
Total liabilities and shareholders' equity	$ 64,726	$ 219,885

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

April 30, 2012	/s/Amir Philips	/s/ Alex Hilman
Date of approval of the financial statements	Amir Philips Chief Executive Officer.	Alex Hilman Executive Chairman of the board of directors

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Year ended December 31, 2009	2010	2011
Fixed income from real estate rent	$ 272	$ 1,650	$ 12,479
Costs and expenses:			
Cost of real estate operations	11	59	1,869
Real estate depreciation and amortization	115	695	2,153
General and administrative	1,175	1,502	3,057
Total costs and expenses	1,301	2,256	7,079
Operating income (loss)	(1,029)	(606)	5,400
Gain on bargain purchase (Note 1b(3))	-	-	4,412
Other income (loss) (Note 6)	-	(600)	-
Financial income (expenses), net (Note 12)	617	304	(7,481)
Income (loss) before taxes on income	(412)	(902)	2,331
Taxes on income (Note 10)	-	43	481
Net income (loss) from continuing operations	(412)	(945)	1,850
Net income (loss) from discontinued operations (Note 1c)	472	5,399	(51)
Net income	60	4,454	1,799
Net income attributable to non-controlling interest	-	-	2,038
Net income (loss) attributable to Optibase LTD	$ 60	$ 4,454	$ (239)
Net earnings (loss) per share:			
Basic and diluted net earnings (loss) per share from continuing operations	$ (0.02)	$ (0.06)	$ (0.01)
Basic and diluted net earnings (loss) per share from discontinued operations	$ 0.03	$ 0.33	$ (0.00)
Basic and diluted net earnings (loss) per share	$ 0.00	$ 0.27	$ (0.01)
Weighted average number of shares used in computing basic and diluted net earnings (loss) per share:	16,533,586	16,554,870	18,209,676

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 shareholders' equity of Optibase Ltd.	Non-controlling interests	Total comprehensive income (loss)	Total shareholders' equity
Balance as of January 1, 2009	$ 650	$ 125,492	$ (1,306)	$ -	$ (89,825)	$ 35,011	$ -	$ -	$ 35,011
Stock-based compensation related to options and unvested shares granted to employees	-	221	-	-	-	221	-	-	221
Issuance of treasury shares upon vesting shares	-	(64)	98	-	(34)	-	-	-	-
Foreign currency translation adjustment	-	-	-	(54)	-	(54)	-	(54)	(54)
Net income	-	-	-	-	60	60	-	60	60
Total comprehensive income, net								$ 6	
Balance as of December 31, 2009	650	125,649	(1,208)	(54)	(89,799)	35,238	-	-	35,238
Stock-based compensation related to options and unvested shares granted to employees	-	167	-	-	-	167	-	$ -	167
Issuance of treasury shares upon vesting of shares	-	(88)	134	-	(46)	-	-	-	-
Foreign currency translation adjustment	-	-	-	533	-	533	-	533	533
Net income	-	-	-	-	4,454	4,454	-	4.454	4,454
Total comprehensive income, net								$ 4,987	
Balance as of December 31, 2010	650	125,728	(1,074)	479	(85,391)	40,392	-	$ -	40,392
Issuance of ordinary shares	94	4,906	-	-	-	5,000	-	-	5,000
Stock-based compensation related to options and unvested shares granted to employees	-	120	-	-	-	120	-	-	120
Issuance of treasury shares upon vesting of shares	-	(20)	120	-	(100)	-	-	-	-
Foreign currency translation adjustment	-	-	-	(174)	-	(174)	(131)	(305)	(305)
Non-controlling interests	-	-	-	-	-	-	14,255	-	14,255
Net income (loss)	-	-	-	-	(239)	(239)	2,038	1,799	1,799
Total comprehensive income, net								$ 1,494	
Balance as of December 31, 2011	$ 744	$ 130,734	$ (954)	$ 305	$ (85,730)	$ 45,099	$ 16,162		$ 61,261

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,		
	2009	**2010**	**2011**
Cash flows from operating activities:			
Net income	$ 60	$ 4,454	$ 1,799
Loss (income) from discontinued operations	(472)	(5,399)	51
Income (loss) from continued operation	(412)	(945)	1,850
Adjustments required to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	115	696	2,220
Impairment of an investment in company	-	600	-
Stock-based compensation related to options and unvested shares granted to employees	221	167	120
Gain from a bargain purchase	-	-	(4,412)
Decrease in trade receivables	-	-	1,216
Decrease in deferred tax liabilities	-	-	(482)
Increase in other long-term liabilities	-	-	3,319
Decrease (increase) in other accounts receivable and prepaid expenses	(218)	29	1,371
Increase (decrease) in trade payables	29	2	(136)
Increase (decrease) in accrued expenses and other accounts payable	757	(164)	(3,161)
Net cash provided by from continuing operations	492	385	1,905
Net cash used in discontinued operations	(3,349)	(202)	(70)
Net cash provided by (used in) operating activities	(2,857)	183	1,835
Cash flows from investing activities:			
Purchase of equipment	-	(5)	(5)
Proceeds from (investment in) short-term deposit	(3,750)	3,750	(1,065)
Proceeds from (investment in) long-term lease deposits	11	(57)	101
Investment in real estate property	(22,282)	(8,786)	(1,187)
Investment in other assets	(659)	-	-
Increase in restricted cash	-	-	(131)
Acquisition of Eldista, net (b)	-	-	(20,684)
Proceeds from sale of the Video activity	-	6,800	-
Net cash provided by (used in) investing activities from continuing operations	(26,680)	1,702	(22,971)
Net cash provided by (used in) investing activities from discontinued operations	28,481	-	-
Net cash provided by (used in) investing activities	1,801	1,702	(22,971)

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, 2009	2010	2011
Cash flows from financing activities:			
Issuance of ordinary shares in a private placement	-	-	5,000
Proceeds from bank loan	18,353	-	106,441
Repayment of bank loan	-	(406)	(91,847)
Repayment of loan to non- controlling interests	-		(5,618)
Net cash provided by (used in) financing activities from continuing operations	18,353	(406)	13,976
Exchange differences on balances of cash and cash equivalents	(32)	130	(155)
Increase (decrease) in cash and cash equivalents	17,265	1,609	(7,315)
Cash and cash equivalents at the beginning of the year	11,386	28,651	30,260
Cash and cash equivalents at the end of the year	$ 28,651	$ 30,260	$ 22,945
(a) Supplemental cash flow activities:			
Cash paid during the year for:			
Taxes	$ 88	$ -	$ 1,903
Interest	$ 26	$ 207	$ 3,081
(b) Acquisition of Eldista, net:			
Working capital deficiency, net			$ (155)
Building (including land)			161,451
Above market value of in-place leases			1,124
Deferred tax liabilities			(15,282)
Mortgage loan			(92,705)
Swap instrument			(392)
Land lease liability			(7,311)
Rent settlements with tenants			(1,759)
Gain from a bargain purchase			(4,412)
Non controlling interests			(19,875)
Net cash paid by the Company			$ 20,684

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

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 a commercial building as more fully 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, 2011, the Company manages its activity through three active subsidiaries: Optibase Real Estate Europe SARL ("Optibase SARL") in Luxembourg which was incorporated in October 2009, Optibase Inc. in the United States which was incorporated in 1991 ("Optibase Inc") and OPCTN SA in Geneva which was incorporated in February 2011 (collectively: "the Group").

b. Acquisitions:

2009 Acquisition:

1. Rümlang , Switzerland

On October 29, 2009, the Company through its subsidiary in Luxemburg, Optibase SARL, acquired a commercial building located in Rümlang 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 below. 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.

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

NOTE 1:- GENERAL (Cont.)

Other than as discussed above, the Company has determined that the real estate properties do not have any other significant identifiable intangibles.

The total purchase price was allocated as follows:

Cash paid	$	22,828
Land	$	2,818
Building		19,354
Above market value of in-place leases		656
Total purchase price	$	22,828

On March 1, 2010 Optibase SARL entered into an Option Agreement with a Cypriot company, Swiss Pro Capital Limited, with respect to the commercial building acquired by the Company, in Rümlang, Switzerland. Through its beneficial owner, Swiss Pro Capital Limited introduced Optibase to the Rumlang property and facilitated Optibase's acquisition and financing of the property. Under the Option Agreement, Optibase SARL granted Swiss Pro Capital limited 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, Swiss Pro Capital Limited will pay 20% of the investment amount (as defined in the Option Agreement). The shares that would be issued to Swiss Pro Capital Limited 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 820 using the Binominal model and was accounted as a liability.

2010 Acquisition:

2. Marquis Residence in Miami, Florida

On December 30, 2010, the Company's wholly-owned subsidiary, Optibase Inc, acquired 21 condominium units in the Marquis Residence in Miami, Florida. for consideration of approximately $ 8,632 in cash. The acquisition of the units was accounted for as acquisition of an asset. The Company is renting part of the units and in principle holds the units for investment purposes and will consider selling the units in accordance with its business considerations and market conditions. As of December 31, 2011, out of the 21 units 14 units have been rented.

NOTE 1:- GENERAL (Cont.)

2011 Acquisition:

3. Centre des Technologies Nouvelles in Geneva, Switzerland

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., a Luxembourg company owned 51% by Optibase and 49% by The Phoenix Insurance Company Ltd and The Phoenix Comprehensive Pension (collectively, "The Phoenix"). OPCTN S.A. undertook the transaction by acquiring all of the ownership interest in the Property owner Eldista GmbH, a Swiss Company ("Eldista").

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 (approximately 377,000 square feet) of primarily space and is a center for advanced industries including biotech electronic and information technology industries.

The total purchase price for the Eldista shares was CHF 37,720 (representing $ 40,559 - as of the purchase date), subject to a post-closing price adjustment to reflect Eldista's assets and liabilities as of the closing date.

On the date of the agreement, the Company paid to Apollo CTN S.A.R.L (the "Seller"), CHF 37,420, which represent the purchase price less CHF 500 (approximately $ 40,234 and $ 538, respectively as of the purchase date). In addition, the Company paid CHF 1,000 (approximately $ 1,075 as of the purchase date) (the "Adjustment escrow") into an escrow account. The release of the adjustment escrow depends on the consequence of the net assets adjustment.

The net assets adjustment finally amounted to be a net liability of CHF 200.
Accordingly, CHF 700 of the Escrow is to be paid to the Company and the balance of the Escrow of CHF 300 (approximately $ 214, $ 745 and $ 319, respectively) is to be paid to the seller.

The acquisition of the property through the acquisition of Eldista was accounted for by the Company as a business combination in accordance with ASC 805 "Business Combination". The acquired activities and assets of Eldista constitute a business as they consist of inputs and processes applied to those inputs that have the ability to create outputs.

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 total purchase price was allocated as follows:

	USD
Cash paid for Eldista shares	$ 40,559
Assets and liabilities acquired:	
Land	23,654
Building	137,797
Swap instrument	(392)
Mortgage loan	(92,705)
Rent settlements with tenants	(1,759)
Lease provision	(7,311)
Above and below-market value of in-place leases	1,124
Deferred tax liabilities	(15,282)
Other current net assets	(155)
Gain from a bargain purchase	(4,412)
Total purchase price	40,559
Less:	
Purchase price paid by non-controlling interests	(19,875)
Net purchase price	$ 20,684

The bargain purchase gain was recorded since the total acquisition date fair value of the identifiable net assets acquired exceeded the total purchase price.

Accordingly, the Company recorded the bargain purchase gain as other income in the amount of $ 4,412 in the consolidated statement of operations for the year ended December 31, 2011.

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 purchased all of the assets and liabilities related to the Company's Video Solutions Business (the "Video Activity") for an aggregate consideration of $ 8,000, subject to certain price 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. In the year following the closing, the Company did not achieve the earn-out target and no additional consideration was received by the Company.

Under the Agreement, the Company and Vitec agreed on a price 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 (the “Adjustment Amount”), whereby the Adjustment Amount as calculated by the Company would be deposited by Vitec in escrow within five days from the closing date, to be released over a period of 12 months as Vitec collects amounts owed to the Company from customers.

As of December 31, 2011, Vitec has refrained from depositing any amount in escrow. This led to a dispute between the parties. For further details see Note 9e.1.

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

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

NOTE 1:- GENERAL (Cont.)

The results of operations of the Video Activity for the years ended December 31, 2009, 2010 and 2011, which were reported separately and retroactively as discontinued operations in the consolidated statements of operations, are summarized as follows:

	Year ended December 31, 2009	2010	2011
Revenues	$ 13,149	$ 4,457	$ -
Operating income	$ 6,612	$ 2,874	$ -
Costs and expenses	$ 10,914	$ 3,779	$ 51
Other Income	$ 4,774	$ 6,304	$ -
Net income (loss) from discontinued operations	$ 472	$ 5,399	$ (51)
Basic and Diluted net earnings per share from discontinued operations	$ 0.03	$ 0.33	$ (0.00)

The assets and liabilities of the Video activity for the years ended December 31, 2010 and 2011, which relates to the discontinued operations and presented in the consolidated balance sheets, are summarized as follows:

	December 31, 2010	2011
Assets:		
Other accounts receivable	$ 966	$ 969
Total assets	$ 966	$ 969
Liabilities:		
Other accounts payable and accrued expenses	$ 3,006	$ 2,990
Total liabilities	$ 3,006	$ 2,990

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.

While the functional currency of the Company's subsidiaries in the United States is the U.S dollars, the functional currency of the subsidiaries in Switzerland is their lead currency, i.e. CHF. Since the Company's functional and reporting currency is the USD, the financial statements of Optibase Real Estate SARL and OPCTN S.A. whose functional currency has been determined to be CHF have been translated into U.S. dollars. Assets and liabilities of these subsidiaries 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

d. Non-controlling Interests:

Non-controlling interests generally represent the portion of equity that the Company does not own in those entities that it consolidates. The Company accounts for and reports its non-controlling interests in accordance with the provisions required under the Consolidation Topic of the FASB ASC 160. Non-controlling interests are separately presented within the equity section of the consolidated balance sheets. The amounts of consolidated net earnings attributable to the Company and to the non-controlling interests are presented on the consolidated statement of income.

e. 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.

f. Property and equipment:

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

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

	Years
Building and buildings' improvements	30-100
Computers and equipment	3

g. Long-lived assets including intangible assets:

The Company and its subsidiaries long-lived assets are reviewed for impairment in accordance with ASC 360, *"Property, Plant and Equipment"*, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company reviewed assets on a component-level basis, which is the lowest level of assets for which there are identifiable cash flows that can be distinguished operationally and for financial reporting purposes. The carrying amount of the asset group was compared with the related expected undiscounted future cash flows to be generated by those assets over the estimated remaining useful life of the primary asset. In cases where the expected future cash flows were less than the carrying amounts of the assets, those assets were considered impaired and written down to their fair values. Fair value was established based on discounted cash flows. As of December 31, 2010 and 2011, no impairment losses have been identified.

h. 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.

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.

i. Goodwill and bargain purchase gain:

Goodwill reflects the excess of the fair value of the acquired business over the fair value of net identifiable assets acquired in various business acquisitions. The Company accounts for goodwill in accordance with the Intangibles - Goodwill and Other Topic of the FASB ASC 350.

A bargain purchase gain in the Eldista acquisition, represents the excess of 100% of the recognized bases of identifiable assets acquired, net of assumed liabilities, over the aggregate of the acquisition-date fair values of (1) the acquirer‘s interest in the acquiree, (2) noncontrolling interests in the acquiree and (3) any equity interest held in the acquiree by the acquirer immediately before the acquisition date.

With respect to bargain purchase, the Company recognized a gain in the amount of $ 4,412 a corresponding deduction from net income attributable to non-controlling interest in the amount of $ 2,162 in the consolidated statement of operations for the year ended December 31, 2011 (See note 1.b.3).

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

j. Intangibles assets:

Intangible assets consist of in-place lease values, tenant origination costs and above-market rents that were recorded in connection with the acquisition of the properties. Intangible assets are amortized and accreted using the straight-line method over the term of the related leases. When a lease is terminated early, any remaining unamortized balances under lease intangible assets or liabilities are charged to earnings.

k. Derivative Instruments:

The Company accounts for derivatives and hedging based on ASC No. 815, "Derivatives and Hedging". ASC No. 815 requires the Company to recognize all derivatives on the balance sheet at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, the Company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge, or a hedge of a net investment in a foreign operation. If the derivatives meet the definition of a hedge and are so designated, depending on the nature of the hedge, changes in the fair value of such derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is recognized in earnings. As of December 31, 2011, the Company had no outstanding hedging instruments. At times, it may use derivative instruments to manage exposure to variable interest rate risk. From time to time, the Company enters into interest rate swaps to manage its exposure to variable interest rate risk and treasury locks to manage the risk of interest rates rising prior to the issuance of debt. The Company generally enters into derivative instruments that qualify as cash flow hedges and it do not enter into derivative instruments for speculative purposes.

l. Business Combinations:

The Company allocated the purchase price of acquired properties to land, building, intangible assets and other liabilities in accordance with the Business Combinations Topic of the FASB ASC 805-10. The Company allocated the initial purchase price of assets acquired (net tangible and identifiable intangible assets) and liabilities assumed based on their relative fair values at the date of acquisition. There are two categories of intangible assets to be considered:

(1) in-place leases; (2) above and below-market value of in-place leases. 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 depreciation expense over the estimated remaining term of the respective leases. The value of above-market and below-market in-place leases is amortized to rental revenue over the estimated remaining term of the 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 our real estate properties do not have any other significant identifiable intangibles. The results of operations of acquired properties are included in our financial statements as of the dates they are acquired. The intangible assets and liabilities associated with property acquisitions are included in other assets and other liabilities in our consolidated balance sheets.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

m. Revenue recognition:

The Company generates revenues from fixed income from real-estate derived from its buildings in Switzerland (Rümlang and Geneva) and Miami FL.

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.

n. 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

o. 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. The Company policy is to accrued interest and penalties related to unrecognized tax benefits in it financial expenses. No adjustments were required upon the initial implementation of this guidance.

p. Concentrations of credit risk:

Financial instruments that potentially subject the Company and its subsidiaries to concentrations of credit risk consist principally of cash and cash equivalents, trade receivables and long-term lease deposits.

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

Accounts receivable includes amounts billed to tenants and accrued expense recoveries due from tenants. The Company makes estimates of the uncollectability of its accounts receivable using the specific identification method related to base rents, straight-line rent balances, expense reimbursements and other revenues. It also analyzes accounts receivable and historical bad debt levels, tenant credit-worthiness, payment history and current economic trends when evaluating the adequacy of the allowance for doubtful accounts. Accounts receivable are written-off when they are deemed to be uncollectible and the Company is no longer actively pursuing collection. The Company's reported net income is directly affected by management's estimate of the collectability of accounts receivable.

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

q. 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.

r. 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.

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 simplified method. 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,		
	2009	**2010**	**2011**
Dividend yield	0%	0%	0%
Volatility	60%	61%	67%
Risk free interest	2.36% - 3.69%	1.8% -2.22%	0.9% -1.7%
Expected term (years)	4.75	4.75	4.75

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

s. 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.

t. 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.

Warrants (see note 1b(1)) are measured at fair value under ASC 820 on a recurring basis as of December 31,2010 and 2011.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

u. Impact of newly issued Accounting Standards:

1. In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP. This pronouncement is an authoritative guidance to amend certain measurement and disclosure requirements related to fair value measurements to improve consistency with international reporting standards. This guidance is effective prospectively for public entities for interim and annual reporting periods beginning after December 15, 2011, with early adoption prohibited. The Company is currently evaluating the effect of ASU No. 2011-04, but does not expect its adoption will have a material effect on its consolidated financial statements.

2. In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income, which specifies that the total of comprehensive income, the components of net income and the components of other comprehensive income are to be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. This update eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. No change has been made in the items to be reported in comprehensive income. ASU No. 2011-05 is effective for the interim and annual periods beginning after December 15, 2011, and should be applied retrospectively.

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

NOTE 3:- REAL ESTATE PROPERTY, NET

	Land	Building	Condominium units	Currency translation adjustment	Total
Cost:					
At January 1, 2010	$ 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
Additions	23,654	138,983	781	(1,583)	161,835
At December 31, 2011	26,486	158,587	9,413	409	194,895
Accumulated depreciation:					
At January 1, 2010	-	92	-	-	92
Depreciation charge for the year	-	563	-	52	615
At December 31, 2010	-	655	-	52	707
Depreciation charge for the year	-	2,011	45	(41)	2,015
At December 31, 2011	-	2,666	45	11	2,722
Real estate property, net:					
At December 31, 2011	$ 26,486	$ 155,921	$ 9,368	$ 398	$ 192,173
At December 31, 2010	$ 2,832	$ 18,949	$ 8,632	$ 1,940	$ 32,353

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

NOTE 4:- OTHER ASSETS, NET

	Above market value of in-place leases *)	Currency translation adjustment	Total
Cost:			
At January 1, 2010	$ 659	$ (3)	$ 656
Additions	-	62	62
At December 31, 2010	659	59	718
Additions	1,125	(11)	1,114
At December 31, 2011	1,784	48	1,832
Accumulated depreciation:			
At January 1, 2010	22	-	22
Depreciation charge for the year	132	12	144
At December 31, 2010	154	12	166
Depreciation charge for the year	162	(8)	154
At December 31, 2011	316	4	320
Other assets, net:			
At December 31, 2011	$ 1,468	$ 44	$ 1,512
At December 31, 2010	$ 505	$ 47	$ 552

Intangible assets consist of lease contracts with tenants deriving from the acquisition of a commercial building located in Switzerland in 2009 in the amount of $ 410 (see details in Note 1b (1)) and from the acquisition of a building complex in Geneva in 2011 in the amount of $ 1,102 (see details in Note 1b (3)) .

