BOS BETTER ONLINE SOLUTIONS LTD
Form 20-F
March 29, 2018
As filed with the Securities and Exchange Commission on March 29, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

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

or

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

For the fiscal year ended December 31, 2017

or

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

For the transition period from __________ to __________

or

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

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

Commission file number: 001-14184

B.O.S. BETTER ONLINE SOLUTIONS LTD.

(Exact name of Registrant as specified in its charter)

ISRAEL
(Jurisdiction of incorporation or organization)

20 Freiman Street, Rishon LeZion, 7535825, Israel

(Address of principal executive offices)

Eyal Cohen, 972-3-9542070, eyalc@boscom.com, 20 Freiman Street, Rishon LeZion, 7535825, Israel

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

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

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

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

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

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

3,356,689 Ordinary Shares, nominal value NIS 80.00 per share, as of December 31, 2017
and 3,356,689 Ordinary Shares, nominal value NIS 80.00 per share, as of February 28, 2018.

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, a non-accelerated filer or an emerging growth company. See definition of “accelerated filer , large accelerated filer” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer	Non-accelerated filer Emerging growth company

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

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

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

Item 17 Item 18

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

Yes No

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

Forward Looking Statements

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

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

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

Table of Contents

PART I	1
ITEM 1: IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS	1
ITEM 2: OFFER STATISTICS AND EXPECTED TIME TABLE	1
ITEM 3: KEY INFORMATION REGARDING B.O.S.	1
ITEM 4: INFORMATION ON THE COMPANY	14
ITEM 4A: UNRESOLVED STAFF COMMENTS	20
ITEM 5: OPERATING AND FINANCIAL REVIEW AND PROSPECTS	20
ITEM 6: DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES	30
ITEM 7: MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS	43
ITEM 8: FINANCIAL INFORMATION	45
ITEM 9: THE OFFER AND LISTING	46
ITEM 10: ADDITIONAL INFORMATION	47
ITEM 11: QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK	60
ITEM 12: DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES	61
PART II	61
ITEM 13: DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES	61
ITEM 14: MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS	61
ITEM 15: CONTROLS AND PROCEDURES	61
ITEM 16: [RESERVED]	62
ITEM 16A: AUDIT COMMITTEE FINANCIAL EXPERT	62
ITEM 16B: CODE OF ETHICS	63

ITEM 16C: PRINCIPAL ACCOUNTANT FEES AND SERVICES	63
ITEM 16D: EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES	63
ITEM 16E: PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS	64
ITEM 16F: CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT	64
ITEM 16G: CORPORATE GOVERNANCE	65
ITEM 16H: MINE SAFETY DISCLOSURES	65
PART III	65
ITEM 17: FINANCIAL STATEMENTS	65
ITEM 18: FINANCIAL STATEMENTS	65
ITEM 19: EXHIBITS	66
SIGNATURES	67

PART I

Item 1: Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2: Offer Statistics and Expected Timetable

Not applicable.

Item 3: Key Information Regarding BOS

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

3A. Selected Consolidated Financial Data

The selected consolidated statement of operations data for B.O.S. Better Online Solutions Ltd. set forth below with respect to the years ended December 31, 2017, 2016 and 2015, and the selected consolidated balance sheet data as of December 31, 2017 and 2016, have been derived from our audited Consolidated Financial Statements listed in Item 18, which have been prepared in accordance with generally accepted accounting principles in the United States (“U.S. GAAP”). The selected consolidated statement of operations data set forth below with respect to the years ended December 31, 2014 and 2013, and the consolidated balance sheet data as of December 31, 2015, 2014 and 2013, are derived from other consolidated financial statements not included herein and have been prepared in accordance with U.S. GAAP. The financial statements for the year ended December 31, 2017 were audited by Fahn Kanne & Co. Grant Thornton Israel, an independent registered public accounting firm and a member of Grant Thornton. The financial statements for the years ended December 31, 2016, 2015, 2014 and 2013 were audited by Kost Forer Gabbay & Kasierer, an independent registered public accounting firm and a member of Ernst & Young Global. The selected consolidated financial data presented below should be read in conjunction with and is qualified entirely by reference to Item 5: “Operating and Financial Review and Prospects” and the Notes to the Financial Statements included in this Annual Report on Form 20-F.

1

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

Year ended December 31,	2013	2014	2015	2016	2017
Revenues	25,903	27,601	25,599	27,427	28,932
Cost of revenues	20,872	22,556	20,462	22,112	22,587
Gross profit	5,031	5,045	5,137	5,315	6,345
Operating expenses:					
Sales and marketing	2,924	3,043	2,768	3,111	3,389
General and administrative	1,523	1,882	1,681	1,498	1,870
Total operating expenses	4,447	4,925	4,449	4,609	5,259
Operating income	584	120	688	706	1,086
Financial expense, net	(549)	(444)	(376)	(339)	(297)
Income (loss) before taxes on income	13	(325)	312	367	789
Taxes on income (tax benefit)	13	108	(22)	7	16
Net income (loss)	-	(433)	334	360	773
Basic and diluted net income (loss) per share	-	$(0.30)	$0.17	$0.14	$0.24
Weighted average number of shares used in computing basic net income (loss) per share	1,172	1,449	1,970	2,587	3,171
Weighted average number of shares used in computing diluted net income (loss) per share	1,172	1,449	1,970	2,593	3,171

Consolidated Balance Sheet Data:	2013	2014	2015	2016	2017
Cash and Cash Equivalents	1,005	1,522	1,419	1,286	1,533
Working Capital (*)	(500)	634	5,246	6,099	7,342
Total Assets	19,187	16,261	16,825	18,144	21,407
Short-term banks loan and current maturities of long-term bank loans	5,924	4,867	400	400	505
Long-term liabilities	1,305	383	3,653	2,943	2,809
Shareholders’ equity	3,703	5,297	6,505	8,584	10,218
(*) Working capital comprises of:					
Current assets	13,679	11,215	11,913	12,716	15,722
Less: current liabilities	14,179	10,581	6,667	6,617	8,380
	(500)	634	5,246	6,099	7,342

3B. Capitalization and Indebtedness

Not applicable.

2

3C. Reasons for the Offer and Use of proceeds

Not applicable.

3D. Risk Factors

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

Risks relating to our financial results and capital structure:

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

As of December 31, 2017, we had $3.03 million in long-term debt (including current maturities of $505,000) and no short term bank loans.

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

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

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

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

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

As of December 31, 2017, we had an accumulated deficit of $69.8 million. Although we had net income of $773,000 in 2017, $360,000 in 2016 and $334,000 in 2015, we had a net loss of $433,000 in 2014 and operated on a break even basis in 2013. In addition, we have had net losses in prior fiscal years, including in 2011 and 2012. Our ability to maintain and improve future levels of sales and profitability depends on many factors, which include:

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

There can be no assurance that we will be able to meet our challenges and continue to be profitable in the future or that the level of historic sales will continue in the future.

3

We may be unable to maintain our gross profit margins.

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

We depend on one bank for our credit facilities.

We rely on the First International Bank of Israel ("Bank Beinleumi") to provide all of the credit facilities to our subsidiaries. As of December 31, 2017, we had $3.03 million in long term debt to Bank Beinleumi.