*) Amortization expenses amounted to $ 22, $ 132 and $ 162 for the years ended December 31, 2009, 2010 and 2011, respectively.

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

NOTE 4:- OTHER ASSETS, NET (Cont.)

Estimated amortization expenses by years are as follows:

Year	Estimated amortization expenses
2012	$ 156
2013	275
2014	428
2015	229
2016 and thereafter	424
	$ 1,512

NOTE 5:- OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31, 2010	December 31, 2011
Short-term deposit (1)	$ -	$ 1,065
Deferred tax asset	145	-
Prepaid expenses	96	147
Income receivable	20	20
Others	73	28
	$ 334	$ 1,260

(1) OPCTN S.A. paid CHF 1,000 into an escrow account as part of a net assets adjustment mechanism agreed by the parties in connection with CTN transaction (see details in Note 1b (3)).

NOTE 6:- INVESTMENTS IN COMPANIES

a. The Company invested several amounts in Mobixell Networks Inc. (Mobixell), a privately held Company which is engaged in the design, development and marketing solutions for mobile rich media adaptation, optimization and delivery. As of December 31, 2011, the Company holds 2.08% of Mobixell's shares on a fully diluted basis. The Company's investment in Mobixell is presented at cost net of impairments recorded and as of December 31, 2010 and 2011 the investment amounted to $ 100, following an impairment of $ 600 recorded during 2010.

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

NOTE 6:- INVESTMENTS IN COMPANIES (Cont.)

b. The Company holds approximately 24% on a converted and 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.

NOTE 7:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31, 2010	December 31, 2011
Employees and payroll accruals	$ 167	$ 163
Accrued expenses	1,438	1,681
Institution (mainly tax provision)	-	1,881
Advance rent payments	-	287
Deferred tax liability	-	97
Other	103	21
	$ 1,708	$ 4,130

NOTE 8:- LONG TERM LOANS

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 Rümlang, Switzerland ("the Property"). As of December 31, 2011 total mortgage loan amounted to $ 18,810 with current maturities of $ 400. The loan bears a variable 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. The Company is required to meet certain covenants under this mortgage loan. As of December 31, 2011, the Company met these covenants.

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

NOTE 8:- LONG TERM LOANS (Cont.)

Maturities of the loan by years are as follows:

Year ended December 31,	
2012 (current maturity)	$ 400
Long-term portion:	
2013	400
2014	400
2015	400
2016	400
2017	400
2018 and thereafter	16,810
	$ 18,810

b. On September, 2010, Eldista was granted a mortgage loan from a financial institution in Switzerland, in the amount of CHF 85,250 for the purpose of purchasing its real estate property located in Geneva, Switzerland. The loan bears an adjustable interest rate based on current money and capital markets in Switzerland plus the bank's customary margins (1.8%). 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. Eldista had the option to convert the mortgage into another mortgage product offered by the bank until April 30, 2015. 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.

On October 2011, OPCTN and Eldista entered into a CHF 100,000 bank loan refinancing with Credit Suisse for the above mentioned loan. Under the new financing agreement, Credit Suisse provided a new loan to OPCTN and Eldista which replaced the mortgage loan that Credit Suisse provided to Eldista. The combined interest rate of the new loans is 0.83% compared with 1.8% that Credit Suisse charged on the previous mortgage loan. The loans are repaid at a rate of CHF 2,000 per year and are secured by a first mortgage over the property and by a pledge of Eldista's shares.

The modification of the loan was accounted for by the Company in accordance with ASC 470-50 "Debtor's Accounting for a Modification or Exchange of Debt Instruments". The new debt instrument was initially recorded at fair value and that amount was used to determine the debt extinguishment gain or loss to be recognized and the effective rate of the new instrument.
As a result of the refinancing of the loan, the Company recorded in its financial statements a financial expense in the amount of $ 400 (representing CHF 375).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 8:- LONG TERM LOANS (Cont.)

Maturities of the loan by years are as follows:

Year ended December 31,		
2012 (current maturity)	$	2,129
Long-term portion:		
2013		2,129
2014		2,129
2015		2,129
2016		2,129
2017		2,129
2018 and thereafter		94,151
	$	104,796

The Company is required to meet certain covenants under this mortgage loan. As of December 31, 2011, the Company met these covenants.

c. As of December 31, 2010 and 2011, the Company and its subsidiaries had authorized lines of credit in the amount of $ 70 and $ 65, 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, 2010 and 2011.

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 are as follows:

Year ended December 31,

2012	$	60
2013		51
	$	111

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

b. Guarantees:

As of December 31, 2011, the Company has obtained bank guarantees in the amount of $ 199.

c. Assets pledged as collateral:

As collateral for the Company's lines of credit and bank guarantees, a fixed charge has been placed on the Company's property and equipment, shareholders' equity, 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 and a specific charge has been placed on the Company’s bank deposit as described in Notes 8(a) and 8(b).

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. The Company is currently undergoing an audit by the OCS for royalties paid before the sale of our video business. As of December 31, 2011, 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

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.

In addition, during 2009 and 2010 the Company was audited by the European Commission for grants received under 3 FP6 contracts. The results of the audit reflect an over payment of approximately $ 361 which needs to be repaid by the Company. In addition, the European Commission has inflicted a fine in the amount of $ 149. In addition The Company needs to review the non-audited FP6 contracts and analyze whether there is a need for any implementation of the audit findings for these contracts as well. The Company is currently evaluating its position with respect to the audit and believes it has sufficient provisions to cover the outcome of such review process.

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

e. Legal claim and contingent liabilities:

1. Under the Agreement related to the sale of Video Activity (as further described in Note 1c) the parties agreed on a price adjustment mechanism, upon which, Vitec shall add or subtract to the consideration the adjustment amount whereby the adjustment amount would be deposited in escrow within five days from the closing date.

However, Vitec has refrained from depositing any amount in escrow.

In that respect, since October, 2010 through April, 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.

In April, 2011, based on a request to dismiss filed by Vitec, the court decided to dismiss the different claims without granting expenses to either party, and transferred them arbitration proceedings.

In November 2011, Vitec and the Company submitted their Statement of Claim to the Arbitrator.

The Company submitted its Statement of Claim against Vitec demanding that Vitec pay an aggregate sum of $ 1,506 for the Adjustment Amount owed to the Company while Vitec submitted its Statement of Claim against the Company, demanding that the Company pay Vitec a total amount of approximately $ 22,816.

The Statement of Claim brought by Vitec is based, inter alia¸ on the following main causes of action: (i) loss of business opportunities (mainly M&A transactions) for lack of available cash; (ii) mail fraud; (iii) defamation; (iv) expenditures related to the legal proceedings between the parties; and (v) several additional causes of action, among others, based on Vitec's claim mentioned above.

In January 2012, the Company submitted its Statement of Defense to Vitec's Statement of Claim denying all of the Vitec's claims and Vitec submitted its Statement of Defense to the Company's Statement of Claim denying all of the Company's claims.

In March 2012, evidentiary hearings were held before the Arbitrator. During these hearings Vitec's witnesses gave their primary testimony and were cross-examined by the Company's attorneys. Additional evidentiary hearings for Vitec's witnesses are scheduled for May 7 and 8, 2012.

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

Primary testimony affidavits were not submitted by the parties to the above legal proceedings. The proceeding are currently in the midst of Vitec's evidentiary testimony, therefore the Company cannot assess the outcome of these proceedings at this point in time.

2. Personal Claim against Adv. Doron Afik.

As part of the Agreement the 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.

Due to the Trustee's refusal to transfer the escrow funds to the Company, the Company believes the Trustee is in breach of his duties as Trustee and is causing damage to the Company. Therefore, on June 9, 2011, the Company filed a statement of claim for damages of approximately $ 262 against the Trustee.

On November 1, 2011, at the parties' mutual request, the court ordered to transfer these proceedings to arbitration.

On January 15, 2012, Adv. Afik submitted his Statement of Defense to the claim against him, denying all of the Company's claims against him. Also on January 15, 2012, Adv. Afik submitted a counterclaim against Optibase, (the “Counter-Claim”). In the Counter Claim Adv. Afik demands to receive a total amount of approximately $ 648 from the Company. Adv. Afik's claim is based on three main claims: (i) The Company's response to an article published in a certain website constitutes libel against Adv. Afik; (ii) Damages caused by obtaining liens on Adv. Afik's assets; and (iii) That a publication about the liens obtained on Adv. Afik's assets also constitutes libel against Adv. Afik.

The Company believes that it has strong legal and factual arguments to defend itself from the claims in the Afik Counter Claim.

The Company's claim against Adv. Afik is in its preliminary stages and the Company cannot assess its chances at this point in time.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 10:- TAXES ON INCOME

a. Corporate tax rates:

The Israeli corporate tax rate was 26% in 2009, 25% in 2010 and 24% in 2011.

A company is taxable on its real (non-inflationary) capital gains at the corporate tax rate of 25% in the year of sale.

On December 5, 2011, the Israeli Parliament (the Knesset) passed the Law for Tax Burden Reform (Legislative Amendments), 2011 ("the Law") which, among others, cancels effective from 2012, the scheduled progressive reduction in the corporate tax rate. The Law also increases the corporate tax rate to 25% in 2012. In view of this increase in the corporate tax rate to 25% in 2012, the real capital gains tax rate and the real betterment tax rate were also increased accordingly.

Taxable income of the Company's subsidiary in Luxemburg, Switzerland and the United States is subject to the following tax rates:

	Year ended December 31,		
	2009	**2010**	**2011**
Luxemburg	29%	29%	29%
Switzerland	25%	25%	24%
United States	35%	35%	34%

b. Tax assessments:

The Company has final tax assessments through the tax year 2007.

c. Deferred tax assets and liabilities:

Deferred tax assets and liabilities deriving from the acquisition of a building complex in Geneva in 2011 (see details in Note 1B (3)). The deferred taxes are computed at the average tax rate of 24%, based on the corporate income tax in Switzerland, which is the tax rate that will be in effect when the differences are expected to reverse.

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

NOTE 10:- TAXES ON INCOME (Cont.)

	March, 2 (acquisition date) 2011	Amortization	December 31 2011
Land	$ 5,620	$ -	$ 5,620
Building	11,738	(98)	11,640
Swap instrument	(93)	(761)	(854)
Mortgage loan	(248)	5	(243)
Settlements with tenants	(418)	418	-
Lease provision	(1,737)	15	(1,722)
Other assets, net (In-place leases)	267	(3)	264
	$ 15,129	$ (424)	$ 14,705

Current deferred tax liability in the amount of **$** 97 is included within other accounts payables and accrued expenses in the balance sheets.

d. Net operating losses carryforward:

Through December 31, 2011, Optibase Ltd. had a net operating losses carryforward for tax purposes in Israel of approximately $ 66,123 which may be carried forward and offset against taxable income in the future, for an indefinite period.

As of December 31, 2011, Optibase Inc. had U.S. federal net operating loss carryforward of approximately $ 28,153 that can be carried forward and offset against taxable income for 20 years, no later than 2012 to 2032. 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. Based upon the weight of available evidence, which includes the Company's historical operating performance and the recorded cumulative net losses in all prior fiscal periods, the Company has provided a full valuation allowance against it Israeli and U.S deferred tax assets.

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

NOTE 10:- TAXES ON INCOME (Cont.)

e. 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, 2009	2010	2011
Income (loss) before taxes as reported	$ (412)	$ (902)	$ 2,331
Theoretical tax benefit computed at the statutory rate (26%, 25% and 24% for the years 2009, 2010 and 2011, respectively)	$ (107)	$ (226)	$ 560
Differences in tax rates on income deriving from foreign subsidiaries	(10)	(89)	42
Gain derived from bargain purchase	-	-	(1,059)
Tax adjustments in respect of currency translation	341	643	154
Deferred taxes on losses and other temporary differences for which valuation allowance was provided	(162)	(339)	626
Settlement of prior years tax assessments	-	-	41
Other non-deductible expenses	(62)	54	117
Income tax expense	$ -	$ 43	$ 481

f. Income (loss) before taxes on income consists of the following:

	Year ended December 31, 2009	2010	2011
Domestic	$ (443)	$ (1,343)	$ (3,138)
Foreign	31	441	5,469
	$ (412)	$ (902)	$ 2,331

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

NOTE 10:- TAXES ON INCOME (Cont.)

g. Income tax expenses are comprised as follows:

	Year ended December 31,		
	2009	2010	2011
Current	$ -	$ 7	$ 863
Deferred	-	36	(382)
	$ -	$ 43	$ 481
Domestic	$ -	$ -	$ -
Foreign	-	43	481
	$ -	$ 43	$ 481

h. As of December 31, 2010 and 2011 the Company has no liability for unrecognized income tax benefits, and there was no change in its liability for unrecognized income tax benefits during all years presented.

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 May 5, 2011, following the receipt of the approval of the Company's shareholders on March 30, 2011, the Company completed a private placement of 2,500,000 ordinary shares of the Company to the Company's President and the controlling shareholder of the Company, in consideration for $ 5,000.

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

NOTE 11:- SHAREHOLDERS' EQUITY (Cont.)

b. Stock options:

In 1999, the Company adopted an Israeli Option Plan ("1999 Israeli option plan"), and 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 andconsultants . 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 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 abovementioned 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, 2011 was 2,826,275**.**

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

	Year ended December 31, 2011		
	Amount	**Weighted average exercise price**	**Weighted average Remaining contractual term (years)**
Outstanding at the beginning of the year	543,100	$ 2.96	
Granted	310,000	$ 1.99	
Forfeited	(207,600)	$ 4.64	
Outstanding at the end of the year	645,500	$ 1.95	5.51
Exercisable options at the end of the year	198,008	$ 2.42	3.79
Options vested and expected to vest at end of year	632,059	$ 2.1	5.37

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

NOTE 11:- SHAREHOLDERS' EQUITY (Cont.)

The weighted average fair value of options granted during the years ended December 31, 2009, 2010 and 2011 was $ 1.31, $ 0.82 and $ 0.66, respectively.

The aggregate intrinsic value represents the total intrinsic value (the difference between the Company's closing stock value as of December 31, 2011 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, 2011. This amount changes based on the fair market value of the Company's stock. As of December 31, 2010 and 2011, the total intrinsic value of outstanding options was $ 25 and $ 0 respectively.

As of December 31, 2011, there was $ 277 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 four years.

c. Non-vested 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, 2011 the pool consists of 300,000 Shares, where an aggregate of 78,450 ordinary shares has been reserved for issuance under the 2006 Plan.

A summary of the status of the entity's nonvested shares as of December 31, 2011, and changes during the year ended December 31, 2011, is presented below:

Nonvested shares	Shares	Weighted average grant date fair value
Non-vested at January 1, 2011	34,000	$ 1.27
Granted	24,000	$ 1.48
Exercised	(18,000)	$ 1.23
Forfeited and cancelled	(10,000)	$ 1.34
Non-vested at December 31, 2011	30,000	$ 1.43

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 11:- SHAREHOLDERS' EQUITY (Cont.)

As of December 31, 2011, there was $ 17 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 two 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, 2010 and 2011, was comprised as follows:

	Year ended December 31,		
	2009	2010	2011
General and administrative from continued operations	$ 79	$ 112	$ 120
Expenses recorded as discontinued operations	142	55	-
Total equity-based compensation expense	$ 221	$ 167	$ 120

NOTE 12:- SELECTED STATEMENT OF OPERATIONS DATA

a. Financial income (expenses):

	Year ended December 31,		
	2009	2010	2011
Financial income:			
Interest	$ 423	$ 612	$ 35
Foreign currency translation adjustments	257	-	-
	680	612	35
Financial expenses:			
Interest	(63)	(207)	(3,081)
Foreign currency translation adjustments	-	(101)	(334)
Remeasurement of derivatives	-	-	(4,101)
	(63)	(308)	(7,516)
	$ 617	$ 304	$ (7,481)

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

NOTE 13:- SUBSEQUENT EVENTS

During 2012 there has been a further progress in the arbitration between the Company and Vitec as more fully described in Note 9(e).

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Date: April 30, 2012

OPTIBASE LTD.

By: /s/ Amir Philips
Name: Amir Philips
Title: Chief Executive Officer

EXHIBIT INDEX

Exhibit Number	Description of Document
1.1	Amended and Restated Memorandum of Association of Optibase Ltd. (incorporated by reference to Exhibit 3.1 to the Registrant's Report on Form 6-K dated February 15, 2002).
1.2*	Amended and Restated Articles of Association of Optibase Ltd.
4.1	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).
4.2	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).
4.3	Agreement between Optibase RE 1 SARL and Swiss Pro Capital Limited, formerly known as 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).
4.4	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).
4.5	Agreement between Optibase Real Estate Miami LLC and Leviev Boymelgreen Marquis Developers, L.L.C. dated December 30, 2010 (incorporated by reference to Exhibit 4.8 to the Registrant’s Annual Report on Form 20-F for the fiscal year ended December 31, 2010).
4.6	Agreement between Apollo CTN S.à.r.l. and OPCTN S.A. dated March 2, 2011(incorporated by reference to Exhibit 4.9 to the Registrant’s Annual Report on Form 20-F for the fiscal year ended December 31, 2010).
4.7*	Framework Agreement between Eldista GmbH and CREDIT SUISSE AG dated October 6, 2011.
4.8*	Security Agreement between Eldista GmbH and CREDIT SUISSE AG dated October 6, 2011.
4.9*	Framework Agreement between OPCTN S.A. and CREDIT SUISSE AG dated October 6, 2011.
4.10*	Deed of Pledge Agreement between OPCTN S.A. and CREDIT SUISSE AG dated October 6, 2011.
4.11*	Form of Letter of Indemnification between Optibase Ltd. and its directors and officers.
4.12	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).
4.13	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).
4.14	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).
4.15	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).
4.16	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).
4.17	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).
4.18	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).
4.19	2006 Israeli Incentive Compensation Plan (incorporated by reference to Exhibit 4.1 to the Registrant’s Registration Statement on From S-8 (File no. 333-137644)).

8.1*	List of the subsidiaries of the Company.
11.1	Code of Business Conduct and Ethics (incorporated by reference to Exhibit 11.1 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2010).
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

Exhibit 1.2

AMENDED AND RESTATED ARTICLES OF ASSOCIATION

OF

OPTIBASE LTD.

("THE COMPANY")

CONTENTS

CHAPTER ONE - GENERAL

1. **Introduction**

1.1 In these articles, each of the following expressions shall bear the meanings set forth alongside them:

"shareholder" – any person to whose credit a share is registered with a member of the Stock Exchange (as defined in the Companies Law) and such share is included among the shares registered in the shareholders register of the Company in the name of a registration Company, or a person registered as a shareholder in the Company's register of shareholders;

"financial statements" - the financial statements which the Company must prepare pursuant to the law;

"periodic report" - as defined in Chapter Two of the Securities (Periodic and Immediate Reports), Regulations 5730-1970 or any securities regulations replacing them;

"law" - the provisions of any law prevailing in the State of Israel;

"director" - as defined in section 1 of the Companies Law, including an alternate or attorney;

"the Companies Law" - the Companies Law, 5759-1999;

"the Securities Law" - the Securities Law, 5728-1968;

"business day" - Sundays to Thursdays, other than religious and public holidays in the State of Israel;

"writing" - print and any other form of printing words, including documents sent in writing by facsimile, cable, telex, e-mail, computer or through any other electronic media, which creates or enables the creation of a copy and/or printout of the document;

"office" - the Company's registered office;

"securities" - shares, debentures, capital notes, securities convertible into shares and rights to any of the aforegoing, issued by the Company;

"the Companies Ordinance" - the Companies Ordinance (New Version), 5743-1983;

"ordinary majority" - a majority of more than half the votes of the shareholders entitled to vote and voting themselves, by proxy or through a voting instrument;

"special majority" - a majority of more than three quarters of the votes of the shareholders entitled to vote and voting themselves, by proxy or through a voting instrument;

"articles" - the Company's articles as formulated herein or as altered, expressly or pursuant to the law;

"the Companies Regulations" - regulations promulgated by virtue of the authority granted pursuant to the Companies Law;

"Securities Regulations" - regulations promulgated by virtue of the authority granted pursuant to the Securities Law.

"person" or "persons"- Including a corporation.

"year" and "month"- a Gregorian month or year.

1.2 The provisions of sections 3-10 of the Interpretation Law, 5741-1981 shall also apply, mutatis mutandis, to the interpretation of the articles, if there is no provision to the contrary or unless the context otherwise admits.

Save as provided in this paragraph, every word and expression herein shall bear the meaning designated to them in the Companies Law, and if none - the meaning designated to them in the Companies Regulations, and if none - the meaning designated to them in the Securities Law, and if none - the meaning designated to them in the Securities Regulations, and if none - the meaning designated to them in any other law, unless the context otherwise admits.

Where these articles refer to any legal provision and such provision is amended or cancelled, the said provision shall be deemed valid and as part of the articles, unless such is prohibited by the law.

The headings in these articles are meant for the purpose of convenience only and shall not be used for the interpretation of these articles

Provisions of the Companies Law which are dispositive shall apply to the Company, to the extent that it is not otherwise provided in these articles and to the extent that there is no contradiction between them and between the provisions of these articles.

1.3 **Amendment** If a resolution to amend these articles is recommended by the Board of Directors, such recommended resolution’s adoption in a General Meeting requires a simple majority. In any other case a resolution adopted in a General Meeting approved by a special majority is required to approve any amendment of these articles.

2. **<u>Public Company</u>**

The Company is a "public company" as defined in section 1 of the Companies Law.

3. **<u>The Company's Purpose</u>**

The Company's purpose is according to its Amended and Restated Memorandum of Association. If the memorandum is silent with regard to the Company’s purpose, than it will act pursuant to business considerations to make profits; however, the Company may contribute a reasonable amount for an appropriate cause, even if the contribution is not within the framework of the said business considerations.

4. **<u>The Company's Objects</u>**

The Company shall engage in any Lawful business.

5. **<u>Limitation of Liability</u>**

The liability of the Company's shareholders is limited, each to payment of the full amount which he undertook to pay for the shares allotted to him at the time of the allotment.

CHAPTER TWO - THE COMPANY'S SHARE CAPITAL

6. **<u>The Share Capital</u>**

6.1 The Company's authorised share capital is NIS 3,900,000 divided into 30,000,000 ordinary shares of NIS 0.13 par value each (hereinafter referred to as “share", "ordinary share", "shares" or "ordinary shares", as the case may be). The Company may alter the authorised share capital in accordance with the provisions of the Companies Law and of these articles.

6.2 Each share vests a right to receive invitations, to participate in and vote at the general meetings. A shareholder shall have one vote for each share held by him.

6.3 All the shares rank pari passu in relation to the amounts of capital paid or credited as paid on their nominal value, in connection with dividend, the distribution of bonus shares and any other distribution, return of the capital and participation in a distribution of the Company's surplus assets on winding up.

6.4 The provisions of these articles in respect of shares shall also apply to other securities issued by the Company, mutatis mutandis.

7. **<u>The Issue of Shares and Other Securities and the repurchase of shares</u>**

7.1 The Company's board of directors may issue shares and other securities of the Company, up to the limit of the Company's authorised share capital. If the Company's share capital includes a number of classes of shares and securities, shares and securities exceeding the limit of the authorised share capital of such class shall not be issued. In such regard, securities convertible or exercisable into shares shall be deemed to have been converted or exercised on the date of their issue.

7.2 The Company's board of directors may issue redeemable securities, with such rights and on such conditions as the board of directors prescribes.

7.3 Subject to the provisions of the articles and the provisions of the Companies Law, the board of directors may allot shares to any person with restrictions and conditions, for their nominal value, with a discount or with a premium, as it deems fit.

7.4 The Company's board of directors may resolve to issue a series of debentures within the framework of its authority to borrow on the Company's behalf, and within the limits of such authority. The aforegoing does not negate the authority of the general manager or someone authorised by him to borrow on the Company's behalf, to issue debentures, promissory notes and bills of exchange, within the limits prescribed by the board of directors.

7.5 The Company's existing shareholders shall not have a right of pre-emption, preferred right or any other right to purchase the Company's securities. The board of directors may, in its exclusive discretion, first offer the Company's securities to the existing shareholders or some of them.

7.6 The Company may pay any person commission in consideration for the underwriting, marketing or distribution of the Company's securities, conditionally or unconditionally, on such terms and conditions as the board of directors prescribes. Such payments may be made in cash or securities of the Company, or partly in one way and partly in another.

7.7 The Company may at any time and from time to time, subject to the Companies Law, purchase back or finance the purchase of any shares or other securities issued by the Company, in such manner and under such terms as the Board of Directors shall determine, whether from any one or more shareholders. Such purchase shall not be deemed as payment of dividends and no security holder will have the right to require the Company to purchase his securities or offer to purchase securities from any other security holders.

8. **Calls for Payment**

8.1 If pursuant to the conditions of an allotment of shares there is no fixed date for the payment of any part of the price payable for them, the board of directors may from time to time make calls upon the shareholders in respect of the monies not yet paid in relation to the shares held by them (hereinafter referred to as “calls" or "call", as the case may be).

8.2 The call shall determine the date by which the amount specified therein must be paid, together with interest, linkage and the expenses incurred as a result of the non-payment, at the rates and in the amounts prescribed by the board of directors. Such date shall not be less than 14 days from the date of the call.

The call shall also specify that in the event of non-payment by the date fixed as required, the shares in relation to which the call is being made are likely to be forfeited. If a shareholder does not comply with the call, any share in relation to which the said call has been made may be forfeited at any time thereafter, pursuant to the board of directors' resolution. Share forfeitures shall include all the dividends on such shares which have not been paid prior to the forfeiture, even if declared.

8.3 Any amount which pursuant to a share's allotment conditions is payable at the time of the allotment or at a fixed time, on account of the amount of the share or for premium, shall be deemed in respect of the articles a call duly made and notified, and the payment date is the date fixed for payment. In the event of non-payment, all the paragraphs of the articles dealing with the payment of interest, linkage and expenses, the forfeiture of shares and the like and all the other paragraphs hereof relating to the matter shall apply as though the said amount had been duly called and notified.

8.4 The board of directors may distinguish between the shareholders in relation to the amounts of the calls and/or their payment times.

8.5 Joint holders of a share shall be jointly and severally liable for payment of the calls made on such share.

8.6 Any payment on account of a share shall first be attributed on account of the nominal value and only thereafter on account of the premium in respect of any share.

8.7 A call may be cancelled or postponed to another date, as resolved by the board of directors. The board of directors may waive all or any of the interest, linkage and expenses.

8.8 The board of directors may accept from a shareholder willing to pay in advance payments on account of his shares in addition to amounts actually called, and the board of directors may pay such shareholder interest on the amounts paid in advance as aforesaid, or on such part thereof as exceeds the amount called on account of the shares, in relation to which the payment was made in advance, or come to any other arrangement with him which is such as to compensate him for the advance payment.

8.9 A shareholder shall not be entitled to his rights as shareholder, including dividend, unless he has paid all the amounts detailed in the calls made on him, together with interest, linkage and expenses, if any, unless otherwise prescribed by the board of directors.

8.10 The board of directors may sell, re-allot or otherwise transfer any share forfeited in such manner as it resolves, including without consideration, provided that the Company is paid the full nominal value in respect of such share.

8.11 The board of directors may, at any time prior to selling or otherwise transferring the forfeited share, cancel the forfeiture on such conditions as it resolves.

8.12 A shareholder whose shares have been forfeited shall, notwithstanding the forfeiture, be liable to pay the Company all the calls not paid in relation to such shares prior to the forfeiture, together with interest, linkage and expenses up to the date of the payment as though the shares had not been forfeited, and to comply with all the other claims and demands enforceable by the Company in relation to the shares up to the date of the forfeiture, without a deduction or discount for the value of the shares on the date of the forfeiture. His obligation shall only come to an end after the Company has received the full payment specified at the time of the shares' issue.

8.13 The board of directors may collect the calls not paid in respect of the shares forfeited or some of them, as it deems fit, but shall not be obliged to do so.

8.14 Share forfeitures shall result, at the time of the forfeiture, in the cancellation of any right in the Company and any claim or demand vis-a-vis it in relation to the share, save for those rights and obligations which are excluded from this rule pursuant to these articles or which the law grants or imposes on the former shareholder.

9. **The Company's Register of Shareholders and the Issue of Share Certificates**

9.1 The Company shall, through its secretary, keep a register of shareholders and register of material shareholders.

9.2 The board of directors may close the register of shareholders for an overall period of up to 30 days in any year.

9.3 A shareholder is entitled, at his request, to receive from the Company, without payment, within two months of the allotment or registration of the transfer (unless the issue conditions specify another period of time) one certificate or a number of certificates, in accordance with the Company's resolution, in respect of all the shares of a particular class registered in his name, which shall specify the number of shares and any other detail which in the board of directors' opinion is important. In the case of a jointly held share, the Company shall not be liable to issue more than one certificate to all the joint shareholders, and the delivery of such a certificate to one of the joint shareholders shall be deemed delivery to all of them.

9.4 Every certificate shall bear the Company's seal or stamp or its printed name and shall be signed by one director and the Company's secretary, or by two directors or by any other person appointed by the board of directors for such object.

9.5 If a share certificate is destroyed, spoiled, lost or damaged, the board of directors may order the cancellation thereof and the issue of a new certificate in place thereof, provided that the share certificate is delivered to the Company and destroyed by it, or that it is proved to the satisfaction of the board of directors that the certificate has been lost or destroyed and that the Company has received security to the satisfaction of the board of directors against any possible damage. A reasonable sum as may be determined by the board of directors from time to time shall be paid in respect of every certificate issued pursuant to this article.

9.6 Where two or more persons are registered as joint holders of a share, each of them may confirm the receipt of a dividend or other payments in connection with such share and his confirmation shall bind all the joint shareholders.

9.7 The Company shall not recognize any person as holding a share on trust, and shall not be bound or compelled to recognize any equitable, contingent, future or partial interest in any share, or any other interest in connection with a share, save for the absolute right of the registered holder in respect of any share, except in reliance upon a judicial decision or pursuant to the requirements of any law.

10. **Transfer of the Company's Shares**

10.1 The Company's shares may be transferred. A share transfer shall not be registered unless a share transfer deed (hereinafter referred to as "share transfer deed") is submitted to the Company. The share transfer deed shall be drawn up in the following manner or in a manner as similar thereto as possible or in another manner approved by the board of directors.

===

Transfer deed

I ___________________, ID/Company No. __________, of ___________________ (hereinafter referred to as "the transferor") transfer to ___________________, ID/Company No. __________, of ___________________ (hereinafter referred to as "the transferee"), in consideration for NIS __________, __________ ordinary shares of NIS __________ n.v. each, which are marked with the numbers __________ to __________ inclusive, of ___________________ Ltd. (hereinafter referred to as "the Company"), to be held by the transferee, administrators of his estate, guardians and successors and assigns on the same terms and conditions pursuant to which I held these shares at the time of signing this instrument, and I the transferee agree to accept the aforementioned shares on the terms and conditions mentioned above and subject to the Company's articles, as shall be from time to time.

As witness our hands on ___________________.

The Transferor -	The Transferee -
Name:	Name:
Signature:	Signature:
Witness to Transferor's Signature -	Witness to Transferee's Signature-
Name: , Adv.	Name: , Adv.
License No.	License No.
Signature:	Signature:

===

10.2 A transfer of shares which are not fully paid, or of shares on which the Company has a lien, shall not be valid, unless approved by the board of directors which may, in its absolute discretion and without giving any grounds therefor, refuse to register such a transfer.

The board of directors may refuse a transfer of shares as aforesaid and may make such a transfer conditional upon the transferee undertaking, to the extent and in the manner prescribed by the board of directors, to perform the transferor's obligations in respect of the shares or the obligations in respect of which the Company has a lien on the shares.

10.3 The transfer of part of a share shall not be valid.

10.4 The transferor shall continue to be considered the holder of the shares being transferred until the transferee's name is entered in the Company's register of shareholders.

10.5 The share transfer deed shall be submitted to the office for registration together with the certificates in which the shares to be transferred are registered (if issued) and any other proof which the Company requires regarding the transferor's proprietary right in the shares or his right to transfer them. The share transfer deeds shall be kept by the Company. The Company shall not be bound to keep share transfer deeds and share certificates which have been cancelled.

10.6 A joint shareholder wishing to transfer his right in a share, who is not in possession of the share certificate, shall not be liable to attach the share certificate to the share transfer deeds, provided that the share transfer deeds state that the transferor is not in possession of the share certificate relating to the share his right in which is being transferred and that the share being transferred is jointly held, together with details of the other joint shareholders.

10.7 The Company may demand the payment of a fee for registering the transfer in such amount as prescribed by the board of directors from time to time.

10.8 Upon the death of a shareholder of the Company, the Company shall recognise his guardians, administrators of the estate or executors of the will, or in the absence of any of the aforegoing the shareholder's legal heirs, as the only persons having a right to his shares, after entitlement thereto is proved as prescribed by the board of directors.

10.9 Where the deceased shareholder held shares jointly with others, the Company shall recognise the surviving joint shareholders as holders of the said shares, unless all the joint shareholders have notified the Company in writing prior to the death of one of them of their wish that the provisions of this article shall not apply; however, such shall not exempt the estate of a joint shareholder from any obligation by which the joint shareholders would have been bound were it not for his death.

10.10 A person acquiring a right to shares in consequence of his being a guardian, administrator of the estate, executor of the will, heir, receiver, liquidator or trustee on bankruptcy of a shareholder or pursuant to the provisions of any other law may, on furnishing proof of his right, as required by the board of directors, be registered as the holder of the shares or transfer them to another person, subject to the provisions of the articles in relation to transfer.

10.11 A person acquiring a right to a share as a result of their transmission shall be entitled to dividend and the other rights in respect of the share and may accept and give receipts for dividend or other payments payable in connection with the share, but shall not be entitled to receive notices of the Company's general meetings and to participate thereinin or vote thereat in connection with such share or exercise any right vested by the share, save for the aforegoing, until after he has been entered in the register of shareholders.

11. **Lien**

11.1 The Company shall have a first and paramount lien on all the shares not paid in full which are registered in the name of any shareholder, and over the proceeds from the sale thereof, in relation to monies (whether presently payable or not) called or payable at a fixed time in respect of such shares.

The Company shall also have a first and paramount lien over all the shares (other than fully paid shares) registered in the name of any shareholder to secure monies due from him or from his property, whether such debts are due from him alone or together with others.

The said lien shall also apply to dividends declared from time to time on such shares.

11.2 In order to realize the lien, the board of directors may sell the shares to which the lien applies, or any of them, in such manner as it deems fit. No sale as aforesaid shall be effected until after the date specified for payment and after written notice has been given to the shareholder of the Company's intention to sell the shares, and the amounts are not paid within 14 days of such notice.

11.3 The net proceeds from any such sale, after payment of the sale expenses, shall be applied towards the discharge of the debts or obligations of such shareholder and the balance (if any) shall be paid to him.

11.4 If shares are sold in order to realize a lien through prima facie use of the powers given above, the board of directors may enter these shares in the register of shareholders in the purchaser's name, and the purchaser shall not be liable to check the legality of the acts or the application of the purchase money. After the said shares are registered in the purchaser's name in the register of shareholders, no person shall be entitled to appeal the validity of the sale.

12. **Alterations to the Share Capital**

The general meeting may at any time resolve by an ordinary majority to do any of the following acts.

12.1 Increasing the authorised share capital

To increase the Company's authorised share capital, whether or not all the shares registered at such time have been issued. The increased capital shall be divided into shares with ordinary, preferred, deferred or other special rights (subject to the special rights attached to an existing class of shares) or shall be subject to such conditions and restrictions in relation to dividend, return of capital, voting or other conditions as directed by the general meeting in its resolution to increase the authorised capital.

12.2 Classes of shares

To divide the share capital into different classes of shares and to determine and alter the rights attached to each class of shares, on the following conditions -

(a) so long as the shares' issue conditions do not otherwise provide, the rights attached to any class of shares may be altered after an ordinary majority resolution is passed by general meetings of the holders of each class of shares separately or after obtaining the written consent of the holders of all the classes of shares;

(b) the rights vested in the holders of shares of a particular class shall not be deemed to have been altered by the creation or issue of other shares with identical rights or alteration of the rights attached to existing shares, unless the issue conditions of such shares otherwise provide.

12.3 Consolidation of the share capital

To consolidate and divide any or all of its share capital into shares of a nominal value greater than that specified in the articles. In the event that there are shareholders who are left with fractions of shares as a result of the consolidation, the board of directors may, if it receives the approval of the general meeting in the resolution on the consolidation of the capital as aforesaid:

(a) sell all the fractions and for such object appoint a trustee in whose name the share certificates containing the fractions shall be issued, who shall sell them, and the consideration received less commissions and expenses shall be distributed amongst the entitlees. The board of directors may resolve that shareholders entitled to a consideration that is less than the amount prescribed by it shall not receive any consideration from a sale of the fractions as aforesaid, and their share of the consideration shall be distributed amongst the shareholders entitled to a consideration exceeding the amount prescribed, pro rata to the consideration to which they are entitled;

(b) to allot to all the shareholders left with fractions of shares as a result of the consolidation and division fully paid shares of the class of shares which existed prior to the consolidation in such number the consolidation of which with the fraction would suffice for one whole consolidated share, and an allotment as aforesaid shall be deemed valid just before the consolidation;

(c) determine that shareholders shall not be entitled to receive a consolidated share in respect of a fraction of a consolidated share deriving from the consolidation of half or less of the number of shares the consolidation of which creates one consolidated share, and shall be entitled to receive a consolidated share in respect of a fraction of a consolidated share deriving from the consolidation of more than half the number of shares the consolidation of which created one consolidated share.

In the event that an act pursuant to sub-paragraphs (b) or (c) above obliges the issue of additional shares, the payment thereof shall be effected in the manner in which bonus shares may be paid. Consolidation and division as aforesaid shall not be deemed alteration of the rights attached to the shares the subject of the consolidation and division.

12.4 <u>Cancellation of unallotted share capital</u>

To cancel authorised share capital which has not yet been allotted, provided that the Company has not undertaken to allot such shares.

12.5 <u>Sub-division of the share capital</u>

To sub-divide the Company's share capital or any part thereof into shares of a nominal value smaller than that specified in the articles by a sub-division of all or any of the Company's shares at such time.

CHAPTER THREE - GENERAL MEETINGS

13. **<u>The General Meeting's Powers</u>**

13.1 <u>Matters within the general meeting's authority</u>

The Company's resolutions on the following matters shall be passed by the general meeting:

(a) alterations to the articles.

(b) the appointment or renewal of the appointment of the auditor, the termination of his office or the non-renewal thereof and the determination of his remuneration in accordance with the provisions of articles 14.1 (b) and 28 below;

(c) the appointment of directors, including external directors, and the termination of their offices in accordance with article 22.3 below;

(d) the approval of acts and transactions requiring the general meeting's approval in accordance with the provisions of sections 255 and 268 to 275 of the Companies Law;

(e) alterations to the Company's share capital, in accordance with the provisions of article 12 above;

(f) a merger as provided in section 320(a) of the Companies Law;

(g) any resolution which pursuant to the law or in accordance with these articles requires to be adopted by resolution of a general meeting;

13.2 The general meeting's authority to transfer powers between the organs

The general meeting may, by a special majority, assume powers given to another organ, and it may transfer powers given to the general manager to the authority of the board of directors.

The assumption and/or transfer of powers as aforesaid shall be for a particular matter or for a particular period of time, all as provided in the meeting's resolution.

14. **Annual and Special General Meetings and Class Meetings**

14.1 Annual meetings

The annual general meeting shall be held every year by no later than the end of 15 months from the last annual general meeting, at such time and place as may be determined by the Board. These general meetings shall be called "annual meetings".

(a) The annual meeting shall be convened in order to pass resolutions on the following matters:

(1) the appointment of directors and the termination of their office in accordance with article 22 below;

(2) the appointment of the auditor or the renewal of his office and the board of directors' authorisation to determine of his remuneration, subject to the provisions of article 28.3 below.

(b) The annual meeting shall be convened in order to:

(1) discuss the financial statements and the board of directors' report submitted by the Company pursuant to the Securities Regulations as at 31st December of the calendar year preceding the year in which the general meeting is being held;

(2) receive the board of directors' report on the auditor's remuneration, as provided in article 28.3 below.

(c) In addition, the annual meeting shall include a discussion and/or resolution on any other matter placed on the agenda.

14.2 Special meetings

General meetings of the Company which are not convened pursuant to article 14.1 above shall be called "special meetings".

A special meeting shall only discuss and resolve on all the matters not discussed at the annual meeting which are detailed on the agenda of the special meeting.

14.3 Class meetings

The provisions of these articles relating to general meetings shall apply, mutatis mutandis, to class meetings of the Company.

15. **Convening of General Meetings**

15.1 Convening the annual meeting

The board of directors shall convene annual meetings in accordance with the provisions of article 14.1 above.

15.2 Convening a special meeting

The board of directors shall convene a special meeting pursuant to its resolution; however, it shall be obliged to convene such a meeting if requisitioned by one of the following:

(a) two directors or one quarter of the directors holding office, whichever is the lower;

(b) one or more shareholders holding at least 5% of the voting rights in the Company.

If the board of directors does not convene a general meeting as aforesaid, the person requisitioning the meeting, and where shareholders are involved – such part of them as holds at least one half their voting rights in the Company, may convene the meeting themselves, provided that it shall not be held more than three months after the date the requisition was made, and the meeting shall be convened, insofar as possible, in the same manner as meetings are convened by the board of directors.

Where a general meeting is convened as aforesaid, the Company shall cover the reasonable expenses incurred by the person requisitioning it.

15.3 The time for calling a special meeting pursuant to a requisition

Where the board of directors is requisitioned to call a special meeting, as provided in paragraph 15.2 above, it shall do so within 21 days of the requisition being submitted, for a date that shall not be later than 35 days from the date on which the notice of the special meeting is published.

15.4 Notice of a general meeting

15.4.1 Unless a shorter period is permitted by law, notice of a general meeting shall be given in the manner hereinafter mentioned, to all shareholders entitled to attend and vote at such meeting. No separate notice shall be given to registered shareholders of the Company. Notices shall be given in accordance with Article 40.

15.4.2 The notice of the general meeting shall specify the type of meeting, the place and time at which the meeting shall be convened, its agenda, a summary of the proposed resolutions, the majority required to pass the resolutions and the date determining the shareholders' entitlement to participate in and vote at the general meeting according to paragraph 17.1 below.

16. **The General Meeting's Agenda**

16.1 The general meeting's agenda shall be prescribed by the board of directors and shall also include matters in respect of which a special meeting is required as provided in article 14.2 above, and matters obliged in accordance with the provisions of article 16.2 below.

16.2 One or more shareholders holding at least 1% of the Company's share capital may ask the board of directors to include a matter on the agenda of a general meeting to be held in the future. The board of directors shall include such a matter on the agenda provided that in its discretion such matter is suitable for discussion at a general meeting of the Company.

16.3 A request as aforesaid in Article 16.2 above shall be lodged with the Company at least seven days prior to the giving of notice of the convening of the general meeting, and there shall be attached thereto a draft of the resolution proposed by the shareholder.