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

The repayment of our debt to Bank Beinleumi is secured by a first priority floating charge on the present and future assets of the Company and its Israeli subsidiaries, and by a first priority fixed charge on their goodwill, unpaid share capital and any insurance entitlements pertaining to assets underlying these charges. In addition, the Company and its Israeli subsidiaries entered into a series of intercompany guarantees in favor of Bank Beinleumi.

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

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

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

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

Our loan agreements contain a number of conditions and limitations on the way in which we can operate our business, including limitations on our ability to raise debt, sell or acquire assets and pay dividends. These limitations may force us to pursue less than optimal business strategies or forgo business arrangements, which could have been financially advantageous to our shareholders and us. Our debt obligations also contain various covenants, which require that we maintain certain financial ratios related to shareholders' equity and EBITDA and capital to balance sheet ratio. Our failure to comply with the restrictions and covenants contained in our loan agreements could lead to a default under the terms of these agreements (See "Item 5B. Liquidity and Capital Resources").

If our shareholders do not approve an increase in our authorized share capital, our ability to make future acquisitions and to fund our operations through the issuance of Ordinary Shares will be constrained, which may have a material adverse effect on our business and financial condition.

As of February 28, 2018, we had approximately 329,000 authorized, but unissued Ordinary Shares that are available to make acquisitions and to raise capital for general corporate purposes. If our shareholders do not approve an increase in our authorized share capital, our ability to make future acquisitions and to fund our operations through the issuance of Ordinary Shares will be constrained, which may have a material adverse effect on our business and financial condition.

Risks related to our business:

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

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

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

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

attract and retain highly skilled personnel in various functions of our business.

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

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

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

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

retaining and motivating key personnel of the acquired businesses;

assimilating different corporate cultures;

preserving the business relationships with existing key customers and suppliers;

maintaining uniform standards, controls, procedures and policies;

introducing joint products, solutions and service offerings; and

having sufficient working capital to finance growth.

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

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

5

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

In January 2016, we completed the acquisition of the business operations of iDnext Ltd. and its subsidiary Next-Line Ltd. We may expand our services through additional acquisitions. The negotiation of acquisitions, investments or joint ventures, as well as the integration of acquired or jointly developed businesses or technologies, could divert our management's time and resources. There can be no assurance that we will be able to consume this acquisition or successfully integrate and manage future acquisitions, if they occur.

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

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

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

The balance of allowance for bad debt as of December 31, 2017 amounted to $75,000 which was determined by our management to be sufficient. However, in the event of a global economic slowdown or if a local or global recession reoccurs, we may be required to record additional and significant allowances for bad debts.

A substantial part of the sales of our Supply Chain Solutions division is to the Indian market. A decline in our sales to India would have a material adverse effect on our business and financial results.

In 2017, revenues derived from the sales of our Supply Chain Solutions division to India accounted to US $4.5 million, or 16% of our total revenues. Sales to India could decline due to changes in market demand or for political reasons. Should our sales to India reduce substantially, our business and financial results will be adversely affected.

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

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

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

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

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

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

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

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

6

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

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

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

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

We rely on certain key suppliers.

Most of our sales rely on products of certain key suppliers, which we represent on a non-exclusive basis. 33% of our Supply Chain Solutions division purchases in the year 2017 were sourced from five key suppliers and 39% of our RFID and Mobile Solutions division purchases in the year 2017 were sourced from six other key suppliers (including a software supplier). In the year 2016, 39% of our Supply Chain Solutions division purchases were sourced from five key suppliers and 42% of our RFID and Mobile Solutions purchases were sourced from six other key suppliers.

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

our business until an alternative supplier can be procured.

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

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

Recent changes in Israeli law in respect of minimum wage and work and rest hours may increase our labor related expenses.

In December 2017, the mandatory minimum wage in Israel was raised by approximately 6%, to NIS 5,300. In addition, commencing April 2018, the 43-hour workweek shall be shortened by one hour (at a pre-determined day), without a reduction in the monthly salary. An employee that will continue to work 43 hours per week shall be entitled to overtime payment. As a result, we may suffer an increase in our labor costs in Israel, which could adversely affect our profitability.

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

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

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

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

Similarly, we are exposed to the risk that the NIS, after adjustment for inflation in Israel, will appreciate in relation to the U.S. dollar. In that event, the dollar-measured costs of our operations in Israel will increase and our dollar-measured results of operations will be adversely affected. In 2017, the NIS appreciated against the dollar by approximately 9.8%, while in 2016 this percentage amounted to 1.5%. In 2015 and 2014, the NIS depreciated by approximately 0.3% and 12%, against the U.S. dollar, respectively. In the year ended December 31, 2017, the inflation rate in Israel was 0.4%. In 2016, 2015 and 2014, the annual deflation was 0.2, 1% and 0.2%, respectively. Therefore, the U.S. dollar cost of our Israeli operations increased in 2017 and 2016 and decreased in 2015 and 2014. We cannot predict any future trends in the rate of inflation in Israel and whether the NIS will appreciate against the U.S. dollar or vice versa. Any increase in the rate of inflation in Israel, unless the increase is offset on a timely basis by a devaluation of the NIS in relation to the U.S. dollar, will increase our labor and other costs, which will increase the U.S. dollar cost of our operations in Israel and harm our results of operations (see "Item 5A. Results of Operation - Impact of Inflation and Currency Fluctuations" below).

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

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

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

Disruptions to our IT systems due to system failures or cyber security attacks may impact our operations, result in sensitive customer information being compromised, which would negatively materially affect our reputation and materially harm our business.

Our servers and equipment may be subject to computer viruses, break-ins, and similar disruptions from unauthorized tampering with computer systems. Our systems have been, and are expected to continue to be, the target of malware and other cyber-attacks. Although we have invested in measures to reduce these risks, there can be no assurance that our current information technology (IT) systems are fully protected against third-party intrusions, viruses, hacker attacks, information or data theft or other similar threats. A cyber-attack that bypasses our IT security systems causing an IT security breach may lead to a material disruption of our IT business systems and/or the loss of business information. A cyber-attack on our systems or networks that impairs our IT systems could disrupt our business operations and our ability to sell our products. Any such event could have a material adverse effect on our business. To the extent that such disruptions or uncertainties result in delays or cancellations of customer orders or shipment of our products, or in theft, destruction, loss, misappropriation or release of our confidential information or our intellectual property, our business, financial condition, results of operations and prospects could be materially adversely affected.

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

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

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

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

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

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

We may be obligated to indemnify our directors and officers.

The Company has agreements with its directors and senior officers which provide, subject to Israeli law, indemnification by the Company for its directors and senior officers for: (a) monetary liability imposed upon a director or officer in favor of a third party by a judgment, including a settlement or an arbitral award confirmed by the court, as a result of an act or omission of such person in his or her capacity as a director or officer of the Company, (b) reasonable litigation expenses, including attorney’s fees, incurred by a director or officer (A) pursuant to an investigation or a proceeding commenced against him or her by a competent authority, provided that (i) it was terminated without an indictment and without having a monetary charge imposed on them in lieu of criminal proceedings (as such terms are defined in the Israeli Companies Law 1999 – 5759 (the “Israeli Companies Law”)); or (ii) it was terminated without the filing of an indictment but with a monetary charge imposed on him or her in lieu of criminal proceedings for a crime that does not require proof of criminal intent; (B) or in connection with a financial sanction, as a result of an act or omission of such person in its capacity as a director or officer of the Company, (c) reasonable litigation expenses, including attorney’s fees, incurred by a director or officer or imposed on him or her by a court, in a proceeding brought against him or her by or on behalf of the Company or by a third party, or in a criminal action in which he or she was acquitted, or in a criminal action which does not require criminal intent in which he was convicted, in each case relating to acts or omissions of such person in its capacity as a director or officer of the Company, (d) expenses, including reasonable litigation expenses and legal fees, incurred by such a director or officer as a result of a proceeding instituted against him in relation to (A) infringements that may result in imposition of financial sanction pursuant to the provisions of Chapter H’3 under the Israeli Securities Law 5728 – 1968 (the “Israeli Securities Law”) or (B) administrative infringements pursuant to the provisions of Chapter H’4 under the Israeli Securities Law or (C) infringements pursuant to the provisions of Chapter I’1 under the Israeli Securities Law; and (e) payments to an injured party of infringement under Section 52ND(a)(1)(a) of the Israeli Securities Law. Payments pursuant to such indemnification obligation may materially adversely affect our financial condition.