16.3 The general meeting may only pass resolutions on the matters on its agenda.

16.4 So long as not otherwise obliged by the law, the general meeting may pass or defeat a proposed resolution that was on the general meeting's agenda the text or a summary description of the main points of which was published by the Company, including with slight changes; however, it may not pass a resolution materially different from the proposed resolution.

17. **The Discussion at General Meetings**

17.1 Entitlement to participate in a vote

Subject to the provisions of section 182(c) of the Companies Law, the shareholders who are entitled to participate in and vote at a general meeting shall be the shareholders on the date prescribed in the resolution to call the general meeting, provided that such date is not more than forty (40) days nor less than four (4) days prior to the date of the general meeting (or any longer or shorter period permitted by law, including regulations promulgated pursuant to the Companies Law).

17.2 Quorum

No discussion may be commenced at a general meeting unless a quorum is present at the time of a discussion. Two shareholders present in person or by proxy, or who have sent the Company a voting instrument indicating the way in which they are voting, and holding or representing at least thirty three and one third percent of the voting rights in the Company, shall constitute a quorum.

A shareholder or his proxy, who is also acting as the proxy of other shareholders, shall be considered two or more shareholders, in accordance with the number of shareholders represented by him.

17.3 The general meeting's adjournment in the absence of a quorum

If no quorum is present within half an hour of the time fixed for the meeting, the meeting shall stand adjourned for seven days, to the same day of the week at the same time and place, without further notice being given thereof, or to such other date, time and place as prescribed by the board of directors in notice to the shareholders, and the adjourned meeting shall discuss those matters for which the first meeting was called. If no quorum is present at the adjourned meeting, two shareholders, at least, present in person or by proxy, shall constitute a quorum, subject to the provisions of section 79(b) of the Companies Law.

17.4 The general meeting's chairman

The board of directors' chairman (if appointed) shall chair the general meeting. In the absence of a chairman, or if he does not appear at the meeting within 15 minutes of the time fixed therefor, those shareholders present at the meeting shall elect one of the Company's directors as chairman, or if no director is present, they shall elect one of the shareholders present to chair the meeting.

The meeting's chairman shall not have an additional or casting vote (without derogating, however, from the rights of such meeting’s chairman to vote as a shareholder or proxy of a shareholder if, in fact, he is also a shareholder or such proxy).

17.5 Adjourned meeting

With the agreement of a meeting at which a quorum is present, the chairman may, and on the demand of the meeting he must, adjourn the meeting from time to time and from place to place, as the meeting resolves (hereinafter in this article referred to as “adjourned meeting"). If a meeting is adjourned for 21 days or more, notice of the adjourned meeting shall be given in the same way in which notice is given of a first meeting. Save for the aforegoing, a shareholder shall not be entitled to receive notice of an adjournment or of the matters to be discussed at an adjourned meeting. The adjourned meeting shall not discuss any matters save for those which could have been discussed at the meeting at which the adjournment was resolved upon. The provisions of articles 17.1 and 17.2 hereof shall apply to an adjourned meeting as mentioned in this article.

18. **Voting by Shareholders**

18.1 Passing a resolution

A resolution put to the vote at any general meeting shall be passed if it acquires an ordinary majority or any other majority especially prescribed for it pursuant to the law or these articles.

If the votes are tied, the resolution shall be deemed to have been defeated.

18.2 Examining the majority

18.2.1 The majority shall be examined through a poll, each shareholder being entitled at the time of voting to one vote in respect of each share held by him which has been fully paid or the calls in respect of which have been fully paid.

18.2.2 The chairman's declaration that a resolution at the general meeting has been passed or defeated, unanimously or by a particular majority, shall constitute prima facie evidence of that stated therein.

18.3 Right to participate and vote

A shareholder shall not be entitled to participate in and vote at any general meeting or to be counted amongst those present so long as he owes the Company any payment called in respect of the shares held by him, unless the shares' issue conditions otherwise provide.

18.4 Confirmation of title

A shareholder in whose favor a share is registered with a stock exchange member and such share is included amongst the shares entered in the register of shareholders in the name of a registration company may not participate in and vote at a general meeting unless he has given the Company confirmation of title as prescribed by the board of directors at least two business days prior to the date of the general meeting.

18.5 Personal interest in resolutions

A shareholder wishing to vote on a resolution the majority required to pass which includes the votes of those who do not have a personal interest shall notify the Company before the vote on the said resolution commences, or if voting through a proxy or voting instrument within the framework thereof, whether he does or does not have a personal interest in the resolution.

A shareholder who has not given any notice as aforesaid shall be deemed to have notified the Company that he does not have a personal interest in the resolution.

18.6 Disqualification of voting instruments

Subject to the provisions of the law, the Company's secretary may, in his discretion, disqualify voting instruments or proxy appointment instruments in the following cases:

(a) there is a reasonable apprehension that they are forged or were given by virtue of shares in respect of which other proxy appointment instruments or voting instruments were given;

(b) in respect of voting instruments -

(1) if more than one choice for a particular resolution is marked therein;

(2) if in respect of resolutions the majority required to pass which includes the votes of persons who do not have a personal interest in the approval, it is not marked whether or not there is a personal interest as aforesaid.

18.7 Voting by a legally incapacitated person

A legally incapacitated person may only vote by a trustee, natural guardian or other legal guardian. These persons may vote in person or by proxy.

18.8 Voting by joint shareholders

Where two or more shareholders are joint holders of a share, one of them shall vote, himself, by proxy or through a voting instrument. If more than one joint shareholder wishes to participate in the vote, only the first joint shareholder may vote. For such object, the first joint shareholder shall be the person whose name is entered first in the register of shareholders.

18.9 Minutes of the general meeting

The general meeting's chairman shall procure that minutes are properly kept of every general meeting which shall include:

(a) the name of the shareholder or proxy and the number of shares held by him;

(b) the main points of the discussion, all the resolutions passed or defeated at the general meeting and if passed - by what majority.

18.10 A defect in convening or conducting the general meeting, including a defect deriving from the non-fulfillment of any provision or condition laid down in the Law or the Company's articles, including with regard to the manner of convening or conducting the general meeting, shall not disqualify any resolution passed at the general meeting and shall not affect the discussions which took place thereat.

19. **The Appointment of a Proxy**

19.1 Voting through a proxy

A shareholder who is entered in the register of shareholders may appoint a proxy to participate and vote in his stead, at a particular general meeting or at general meetings of the Company in general, personally or through a voting instrument, provided that the proxy appointment instrument is given to the Company at least two business days prior to the date of the general meeting. In the event that the proxy appointment instrument is not for a particular general meeting, a proxy appointment instrument deposited prior to one general meeting shall also be valid for subsequent general meetings. Notwithstanding the aforesaid, the chairman of the meeting may, at his discretion, accept such proxy appointment after such time if he so deems fit at his discretion. If the proxy appointment is not received as aforesaid in this article, it shall not be valid at such meeting

The aforegoing shall also apply to a shareholder which is a corporation, appointing a person to participate and vote in its stead at the general meeting.

A proxy need not be a shareholder of the Company.

19.2 The proxy appointment instrument's form of wording

The proxy appointment instrument shall be signed by the shareholder or by the person authorised therefor in writing, and if the appointor is a corporation, it shall be signed in the manner binding the corporation. The Company may demand that it be given written confirmation to its satisfaction of the authority of those signing to bind the corporation. The proxy appointment instrument shall be drawn up in the form of wording set forth below. The Company's secretary may, in his discretion, accept a proxy appointment instrument in a different form of wording, provided that the changes are not material. The Company shall only accept an original proxy appointment instrument or a copy thereof, provided that it is certified by an attorney with an Israeli license or a notary.

===

Proxy Appointment Instrument

Date: __________

To
[The Company's Name]
[The Company's Address]

Dear Sirs,

Annual/Special General Meeting of ______________________ ("the Company" to be held on _________ ("the Meeting")

I the undersigned, ___________________, Identity/Registration No. __________, of ___________________, the registered owner of __________ (*) shares ordinary of NIS ___ n.v. each, hereby empower __________, Identity No. (**) __________ and/or __________, Identity No. __________ and/or __________, Identity No. __________ to participate and vote in my name and stead at the above meeting of the Company and at any adjourned meeting thereof/at any general meeting of the Company, until I notify you otherwise.

____
Signature

(*) A registered shareholder may grant a number of proxy appointment instruments, each in relation to another quantity of the Company's shares held by him, provided that he does not grant proxy appointment instruments for a quantity of shares larger than the quantity held by him.

(**) Where the proxy does not have an Israeli identity document, the passport number and the country which issued the passport may be stated.

===

19.3 Voting pursuant to a proxy appointment instrument shall be legal even if prior thereto the appointor dies or becomes legally incapacitated or bankrupt, or in the case of a corporation - is liquidated or cancels the proxy appointment instrument or transfers the shares in relation to which it is given, unless written notice is received at the Company's office prior to the meeting that such an event has occurred. Notwithstanding the aforesaid the chairman of the meeting may, at his discretion, accept such a notice also during the meeting if he shall so deem fit at his discretion.

19.4 The proxy appointment shall state the class and number of shares in respect of which it is given. If the proxy appointment does not state the number of shares in respect of which it is given or states a number of shares which exceeds the number registered in the name of the shareholder, the proxy instrument shall be deemed to have been given in respect of all the shares of the shareholder according to the registration in the Company's register.

19.5 If the proxy appointment is given in respect of a number of shares which is less than the number of shares registered in the name of the shareholder, the shareholder shall be deemed not to have participated in the voting in respect of the excess shares and the proxy appointment shall be valid in respect of the number of shares stated therein.

20. **Voting Instrument**

20.1 A shareholder may vote at the general meeting through a voting instrument on the matters specified below, unless the Company is legally entitled to a full or partial exemption from the sending of voting instruments in general or in particular circumstances. This paragraph shall only enter into force on the entry of sections 87-89 of the Companies Law into force.

(a) the appointment and dismissal of directors;

(b) approving acts with interested parties;

(c) approving acts and transactions requiring the general meeting's approval in accordance with the provisions of sections 255 and 268-275 of the Companies Law;

(d) a merger pursuant to section 320 of the Law;

(e) any matter which the articles provide may be voted upon through a voting instrument;

(f) any additional matter specified in the law.

20.2 The voting instrument's form of wording

The voting instrument shall be in the following form of wording, so long as the law does not prescribe another binding form of wording, in which case this form of wording shall apply mutatis mutandis. The Company's secretary or anyone authorised by the Company's board of directors to call the meeting may adapt the form of wording of the voting instrument in accordance with the resolutions on the agenda.

==

Voting Instrument

Date: __________

To
[Companys Name]
[Company's Address]

Dear Sirs,

<u>Annual/Special General Meeting of the Company to be Held on ____________ ("the Meeting")</u>

I the undersigned, ___________________, Identity/Registration No. __________, of ____________________, registered holder/holder of a suitable proxy appointment instrument which is annexed hereto (*) of __________ (**) shares ordinary of NIS _____n.v. each hereby give notice that my vote at the meeting of the Company and at any adjourned meeting of that meeting thereof is as follows:

No. of Resolution on the Agenda	Subject of the Resolution	The Vote (***)			Shareholder's Personal Interest in the Resolution (****)	
		For	Abstain	Against	Yes	No

(*) If the shares are held through a registration company, confirmation of title must be annexed.

(**) If the shareholder wishes to vote differently for any part of his shares, a separate voting instrument must be submitted for every quantity of shares in respect of which he votes differently.

(***) X must be marked in accordance with the relevant choice. If more than one choice is selected for a particular resolution, the vote on such resolution shall be disqualified.

(****) In resolutions the majority required to pass which includes the votes of persons who do not have a personal interest in the approval, X must be marked in the appropriate place - whether there is or is not a personal interest as aforesaid. If X is not marked - the vote on such resolution shall be disqualified.

===

20.3 Sending a voting instrument

The voting instrument shall be sent by the Company to the shareholders entered in the Company's register of shareholders and entitled to vote at the general meeting, together with the notice of the general meeting.

If notice of the general meeting is published in a newspaper or in any other manner that is not personal notice to the shareholders through the mail, the voting instrument shall be sent immediately upon the notice's publication.

The voting instrument shall be sent by the Company at its expense.

20.4 The manner of using a voting instrument

A voting instrument reaching the Company's registered office at least two business days prior to the date of the general meeting and not disqualified by the Company's secretary shall be considered participation and voting by the shareholder who sent it for all intents and purposes, including for the purpose of the quorum.

A voting instrument received by the Company as provided in this article in respect of a particular matter not voted upon at the general meeting shall be considered abstention for the purpose of the resolution on the meeting's adjournment and shall be reckoned at the adjourned meeting in accordance with the way of voting appearing therein.

20.5 Notice of position

The board of directors and anyone on whose due requisition a special meeting is convened may send the shareholders a notice of position in order to persuade the shareholders to vote in a certain way on the matters to be voted upon in the voting instrument. The notice of position shall be sent at the Company's expense together with the voting instrument.

If a general meeting is called on one of the matters enumerated in article 20.1 above, a shareholder may approach the Company with a request that it send a notice of position on his behalf to the Company's other shareholders. Unless otherwise provided in the law, a notice of position as aforesaid shall be sent at the expense of the shareholder and shall only be sent if delivered to the Company's registered office at least 10 days prior to the general meeting.

CHAPTER FOUR - THE BOARD OF DIRECTORS

21. **The Board of Directors' Powers**

21.1 The board of directors' powers are as specified in the law and the provisions of these articles.

21.2 The Company's signatory rights and power of attorney on its behalf

21.2.1 The board of directors shall determine the signatory rights in the Company for various matters. The signature of any person appointed from time to time by the board of directors, in general or for a special matter, himself or together with others, together with the Company's seal or stamp or its printed name, shall bind the Company, on such conditions as prescribed by the board of directors.

21.2.2 The board of directors may determine separate signatory rights in respect of different matters of the Company and in respect of the amounts in respect of which such persons are authorised to sign.

21.2.3 The board of directors may from time to time empower any person to be the Company's attorney for such objects, with such powers, on such conditions and for such period as it deems fit, and it may give any attorney as aforesaid the power to delegate all or any of the powers, authorities and discretion given to him.

21.3 The Company's registered office

The board of directors shall determine what is the Company's registered office.

22. **The Appointment of Directors and Termination of Their Office**

22.1 The number of directors

The number of directors in the Company shall be not less than three (3) nor more than nine (9) including the external directors, unless the general meeting otherwise resolves.

22.2 The director's identity

22.2.1 A member of the board of directors may hold another office in the Company.

22.2.2 A corporation may hold office as a director in the Company, subject to the provisions of article 22.6 below.

22.3 The appointment and tenure of directors

(a) The directors shall be elected at each annual meeting and shall hold office until the end of the next annual meeting and so long as an annual meeting is not convened, unless their office is vacated prior thereto in accordance with the provisions of these articles.

The elected directors shall enter into their positions from the end of the meeting at which they are elected, unless a later date is specified in the resolution appointing them.

(b) At every annual meeting the directors appointed at the previous annual meeting shall be deemed to have resigned from their office. A resigning director may be re-elected. Notwithstanding the aforegoing, if no directors are appointed at an annual meeting, the current directors shall continue to hold office.

(c) A special meeting of the Company (including the special meeting adopting these articles) may appoint directors for the Company instead of directors whose office has been terminated and wherever the number of members of the board of directors falls below the minimum specified in the articles or by the general meeting.

(d) The provisions of paragraphs 22.3(a) to (c) above shall not apply to the appointment and tenure of external directors, in respect of whom the provisions of the Companies Law shall apply.

(e) No person other than a person who officiated as a director up to the annual meeting, shall be appointed as a director at the annual meeting, unless recommended for appointment by the board, or unless a shareholder of the company who wishes to propose a candidate shall have lodged at the office of the Company, not later than within seven days after the notice of the meeting has been given, a document in writing signed by the shareholder notifying his intention to propose such candidate for appointment as a director, to which document there shall be attached the consent of the candidate to officiate as a director and his/her resume.

22.4 The appointment of directors by the board of directors

The directors have the right at any time, in a resolution approved by at least a majority of the Company's directors, to appoint any person as a director, subject to the maximum number of directors specified herein, to fill a place which has randomly been vacated or as an addition to the board of directors. Any director so appointed shall hold office until the next annual meeting and may be re-elected.

22.5 Alternates

A director may from time to time appoint an alternate for himself (hereinafter referred to as “alternate"), dismiss such alternate and appoint another alternate instead of any alternate whose office has been vacated for any reason, for a particular meeting or on a regular basis, provided however that such alternate is approved in a resolution approved by at least a majority of the Company's directors. A person who is not qualified to be appointed as a director and a person holding office as a director or alternate shall not hold office as an alternate.

22.6 Attorney of a corporation holding office as director

A director which is a corporation shall appoint an individual who is qualified to be appointed as a director in the Company to hold office on its behalf on a permanent basis, or for a particular meeting, or for a particular period, and the said corporation may dismiss the individual and appoint another in his stead.

22.7 Empowered director

Each director and each alternate director may appoint a representative to participate and vote on his behalf in any Board or Board’s committee meeting. Such appointment can be either general or for particular meeting or for several meetings. In case the director or the alternate attended such meeting, the empowered representative can not vote in place of his appointer. Such appointment shall be valid in accordance with its terms or until terminated by the appointer.

22.8 The manner of appointing or dismissing an alternate or attorney of a corporation holding office as a director

The appointment or dismissal of attorneys of corporations holding office as directors or of alternates shall be effected by written notice to the Company's secretary signed by the appointors or dismissers and shall enter into force on the date specified in the notice of appointment or dismissal, or on the date of its delivery to the Company's secretary, whichever is the later.

22.9 Various provisions in respect of alternates and attorneys of corporations holding office as directors

The following provisions shall apply in respect of the attorneys of directors, where the directors are corporations, and in respect of alternates:

(a) any person, whether or not he is a director, may serve as the attorney of a corporation holding office as a director, and one person may serve as the attorney of several corporations holding office as directors;

(b) the attorney of a corporation holding office as director shall have - in addition to his own vote if he himself is a director - a number of votes equal to the number of corporations holding office as directors for whom he is attorney;

(c) an alternate and the attorney of a director which is a corporation shall have all the powers vested in the director for whom he is serving as alternate or attorney. Notwithstanding the aforesaid, an alternate or attorney shall not have the power to vote at such meetings at which the director himself is present;

(d) the office of an alternate or attorney of a director which is a corporation shall automatically be vacated if the office of the director for whom or which he is acting as alternate or attorney is vacated.

22.10 Termination of the office of a director

22.9.1 The office of a director shall terminate in any one of the following cases:

(a) if he resigns from his office by a letter signed by him which is submitted to the Company;

(b) if he is declared bankrupt or settles with his creditors within the framework of bankruptcy proceedings;

(c) if he is declared legally incapacitated;

(d) on his death, and in the case of a corporation - if a resolution is passed to wind it up voluntarily or if a liquidation order is given in respect of thereof;

(e) if he is dismissed from his office following a resolution passed by the Company's general meeting, before the end of his term of office;

(f) if he is convicted of an offence as mentioned in section 232 of the Companies Law;

(g) if his office is terminated by the board of directors, in accordance with the provisions of section 231 of the Companies Law.

22.11 The implications of the termination of a director's office on the board of directors' operation

Where the place of a director is vacated, the remaining directors may continue to act so long as the number of directors remaining does not fall below the minimum number of directors specified in the articles or by the general meeting.

Where the number of directors falls below the minimum number, the remaining directors may only act in order to call a general meeting of the Company.

22.12 The board of directors' members' remuneration

The members of the board of directors who do not hold other offices in the Company and who are not external directors shall not receive remuneration from the Company's monies, unless the general meeting otherwise resolves and in such amount as the general meeting prescribes, subject to the provisions of the law.

The directors' remuneration may be prescribed as an overall payment or as payment in respect of participation at meetings or any combination thereof.

The Company may, in a board of directors' resolution, reimburse expenses incurred by a director for the purpose of performing his position.

23. **The Directors' Acts**

23.1 The board of directors' meetings

(a) The board of directors' chairman may convene the board of directors at any time.

(b) The board of directors' chairman shall convene the board of directors pursuant to the Company's requirements and at least once a year, in a manner enabling the Company to comply with the provisions of the law.

(c) The board of directors' chairman shall convene the board of directors and hold a board of directors' meeting on a specified matter on the demand of at least two directors or one director alone if the Company has less than five directors.

(d) The board of directors' chairman shall act without delay to call a meeting of the board of directors within 14 days of being notified by a director of the Company that he has learned of a matter of the Company in which a breach of the Law or impairment to proper business procedure has prima facie been discovered or of the date on which the Company's auditor reports to him that he has learned of material deficiencies in the audit of the Company's accounts.

(e) If a notice or report of the general manager obliges action by the board of directors, the board of directors' chairman shall, without delay and within 14 days of the notice or report, call a meeting of the board of directors.

23.2 Calling a board of directors' meeting

23.2.1 Notice of a board of directors' meeting may be given orally or in writing, provided that the notice is given at least three business days prior to the date fixed for the meeting, unless all the members of the board of directors or their alternates or attorneys agree to a shorter time.

Notice as aforesaid shall be sent in writing or by facsimile or e-mail or by other media, to the postal address, facsimile number, e-mail address or other address given for the sending of notices by other media, as the case may be, given by the director to the Company's secretary upon his appointment, or in written notice to the secretary thereafter.

Notice given or sent as aforesaid shall be deemed to have been given to a director personally on the date of being given or sent as aforesaid.

23.2.2 Where an alternate or attorney has been appointed, notice shall be sent to the alternate or the attorney, unless the director has given notice that he wishes the notice to be sent to him as well.