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

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

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

Our balance sheet contains a significant amount of goodwill and other amortizable intangible assets in long-term assets, totaling about $4.8 million at December 31, 2017. We review goodwill annually for impairment, or more frequently when indications for potential impairment exist. We review other amortizable intangible assets for impairment when indicators for impairment exist. The volatility of our share price can cause significant changes to our market capitalization.

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

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

The sale of our Ordinary Shares to YA II PN, Ltd. (or YA II) (formerly YA Global Master SPV Ltd.), pursuant to the Standby Equity Distribution Agreement, dated as May 8, 2017, (the "2017 SEDA"), (see "Item 5B – Liquidity and Capital Resources") will have a dilutive impact on our shareholders. Under the 2017 SEDA, we have the right to sell, over a period of up to 4 years, Ordinary Shares to YA II for up to a total purchase price of $2,000,000, all of which remained available as of February 28, 2018. YA II may resell some, if not all of the shares we issue to it under the 2017 SEDA and such sales could cause the market price of our Ordinary Shares to decline.

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

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

If our employees commit fraud or engage in other misconduct, including noncompliance with regulatory standards and requirements or insider trading, our business may experience material adverse consequences.

During the course of our operations, our directors, executives and employees may have access to material, nonpublic information regarding our business, our results of operations or potential transactions we are considering. Despite the adoption of an Insider Trading Policy, we may not be able to prevent a director, executive or employee from trading in

our ordinary shares on the basis of, or while having access to such information.

In addition, while we have designed and operate an internal control system, we cannot provide absolute assurance that instances of fraud, if any, shall be prevented or detected.

If a director, an executive or an employee was to be investigated, or an action was to be brought against him or her for insider trading or fraud, it could have a negative impact on our reputation and our share price. Such a claim, with or without merit, could also result in substantial expenditures of time and money, and divert attention of our management team from other tasks important to the success of our operations.

Risks related to our Ordinary Shares:

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

The market price of our Ordinary Shares has been and may continue to be highly volatile and subject to wide fluctuations. From January 1, 2017 through February 28, 2018, the daily closing price of our Ordinary Shares in NASDAQ has ranged from $1.67 to $2.46 per share. We believe that these fluctuations have been in response to a number of factors including the following, some of which are beyond our control:

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

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

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

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

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

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

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

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

Risks related to our location in Israel:

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

We are incorporated under the laws of the State of Israel, where we also maintain our headquarters and our principal research and development and sales and marketing facilities. As a result, political, economic and military conditions affecting Israel directly influence us.

Since its establishment in 1948, a number of armed conflicts have taken place between Israel and its neighboring countries. In recent years, these have included hostilities between Israel and Hezbollah in Lebanon, and Israel and Hamas in the Gaza Strip, both of which resulted in rockets being fired into Israel causing casualties and disruption of economic activities. Recent political uprisings and conflicts in various countries in the Middle East, including Egypt and Syria, are affecting the political stability of those countries. Any armed conflicts, terrorist activities, political instability or hostilities in the region or that involve Israel or the interruption or curtailment of trade within Israel or between Israel and its trading partners could adversely affect our business, financial condition and results of operations and could make it more difficult for us to raise capital. In addition, Israel faces threats from more distant neighbors, in particular, Iran that has threatened to attack Israel. Iran is also believed to have a strong influence among extremist groups in areas that neighbor Israel, such as Hamas in Gaza and Hezbollah in Lebanon. Additionally, the Islamic State of Iraq and Syria (ISIS), a violent jihadist group, is involved in hostilities in Iraq and Syria and its stated purpose is to take control of the Middle East, including Israel.

Our commercial insurance does not cover losses that may occur as a result of an event associated with the security situation in the Middle East. Although the Israeli government has in the past covered the reinstatement value of certain damages that were caused by terrorist attacks or acts of war, we cannot assure you that this government coverage will be maintained, or if maintained, will be sufficient to compensate us fully for damages incurred. Any losses or damages incurred by us could have a material adverse effect on our operations.

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

Furthermore, several countries and companies restrict business with Israel and Israeli companies. Restrictive laws or policies directed towards Israel or Israeli businesses may have an adverse impact on our operations, our financial results or the expansion of our business.

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

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

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

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

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

All of our directors and officers reside outside of the United States. Therefore, a judgment obtained against us, or any of these persons, including a judgment based on the civil liability provisions of the U.S. federal securities laws, may not be collectible in the United States and may not be enforced by an Israeli court. It also may be difficult for you to effect service of process on these persons in the United States or to assert U.S. securities law claims in original actions instituted in Israel. Israeli courts may refuse to hear a claim based on an alleged violation of U.S. securities laws reasoning that Israel is not the most appropriate forum in which to bring such a claim. In addition, even if an Israeli court agrees to hear a claim, it may determine that Israeli law and not U.S. law is applicable to the claim. If U.S. law is found to be applicable, the content of applicable U.S. law must be proven as a fact by expert witnesses, which can be a time consuming and costly process. Certain matters of procedure will also be governed by Israeli law. There is little binding case law in Israel that addresses the matters described above. As a result of the difficulty associated with enforcing a judgment against us in Israel, you may not be able to collect any damages awarded by either a U.S. or foreign court.

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

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

Our business could be impacted as a result of actions by activist shareholders or others.

We may be subject, from time to time, to legal and business challenges in the operation of our company due to actions instituted by activist shareholders or others. Responding to such actions could be costly and time-consuming, may not align with our business strategies and could divert the attention of our Board of Directors and senior management from the pursuit of our business strategies. Perceived uncertainties as to our future direction as a result of shareholder activism may lead to the perception of a change in the direction of the business or other instability and may affect our relationships with vendors, customers, prospective and current employees and others. For additional information see Item 5: "Operating and Financial Review and Prospects - Legal Contingencies" below.

As a foreign private issuer whose shares are listed on the Nasdaq Capital Market, we follow and may in the future elect to follow certain home country corporate governance practices instead of certain Nasdaq requirements.

We are a foreign private issuer as such term is defined under U.S. federal securities laws. As a foreign private issuer, we have elected to follow certain home country corporate governance practices instead of certain requirements of the Marketplace Rules of the Nasdaq Capital Market, or the Nasdaq Marketplace Rules. We may in the future elect to follow Israeli corporate governance practices with regard to, among other things, the composition of our board of directors ("Board of Directors"), compensation of officers, director nomination procedures and quorum requirements at shareholders' meetings. In addition, we may elect to follow Israeli corporate governance practices instead of the Nasdaq requirements to obtain shareholder approval for certain dilutive events (such as for the establishment or amendment of certain equity-based compensation plans, issuances that will result in a change of control of the company, certain transactions other than a public offering involving issuances of a 20% or more interest in the

company and certain acquisitions of the stock or assets of another company). Accordingly, our shareholders may not be afforded the same protection as provided under Nasdaq's corporate governance rules. Following our home country governance practices as opposed to the requirements that would otherwise apply to a U.S. company listed on the Nasdaq Capital Market may provide less protection than is accorded to investors of domestic issuers. See "Item 16G – Corporate Governance."

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

As a foreign private issuer, we are exempt from the rules and regulations under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), related to the furnishing and content of proxy statements, and our officers, directors, and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file annual, quarterly and current reports and financial statements with the Securities and Exchange Commission as frequently or as promptly as domestic companies whose securities are registered under the Exchange Act.

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

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

As a public company in the United States, the Exchange Act requires that we file periodic reports with respect to our business and financial condition and maintain effective disclosure controls and procedures and internal control over financial reporting. In addition, subsequent rules implemented by the SEC and the NASDAQ Stock Market may also impose various additional requirements on public companies. As a result, we incur significant accounting, legal and other expenses as a result of listing our Ordinary Shares on the Nasdaq Capital Market. These include costs associated with corporate governance requirements of the SEC and the Marketplace Rules of Nasdaq, as well as requirements under Section 404 and other provisions of the Sarbanes-Oxley Act of 2002. Any future changes in the laws and regulations affecting public companies in the United States and Israel, will result in increased costs to us as we respond to such changes. These laws, rules and regulations could make it more difficult or more costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these requirements could also make it more difficult for us to attract and retain qualified persons to serve on our Board of Directors, our board committees or as executive officers.

Item 4: Information on the Company

4A. History and Development of the Company

We were incorporated in Israel in 1990 and are subject to the Israeli Companies Law. Our executive offices, shipping and service operations are located in Israel. Our address in Israel is 20 Freiman Street, Rishon LeZion, 7535825, Israel.

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

Our telephone number is 972-3-954-2000 and our website address is www.boscom.com. Our subsidiaries' websites are: BOS-Odem Ltd ("Odem"). - www.odem.co.il; BOS-Dimex Ltd. ("Dimex") – www.dimex.co.il. and www.idnext.co.il. The information contained on, or linked from, our websites is not a part of this report.

We operate our business through two divisions:

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

RFID and Mobile Solutions – conducted through our wholly owned subsidiary, Dimex. Our RFID and Mobile Solutions offerings form a comprehensive turn-key solution for Automatic Identification and Data Collection (AIDC), combining mobile infrastructure and a software application of manufacturers that we represent. In addition, following the acquisition in January 2016 by Dimex of the business operations of iDnext Ltd. and its subsidiary Next-Line Ltd., Dimex also offers on-site inventory count services in the fields of apparel, food, convenience and pharma, and asset tagging and counting services for corporate and governmental entities.

In March 2008, Dimex purchased the assets and activities of Dimex Systems, which was an integrator of AIDC solutions based on RFID and barcode technology. The consideration was NIS 44.6 million (approximately $12.4 million). The consideration was comprised of cash, payable over a 24-month period and of 25,011 BOS shares (equal to approximately 4.4% of the then outstanding shares of BOS).

In the years 2009 through 2012, the Company entered into several amendments to the purchase agreement for the purchase of the assets and activities of Dimex Systems, or the Dimex Systems Asset Purchase Agreement. The amendments revised the payment schedule of the consideration payable to Dimex Systems. The debt was paid in full as of December 31, 2015.

On January 1, 2016, Dimex consummated the acquisition of the business operations of iDnext Ltd. (“iDnext”) and its subsidiary Next-Line Ltd. (“Next-Line”), for a total consideration of $886,000. The consideration was comprised of a loan conversion in the amount of $256,000, initially advanced as a loan to iDnext and Next-Line in December 2015 and applied towards the consideration upon the closing of the acquisition, a cash payment of $154,000 and the issuance of 162,734 Ordinary Shares of the Company for a value of $298,000. Additionally, Dimex has recorded a liability in the amount of $178,000, reflecting its commitment to make additional contingent payments based on the annual operational profit of the acquired business in the calendar years 2016 and 2017. In 2016, this liability was fully written off due to insufficient operating profit of the acquired business in the year ended December 31, 2016. In the year 2017 the acquired business did not meet the profitability targets that would trigger the additional contingent payments.

The Company’s Ordinary Shares are currently listed on the NASDAQ Capital Market. Following the Company’s request, on May 12, 2009 the Company’s Ordinary Shares were delisted from trading on the Tel Aviv Stock Exchange (the “TASE”). The delisting of the Ordinary Shares from the TASE did not affect the continued listing of the Ordinary Shares on the NASDAQ Capital Market under the symbol BOSC. As a result of the delisting of the Company’s Ordinary Shares from the TASE, the Company is no longer subject to reporting requirements in Israel, under the Israeli Securities Law.

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

4B. Business Overview

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

The Company’s customers represent a cross-section of industry leaders, from the avionics, defense, retail, manufacturers, government and livestock markets. The Company’s Supply Chain Solutions customers include, among others, Cyient DLM Private Limited,, Centum Electronics Limited and Fokker Elmo Sasmos Interconnection Systems Ltd. from the Indian market, and Refael and the Israel Aerospace Industries from the Israeli market. The Company is

continuing to expand its Supply Chain Solutions into the Indian market. The Company's RFID and Mobile Solutions currently has all of its sales in Israel and its customers include, among others, Shufersal Ltd., Fox Vizel Ltd., The Central Company for Sales and Distribution Ltd., The Ministry of Agriculture & Rural Development and Tnuva Ltd.

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

BOS Product Offerings

RFID and Mobile Solutions

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

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

The Company's RFID and Mobile Solutions division purchases AIDC equipment based on RFID and the barcode technology of leading global manufacturers. Such manufacturers include Zebra Technologies Corp., M3 Mobile, DLog GmbH, Honeywell International Inc., Tadbik Ltd., Bibliotheca RFID Libary Systems AG and Unique Technology Europe BV.

Specifically, the Company's RFID and Mobile Solutions division offers the following products and services:

Hardware:

Thermal and barcode printers;

RFID and barcode scanners and readers;

Wireless, mobile and forklift terminals;

Wireless infrastructure;

Active and passive RFID tags (HF & UHF); and

Consumables (ribbons, labels, tags)

Software:

Implementation and integration of a Warehouse Management System ("WMS"), which is proprietary software of Mantis Informatics S.A. that is licensed by the Company. WMS is an optimized data collection solution for logistics management in logistic centers and warehouses. The solution is based on RFID tags or bar codes, and is intended to provide customers with greater visibility into a retailer's stock management and warehouse/logistics operations. The System enables storeroom managers to receive advanced delivery notifications and system alerts for delivery discrepancies, and provides them with the ability to locate inventory in their stockroom. It provides inventory managers with a direct communication link to the sales floor and assists them in minimizing inventory loss or theft. It also enables sales floor representatives to instantly check on the availability of a product, offer alternatives if the product is out of stock and provide the customer with up-to-date product information.

In August 2012, the Company entered into a cooperation agreement with an independent software development company for developing tailor made software solutions according to customers demand.