23.2.3 The notice calling the meeting shall include the place and date of the board of directors' meeting, arrangements with regard to the manner of conducting the meeting (where media are being used) and details of the matters on the agenda, and any other material which the board of directors' chairman wishes to attach to the notice of the meeting.

23.2.4 Notwithstanding anything to the contrary herein, failure to deliver notice to a director of any such meeting in the manner required hereby may be waived by such director, and a meeting shall be deemed to have been duly convened if such defective notice, or failure to deliver such notice is waived prior to action being taken at such meeting, by all directors entitled to participate at such meeting to whom notice was not duly given as aforesaid. Without derogating from the foregoing, no director present at the commencement of a meeting of the board of directors shall be entitled to seek the abolishment of any proceedings or resolutions adopted at such meeting on account of any defect in the notice of such meeting relating to the time or the place thereof.

23.3 The agenda for the board of directors' meetings

The agenda for the board of directors' meetings shall be prescribed by the board of directors' chairman and shall include the following matters:

(a) matters prescribed by the board of directors' chairman;

(b) matters in respect of a meeting has been fixed, as provided in paragraphs 23.1(c) to (e) above;

(c) any matter which a director or the general manager requests the board of directors' chairman, a reasonable time (having regard to the nature of the matter) prior to the board of directors' meeting, to include on the agenda.

23.4 Quorum

The quorum for meetings shall be a majority of the members of the board of directors who are not legally prevented from participating at the meeting, or any other quorum prescribed by a majority of the members of the board of directors from time to time.

23.5 Holding a meeting by media

The board of directors may hold the board of directors' meeting through the use of any media, provided that all the directors participating may hear each other simultaneously.

A resolution as aforesaid may be passed by the approval given by media of some of the directors, to the extent that the directors who do not approve the resolution were not entitled to participate at the discussion and vote on the resolution pursuant to the law and provided that they confirm by media that they are aware of the intention to pass a resolution as aforesaid.

23.6 Voting by the board of directors

Issues arising at board of directors' meetings shall be decided by a majority of votes of the directors present (or participating, in the case of voting by media) and voting, each director having one vote, subject to the provisions of article 22.9(b) above with regard to alternates and attorneys of directors which are corporations.

23.7 Passing resolutions without convening

The board of directors may pass resolutions without actually convening, provided that all the directors entitled to participate in a discussion and vote on a matter brought for resolution have agreed thereto.

In case such resolutions were passed, as aforesaid, the chairman of the board shall write the resolutions protocol and indicate specifically that it was agreed upon by all directors in writing, orally or by other means of media.

23.8 Resolution approved by media

A resolution approved by media by the directors shall be treated as a resolution duly passed at a meeting of the board of directors, and the provisions of paragraph 23.6 above shall apply thereto.

A resolution as aforesaid may be passed by the approval given by media of some of the directors, to the extent that the directors who do not approve the resolution were not entitled to participate in the discussion and vote on such resolution pursuant to the law and provided that they confirm by media that they are aware of the intention to pass the said resolution.

23.9 Validity of the directors' acts

All acts done in good faith at the directors' meeting or by a board of directors' committee or by any person acting as a director shall be valid even if it later transpires that there was some defect in the appointment of such director or person or that they or one of them were actually disqualified as though every such person had been duly appointed and was qualified to be a director.

23.10 Minutes of board of directors' meetings

The board of directors' chairman shall procure that minutes are properly kept of the board of directors' meetings, which shall include:

(a) the names of those participating and present at each meeting;

(b) all the resolutions and main points of the discussion at the said meetings.

All such minutes which are signed by the board of directors' chairman at such meeting or by the board of directors' chairman at the subsequent meeting shall be accepted as prima facie proof of the matters recorded therein.

24. **Board of Directors' Committees**

24.1 Subject to the provisions of section 112 of the Companies Law, the directors may delegate their powers, or any of them, to committees as they deem fit and they may from time to time widen, narrow or cancel the delegation of such a power; however, the narrowing or cancellation of a power as aforesaid is not such as to prejudice the validity of a committee resolution pursuant whereto the Company acted vis-a-vis another person, who was not aware of the said change. Every such committee must, at the time of exercising a power as aforesaid, comply with all the directions given to it from time to time by the directors.

24.2 A board of directors' committee shall include at least two directors, one of whom shall be an external director, save for the audit committee, which shall include at least three directors and all the Company's external directors shall be members thereof.

24.3 The meetings and discussions of the board of directors' committees shall be governed by the provisions regarding the meetings of the directors, mutatis mutandis, so long as other provisions are not prescribed by the directors in such regard, and provided that the quorum for meetings of such committees shall be at least two members.

24.4 A resolution passed or an act done by a board of directors' committee shall be treated as a resolution passed or act done by the board of directors, unless expressly otherwise prescribed by the board of directors for a particular matter or in respect of a particular committee.

25. **The Board of Directors' Chairman**

25.1 Appointment

(a) The board of directors shall elect one of its members to serve as its chairman and shall specify, in the appointment resolution, the term for which he shall hold office.

(b) If not otherwise provided in the resolution appointing him, the board of directors' chairman shall be elected each calendar year at the first board of directors' meeting held after the annual meeting at which the Company's directors are appointed.

(c) So long as the board of directors' chairman holds office as a director of the Company, he shall continue to serve in such capacity until someone else is appointed in his stead.

(d) If the board of directors' chairman ceases to hold office as a director of the Company, the board of directors shall elect a new chairman at the first board of directors' meeting held thereafter, who shall serve in such capacity for the term specified in the appointment resolution, and if no term is specified - until the appointment of a chairman as provided in paragraph 25.1(b) above.

(e) If the board of directors' chairman is absent from a meeting, the board of directors shall elect one of its members to conduct the meeting and to sign the discussion minutes; however, the person elected shall not have an additional or casting vote in the board of directors' votes.

25.2 Powers

(a) The board of directors' chairman shall conduct the board of directors' meetings and shall sign the discussion minutes.

(b) If the votes on a board of directors' resolution are tied, the board of directors' chairman shall not have an additional vote.

(c) The board of directors' chairman may, at any time, on his own initiative or pursuant to a resolution of the board of directors, demand reports from the general manager on matters relating to the Company's business.

25.3 Provisos to the acts of the board of directors' chairman

(a) The board of directors' chairman shall not serve as the Company's general manager, unless appointed in accordance with the provisions of article 26.2 below.

(b) The board of directors' chairman shall not be a member of the audit committee.

CHAPTER FIVE - OFFICERS OF THE COMPANY, WHO ARE NOT DIRECTORS, AUDITOR

26. **The General Manager**

26.1 The appointment and dismissal of the general manager

(a) The board of directors shall appoint a general manager for a fixed term or for an unlimited term.

The board of directors may appoint more than one general manager.

(b) Determining the general manager's remuneration and employment terms shall be subject to the approval of the board of directors, in such manner as it deems fit. Where the general manager's remuneration is considered an "exceptional transaction", and in case of an exemption, insurance, indemnity undertaking or indemnity pursuant to permission is given to the general manager, the board of director' resolution as aforesaid requires the prior approval of the audit committee.

(c) The board of directors may from time to time remove or dismiss the general manager from his office and appoint another or others in his stead.

26.2 The board of directors' chairman as general manager

(a) The Company's general meeting may authorise the board of directors' chairman to fill the position of general manager or to exercise his powers, provided that in counting the votes of the majority at the general meeting at least two thirds of the votes of shareholders who are not the Company's controlling shareholders or persons on their behalf, present at the vote, shall be included. In counting the votes of the shareholders, the votes of those abstaining shall not be taken into account.

(b) The validity of such a resolution is limited to a period not exceeding three years from the date the resolution is passed by the general meeting. If no period is specified for authority as aforesaid, the authority shall be for a period of three years.

Before the end of the said three year period and even after it has come to an end, the general meeting may pass another resolution, and so on and so forth.

(c) The said resolution may relate to the authorization of the board of directors' chairman in general or it may relate to the authorization of a particular board of directors' chairman.

26.3 The general manager's powers and his subordinacy to the board of directors

(a) The general manager is responsible for the routine management of the Company's affairs within the framework of the policy prescribed by the board of directors and subject to its guidelines.

The general manager shall have all the management and execution powers not vested by the law or the articles in another organ of the Company, and he shall be under the supervision of the board of directors and subject to its guidelines.

The general manager shall appoint and dismiss the Company's officers, save for the directors and general manager, and shall determine the terms of their employment, unless otherwise prescribed by the board of directors.

(b) The board of directors may instruct the general manager how to act in a particular matter; if the general manager does not obey the instruction, the board of directors may exercise the power required to implement the instruction in his stead.

(c) If the general manager is unable to exercise his powers, the board of directors may exercise them in his stead or authorise someone else to exercise them.

(d) Subject to the provisions of the Companies Law, the board of directors may delegate to the general manager powers which the board of directors has pursuant to the Company's articles, as it deems fit, and it may delegate these powers, or any of them, for such period and objects, on such conditions and with such restrictions as it deems fit. The board of directors may alter or cancel any delegation of powers as aforesaid.

26.4 <u>The general manager's reporting duties</u>

The general manager must notify the board of directors' chairman of any exceptional matter which is material to the Company or of any material deviation of the Company from the policy prescribed by the board of directors. If the Company does not have a board of directors' chairman, for any reason, the general manager shall notify all the board of directors' members as aforesaid.

The general manager shall submit reports to the board of directors on the matters, at the times and on the scale prescribed by the board of directors.

The general manager shall report to the board of directors' chairman, on his demand, on matters relating to the Company's business and the proper management thereof as mentioned in article 22.1 above.

26.5 <u>Delegation of the general manager's powers</u>

The general manager may, with the board of directors' approval, delegate any of his powers to another, who is subordinate to him; however, the delegation of powers as aforesaid does not exempt the general manager from liability for the aforegoing.

27. **<u>Secretary, Internal Auditor and Other Officials in the Company</u>**

27.1 <u>Secretary</u>

27.1.1 The board of directors may appoint a secretary for the Company, on such terms as it deems fit, and may appoint a deputy secretary and determine their duties and powers.

27.1.2 If a secretary is not appointed for the Company, the general manager, or someone authorised by him for such purpose and in the absence of a general manager someone authorised for such purpose by the board of directors, shall perform the duties prescribed for the secretary pursuant to the law, these articles and the board of directors' resolution.

27.1.3 The Company's secretary shall be liable for all the documents kept at the Company's registered office, as provided in section 124 of the Companies Law, and shall keep the registers kept by the Company pursuant to the law.

27.2 <u>Internal auditor</u>

27.2.1 The Company's organizational superior over the internal auditor is the board of directors' chairman.

27.2.2 The internal auditor shall submit a proposal for an annual or periodic work plan to the board of directors, which shall be approved by the board of directors, with such changes as it deems fit.

27.3 <u>Other officials in the Company</u>

The board of directors may resolve that in addition to the general manager and the secretary, other officials shall be appointed by it, in general or in a particular case. In such case, the board of directors shall appoint the official, define his position and powers and determine his remuneration and employment terms.

28. **<u>Auditor</u>**

28.1 The annual general meeting shall appoint an auditor for the period up to the end of the following general meeting. The general meeting may appoint an auditor for a period that shall not extend beyond the end of the third general meeting after the general meeting at which he was appointed. Where the auditor is appointed for such a period, the annual meeting shall not discuss the appointment of an auditor during the said period, unless a resolution is passed to terminate his office.

28.2 The general meeting may at any time terminate the office of the auditor or decline to renew it.

28.3 The board of directors shall determine the remuneration of the Company's auditor and shall report thereon to the Company's annual meeting.

28.4 The board of directors meeting shall determine the auditor's remuneration for services other than the audit and shall report thereon to the Company's annual meeting.

CHAPTER SIX - SAFEGUARDING THE COMPANY'S CAPITAL AND THE DISTRIBUTION THEREOF

29. **Permitted Distribution**

29.1 Definitions

In this chapter the following expressions shall bear the meanings attributed to them in sections 1 and 302 of the Companies Law: "distribution", "purchase", "profits", "profit criterion", "adjusted financial statements", "surpluses".

29.2 Distribution from profits alone

The Company shall not effect any distribution except from its profits, provided that there is no reasonable apprehension that the distribution will deprive the Company of the ability to perform its existing and expected obligations, when the time comes to perform them. Notwithstanding the aforegoing, the Company may effect a distribution that is inconsistent with the profit criterion if it receives the court's approval therefor.

29.3 Allotment for a consideration lower than the nominal value

Where the Company resolves to allot shares which have a nominal value for a consideration lower than their nominal value, including bonus shares, it must convert into share capital part of its profits, from premium on shares or from any other source included in its equity, which are mentioned in its last financial statements, in an amount equal to the difference between the nominal value and the consideration.

Notwithstanding the aforegoing, the Company may, with the court's approval, allot shares for a consideration lower than their nominal value.

30. **<u>Dividend and Bonus Shares</u>**

30.1 <u>Right to dividend or bonus shares</u>

30.1.1 The Company's shareholders have a right to receive dividend or bonus shares, if the Company resolves thereon as provided in paragraph 30.2 below, in accordance with the rights attached to any class of shares in such regard.

30.1.2 Dividend or bonus shares shall be distributed amongst anyone entered in the Company's register of shareholders on the date of the resolution on the distribution or at a later date, if another date is prescribed therefor in such resolution (hereinafter referred to as “the determining date").

30.1.3 If the Company's capital contains shares of different nominal values, dividend or bonus shares shall be distribution pro rata to the nominal value of each share.

30.1.4 Subject to the special rights granted to special shares pursuant to their issue conditions, the Company's profits, in respect of which a resolution was passed to distribute them as dividend or bonus shares, shall be paid pro rata to the amount paid or credited as paid on account of the nominal value of the shares held by the shareholder.

30.1.5 If not otherwise provided in the shares' issue conditions or in the general meeting's resolution, all the dividends and bonus shares on shares which are not fully paid within any period in respect of the dividends or bonus shares are payable shall be paid pro rata to the amounts paid or credited as paid on the nominal value of the shares during any part of the said period (pro rata temporis).

30.2 <u>The Company's resolution to distribute dividend or bonus shares</u>

30.2.1 The Company's resolution to distribute dividends, bonus shares or interim dividends on account of future dividends, as it deems fit in accordance with the state of the Company's profits and the terms and conditions thereof, shall be passed by the Company's board of directors.

30.2.2 <u>Funds</u>

The board of directors may, in its discretion, make provisions to special funds of any amount from the Company's profits, or from a revaluation of its assets, or its proportional part in the revaluation of the assets of its affiliates, and determine the purpose of these funds.

30.3 Payment of the dividend

30.3.1 Manner of payment

If not otherwise provided in the resolution on the dividend's distribution, it shall be possible to pay any dividend less the tax required pursuant to the law by a cheque to the payee alone, which shall be sent by registered mail in accordance with the registered address of the shareholder entitled thereto, or by a bank transfer. Any such cheque shall be made out to the order of the person to whom it is being sent.

In the case of registered joint shareholders, the cheque shall be sent to the shareholder whose name is entered first in the register of shareholders in relation to the joint shareholding.

The dispatch of the cheque to a person who on the prescribed date is entered in the register of shareholders as the holder of a share, or in the case of joint shareholders - one of the joint shareholders, shall serve as a release in relation to all the payments made in connection with such share.

The Company may resolve that it shall not send a cheque under a certain amount, and the dividend amounts that should have been payable as aforesaid shall be treated as unclaimed dividend.

30.3.2 Unclaimed dividend

The board of directors may invest any dividend not claimed within a year of being declared or otherwise use it in favour of the Company until it is claimed. The Company shall not be liable to pay interest or linkage for unclaimed dividend.

30.3.3 Dividend in specie

Where the Company declares a dividend, it may resolve that such dividend shall be paid, in whole or in part, by the distribution of particular assets, including paid shares or debentures of any other company or by a combination of such assets.

30.4 <u>The capitalisation of profits and the distribution of bonus shares</u>

30.4.1 Subject to the provisions of paragraph 30 above, the Company's undistributed profits, or premium on shares, or funds created from a revaluation of the Company's assets, or funds created on an equity basis from the profits of affiliated companies, or from a revaluation of the assets of affiliated companies and capital redemption funds - may be capitalised and distributed amongst the entitled shareholders, pursuant to paragraph 31.1 above, to be held by them as capital, and all or any of the money from this capitalisation shall be used in the name of such shareholders for the full payment, at the nominal value or with such premium as the resolution prescribes, of shares distributed in accordance therewith, and such distribution or payment shall be accepted by such shareholders as full consideration for their benefit in the aforementioned capitalised amount, as prescribed by the board of directors.

The provisions of this chapter shall also apply to a distribution of debentures.

30.4.2 Where the Company resolves to distribute bonus shares, it may resolve to transfer to a special fund designated for a distribution of bonus shares in the future such amount the capitalisation of which would be sufficient to allot to anyone who at such time has a right to purchase shares of the Company (including a right which is only exercisable at a later date) bonus shares of such nominal value as would have been due to him had he exercised the right to purchase the shares prior to the determining date at the price of the right in force at such time. If after the determining date the holder of the said right exercises his right to purchase the shares or part thereof, the board of directors shall allot him fully paid bonus shares at such nominal value and of such class as would have been due to him had he exercised the right to purchase the shares which he actually purchased prior to the determining date, by appropriate capitalisation that shall be effected by the board of directors from the said special fund. With regard to determining the nominal value of the bonus shares that are distributed, any amount transferred to the special fund created in respect of a distribution of previous bonus shares shall be treated as though already capitalised and as if shares entitling the holders of the right to purchase shares of the Company to bonus shares had already been allotted therefrom.

30.4.3 In a distribution of bonus shares, all the Company's shareholders shall receive shares of a uniform class or of the class which vested him with the rights to receive the bonus shares, as prescribed by the board of directors.

30.4.4 In order to implement any resolution pursuant to the provisions of paragraph 30.4, the board of directors may settle any difficulty arising in relation to a distribution of bonus shares as it deems fit, and in particular may issue certificates for fractions of shares and sell the fractions in order to pay the proceeds thereof to entitlees and may determine the value for the purpose of distribution of certain assets and resolve that payments in cash shall be made to the shareholders in reliance upon the value so prescribed, or that fractions whose value is less than NIS 1 shall not be taken into account for the purpose of adjusting the rights of all the parties. The board of directors may pay cash or grant these particular assets to trustees on trust in favour of the persons entitled to dividend or capitalised fund, as it deems beneficial.

31. **Purchase of the Company's Shares**

31.1 The Company may purchase or finance the purchase, directly or indirectly, of shares of the Company or of securities convertible into shares or exercisable into shares of the Company, including undertakings to do any of the aforegoing, subject to compliance with the condition of permitted distribution, as provided in paragraph 29 above.

31.2 If the Company purchases any of its shares, the share shall become a dormant share and shall not vest any rights, so long as it is held by the Company.

31.3 If a share of the Company is purchased by a subsidiary or by a corporation under the Company's control, the share shall not vest voting rights, so long as it is held by the said subsidiary or corporation.

CHAPTER SEVEN - INSURANCE, INDEMNITY AND EXEMPTION OF OFFICERS

32. **<u>Insurance of Officers</u>**

32.1 The Company may insure the liability of an officer therein to the fullest extent permitted by law.

32.2 Without derogating from the aforesaid the Company may enter into a contract to insure the liability of an officer therein for an obligation or payment imposed on him in consequence of an act done in his capacity as an officer therein, in any of the following cases:

(a) a breach of the duty of care vis-a-vis the Company or vis-a-vis another person;

(b) a breach of the fiduciary duty vis-a-vis the Company, provided that the officer acted in good faith and had a reasonable basis to believe that the act would not harm the Company;

(c) a monetary obligation imposed on him in favor of another person.

(d) Financial liability imposed on him for payment to persons or entities harmed as a result of violations in Administrative Proceedings, as detailed in section 52(54)(A)(1)(a) of the Israeli Securities Law, 1965 (the "**Securities Law**").

(e) Expenses incurred by him in connection with Administrative Proceedings (as defined above) he was involved in, including reasonable litigation fees, and including attorney fees.

(f) any other matter in respect of which it is permitted or will be permitted under applicable law to insure the liability of an officer in the Company.

33. **<u>Indemnity of Officers</u>**

33.1 The Company may indemnify an officer therein, to the fullest extent permitted by law. Without derogating from the aforesaid the Company may indemnify an officer in the Company for liability or expense imposed on him in consequence of an action made by him in the capacity of his position as an officer in the Company, as follows:

33.1.1 Any financial liability he incurs or imposed on him 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.

33.1.2 Reasonable litigation expenses, including legal fees, incurred by the officer or which he was ordered to pay by a court, within the framework of proceedings filed against him by or on behalf of the Company, or by a third party, or in a criminal proceeding in which he was acquitted, or in a criminal proceeding in which he was convicted of a felony which does not require a finding of criminal intent.

33.1.3 Reasonable litigation expenses, including legal fees he incurs due to an investigation or proceeding conducted against him by an authority authorized to conduct such an investigation or proceeding, and which was ended without filing an indictment against him 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.

33.1.4 Financial liability he incurs for payment to persons or entities harmed as a result of violations in Administrative Proceedings, as detailed in section 52(54)(A)(1)(a) of the Securities Law. For this purpose "**Administrative Proceeding**" shall mean a proceeding pursuant to Chapters H3 (Imposition of Monetary Sanction by the Israel Securities Authority), H4 (Imposition of Administrative Enforcement Means by the Administrative Enforcement Committee) or I1 (Settlement for the Avoidance of Commencing Proceedings or Cessation of Proceedings, Conditioned upon Conditions) of the Securities Law, as shall be amended from time to time.

33.1.5 Expenses that he incurs in connection with Administrative Proceedings (as defined above) he was involved in, including reasonable litigation fees, and including attorney fees.

33.1.6 Any other obligation or expense in respect of which it is permitted or will be permitted under law to indemnify an officer in the Company.

33.2 Advance indemnity

The Company may give an advance undertaking to indemnify an officer therein in respect of the following matters:

33.2.1 Matters as detailed in Article 33.1.1, provided however, that the undertaking is restricted to events, which in the opinion of the Board of Directors, are anticipated in light of the Company’s actual activity at the time of granting the obligation to indemnify and is limited to a sum or measurement determined by the Board of Directors as reasonable under the circumstances. The indemnification undertaking shall specify the events that, in the opinion of the Board of Directors are expected in light of the Company’s actual activity at the time of grant of the indemnification and the sum or measurement, which the Board of Directors determined to be reasonable under the circumstances.

33.2.2 Matters as detailed in Article 33.1.2 and 33.1.3.

33.2.3 Any matter permitted by applicable law.

33.3 <u>Retroactive indemnity</u>

The Company may indemnify an officer therein, save for the events subject to any applicable law.

34. **<u>Exemption of Officers</u>**

The Company may exempt an officer therein in advance and retroactively for all or any of his liability for damage in consequence of a breach of the duty of care vis-a-vis the Company, to the fullest extent permitted by law.

35. **<u>Insurance, Exemption and Indemnity - General</u>**

35.1 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;

35.2 Articles 32 through 35 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.

35.3 An undertaking to insure, exempt and indemnify an officer in the Company as set forth above shall remain in full force and effect even following the termination of such officer service with the Company.

CHAPTER EIGHT - MERGER, WINDING UP AND SALE OF THE COMPANY’S ASSETS IN CONSIDERATION FOR SECURITIES

36. **Merger**

Notwithstanding the provisions of section **327(a)** of the Companies Law, the majority required for the approval of a merger by the general meeting or by a class meeting shall be an ordinary majority of the votes of the shareholders entitled to vote and voting themselves.

37. [Reserved]

38. **Winding Up**

38.1 If the Company is wound up, voluntarily or otherwise, the liquidator may, with the general meeting's approval, distribute parts of the Company's property in specie amongst the shareholders, and he may, with similar approval, deposit any part of the Company's property with trustees in favour of the shareholders as the liquidator, with the approval mentioned above, deems fit.

38.2 Subject to the special rights attached to shares, if shares are issued with special rights, the Company's shares shall rank equally inter se in relation to the amounts of capital paid or credited as paid on the nominal value of the shares, in connection with the return of the capital and participation in a distribution of the Company's surplus assets on winding up.

39. **The Sale of the Company's Assets in Consideration for Securities**

39.1 At the time of selling the Company's property, the board of directors, or the liquidators (in the case of winding up) may, if so permitted in a resolution passed by the Company's general meeting by an ordinary majority, accept fully or partially paid shares, debentures or securities of another company, Israeli or foreign, incorporated or about to be incorporated for the purpose of purchasing the Company's property, or part thereof, and the directors (if the Company's profits so permit) or the liquidators (in the case of winding up) may distribute the shares or securities mentioned above or any other property of the Company amongst the shareholders, without realising them or depositing them with trustees for the shareholders.

39.2 The general meeting may, in a resolution passed by the Company's general meeting by an ordinary majority, resolve on a valuation of the securities or property mentioned above at such price and in such manner as the general meeting resolves, and all the shareholders shall be liable to accept any valuation or distribution permitted as aforesaid and waive their rights in such regard, save, where the Company is about to be wound up or is in winding up proceedings, for those legal rights (if any) which pursuant to the provisions of the law may not be altered or qualified.

CHAPTER NINE - MISCELLANEOUS

40. **Notices**

40.1 Notice or any other document which the Company shall deliver and which it is entitled or required to give pursuant to the provisions of these Articles and/or any applicable law shall be delivered by the Company to any person, in any one of the following manners as the Company may choose: in person, by mail, transmission by fax or in electronic form (including through the Internet). Notwithstanding anything to the contrary contained herein and subject to the requirements of any applicable law, a notice to a shareholder may alternatively be served, as a 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.

40.2 All the notices which must be given to the shareholders shall be given, in relation to shares which are jointly held, to the person whose name is entered first in the register of shareholders and any notice given in such manner shall be adequate notice to all the joint shareholders.

40.3 [Reserved]

40.4 Any notice or other document delivered or sent to a shareholder in accordance with these articles shall be deemed to have been duly delivered and sent in respect of all the shares held by him (alone or together with others), even if such shareholder has passed away at such time, or become bankrupt, or an order has been given for its winding up, or a trustee or liquidator or receiver has been appointed for his shares (whether or not the Company was aware thereof), until another person is entered in the register of shareholders in his stead as the holder thereof, and the giving or dispatch of a notice or document as mentioned above shall be deemed adequate delivery or dispatch to any person who has a right in these shares.

40.5 Any notice or other document sent by the Company by mail in accordance with an address in Israel shall be deemed to have been delivered within 48 hours of the letter containing the notice or document being mailed, within 96 hours where the address is abroad, or on the first day after transmission if transmitted by fax or in electronic form, and when coming to prove the delivery it shall be sufficient to prove the letter containing the notice or document contains the correct mailing, e-mail, or fax details as registered in the register or any other address which the shareholder submitted in writing to the Company as the address and fax or e-mail details for the submission of notices or other documents.

40.6 An accidental omission in giving notice of a general meeting to any shareholder or non-receipt of notice of a meeting or any other notice by a shareholder shall not cause the cancellation of a resolution passed at such meeting or cancellation of proceedings based on such notice.

40.7 Every shareholder and every board of directors' member may waive his right to receive notice or his right to receive notice within a particular time and may agree that a general meeting of the Company or a board of directors' meeting, as the case may be, be convened or take place despite the fact that he has not received notice thereof, or despite the fact that the notice was not received by him within the required time, subject to the provisions of any law prohibiting such waiver or consent.

CREDIT SUISSE

FRAMEWORK AGREEMENT FOR MORTGAGE LOAN

between

Eldista GmbH, rue des Pierres-du-Niton 17, c/o INTEREXPERTS SA, 1207 Genève
(hereinafter referred to as the "Borrower")

and

CREDIT SUISSE AG

Mailing address: P.O. Box 100, 8070 Zurich
Contact address: Giesshübelstrasse 30, 8045 Zurich
(the lender, hereinafter referred to as the "Bank")

Amount of Credit Facility	**CHF 85'000'000.00**
	The amount of the credit facility is reduced by the sum of the amortizations and other loan repayments made.
Utilization	The type and term of the loan are mutually agreed by the Borrower and the Bank within the scope of the available credit facility.
	Such agreement is made without complying with any requirements as to form; an oral agreement, in particular, is sufficient to be binding. The agreement will be confirmed by the Bank in writing, but without a signature.
	The maximum term of loan thereby shall not have an interest period exceeding 10 years.
Conditions for Utilization of the Credit Facility	This credit facility may not be used until all collateral has been legally established in favour of the Bank and the following documents have been received by the Bank: ● Due execution of the Framework Agreement. ● Due execution of the Deed of Assignment. ● Due execution of the Security Agreement for the pledge of mortgage notes. ● Receipt of board and shareholders resolution of the Borrower, giving the necessary authorizations for the entry into the Framework Agreement and the Security Agreements.
Repayment	Fixed-term loans must be repaid by the maturity date unless the Borrower has entered into a new agreement with the Bank at least two bank working days before the maturity date.
Amortization	The mortgage amortization shall be CHF 2'000'000.00 per year, payable quarterly, for the first time on 31.12.2018.

	Installments and method of payment as well as modifications to the amortization amount are mutually agreed. Such agreement is made without complying with any requirements as to form; an oral agreement, in particular, is sufficient to be binding. It will be confirmed by the Bank in writing, but without a signature.
Interest rate	The interest rate of loans that do not have a fixed term is determined by the Bank. The interest rate is based on the prevailing conditions in the money and capital markets, the risk assessment of the Bank and the margin determined by the Bank. The Bank may at any time and with immediate effect adjust the interest rate to reflect changes in these elements. The interest rate of fixed-term loans is mutually agreed by the Borrower and the Bank. Such agreement is made without complying with any requirements as to form. The interest rate for fixed-term loans is based on LIBOR (London Interbank Offered Rate) plus a margin of 0.75% per annum. If the LIBOR rate is negative, a LIBOR rate of 0.00% will be used for the calculation. If the currently valid capital requirements are increased through measures by authorities or provisions of law, the Bank reserves the right to pass on the additional borrowing costs that thereby result to the Borrower by increasing the interest rate.
Interest due dates	March 31, June 30, September 30, and December 31
Interest on arrears	If the Borrower does not pay the interest by the interest due date, an interest penalty of 2% above the agreed interest rate shall be paid on the amount in arrears as from the due date.
Interest payments and amortization payments	On the due date, interest payments and amortization payments shall be debited to an account with the Bank. The Borrower undertakes to make the applicable amount available in this account on the due date. Until all amounts have been paid, the bank shall retain the existing mortgage right in full.
Fee	The Bank may charge fees for reviewing, changing, monitoring and managing the credit facility and the individual loans as well as for extraordinary expenses. In such cases, the combined amount shall not exceed CHF 10’000.00 per calendar year.

Mortgage collateral	- CHF 81’666’000.00 first ranking bearer mortgage note, no prior ranking, - CHF 41’959’000.00 third ranking bearer mortgage note, prior ranking CHF 82’523’922.00, on business premises “CTN”, Ch. des Aulx 8-18, 1228 Plans-les-Ouates, land register Plans-les-Ouates, land register folio 11095 (hereinafter referred to as “CTN”). Transfer of ownership by way of collateral in accordance with the “Security Agreement” (to be signed) If collateral is provided for more than one claim, the Bank may decide at its discretion which claim(s) will be set off against sales proceeds or any other income derived from the collateral.
Further collateral	Deed of Assignment in favour of the Bank of any rent payments from the real estate property CTN, Ch. des Aulx 8-18, 1228 Plans-les-Ouates, covering the amount of interest and capital repayment (to be signed). If collateral is provided for more than one claim, the Bank may decide at its discretion which claim(s) will be set off against sales proceeds or any other income derived from the collateral.
Termination of the framework agreement	This framework agreement may be terminated by either party at any time with immediate effect. Upon termination of the framework agreement, maturing loans are not renewed and no new loans will be granted. However, loans that were previously agreed will remain unaffected by the termination of this framework agreement until the end of their respective terms. The termination of a loan granted under this framework agreement does not automatically result in the termination of the framework agreement.
Termination of individual loans *Ordinary termination*	Fixed-term loans granted under this framework agreement can not be terminated prior to maturity, unless otherwise agreed in writing. Loans that do not have a fixed term may be terminated at any time by either party subject to three months’ notice.
Extraordinary termination	The Bank reserves the right to terminate all loans granted under this agreement with immediate effect at any time if: - the Borrower goes bankrupt or is granted a bankruptcy moratorium; - the Bank has terminated all loans of OPCTN S.A., 6 Rue Jean Bertholet, LU-1233 Luxembourg under its separate Framework Agreement with the Bank based on the clause “Early Termination”; - the Borrower has breached any other obligation under this framework agreement and/or under any agreements based hereon and has failed or was unable to restore the proper contractual situation within 60 calendar days after written notice from the Bank; - the Borrower is in arrears on interest payments or mortgage amortizations for more than 60 calendar days after they are due;

- the mortgaged property is insufficiently insured against fire and damage caused by natural hazards;
- the value of the mortgaged property is significantly impaired, especially due to a casualty or insufficient maintenance;
- the use of the mortgaged property is materially altered without the Bank's consent;
- there has been a change in direct or indirect ownership/control in respect of the Borrower / holding company resulting in Optibase Ltd. owning less than 51% of the Borrower's / holding company's shares and/or resulting in an ownership structure which at the Bank's sole discretion is not acceptable for the Bank;
- owing to default and/or maturity clauses, other loans or similar obligations, exceeding the total amount of CHF 1'000'000.00, entered into by the Borrower have been terminated early;
- in the bank's view, asset and/or revenue situation of the Borrower has deteriorated significantly;

Transfer of ownership or forced sale

In the event of transfer of ownership or forced sale of the mortgaged property, all claims in connection with this framework agreement shall fall due for repayment on the date of transfer of ownership or on the date of the public auction, as applicable.

Statement of costs in the event of early termination of fixed-term loans

If any fixed-term loans granted under this framework agreement are terminated early, the Bank will credit or debit the Borrower with the interest gain or interest shortfall accrued thereon. This is calculated based on the difference between the contractual interest rate which applies at the time of termination and the interest rate that, in the Bank's view, can be earned on an investment with the same residual term (i.e. date of termination to expiry of interest period of such loan/advance) on the money or capital markets at the time of termination, multiplied by the outstanding loan amount and the residual term. Any surplus in favor of the Borrower is set off against the fee for the Bank's expenses described below.

In addition a flat fee of 0.1% of the loan amount, but not less than CHF 1'000.00, is owed for the Bank's expenses.

By way of example:

Example 1
Early repayment of a loan of CHF 10mn (original term 2 years) with a reference rate of 3.0% (reference rate = internal funding rate) by the Borrower after 1 year and loan is reinvested by the Bank for residual term (1 year with a reinvestment rate of 2.5%). Interest is calculated in accordance with international conventions (actual number of days / 360).

(i) Refinancing portion of early repayment result: 0.5% loss on CHF 10mn reinvestment (reference rate ./. reinvestment rate) for residual term of 1 year (CHF 10mn x 365/360 x 0.5%) equals CHF 50’694.44.
(ii) Early repayment processing flat fee of 0.1% of the loan amount: CHF 10mn x 0.1% equals CHF 10’000.00.
(iii) Total early repayment penalty: CHF 60’694.44.

Example 2
Early repayment of a flex rollover loan of CHF 10mn (product term 5 years) with an interest period of 3 months with a LIBOR rate of 1.0% by the Borrower after 1 month and loan is reinvested by the Bank for residual term (2 months a reinvestment rate of 0.5%). Interest is calculated in accordance with international conventions (actual number of days / 360).

(i) Refinancing portion of early repayment result: 0.5% loss on CHF 10mn reinvestment (LIBOR rate ./. reinvestment rate) for residual term of 2 months (CHF 10mn x 60/360 x 0.5%) equals CHF 8’333.33.
(ii) Early repayment processing flat fee of 0.1% of the loan amount: CHF 10mn x 0.1% equals CHF 10’000.00.
(iii) Total early repayment penalty: CHF 18’333.33.

As the exact early repayment penalty is calculated as the present value, so the individual payment flows are discounted, the above calculation is merely an approximation.

Insurance

The mortgaged property shall be adequately insured against fire and natural hazards.

Borrower’s affirmative obligations

- Obligation to provide information
  The Borrower is obliged to inform the Bank without delay of current business developments and significant changes in its management and in its direct and/or indirect ownership/control as well as other significant changes that could influence the Borrower’s financial situation.

  In particular, the Borrower will submit the following documents to the Bank:

  - Annually:
    - Balance sheet, profit and loss statement and the notes thereto, as well as the auditor’s report within four months of the financial year end
    - Current tenant schedule including respective rent of the real estate property CTN within four months of the financial year end.

Borrower's Positive and Negative Obligations	● The Borrower undertakes, to the extent permitted by law, to refrain from providing new or additional collateral exceeding the total amount of CHF 2'000'000.00 in favour of a third party to secure existing or future liabilities of the Borrower or a third party. ● The Borrower undertakes, to the extent permitted by law, to refrain from establishing additional mortgage notes on the real estate property "CTN". ● Distributions in form of dividends and/or shareholder loans are only permitted in line with the available yearly profit after amortisation of the loan and interest payments. Notwithstanding, the Borrower shall be permitted to distribute dividends and/or shareholder loans to OPCTN in order to allow OPCTN to make principal and interest payments on its loan from the Bank. ● The Borrower will undertake the necessary maintenance/investments to avoid any value reduction caused by insufficient investments into the property "CTN". ● Loans to third parties (excluding shareholders) by the Borrower are not permitted. ● The Borrower undertakes not to enter into any further credit or lease financing transactions without the written approval of the Bank. Notwithstanding the foregoing, the Borrower shall be permitted to enter credit or lease financing transactions with third parties provided that at no time the aggregate outstanding indebtedness to third parties exceeds CHF 2'000'000.00.
Credit Risk Hedging	In order for the Bank to directly or indirectly insure or hedge credit risk arising from this credit relationship or collateral underlying the credit, the Bank may, at any time, disclose data and information associated with the credit relationship and the credit risk evaluation required for buying credit protection or credit insurance from a third party. Such hedging and insurance transactions do not entail a transfer of all or any part of this credit relationship or its servicing to a third party. Data and information may be disclosed to third parties in Switzerland or abroad, namely to hedging or insurance providers, such as banks, financial institutions, credit insurers, hedge funds or to other entities offering credit protection. In the context of such hedging transactions data and information may also be disclosed to other parties involved within the scope of such hedging or insurance transactions, such as rating agencies. These third parties shall be obliged to keep such transferred data and information confidential and to handle it securely which is subject to the local legal and regulatory provisions governing secrecy and data protection obligations.
Additional agreements and special contractual terms	The Borrower will have all rent payments of the real estate property CTN made directly into an account at the Bank. In general, the Borrower undertakes to use the Bank for his account movements.

	The additional agreements that will be concluded or have already been concluded in accordance with the terms of this framework agreement and the agreed loan products (including the special contractual terms applicable to the individual loans) form an integral part of this framework agreement.
General conditions	The Bank's "General Conditions including the Safe Custody Regulations" supplement this framework agreement.
Place of performance	The place of performance is the location of the Swiss branch of the Bank with which the Borrower has a contractual relationship. For borrowers whose present or future domicile is outside Switzerland, the place of performance is also the place of debt enforcement ("special domicile" as defined in Art. 50 par. 2 of the Federal Law on Debt Collection and Bankruptcy).
Applicable law and place of jurisdiction	This framework agreement and the agreements based on this framework agreement are subject to and shall be construed in accordance with Swiss law. The Borrower recognizes the exclusive jurisdiction of the courts of **Zurich** or of the location of the branch of the Bank with which the contractual relationship exists. The Bank also has the right to bring legal action against the Borrower before any other competent court.
Relationship to existing agreements	This framework agreement replaces the loan agreement dated 12.11.2009, but shall not effect any novation of the Borrower's existing credit obligations pursuant to Art. 116 of the Swiss Code of Obligations.
Issuance/Signing of Agreement	This framework agreement has been drawn up and signed in duplicate. The Borrower and the Bank each receive one copy.

CREDIT SUISSE AG		**Eldista GmbH**		
/s/ Christophe Müller	/s/ Philipp Meier	/s/ Alex Hilman	/s/ Irit Weinberg	/s/ Thomas Erdin
Christophe Müller	Philipp Meier	Borrower's signature	Borrower's signature	Borrower's signature
Zurich, September 28, 2011		Tel Aviv, 3.10.2011	Tel Aviv, 3.10.2011	Zurich, 5.10.2011
		Place and Date	Place and Date	Place and Date

Security Agreement
(still to be signed by the Borrower)
Deed of Assignment
(still to be signed by the Borrower)
General Conditions incl. Safe Custody Regulations

Exhibit 4.8

CREDIT SUISSE

CREDIT SUISSE AG
Paradeplatz 8
8001 Zürich

Agreement (Security Agreement)

between

Eldista GmbH
rue des Pierres-du-Niton 17, c/o INTEREXPERTS SA
1207 Genève
(hereinafter referred to as the Provider of Collateral)

and Credit Suisse AG (hereinafter referred to as the Bank).

1. The Bank has acquired / hereby acquires title to the following mortgage note(s) and/or bearer bond(s) with mortgage assignment (hereafter the mortgage deeds):

- CHF 81'666'000.00 first ranking bearer mortgage note, dated 18.05.2007
no prior ranking,
-CHF 41'959'000.00 third ranking bearer mortgage note, dated 18.05.2007
prior ranking CHF 82'523'922.00,

on business premises "CTN", Ch. des Aulx 8-18,1228 Plans-les-Ouates,
land register Plans-les-Ouates, land register folio 11095

2. The mortgage deed(s) for which title has or will be transferred to the Bank provide(s) the Bank with security for all claims against

Eldista GmbH, rue des Pierres-du-Niton 17, c/o INTEREXPERTS SA, 1207 Genève
and / or
OPCTN S.A., 6 Rue Jean Bertholet, LU-1233 Luxembourg

as individual debtor(s) or joint and several debtors (hereinafter referred to as the Borrower) arising from agreements concluded or to be concluded with the Bank in connection with business transactions, including all court and out-of-court fees and costs arising therefrom.

3. The mortgage deed(s) assigned to a particular branch of the Bank also serve(s) to secure any claim(s) of its other branches. Where more than one claim exists, the Bank shall determine which claim is to be covered by the assigned mortgage deed(s) or the proceeds from the disposal thereof.

4. The Provider(s) of Collateral hereby explicitly acknowledge(s) personal financial liability arising from the mortgage deeds assigned to the Bank as security and amounting to the sum of the principal or the maximum amount borrowed, plus three year's accrued interest and current interest. This debt acknowledgement is valid irrespective of any stipulations to the contrary concerning the debtor(s) in the mortage deeds. If the Provider(s) of Collateral and the debtor(s) are not identical, they are both hereby joint and severally liable for the debt to the extent detailed above. The Bank may enforce the claims arising from the mortgage deeds assigned to it as security instead of enforcing the secured claims. The Bank is entitled to both the principal and the interest on the mortgage deed claims as full or partial security for the secured claims. If the mortgage deeds assigned to the Bank cover obligations of several debtors, the Bank may use its discretion in distributing any proceeds among the debtors. The Bank is entitled to assert its secured claims in lieu of and irrespective of the mortgage deed claims.