Systems:

The Company provides systems for comprehensive solution for inventory/assets tracking. The system is comprised from hardware, software and integration with the customers' information system. The Company has provided systems for varied solutions which includes among others:

RFID system for libraries. The system is comprised of automatic self-service stations, staff stations, security gates, and RFID tags that are affixed to the books. The system was developed by Bibliotheca and the Company is the integrator in Israel.

RFID-based system for tracking inventory in a produce packing house. The RFID system enables automatic tracking of fruit pallets from the sorting machine through the various cold storage rooms and until the truck loading. It continuously shows the location of the pallets in the various stations in the packing house and interfaces with the ERP of the packing house. The system was designed using BOS' experience and knowledge of the working processes in a packing house, and is comprised of RFID readers, RFID tags, the Company tailor-made software, and an interface with the ERP of SAP, Priority and SBO.

Automatic system for industrial packing lines, that matches between a product and its packaging. The system is designed to be deployed mainly in production lines of food producers and pharmaceutical manufacturers. The system uses machine vision readers of Cognex Corporation together with Company’s software and integration.

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

Automatic system to identify and track vehicles in a variety of transportation-related settings, such as automobile dealers, importers or distributors. By using RFID tags on their vehicles it enables companies to effectively manage, track, support and plan all day-to-day vehicle-related activities.

Services:

The Company’s RFID and Mobile Solutions division also provides complementary services such as:

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

Dimex offers on-site inventory count services in the fields of apparel, food, convenience and pharma, and asset tagging and counting services for corporate and governmental entities.

In 2017, 47% of our revenues were attributed to sales generated from the Company's RFID and Mobile Solutions division.

Supply Chain Solutions

The Company's Supply Chain Solutions division provides electronic components, telecommunications equipment and components consolidation services to the aerospace, defense, medical and telecommunications industries as well as enterprise customers worldwide.

These services include:

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

For aerospace customers:

Consolidation services – offering customers with one contact point for a wide range of electromechanical components of various manufacturers;

Kitting services – Performing inventory and quality control management of components entering production lines; and

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

The Company's Supply Chain Solutions division represents and distributes engineering designs for sale on a non-exclusive basis to, among others, International Rectifier Inc., Sensata Technologies Inc., Integrated Power Designs, Inc., Positronic Global Connector Solutions, Netpower, Switchcraft Inc., First Sensor A.G., Fema Electronics Corporation, SGC Technologies Inc. and Civue Optotech Inc.

In 2017, 53% of our revenues were attributed to sales of the Supply Chain Solutions division.

Marketing, Distribution and Sales

RFID and Mobile Solutions

The Company markets its RFID and Mobile Solutions primarily to medium and large sized corporations in Israel through a combination of direct sales and sales agents.

Supply Chain Solutions

The Company markets its Supply Chain Solutions directly to customers or through distributors worldwide. The Company's sales force is comprised of direct sales teams and sales agents.

Seasonality

The Company's sales are subject to seasonality. The revenues of the first and fourth quarter are usually relatively higher than the revenues for the second and third quarter. The seasonality is attributable mainly to inventory counting services which generate a majority of their revenues in the fourth and first quarter of the year.

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

Sales by major geographic areas ($ in thousands)

	2017	%	2016	%	2015	%
Israel	$21,870	75	$20,619	75	$19,044	74
India	$4,497	16	$3,119	11	$3,140	12
Far East	$1,416	5	$2,964	11	$1,390	6
America	$918	3	$411	2	$855	3
Europe	$231	1	$314	1	$1,170	5
Total Revenues	$28,932	100	$27,427	100	$25,599	100

Sales by quarters

	2017	%	2016	%	2015	%
Q1	$7,064	24	$8,067	29	$5,827	23
Q2	$6,716	23	$6,308	23	$6,101	24
Q3	$7,227	25	$6,275	23	$6,295	25
Q4	$7,925	28	$6,777	25	$7,376	28
Total Revenues	$28,932	100	$27,427	100	$25,599	100

Sales by divisions

	2017	%	2016	%	2015	%	2014
RFID and Mobile Solutions	$13,666	47	$12,197	44	$9,270	36	$11,328
Supply Chain Solutions	$15,495	53	$15,291	56	$16,336	64	$16,317
Intercompany	$(229)	-	$(61)	-	$(7)	-	$(44)
Total Revenues	$28,932	100	$27,427	100	$25,599	100	$27,601

Competition

RFID and Mobile Solutions

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

In Israel, the Company's main competitors in the RFID and Mobile Solutions market are Soft Solutions Ltd., eWave Ltd., Dangot Computers Ltd., Dannet Advanced Technologies Ltd., LogiTag Systems Ltd., Globe Tag Ltd., Infosystem and Isics.

Supply Chain Solutions

The Company holds several representation agreements with major manufacturers. The representation agreements are not entered into on an exclusive basis.

The Company's Israeli competitors for distribution to the electronic industry include the publicly traded Telsys Ltd. and STG International Electronics (1981) Ltd., as well as Nisco Projects Ltd., Eastronics Ltd., Elimec Engineering Ltd. and Teder Electro Mechanical Engineering Ltd.

In the international market, the Company's competitors consist of mainly Arrow Electronics International Inc., Avnet Electronics Marketing, TTI Inc., PEI-Genesis Inc., Weco Electrical Connectors Inc., Electro Enterprises Inc., Flame Enterprise Inc., Norstan Electronics Inc., Peerless Electronics Inc. and Future Electronics.

Strategy

The Company's vision is to become a leading integrator in the field of RFID and Mobile Solutions and global provider of electronic components with supply chain added value services.

The key elements of the Company's strategy are as follows:

Expand its RFID and Mobile product and solutions offerings, mainly through acquisitions of complementary solutions. This will include the sale and integration of new complementary hardware and software to its existing customer base and sales to new customers. As part of implementing our growth strategy Dimex acquired in January 2016, the business operations of iDnext Ltd. and its subsidiary Next-Line Ltd. Following this acquisition, Dimex offers on-site inventory count services in the fields of apparel, food, convenience and pharma, and asset tagging and counting services for corporate and governmental entities;

Expand the Supply Chain Solutions product offerings and sales outside of Israel and mainly into India. Sales to the Far East, including India, amounted to $5.9 million in years 2017 and 2016.

Exchange Controls

See "Item 10D. Exchange Controls."

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

4C. Organizational Structure

The Company's wholly owned subsidiaries include:

In Israel:

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

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

In the United States:

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

4D. Property, Plants and Equipment

Our offices are located in the following facility in Israel:

Location	Size (square meters)	Lease period
Rishon LeZion	2,725	January 2018 through November 2019

Our average monthly rental fee for the year 2017 and for the year 2016 amounted to $14,405 and $12,999, respectively.

In November 2017 we started renovation works for our warehouses and lab at the new location at the same building in Rishon LeZion. Currently, we lease 2,725 square meters that include the current and the new facilities. Following the completion of the renovation expected to take place in April 2018, we will use only 1,651 square meters.

Item 4A: Unresolved Staff Comments

Not Applicable.

Item 5: Operating and Financial Review and Prospects

The following management's discussion and analysis of financial condition and results of operations should be read in conjunction with our financial statements and notes thereto. Certain matters discussed below and throughout this Annual Report are forward-looking statements that are based on our beliefs and assumptions as well as information currently available to us. Such forward-looking statements may be identified by the use of the words "anticipate", "believe", "do not believe", "estimate", "expect", "plan", "intend", "projections", "forecast", "may", "continue", "should", "pr the negative of these terms or similar expressions. Such statements reflect our current views with respect to future events and are subject to certain risks and uncertainties. While we believe such forward-looking statements are based on reasonable assumptions, should one or more of the underlying assumptions prove incorrect, or these risks or uncertainties materialize, our actual results may differ materially from those described herein.