To be completed by the Bank		Signature checked: Date, signature and stamp
135223		
Client No. (CIF)	0251-1732456-0	

5. Regardless of any period(s) of notice and termination date(s) specified in the mortgage deed(s), the parties hereby agree that the Bank may terminate the mortgage deed claim(s) with immediate effect, i.e. without observing a period of notice, although such termination can only be effective at the earliest date on which at least one of the secured claims becomes due. If cantonal law stipulates binding provisions to the contrary, the minimum period provided for under cantonal law shall apply.

6. Where the amount(s) of the mortgage deed(s) is/are raised, this agreement also applies to the increased mortgage deed claim(s).

7. If the mortgage deed(s) stipulate(s) only a maximum interest rate, this shall be deemed to be the rate agreed with the Provider of Collateral.

8. If, on transfer of the pledged property, the new owner acquires both the mortgage deed debt(s) and the secured debt(s), the Bank is entitled to transfer this agreement with all associated rights and obligations to the new owner.

9. Once the Bank has no further claims against the Borrower, the Bank is obliged to reassign ownership of the mortgage deed(s) to the Provider of Collateral. If a third party who has provided personal or tangible security satisfies the Bank's claims, the Bank is entitled to transfer ownership of the mortgage deed(s) to this third party.

10. The Bank is authorised to transfer or assign all or part of the rights and obligations arising from this security agreement to a third party in Switzerland or abroad for the purposes of securitisation or outsourcing the claims for which security has been provided, for example. The right to further transfer the relationship or to transfer it back to the Bank is reserved.

The Bank may make information associated with the security agreement available to such a third party and other involved parties, such as rating agencies or trust companies, at any time; these parties shall be obliged to keep such information confidential. The Provider(s) of Collateral expressly declare(s) his/her/their agreement with the procedure described above.

11. The place of performance is the location specified in the Bank's address. For Providers of Collateral whose current or future domicile is outside Switzerland, the place of performance is also the place of enforcement (special domicile pursuant to Art. 50 para. 2 of the Federal Law on Debt Enforcement and Bankruptcy).

This agreement is governed by Swiss law, to the exclusion of the conflict of laws provisions of Swiss private international law.

The Provider of Collateral acknowledges that the provisions governing jurisdiction in the Bank's General Conditions also apply to this agreement.

The exclusive place of jurisdiction for the Provider of Collateral for any disputes resulting from this agreement is **Zurich** or – if different – the location specified in the Bank's address. The Bank is entitled to take legal action against the Provider of Collateral before any other competent court in Switzerland or abroad.

Place, date	The Provider(s) of Collateral
Tel Aviv, 3.10.2011	/s/ Alex Hilman
Place, date	The Provider(s) of Collateral
Tel Aviv, 3.10.2011	/s/ Irit Weinberg
Place, date	The Provider(s) of Collateral
Zurich, 5.10.2011	/s/ Thomas Erdin

For CREDIT SUISSE AG

Place, date

Zurich, September 28, 2011

/s/ Christophe Müller	/s/ Philipp Meier
Christophe Müller	Philipp Meier

To be completed by the Bank

135223	Client No. (CIF)	0251-1732456-0

CREDIT SUISSE

FRAMEWORK AGREEMENT

between

OPCTN S.A., 6 Rue Jean Bertholet, LU-1233 Luxembourg
(hereinafter referred to as the "Borrower")

and

CREDIT SUISSE AG
Mailing address: P.O. Box 100, 8070 Zurich
Contact address: Giesshübelstrasse 30, 8045 Zurich
(the lender, hereinafter referred to as the "Bank")

Amount of Credit Facility	**CHF 15'000'000.00**
	The amount of the credit facility is reduced by the sum of the amortizations and other loan repayments made.
Utilization	This credit facility can be used as a limit for cash credits in the form of fixed advances in CHF and/or in any other freely convertible foreign currencies with maximum terms of up to 60 months (interest period). No interest period for a fixed advance shall extend beyond the last amortization payment date.
	Any extension of a fixed advance must be requested by no later than two banking days before the fixed advance expires.
	Fixed advances may be granted without having to comply with any specific requirements as to form; they will be confirmed by the Bank in writing, but without a signature.
	The Bank reserves the right to refuse individual transactions relating to the fixed advances above.
Conditions for Utilization of the Credit Facility	This credit facility may not be used until all collateral has been legally established in favour of the Bank and the following documents have been received by the Bank:
	● Due execution of the Framework Agreement. ● Due execution of the Security Agreement for the pledge of all shares of Eldista GmbH, rue des Pierres-du-Niton 17, c/o INTEREXPERTS SA, 1207 Genève (hereinafter referred to as "Eldista") by the Borrower, including confirmation by the board of Eldista that the pledge has been duly registered in the share book of Eldista. ● Due execution of the Deed of Assignment. ● Due execution of the Security Agreement for the pledge of mortgage notes by Eldista. ● Receipt of certified copies of Articles of Association of Eldista.

- Receipt of board and shareholders resolution of the Borrower, giving the necessary authorizations for the entry into the Framework Agreement and the Security Agreement.
- Receipt of a legal opinion for the relevant jurisdiction of the Borrower on the financing contemplated under the Framework Agreement and the Security Agreements.
- Confirmation by the Borrower in writing that to the best of knowledge all taxes in connection with the Eldista share transfer from Apollo CTN S.à.r.l, Luxembourg to the Borrower are paid by Apollo CTN S.à.r.l, Luxembourg and/ or the Borrower (in particular the real estate gains taxes and real estate transfer taxes) or that no taxes are owed.

Amortization

The credit facility is reduced by CHF 2'000'000.00 per year, payable quarterly, for the first time on 31.12.2011

Installments and method of payment as well as modifications to the amortization amount are mutually agreed. This agreement is made without complying with any requirements as to form; an oral agreement, in particular, is sufficient to be binding. The agreement will be confirmed by the Bank in writing, but without a signature.

Interest rate

- Fixed advances
  The interest rate of fixed advances is mutually agreed by the Borrower and the Bank. Such agreement is made without complying with any requirements as to form. The interest rate for fixed advances is based on LIBOR (London Interbank Offered Rate) plus a margin of 1.30% per annum. The margin is based on the risk assessment of the Bank. The Bank may at any time and with immediate effect adjust the margin to reflect changes in this element. However, the maximum margin is limited at 2.50% per annum (the limitation does not apply in the event of default).

  If the LIBOR rate is negative, a LIBOR rate of 0.00% will be used for the calculation.

  It will be confirmed in each case in writing by the Bank but without a signature.

- General
  If the currently valid capital requirements are increased through measures by authorities or provisions of law, the Bank reserves the right to pass on the additional borrowing costs that thereby result to the Borrower by increasing the interest rate.

Interest due dates

Interest falls due in each case upon the account closing (cf. "Account Closings" below).

The interest may be debited to an account of the Borrower.

Arrangement fee	A non recurring fee of 0.5% on the total amount will be due to the Bank upon funding of the credit facility.
Interest payments and amortization payments	On the due date, interest payments and amortization payments shall be debited to an account with the Bank. The Borrower undertakes to make the applicable amount available in this account on the due date. Until all amounts have been paid, the bank shall retain the existing mortgage right in full.
Special costs	All costs that the Bank incurs on the basis of the present Framework Agreement and the associated loan arrangements, including any contingent liabilities of the Bank, among other things, from pursuing or defending its rights, shall be paid by the Borrower at the Bank's first request.
Account closings	Fixed advances with term of up to 12 months are closed upon maturity; fixed advances with a term of more than 12 months are closed on a quarterly basis, as of the end of each quarter.
Mortgage collateral	- CHF 81'666'000.00 first ranking bearer mortgage note, no prior ranking, - CHF 41'959'000.00 third ranking bearer mortgage note, prior ranking CHF 82'523'922.00, on business premises "CTN", Ch. des Aulx 8 - 18, 1228 Plans-les-Ouates, land register Plans-les-Ouates, land register folio 11095 (hereinafter referred to as "CTN"). Transfer of ownership by way of collateral in accordance with the "Security Agreement" (to be signed by Eldista) If collateral is provided for more than one claim, the Bank may decide at its discretion which claim(s) will be set off against sales proceeds or any other income derived from the collateral.
Further collateral	Pledge of all shares ("Stammanteile") of Eldista in accordance with a separate "Pledge Agreement" (to be signed). Deed of Assignment in favour of the Bank of any rent payments from the real estate property CTN, Ch. des Aulx 8 – 18, 1228 Plans-les-Ouates, covering the amount of interest and capital repayment (to be signed by Eldista). If collateral is provided for more than one claim, the Bank may decide at its discretion which claim(s) will be set off against sales proceeds or any other income derived from the collateral.

Late payment	The Borrower will be in default with immediate effect, without any reminder by the Bank, if he/she/it fails to fulfill a payment obligation under this framework agreement and/or any agreements based on the framework agreement when they fall due. In the event of late payment, the Bank is entitled to increase the interest rate by 2% p.a. as of the due date on the amount in arrears, but in any case to charge a minimum rate of 5% p.a.
Ordinary termination	● Framework agreement This framework agreement may be terminated by either party at any time with immediate effect. Irrespective of termination of the framework agreement, fixed advances shall continue to run until their maturity; the following provisions on early termination and an automatic acceleration of the due date remain reserved. Following the termination of the framework agreement, no fixed advances may be extended and no new fixed advances may be claimed. ● General The termination or maturity of a credit product granted under this framework agreement does not automatically result in the termination of this framework agreement.
Maturity of a fixed advance	Subject to an extension or early termination, each fixed advance automatically falls due for repayment upon its maturity, without any need for a termination notice. The Bank is entitled to debit a fixed advance that is due for repayment to an account of the Borrower.
Early termination	Upon the occurrence of one of the following events, the Bank is entitled at any time to declare all fixed advances (fixed term) and credit products with an agreed notice period granted under this framework agreement, plus all accrued interest, commission and fees, to be immediately due and payable, on an accelerated basis: - bankruptcy proceedings have been instituted against the Borrower or a third party providing collateral, one of them has been granted a debt restructuring moratorium or deferral of bankruptcy, or one of them has concluded a judicial or extrajudicial debt restructuring agreement; - The Framework Agreement for Mortgage Loans between the Bank and Eldista has been terminated for whatever reason; - the Borrower is more than 30 calendar days in default on an interest payment or a repayment of principal; - the Borrower has breached any other obligation under this framework agreement and/or under any agreements based hereon and has failed or was unable to restore the proper contractual situation within 30 calendar days after written notice from the Bank;

- the mortgaged property is insufficiently insured against fire and damage caused by natural hazards;
- the value of the mortgaged property is significantly impaired, especially due a casualty or to insufficient maintenance;
- the use of the mortgaged property is materially altered without the Bank's consent;
- there has been a change in direct or indirect ownership/control in respect of the Borrower resulting in Optibase Ltd. owning less than 51% of the Borrower's shares and/or resulting in an ownership/control structure which at the Bank's sole discretion is not acceptable for the Bank;
- owing to default and/or maturity clauses, another loan or similar obligation entered into by the Borrower has been terminated early;
- in the bank's view, asset and/or revenue situation of the Borrower has deteriorated significantly;
- the auditor's report contains a material qualification.

The Bank is entitled at its discretion to declare an acceleration of the due date of the loan, either immediately or at a later point in time.

Transfer of ownership or forced sale

In the event of transfer of ownership or forced sale of the mortgaged property, all claims in connection with this framework agreement shall fall due for repayment on the date of transfer of ownership or on the date of the public auction, as applicable.

Statement of costs in the event of early termination of fixed advances

If any fixed-term loans granted under this framework agreement are terminated early, the Bank will credit or debit the Borrower with the interest gain or interest shortfall accrued thereon. This is calculated based on the difference between the contractual interest rate which applies at the time of termination and the interest rate that, in the Bank's view, can be earned on an investment with the same residual term (i.e. date of termination to expiry of interest period of such loan/advance) on the money or capital markets at the time of termination, multiplied by the outstanding loan amount and the residual term. Any surplus in favor of the Borrower is set off against the fee for the Bank's expenses described below.

In addition a flat fee of 0.1% of the loan amount, but not less than CHF 1'000.00, is owed for the Bank's expenses.

By way of example:

Example 1
Early repayment of a loan of CHF 10mn (original term 2 years) with a reference rate of 3.0% (reference rate = internal funding rate) by the Borrower after 1 year and loan is reinvested by the Bank for residual term (1 year with a reinvestment rate of 2.5%). Interest is calculated in accordance with international conventions (actual number of days / 360).

(i) Refinancing portion of early repayment result: 0.5% loss on CHF 10mn reinvestment (reference rate ./. reinvestment rate) for residual term of 1 year (CHF 10mn x 365/360 x 0.5%) equals CHF 50’694.44.
(ii) Early repayment processing flat fee of 0.1% of the loan amount: CHF 10mn x 0.1% equals CHF 10’000.00.
(iii) Total early repayment penalty: CHF 60’694.44.

Example 2
Early repayment of a flex rollover loan of CHF 10mn (product term 5 years) with an interest period of 3 months with a LIBOR rate of 1.0% by the Borrower after 1 month and loan is reinvested by the Bank for residual term (2 months a reinvestment rate of 0.5%). Interest is calculated in accordance with international conventions (actual number of days / 360).

(i) Refinancing portion of early repayment result: 0.5% loss on CHF 10mn reinvestment (LIBOR rate ./. reinvestment rate) for residual term of 2 months (CHF 10mn x 60/360 x 0.5%) equals CHF 8’333.33.
(ii) Early repayment processing flat fee of 0.1% of the loan amount: CHF 10mn x 0.1% equals CHF 10’000.00.
(iii) Total early repayment penalty: CHF 18’333.33.

As the exact early repayment penalty is calculated as the present value, so the individual payment flows are discounted, the above calculation is merely an approximation.

Insurance

The mortgaged property shall be adequately insured against fire and natural hazards.

Borrower’s affirmative obligations

- Obligation to provide information
  The Borrower is obliged to inform the Bank without delay of current business developments and significant changes in its management and in its direct and/or indirect ownership/control as well as other significant changes that could influence the Borrower’s financial situation.

  In particular, the Borrower will submit the following documents to the Bank:

  - Annually:
    - Balance sheet, profit and loss statement and the notes thereto, as well as the auditor’s report within four months of the financial year end.
    - Current tenant schedule including respective rent of the real estate property CTN within four months of the financial year end.

Borrower's Positive and Negative Obligations

- The Borrower undertakes, to the extent permitted by law, to refrain from providing new or additional collateral in favour of a third party to secure existing or future liabilities of the Borrower or a third party. However, in the event the Borrower invests in a new entity, the Borrower has the right to pledge its ownership interest in the new entity to a third party creditor.
- Distributions in form of dividends and/or shareholder loans are only permitted in line with the available yearly profit after amortisation of the loan and interest payments.
- The Borrower shall ensure and vote accordingly in the shareholder meeting of Eldista that distributions in form of dividends and/or shareholder loans by Eldista are only done in line with the available yearly profit after amortisation of the loan and interest payments.
- Loans to third parties (excluding shareholders) by the Borrower are not permitted.
- The Borrower undertakes not to enter into any further credit or lease financing transactions without the written approval of the Bank. Notwithstanding the foregoing, the Borrower shall be permitted to enter credit or lease financing transactions with third parties provided that at no time the aggregate outstanding indebtedness to third parties exceeds CHF 2'000'000.00.

Credit Risk Hedging

In order for the Bank to directly or indirectly insure or hedge credit risk arising from this credit relationship or collateral underlying the credit, the Bank may, at any time, disclose data and information associated with the credit relationship and the credit risk evaluation required for buying credit protection or credit insurance from a third party. Such hedging and insurance transactions do not entail a transfer of all or any part of this credit relationship or its servicing to a third party.

Data and information may be disclosed to third parties in Switzerland or abroad, namely to hedging or insurance providers, such as banks, financial institutions, credit insurers, hedge funds or to other entities offering credit protection. In the context of such hedging transactions data and information may also be disclosed to other parties involved within the scope of such hedging or insurance transactions, such as rating agencies.

These third parties shall be obliged to keep such transferred data and information confidential and to handle it securely which is subject to the local legal and regulatory provisions governing secrecy and data protection obligations.

Additional agreements and special contractual terms

In general, the Borrower undertakes to use the Bank for his account movements, whereby the Borrower shall be permitted to use Société Générale for local needs in Luxembourg.

The additional agreements that will be concluded or have already been concluded in accordance with the terms of this framework agreement and the agreed loan products (including the special contractual terms applicable to the individual loans) form an integral part of this framework agreement.

General conditions

The Bank's "General Conditions including the Safe Custody Regulations" supplement this framework agreement.

Place of performance

The place of performance is the location of the Swiss branch of the Bank with which the Borrower has a contractual relationship. For borrowers whose present or future domicile is outside Switzerland, the place of performance is also the place of debt enforcement ("special domicile" as defined in Art. 50 par. 2 of the Federal Law on Debt Collection and Bankruptcy).

Applicable law and place of jurisdiction

This framework agreement and the agreements based on this framework agreement are subject to and shall be construed in accordance with Swiss law. The Borrower recognizes the exclusive jurisdiction of the courts of **Zurich** or of the location of the branch of the Bank with which the contractual relationship exists. The Bank also has the right to bring legal action against the Borrower before any other competent court.

Issuance/Signing of Agreement

This framework agreement has been drawn up and signed in duplicate. The Borrower and the Bank each receive one copy.

CREDIT SUISSE AG		**OPCTN S.A.**		
/s/ Christophe Müller	/s/ Philipp Meier	/s/ Alex Hilman	/s/ Yves Mertz	/s/ Detlef Xhonneux
Christophe Müller	Philipp Meier	Borrower's signature	Borrower's signature	Borrower's signature
Zurich, September 28, 2011		Tel Aviv, 3.10.2011	Luxemburg, 6.10.2011	Luxemburg, 6.10.2011
		Place and Date	Place and Date	Place and Date

Security Agreement
(still to be signed by Eldista)
Deed of Assignment
(still to be signed by Eidista)
Pledge Agreement
(still to be signed by the Borrower)
General Conditions incl. Safe Custody Regulations

CREDIT SUISSE AG
Paradeplatz 8
8001 Zürich

Special Deed of Pledge

Pledgor
Name(s), first name(s)

OPCTN S.A.
6 Rue Jean Bertholet
LU-1233 Luxembourg

Client
Name(s), first name(s)

OPCTN S.A.
6 Rue Jean Bertholet
LU-1233 Luxembourg

1. The Pledgor hereby grants Credit Suisse AG (hereinafter referred to as the "Bank") a **right of lien** to the assets, rights, and claims vis-à-vis the Bank and listed below, including:

- Book-entry securities, securities, and unsecuritized rights;
- Account balances, balances in precious metal and coin accounts, and balances from fiduciary investments;
- and Holdings in precious metal safekeeping accounts;

hereinafter referred to as the "pledged assets".

The pledge also includes any restitution claims resulting from the safekeeping of the pledged assets by the Bank or a third party institution.

The right of lien covers all forfeited, current, and future accessory rights such as interest, dividend payments, subscription rights, etc.

Securities that are not in bearer form are pledged to the Bank in accordance with Article 901, para. 2 of the Swiss Civil Code (hereinafter referred to as the "SCC").

2. The purpose of the right of lien is to secure any and all claims of the Bank against the Client arising from any agreements or contracts already concluded or to be entered into in the future within the context of business relationships. This applies to both the principal of such claims as well as the accrued and maturing interest, commissions, expenses, fees and costs. In the case of several claims, the Bank will determine against which claims the collateral or liquidation proceeds will be credited.

3. Where mortgage deeds, commercial paper or negotiable instruments, goods and chattels or securities issued on the basis of goods are pledged as collateral, the Pledgor is liable for the customary insurance of the pledged property and/or the real estate, properties, items, and goods represented thereby.

To be completed by the Bank **09030** 134343 Client no. (CIF) of the Pledgor 0835-1280382-5	Signature of Pledgor checked: Date, signature and stamp

The Pledgor hereby assigns to the Bank all insurance and other private or public law compensation claims (including expropriation compensation) accruing to him/her with respect to the aforementioned items, and the Bank is entitled to make the necessary communications and collect such proceeds or indemnification and to give receipt on his/her behalf.

4. This pledge is in addition to and independent of any existing or future security of the Bank and will remain in force until such time as the obligations toward the Bank have been fulfilled in their entirety. The release of individual assets from this pledge will not affect the Bank's right of lien in respect of the other pledged assets. In the event that collateral is exchanged, the new assets will be subject to this pledge without further formalities. Particularly, in the case of security redemptions, the corresponding proceeds replace the security in question and become subject to the pledge. The entire asset is subject to this pledge, even if its value is increased by reason of additional payments, or for any other reason.

5.If claims of the Bank are due, it shall be authorized to liquidate the pledged assets and use the proceeds to satisfy its claims after deduction of expenses and costs. The Bank may, at its discretion, instigate ordinary debt collection proceedings against the client, realize the pledged assets by forced execution or, after giving prior notice to the Pledgor, it may liquidate the collateral by private contract, and in particular it may contract on its own account.

If the Bank refrains from liquidating pledged assets, this will not constitute a waiver of the Bank's aforementioned right nor shall this result in any responsibilities for the Bank.

6. If the deed of pledge is issued on behalf of third parties, all communications will be deemed to have been duly transmitted if sent to the Client. The Pledgor undertakes to cooperate when transferring the pledged assets to a new buyer. Pledged securities that are not in bearer form are hereby assigned to the Bank in blank in case it should become necessary to liquidate them.