Overview

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

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

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

Revenues

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

In accordance with ASC Topic 605 "Revenue Recognition", the Company recognizes revenues from sale of products when the following fundamental criteria are met: (i) persuasive evidence of an arrangement exists; (ii) delivery has occurred or services have been rendered; (iii) the price to the customer is fixed or determinable; and (iv) collection of the resulting receivable is reasonably assured.

Revenues from service contracts are recognized ratably over the service period.

The Company applies the provisions of ASC Topic 605-25, "Revenue Recognition - Multiple-Element Arrangements", as amended. ASC Topic 605-25 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products and services. For such arrangements, each element of the contract is accounted for as a separate unit when it provides the customer value on a stand-alone basis.

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

Deferred revenues include unearned amounts received from customers (mostly for service contracts, software projects and advances from customers) but not yet recognized as revenues. Deferred revenues from service contracts are

recognized over the period of the contract and advances are recognized once the delivery of the products is done.

Costs and Operating Expenses

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

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

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

Our general and administrative expenses consist primarily of salaries and related costs earned by management and financial departments, professional service fees, expenses related to our directors, Nasdaq fees, investor relations and legal fees.

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

Critical accounting policies

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

Inventories

Impairment of long-lived assets and intangible assets subject to amortization

Goodwill

Revenue recognition

a. Inventories:

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

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

b. Impairment of long-lived assets and intangible assets subject to amortization:

The Company's long-lived assets are reviewed for impairment in accordance with ASC 360-10, Accounting for the Impairment or Disposal of Long-Lived Asset, whenever events or changes in circumstances indicate that the carrying amount of an asset (or asset group) may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset (or asset group) to the future undiscounted cash flows expected to be generated by the assets (or asset group). If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds their fair value.

Recoverability of intangible assets is measured by a comparison of the carrying amount of the asset to the undiscounted future cash flows expected to be generated by the asset. If intangible assets are considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired assets.

Intangible assets with finite lives are amortized using the straight-line basis over their useful lives, to reflect the pattern in which the economic benefits of the intangible assets are consumed or otherwise used up. As of December 31, 2017 the remaining intangible assets were comprised of software and costumer relationship (see Note 8 to the Consolidated Financial Statements for the year ended December 31, 2017).

For each of the three years ended on December 31, 2017, 2016 and 2015, no impairment losses were identified.

c. Goodwill:

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

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

The Company operates in two operating-based segments: RFID and Mobile Solutions and Supply Chain Solutions. The Company's goodwill is related to the RFID and Mobile Solutions segment, which represents a reporting unit as a whole.

The Company determines the fair value of the reporting unit using the Income Approach, which utilizes a discounted cash flow model, as it believes that this approach best approximates the reporting unit’s fair value at this time. The impairment test was based on a valuation performed by management with the assistance of a third party appraiser.

Judgments and assumptions related to revenue, operating income, future short-term and long-term growth rates, weighted average cost of capital, interest, capital expenditures, cash flows and market conditions are inherent in developing the discounted cash flow model. The material assumptions used for the Income Approach for 2017 were five years of projected net cash flows, WACC of 15% and a long-term growth rate of 2%. The Company considers historical rates and current market conditions when determining the discount and growth rates to use in its analyses. If these estimates or their related assumptions change in the future, the Company may be required to record impairment charges for its goodwill.

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

During 2017, 2016 and 2015 no impairment losses have been identified.

d. Revenue Recognition:

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

In accordance with ASC Topic 605 “Revenue Recognition”, the Company recognizes revenues from sale of products when the following fundamental criteria are met: (i) persuasive evidence of an arrangement exists; (ii) delivery has occurred or services have been rendered; (iii) the price to the customer is fixed or determinable; and (iv) collection of the resulting receivable is reasonably assured.

Revenues from service contracts are recognized ratably over the service period.

The Company applies the provisions of ASC Topic 605-25, "Revenue Recognition - Multiple-Element Arrangements", as amended. ASC Topic 605-25 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products and services. For such arrangements, each element of the contract is accounted for as a separate unit when it provides the customer value on a stand-alone basis.

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

Deferred revenues include unearned amounts received from customers (mostly for service contracts, software projects and advances from customers) but not yet recognized as revenues. Deferred revenues from service contracts are recognized over the period of the contract and advances are recognized once the delivery of the products is done.

Legal Contingencies

The Company is not a party to any legal proceedings.

On April 9, 2017 D.D. Goldstein Properties and Investments Ltd., a shareholder of the Company (the “Plaintiff”) filed a claim against the Company's Chairman Yosi Lahad, the Company's Co-CEO, Yuval Viner, the Company's Co-CEO and CFO, Eyal Cohen and Ms. Gabriela Jacobs, an (indirect) shareholder of the Company.

The Plaintiff claims that the defendants, acting in bad faith, breached their duties of loyalty and care and several laws, by inducing the Plaintiff to purchase shares of the Company. The Plaintiff claims that he was led to believe that the defendants shall facilitate his becoming a controlling shareholder of the Company. The claim is for a total amount of NIS 2,600,000 (approximately $750,000).

While the Company is not a named defendant in these proceedings, the Company is party to indemnification agreements with the members of its management, pursuant to which it pays the legal fees involved in the defense against the claim, and may be required to provide indemnification in the event a ruling is handed against them. The Company expects such payments, if any, to be covered under its Directors and Officers insurance policy (subject to a deductible).

5A. Operating Results

Comparison of 2017 and 2016

Consolidated revenues increased by 5% to $28.9 million in year 2017 from $27.4 million in year 2016. The increase is mainly related to an increase in revenues of the RFID and Mobile division from $12.2 million in 2016 to $13.7 million in 2017. The growth in the RFID and Mobile division is attributed mainly to inventory counting services.

Gross profit for 2017 was $6.35 million (gross margin of 21.9%) as compared to $5.3 million (gross margin of 19.3%) for 2016. The increase in gross profit is attributable to the increase in revenues and increase in gross profit margins in both divisions. The increase in gross profit margins in both divisions is mainly attributed to increase in sales price.

Operating expenses increased to $5.26 million in 2017 from $4.6 million in 2016. The increase in expenses is attributed mainly to the following factors:

We incur a significant portion of our expenses in NIS. Such costs are mainly attributed to salaries and lease of our facilities and cars. Hence, devaluation of US dollar against the NIS during year 2017 in the rate of 9.8% increased our

cost of our operations by approximately $192,000 as compared to year 2016.

General and administrative expenses of year 2016 include income in the amount of $178,000 that are attributed to the write-off in a contingent liability related to the acquisition of the business operations of iDnext (see Note 3 to the Consolidated Financial Statements for the year ended December 31, 2017).

Increase of $170,000 in sales and marketing expenses is attributed to sales agents and employees commission in year 2017 as compared to year 2016. Such increase results from 6% growth in year 2017 revenues as compared to year 2016.

Financial expenses decreased to $297,000 in year 2017 from $339,000 in year 2016. The reduction in financial expenses, mainly in interest expenses, is attributed to reduction of the bank loan amounts from $3.1 million (NIS 12.1 million) in December 31, 2016 to $3 million (NIS 10.5 million) in December 31, 2017.

Net income for year 2017 was $773,000 as compared to net income of $360,000 in 2016. The basic and diluted net income per share in 2017 was $0.24, compared to basic and diluted net income per share of $0.14 in 2016.

Comparison of 2016 and 2015

Consolidated revenues increased by 7% to $27.4 million in year 2016 from $25.6 million in year 2015 mainly due to the acquisition of the business operations of iDnext and Next-Line.

Gross profit for 2016 was $5.3 million (gross margin of 19.3%) as compared to $5.1 million (gross margin of 20%) for 2015. The increase in gross profit is attributable to the increase in revenues of the RFID and Mobile division from $9.3 million in year 2015 to $12.2 million in 2016.

Operating expenses increased to $4.6 million in 2016 from $4.45 million in 2015. The increase in expenses is attributed mainly to the acquisition of the business operations of iDnext and Next-Line.

Financial expenses decreased to $339,000 in year 2016 from $376,000 in year 2015. The reduction in financial expenses is attributed to a reduction and currency exchange expenses.

Tax expenses for year 2016 amounted to $7,000 as compared to a tax benefit of $22,000 for year 2015.

Net income for year 2016 was $360,000 as compared to net income of $334,000 in 2015. The basic and diluted net income per share in 2016 was $0.14, compared to basic and diluted net income per share of $0.17 in 2015.

Variability of Quarterly Operating Results

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

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

- establish effective sales channels and manage them;
- introduce and deliver new products on a timely basis;
- anticipate accurately customer demand patterns;

manage future inventory levels in line with anticipated demand; and

successfully meet bank financial covenants.

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

Impact of Inflation and Currency Fluctuations

We are exposed to the risk that the NIS, after adjustment for inflation in Israel, will appreciate in relation to the U.S. dollar. In that event, the dollar-measured costs of our operations in Israel will increase and our dollar-measured results of operations will be adversely affected. In 2017, the NIS appreciated against the dollar by approximately 9.8%, while in 2016 this percentage amounted to 1.5%. In 2015 and 2014, the NIS depreciated against the U.S. dollar by approximately 0.3% and 12%, respectively. In the year ended December 31, 2017, the inflation rate in Israel was 0.4%. In 2016, 2015 and 2014 the annual deflation rate in Israel was approximately 0.2%, 1% and 0.2%, respectively. Therefore, the U.S. dollar cost of our Israeli operations increased in 2017 and 2016 and decreased in 2015 and in 2014. We cannot predict any future trends in the rate of inflation in Israel and whether the NIS will appreciate against the U.S. dollar or vice versa. Any increase in the rate of inflation in Israel, unless the increase is offset on a timely basis by a devaluation of the NIS in relation to the U.S. dollar, will increase our labor and other costs, which will increase the U.S. dollar cost of our operations in Israel and harm our results of operations.

Effective Corporate Tax Rate

The Israeli corporate tax rate was 26.5% in 2015, 25% in 2016 and 24% in 2017. Effective January 1, 2018 the corporate tax rate is 23%.

Conditions in Israel

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

26

5B. Liquidity and Capital Resources

In the year ended on December 31, 2017, the Company had net income of $773,000 as compared to $360,000 in the year 2016 and $334,000 in the year 2015. In the year ended December 31, 2017, the Company generated a positive cash flow from operating activities amounting to $355,000, as compared to a negative cash flow from operating activities amounting to $361,000 in 2016 and a positive cash flow from operating activities amounting to $370,000 in 2015. The Company's cash and cash equivalents amounted to $1.5 million as of December 31, 2017. The Company had a positive working capital of $7,342,000, $6,099,000, and $5,246,000 as of December 31, 2017, December 31, 2016, and December 31, 2015, respectively.

We finance our activities by different means, including short and long-term loans, cash flow from operating activities and issuance of Company shares.

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

As of December 31, 2017, we had $3.03 million in long-term debt (net of current maturities of $505,000) and no short term bank loans.

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

first ranking fixed charge on any unpaid share capital of the Company, the goodwill of the Company, and any insurance entitlements in the Company's assets pledged thereunder; and

floating charges on all of the assets of the Company and our Israeli subsidiaries, owned now or in the future.

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

We rely on Bank Beinleumi to provide all of the credit facilities to our subsidiaries. In October 2017 we replaced all our Bank Leumi credit facilities with credit facilities from Bank Beinleumi, so that currently our outstanding bank debt, is owed to Bank Beinleumi.

In February 2014, the Company entered into a Standby Equity Distribution Agreement (the “February 2014 SEDA”) with YA Global Master SPV, Ltd. ("YA Global"). The 2014 SEDA provided that, upon the terms and subject to the conditions set forth therein, YA Global was committed to purchase up to $2,000,000 of the Company’s Ordinary Shares over a three-year commitment period. The Company issued 13,711 shares to YA Global as a commitment fee for this financing. The purchase price of the Ordinary Shares was set at a 5% discount off the lowest daily VWAP (as such term is defined in the February 2014 SEDA) of the Ordina Shares during the five consecutive trading days following the date of an advance notice from the Company (provided such VWAP is greater than or equal to 90% of the last closing price of the Ordinary Shares at the time of delivery of the advance notice). The Company has drawn $1,916,000 on this equity line, for which it issued an aggregate of 693,434 Ordinary Shares.

In February 2014, in addition to the February 2014 SEDA, the Company entered into a Note Purchase Agreement with YA Global, under which YA Global provided the Company with a one year bridge loan in the amount of $500,000. The bridge loan was repayable in nine equal monthly installments commencing three months after the receipt of the loan and was paid in full by February 2015. The Company issued 2,500 Ordinary Shares to YA Global as a commitment fee for this bridge loan.

In February 2015, the Company entered into the 2015 SEDA with YA Global. The 2015 SEDA provides that, upon the terms and subject to the conditions set forth therein, YA Global is committed to purchase up to $1,300,000 of the Company's Ordinary Shares over a 40-month commitment period. The Company issued 28,930 shares to YA Global as a commitment fee for this financing. The purchase price of the Ordinary Shares will be at a 7% discount off the average share trading price, calculated as described in the 2015 SEDA. The Ordinary Shares to be issued to YA Global under the 2015 SEDA will be issued pursuant to an exemption from registration under the Securities Act of 1933, as amended. Pursuant to the 2015 SEDA, the Company has an obligation to file a registration statement with the U.S. Securities and Exchange Commission covering the resale by YA Global of any shares to be issued to YA Global under the 2015 SEDA. As of March 29, 2018, $1,195,000 has been drawn on this equity line, for which the Company issued an aggregate of 628,229 Ordinary Shares.

In May 2017, the Company entered into the 2017 SEDA with YA II. The 2017 SEDA provides that, upon the terms and subject to the conditions set forth therein, YA II is committed to purchase up to $2,000,000 of the Company's Ordinary Shares over a 4-year commitment period. The Company issued 67,307 shares to YA Global II SPV, LLC as a commitment fee for this financing. The purchase price of the Ordinary Shares will be at a 7% discount off the average share trading price, calculated as described in the 2017 SEDA. The Ordinary Shares to be issued to YA II under the 2017 SEDA will be issued pursuant to an exemption from registration under the Securities Act of 1933, as amended. Pursuant to the 2017 SEDA, the Company has an obligation to file a registration statement with the U.S. Securities and Exchange Commission covering the resale by YA II of any shares to be issued to YA II under the 2017 SEDA. As of March 29, 2018, the Company has not drawn any amount on this equity line. The Company has an effective registration statement covering the resale by YA II of up to 878,161Ordinary Shares that the Company may sell to YA II under the 2017 SEDA. The registered Ordinary Shares include 548,975 Ordinary Shares that have not yet been authorized and which will not be sold until our shareholders have approved an amendment to our Memorandum of Association and Articles of Association to increase our authorized share capital by a corresponding number of shares.