7. In the case of pledged mortgage deeds and other claims secured by real property, the Pledgor himself/herself must take all necessary measures, such as applications, notices of termination, amortizations, etc., to maintain the rights attaching to the pledged assets. He/she relieves the Bank of all responsibility in this regard. Moreover, the Bank will be entitled, but not obligated, to exercise all those rights and to make decisions which are the prerogative of the Pledgor or the owner of the pledged assets. In particular, in the event of termination of a claim secured by the pledge, the Bank is entitled, but not obligated, to directly terminate the claims against the mortgagor arising from the pledged mortgage deeds and to exercise all rights against the mortgagor in its own name. In the case of pledged mortgage deeds, particularly mortgage notes in the name of the owner, it is hereby agreed that no notice will be required in the event of termination by the Bank. If the mandatory provisions of the relevant cantonal legislation deviate, it is hereby agreed that the minimum period of notice mandated by the cantonal legislation will apply. The Bank is thus authorized to directly collect the principal, interest, and other income generated by the mortgages and also to enforce the claims for rent in accordance with Article 806 of the SCC as if it were the actual owner of the title or mortgage claim. In the case of the sale or fragmentation of the pledged properties, the rights accruing to the mortgage creditor pursuant to Articles 832, 833, and 852 of the SCC will be solely vested in the Bank for the duration of the pledge relationship. The Pledgor undertakes to forward to the Bank all associated notices that come to his/her attention without delay and to accept the Bank's decisions. Non-compliance will cause the claims to fall due immediately.

In the case of pledged mortgage deeds (particularly mortgage notes in the name of the owner), the right of lien will cover the current annual interest as well as the annual interest accrued since the date of issue. Interest will be charged at 5% p.a. If, however, a higher rate or a higher maximum interest rate is specified, the latter will be deemed agreed. The Bank may draw on the principal and interest of pledged mortgage deeds separately, and in part or whole, as collateral for its claims.

8. The assets pledged hereunder will also serve to secure the Bank's claims against the Client resulting from outstanding credit card payments. The Pledgor hereby confirms that the Bank is authorized in this context to cover the Client's outstanding credit card payments (including charges and costs), without providing the Client or the Client or the Pledgor with notification or a deadline, by liquidating the assets pledged hereunder by private contract (including by purchasing them itself) and applying the resulting proceeds against the outstanding payments, as soon as the Client is in arrears with these payments. If the credit card relationship is terminated, the pledged assets may be retained until all outstanding credit card amounts (including charges and costs) incurred before termination of the credit card relationship or during collection proceedings have been paid in full, but in any case for at least three months after the termination of the credit card relationship.

To be completed by the Bank

134343 Client no. (CIF) of Pledgor 0835-1280382-5

9. For all other matters, the Bank's General Conditions and Safe Custody Regulations, with which the Pledgor is familiar, apply.

10. The place of performance is the location specified in the Bank's address.

If the Pledgor's current or future place of residence or domicile is outside Switzerland, the place of performance is also the place of enforcement (special domicile pursuant to Article 50, para. 2 of the Federal Law on Debt Enforcement and Bankruptcy).

All the Pledgor's legal relationships with the Bank are governed by Swiss law, to the exclusion of the conflict of laws provisions of Swiss private international law.

The Client as Pledgor acknowledges that the provisions governing jurisdiction in the Bank's General Terms and Conditions also apply to this contractual relationship.

A third party as Pledgor acknowledges **Zurich** or - if different - the location specified in the Bank's address as the exclusive place of jurisdiction. The Bank is entitled to take legal action against the Pledgor (Client or third party) before any other competent court in Switzerland or abroad.

List of Pledged Assets, Rights and Claims

Number or nominal amount	Designation
CHF 20'000.00	**Pledge of all shares ("Stammanteile") of Eldista GmbH, rue des Pierres-du-Niton 17, c/o INTEREXPERTS SA, 1207 Genève.**

To be completed by the Bank

134343	Client no. (CIF) of Pledgor	0835-1280382-5

Place, date	Signature of Pledgor
Tel Aviv 3.10.2011	/s/ Alex Hilman
Place, date	Signature of Pledgor
Luxemburg, 6.10.2011	/s/ Yves Mertz
Place, date	Signature of Pledgor
Luxemburg, 6.10.2011	/s/ Detlef Xhonneux
Place, date	Signature of Pledgor
Place, date	Signature of Pledgor
Place, date	Signature of Pledgor

To be completed by the Bank

134343 Client no. (CIF) of Pledgor 0835-1280382-5

Annex C

To
____
____
____

OPTIBASE LTD.
(the "**Company**")

Letter of Indemnification
(the "**Letter**" or the "**Indemnification Letter**")

Whereas on November 2, 2005 the General Meeting of the Company approved, following the approval of the Company's audit committee and board of directors, to indemnify the Officers of the Company in accordance with the Companies Law of 1999 (the **"Companies Law"**);

Whereas on September 19, 2005 the Company's board of directors approved, following the approval of the Company's audit committee, to indemnify the Officers of the Company in accordance with the Companies Law; and

Whereas on October 11, 2011 the Company's board of directors approved, following the approval of the Company's audit committee, to indemnify the Officers of the Company in accordance with the Companies Law.

WE HEREBY DECLARE THAT:

1. **Obligation to indemnify**:

The Company hereby undertakes:

1.1. To indemnify you for any liability or expense, as detailed below, imposed upon you for actions taken (including actions preceding the date of this Letter) and/or actions that will be taken, by virtue of your service as an Officer of the Company, or an Officer on behalf of the Company in a company controlled by the Company or in which the Company has an interest (such companies being referred to herein as the "**Subsidiaries**"), as follows:

1.1.1. Financial liability that you incur or imposed on you 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 the Court, provided that such acts pertain to one or more of the events set out in the Schedule hereto (the **"Schedule"**);

1.1.2. Reasonable litigation expenses, including legal fees that you will incur or for which you will be ordered to pay by a court within the framework of proceedings filed against you by or on behalf of the Company or by a third party, or in a criminal proceeding in which you will be acquitted, or in a criminal proceeding in which you will be convicted of a felony but which does not require criminal intent;

1.1.3. Reasonable litigation expenses, including legal fees that you will incur due to an investigation or proceeding conducted against you by an authority authorized to conduct such investigation or proceeding and which was ended without the filing of an indictment against you and without being subject to a financial obligation as a substitute for a criminal proceeding, or which was ended without the filing of an indictment against you but with the imposition of 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;

1.1.4. Financial liability that you incur for payment to persons or entities harmed as a result of violations in Administrative Proceedings, as detailed in section 52(54)(A)(1)(a) of the Israeli Securities Law, 1965 (the "**Securities Law**"). For this purpose "**Administrative Proceeding**" shall mean a proceeding pursuant to Chapters H3 (Imposition of Monetary Sanction by the Israel Securities Authority), H4 (Imposition of Administrative Enforcement Means by the Administrative Enforcement Committee) or I1 (Settlement for the Avoidance of Commencing Proceedings or Cessation of Proceedings, Conditioned upon Conditions) of the Securities Law, as shall be amended from time to time.

1.1.5. Expenses that you incur in connection with Administrative Proceedings (as defined above) you were involved in, including reasonable litigation fees, and including attorney fees.

1.2. The aggregate and accumulated indemnification amount that the Company shall pay to its Officers (in addition to sums that may be received from insurance companies in connection with insurance policies that the Company has purchased, see also section 1.3 below) pursuant to all the letters of indemnification issued and/or that shall be issued by the Company pursuant to the indemnification decisions, shall not exceed the higher of: (i) 25% of the shareholders' equity of the Company, as set forth in the Company's most recent consolidated financial statements prior to such payment; (ii) 7.5 million U.S. Dollars (the **"The Maximum Indemnification Amount"**).

1.3. The Maximum Indemnification Amount shall not be affected in any way by the existence of, or payment under, insurance policies. Payment of the indemnification shall not affect your right to receive insurance payments, if you receive the same (either personally or through the Company or on your behalf) and the Company will not be required to indemnify you for any sums that were, in fact, already paid to you or for you in respect of insurance or any other indemnification obligations made to you by any third party. In the event there is any payment made under this Letter and such payment is covered by an insurance policy, the Company shall be entitle to collect such amount of payment from the insurance proceeds.

1.4. In the event the indemnification amount the Company is required to pay to its Officers, as set forth in Section 1.1 above, exceeds at a certain time the Maximum Indemnification Amount (or the balance thereof after deducting any indemnification amounts paid or payable by the Company to any of its Officers at such time) in accordance with Section 1.2 above, the Maximum Indemnification Amount or its remaining balance will be allocated between the Officers entitled to indemnification, in the manner that the amount of indemnification that each of the Officers will actually receive will be calculated in accordance with the ratio between the amount each individual Officer may be indemnified for, and the aggregate amount that all of the relevant Officers involved in the event may be indemnified for.

1.5. Upon the occurrence of an event that by its virtue you are likely to be entitled to indemnification in accordance with Section 1.1 above, the Company shall place at your disposal, from time to time, the funds required to cover the expenditures and payments that are connected to handling the legal proceeding, in a manner that you shall not be required to pay for, or personally finance the legal expenses, subject to the conditions and instructions in this Indemnification Letter.

1.6. In order to avoid any doubt, upon the occurrence of an event that may entitle you to indemnification, you shall be entitled to appoint an advocate of your choice, with the exception of an advocate whom the Company deems unacceptable for reasonable cause, provided that you shall immediately inform the Company of the identity of the advocate, when it becomes necessary to appoint such advocate. In the event you do not inform the Company regarding your choice of advocate in compliance with the above mentioned, the Company shall have discretion to appoint an advocate on your behalf.

2. **The obligation to indemnify in accordance with this Letter is subject to the statements set forth in this Section 2 and to any applicable law**:

2.1. There is nothing by law to prevent your being indemnified.

2.2. You shall inform the Company of every legal proceeding that shall be brought against you in connection with any event that may entitle you to indemnification, and of every warning made to you in writing, pertaining to legal proceedings that may be commenced against you, and this shall be done in a timely manner, immediately after you shall first be aware of such, and you shall provide the Company or to whom the Company shall instruct you to, all documents in connection with such proceedings.

2.3. Despite the provisions of Section 1.6 above, the Company is entitled to take upon itself the care of your defense in the legal proceeding and/or to give the above care to any prominent advocate that the Company shall select for this purpose (except an advocate that shall not be reasonably acceptable to you) subject to the fulfillment of all of the following conditions: (a) The Company shall inform the holder of this Indemnification Letter, within 45 days from the time of receiving the notice as said in Section 2.2 above (or within a shorter period of time – if the matter requires filing a statement of defense or a response to a proceeding), that it shall indemnify the holder of the Indemnification Letter according to this Letter; and (b) The legal proceeding against the holder of the Indemnification Letter shall solely entail a claim for monetary damages. The Company and/or the aforementioned advocate shall be entitled to act with their exclusive discretion and to bring the proceeding to a close; the appointed advocate shall act and shall owe its duty of loyalty to the Company and to you. In the event that a conflict of interest shall arise between you and the Company, you shall inform the Company of such conflict and shall be entitled to appoint an advocate on your behalf, and the provisions of this Indemnification Letter shall apply to expenses you may incur as a result of such appointment. In the event that the Company decides to settle a monetary obligation or to decide a monetary obligation by arbitration, or by mediation or by settlement the Company shall be entitled to do so as long as the lawsuit or the threat of a lawsuit against you shall be fully withdrawn. Following the request of the Company you shall sign any document that shall empower the Company and/or an advocate as mentioned above, to act on your name with regard to your defense in the above-mentioned proceedings and to represent you in all matters pertaining to these proceedings, as set forth above.

2.4. You shall cooperate with the Company and/or with any advocates as set forth above in every reasonable manner that shall be required from you by any of them in connection with the handling of such legal proceedings, all in accordance with Section 1.2 above. You shall not bear any additional legal expenses due to such cooperation.

2.5. Subject to the provisions of this Indemnification Letter, whether or not the Company shall act in accordance with section 2.3 above, the Company shall cover litigation expenses in a manner that you shall not be required to pay or finance such litigation expenses yourself.

2.6. Your indemnification in connection to the legal proceeding of any actions against you, as set forth in this Letter, will not be enforceable in connection with amounts that you shall be required to pay as a result of a settlement or arbitration, unless the Company agrees, in advance and in writing, to the settlement, or to the arbitration award.

2.7. The Company shall not be required to pay, pursuant to this Letter, monies that were actually paid, to you, or on your behalf or in your stead, through an insurance policy that the Company procured or through an obligation to any indemnification that was made by any other person other than the Company. In addition, in the event of the indemnification hereunder is being paid in respect of your serving as an Officer in any Subsidiary, such indemnification will only be paid after all your rights to insurance and indemnification from such Subsidiary will have been exhausted, if and to the extent they exist.

In order to avoid any doubt, it shall be clarified that the indemnification amount pursuant to this Letter shall be independent of, (and in addition) to the amount that shall be paid (if paid) pursuant to an insurance policy and/or any other indemnification.

2.8. Upon your request to an execution of a payment in connection with any event pursuant to this Letter, the Company shall take all necessary steps according to any applicable law to pay such payment and will do all that is required to obtain any approval that is required. If any approval is required for the above payment and that payment shall not be approved for any reason, such payment, or any part of it, that will not be approved, as said above, shall be subject to the approval of a court and the Company shall take all necessary steps to obtain the court's approval.

3. The obligations of the Company according to this Letter shall remain valid even if you have ceased to be an Officer of the Company, provided that acts for which you are given a commitment of indemnification were performed or shall be performed during your service as an Officer of the Company.

4. In the event the Company pays to you, or in your place, any amount pertaining to this Letter in connection with a legal proceeding as stated above, and afterwards it shall be determined that you are not entitled to any indemnification from the Company for any reason whatsoever, the sums paid by the Company shall be considered a loan that was granted to you by the Company, and shall be linked to the Consumer Price Index and accrue interest in accordance with the Income Tax Regulations (Determination of the interest rate), 1985, as amended from time to time. You will be required to repay these sums to the Company when requested to do so in writing by the Company and in accordance with a payment schedule that the Company shall determine.

5. The terms contained in this Letter will be construed in accordance with the Companies Law, and in the absence of any definition in the Companies Law, pursuant to the Securities Law, 5728-1968.

6. The obligations of the Company according to this Indemnification Letter shall be interpreted broadly and in a manner that shall facilitate its execution, to the extent permitted by law, and for the purposes for which it was intended. In the event of a conflict between any provision of this Letter and any provision of the law, said provision of the law shall supersede the specific provision in this Letter, but shall not limit or diminish the validity of the remaining provisions of this Letter.

7. The indemnification under this Letter will enter into effect upon your signing a copy of the same in the appropriate place, and the delivery of such signed copy to the Company. It is hereby expressly agreed and understood that this Indemnification Letter does not derogate in any way from any indemnification undertaking the Company has made to you; provided however, that the aggregate indemnification amount pursuant to all the Indemnification Letters issued or that shall be issued by the Company will not exceed the Maximum Indemnification Amount.

   Notwithstanding the foregoing, if this Indemnification Letter shall be declared or found void for any reason whatsoever, then any previous undertaking by the Company for indemnification towards you, to the extent granted, shall remain in full force and effect, subject to any applicable law.

8. The Company may, at its sole discretion and at any time, may revoke its undertaking to indemnify you hereunder, or reduce the Maximum Indemnification Amount, or limit the events to which it applies, either in regard to all the Officers or to some of them, to the extent it relates only, to events that will apply after the date of such change, provided that prior notice has been given to the Officer of the Company's intention to do so, in writing at least 60 days before the date on which such decision will enter into effect. For the avoidance of any doubt, it is hereby clarified that any such decision will not have retroactive effect of any kind whatsoever and the Indemnification Letter, prior to such change or revocation, as the case may be, will continue to apply and be in full force and effect for all purposes in relation to any event that has preceded such change or revocation, even if the proceeding in respect thereof has been filed against the Officer after the change or revocation of the Indemnification Letter. In all other cases, this Indemnification Letter may not be changed, unless the Company and yourself have signed it.

9. This Letter does not constitute a contract for the benefit of any third party and is not assignable. For the avoidance of any doubt, in the event of death (God forbids), this Letter will apply to you and your estate.

10. No waiver, delay, forbearance to act or extension granted by the Company or by you will be construed in any circumstances as a waiver of the rights hereunder or by law, and will not prevent any such party from taking all legal and other steps as will be required in order to enforce such rights.

11. The foregoing does not derogate from the Company's right to indemnify you retroactively in accordance with the articles of association of the Company and subject to any applicable law.

12. The law of the State of Israel shall govern this Letter and all issues related thereto, without giving effect to any conflicts of law principles. The courts in Tel Aviv, Israel shall have the exclusive local and international jurisdiction, in connection with this Indemnification Letter, except if an indemnification claim is related to legal proceeding, already filed by a third party in a different court.

13. In this Indemnification Letter-

"The Companies Law"- the Companies Law, 1999, as will be valid from time to time.

"Officer" – in accordance with its meaning in the Companies Law, including a senior employee of the Company.

"Action" or any derivative of it – including a decision or a failure to act and including your Actions before the date of this Indemnification Letter that were made during your term of service as an Officer in the Company.

This Letter shall be neutral with regard to gender.

14. The Schedule to this Letter is an integral and inseparable part of it.

In witness whereof, the Company shall execute this Indemnification Letter by its authorized signatories that have been duly appointed.

____

Optibase Ltd.

I hereby confirm receiving this Letter and consent to all its terms.

____

Officer

Date: ____________

SCHEDULE

Subject to any provision of the law, the events are as follows:

1. Any issuance of securities, including without limitation, a public offering pursuant to a prospectus, a private offering, the issuance of bonus shares or any offer of securities in any other manner;

2. Conducting tender offers and any thing related thereto;

3. A "Transaction" within the meaning of Section 1 of the Companies Law[1], including without limitation negotiations for entering into a transaction, the transfer, sale or purchase or charge of assets or liabilities, including securities, or the grant or receipt of a right to any of the foregoing, receiving credit and the grant of collateral and any act directly or indirectly involved in such "Transaction";

4. Report or notice filed in accordance with any applicable law, including the Companies Law and/or the Israeli Securities Law of 1968, and/or the Securities Exchange Act of 1933 and/or the Securities Exchange Act of 1934 including regulations promulgated thereunder, or in accordance with rules or instructions prevailing on an Israeli stock exchange or on Nasdaq-NM, or a stock exchange outside of Israel, or any law of another country regulating similar matters and/or the omission to act accordingly;

5. Any resolution with respect to distribution, as defined in the Companies Law;

6. Amendment to the Company's structure or its reorganization or any resolution with respect to such matters, including without limitation, a merger, split, change in the Company's capital structure, incorporation of subsidiaries, dissolution or sale thereof, issuance or distribution;

7. Taking part in tenders;

8. The making of any statement, including a bona fide statement or opinion made by an officer of the Company in such capacity, including during meetings of the Board of Directors or any committee thereof;

9. An act in contradiction to the articles or memorandum of association of the Company;

10. Any action or decision in relation to employer-employee relations, including the negotiation for, signing and performance of individual or collective employment agreements, other employees benefits (including allocation of securities to employees) and harassment suits;

11. Any action or decision in relation to work safety and/or working conditions;

12. Negotiation for, signing and performance of insurance policy;

---

1 Article 1 of the Companies Law defines "Transaction" as a contract or engagement or a unilateral decision of the company regarding a grant of a right or another benefit."

13. Formulating working programs, including pricing, marketing, distribution, directives to employees, customers and suppliers and collaborations with competitors;

14. Decisions and/or acts pertaining to the environment, including dangerous substances;

15. Decisions and/or acts pertaining to the Consumer Protection Law, 5741-1981, and/or orders and/or Regulations thereunder;

16. Negotiating, making and performing of contracts of any kind and type with suppliers, distributors, agents, franchisees and the like of the products that are marketed and/or sold by, or by those serving, the Company;

17. Negotiating, the making and performing agreements with manpower contractors, service contractors, building contractors, renovations contractors, etc;

18. Reporting and/or filing of applications to the state authorities and other authorities;

19. Any of the foregoing events relating to the capacity of such officer as an officer of a corporation controlled by the Company or otherwise affiliated therewith; and

20. Any event or action for which indemnification is allowed to be granted under the Efficiency of Enforcement Proceedings in the Israel Securities Authority Law (Legislation Amendments) of 2011.

Exhibit 8.1

List of Subsidiaries

Optibase Inc., a California corporation

Optibase Real Estate LLC, a Delaware limited liability company

Mazal 485 LLC, a Delaware limited liability company

Optibase Real Estate 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

Exhibit 12.1

CERTIFICATION OF CHIEF EXECUTIVE 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-15(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 the company's board of directors (or persons performing the equivalent functions):

   (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 30, 2012

/s/ Amir Philips
Amir Philips
Chief Executive Officer

Exhibit 12.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Yakir Ben-Naim, 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-15(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 the company's board of directors (or persons performing the equivalent functions):

   (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 30, 2012

/s/ Yakir Ben-Naim
Yakir Ben-Naim
Chief Financial Officer

Exhibit 13.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Optibase Ltd. (the "Company") on Form 20-F for the period ending December 31, 2011, 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, as amended; 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 30, 2012

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

Exhibit 13.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Optibase Ltd. (the "Company") on Form 20-F for the period ending December 31, 2011, 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, as amended; 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 30, 2012

/s/ Yakir Ben-Naim

Name: Yakir Ben-Naim
Title: Chief Financial Officer

Exhibit 15.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements (Form S-8 Files No. 333-10840, 333-12814, 333-13186, 333-91650, 333-122128, 333-137644, 333-139688, 333-148774) pertaining to Optibase Ltd. of our report, dated April 30, 2012, with respect to the consolidated financial statements of Optibase Ltd., included in the Annual Report (Form 20-F) for the year ended December 31, 2011.

/s/ Kost Forer Gabbay & Kasierer

Tel-Aviv, Israel
April 30, 2012

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