On June 10, 2015, the Company entered into a Share Purchase Agreement with certain investors, including YA Global, members of management, and certain business partners of the Company, under which the Company raised an aggregate net amount of $573,000, net of $16,000 issuance expenses, at a price per share of $2.406.

On January 8, 2015, the Company's Board of Directors approved an increase of 1,500,000 Ordinary Shares in the Company's authorized share capital, from 2,500,000 authorized shares to 4,000,000 authorized shares, which was approved by the Company's shareholders.

On January 1, 2016 the Company issued 162,734 Ordinary Shares as part of the consideration in the iDnext business acquisition.

As of February 28, 2018, we had approximately 329,000 authorized, but unissued Ordinary Shares that are available to make acquisitions and to raise capital for general corporate purposes. If our shareholders do not approve an increase in our authorized share capital, our ability to make future acquisitions and to fund our operations through the issuance of Ordinary Shares will be constrained, which may have a material adverse effect on our business and financial condition.

We have in-balance sheet financial instruments and off-balance sheet contingent commitments. Our in-balance sheet financial instruments consist of our assets and liabilities. Our cash is held in bank accounts in U.S. dollars and NIS bearing no interest. As of December 31, 2017, our trade receivables' and trade payables' aging days were 125 and 99 days, respectively. The fair value of our financial instruments is similar to their book value. Our off-balance sheet contingent commitments consist of: (a) royalty commitments that are directly related to our future revenues, (b) lease commitments of our premises and vehicles, and (c) directors' and officers' indemnities, in excess of the proceeds received from liability insurance which we obtain.

The Company had working capital of $7,342,000 as of December 31, 2017. It is the Company's opinion that current working capital is sufficient for the Company's ongoing operation. The Company may grow its business through acquisitions of complementary business for both divisions. In order to finance such acquisitions, the Company might need to significantly increase its debt and raise additional equity financing.

Cash Flows

Net cash provided by operating activities was $355,000 in 2017 and $370,000 in 2015**.** Net cash used in operating activities in 2016 was $(361,000), due to working capital requirements related to the acquisition of the business of iDnext and Next-Line.

Net cash used in investment activities in year 2017 amounted to $344,000 and includes cost of $138,000 related to offices renovation. Net cash used in investment activities in year 2016 amounted to $268,000 and included payment of $154,000 for acquisition of the business of iDnext and Next-Line business. Net cash used in investment activities in year 2015 amounted to $47,000.

Net cash provided by financing activities in 2017 and 2016 amounted to $236,000 and $496,000, respectively. Net cash used in financing activities in 2015 amounted to $426,000, respectively.

5C. Research and Development

Since August 2012 and following a cooperation agreement the Company entered into with an independent software development company for the maintenance, development and support of our software solutions, the Company has no research and development expenses. The selling and marketing of the software solutions continues to be performed by our RFID and Mobile Solutions division.

5D. Trend Information

BOS' vision is to become a leading Israeli integrator of RFID and Mobile solutions in Israel and a global provider of electronic components with supply chain added value services.

Committed to this vision, we anticipate that RFID and Mobile product offerings will increase, mainly through acquisitions of complementary solutions.

5E. Off-Balance Sheet Arrangements

Not applicable.

5F. Tabular Disclosure of Contractual Obligations

The following table of our material contractual obligations as of December 31, 2017, summarizes the aggregate effect that these obligations are expected to have on our cash flow in the periods indicated (in U.S. thousands of dollars with the exception of per share data):

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term loans [1]	$3,028	$505	$1,515	$1,008	-
Accrued severance pay [2]	$286	-	-	-	$ 286
Operating lease - cars[3]	$576	$284	$292	-	-
Purchase obligation for service and inventory	$4,841	$4,494	$347	-	-
Facilities lease	$491	$172	$259	$60	-
Total	$9,222	$5,455	$2,413	$1,068	$ 286

(1) In October 2017, the Company and its Israeli subsidiaries entered into an agreement with Bank Beinleumi for the provision of credit facilities in order to refinance Company's loans with Bank Beinleumi in a total amount of $3.03 million as of December 31, 2017.

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

(3) The Company has pre-paid the last instalment of each of the motor vehicles as a deposit.

29

Item 6: Directors, Senior Management and Employees

6A. Directors and Senior Management

Set forth below is information regarding our directors and senior management.

Name	Age	Position
Mr. Yosi Lahad (*)	62	Chairman of the Board of Directors
Mr. Yuval Viner	55	Co-Chief Executive Officer and Director
Mr. Avidan Zelicovsky	48	President and Director
Mr. Eyal Cohen	49	Co-Chief Executive Officer and Chief Financial Officer
Ms. Revital Cohen	41	Director
Mr. David Golan (*)	77	Director
Ms. Odelia Levanon (*)	55	Director
Mr. Ziv Dekel	54	Director

(*) Member of our audit committee and compensation committee.

Mr. Yosi Lahad was appointed as Chairman of the Board in 2015. Mr. Lahad has extensive interdisciplinary practical and academic knowledge and vast experience in restructuring processes and strategic alliances. Mr. Lahad has led as CEO or Chairman several technology companies from early stage to growth and led several M&A events in the United States, Israel and China. Mr. Lahad provides strategic and business development services to global companies in a variety of industries including communications, IT, energy, water, Homeland security & Robotics. Mr. Lahad serves as an active Board Chairman/member of several companies such as JPI Group China, a leading strategic planning firm for companies entering the Chinese market, AtlasSense, a provider of innovative analytics of health information over Internet, and NextWave Robotics among others. Previously, Mr. Lahad served as the country Managing Director of Tadiran's operations in China and as a Division VP at ELBIT Systems. Mr. Lahad had been a faculty member/Adjunct Professor lecturing on strategy of emerging companies and innovation at the Interdisciplinary Center (a joint program with Wharton school of business at University of Pennsylvania) and at Tel-Aviv University from 2005. Mr. Lahad is a frequent guest lecturer in universities and international conferences on Innovations in AI, Automation and Intelligent Systems. Mr. Lahad holds a BSc. in engineering from the Technion, an MSc. in engineering from the University of Texas (UTA) and an MBA from Tel Aviv University.

Mr. Yuval Viner was appointed as the Company acting Chief Executive Officer on October 20, 2009, as Chief Executive Officer on March 17, 2010 and joined our Board of Directors on June 29, 2015. Since August 15, 2017, Mr. Viner shares the position of Chief Executive Officer with Mr. Eyal Cohen. From March 2008, following the acquisition of Dimex System's assets, he served as the Head of RFID and Mobile Solutions division. Mr. Viner joined

Dimex Systems (1988) Ltd. in 1993 and was appointed as Dimex System's CEO in 2000. Mr. Viner joined the Company as part of the acquisition of Dimex Systems assets. Mr. Viner is a graduate of the Practical Engineering Academy of Tel Aviv.

Mr. Avidan Zelicovsky was appointed as the Company acting president in October 20, 2009, as president on March 17, 2010 and joined our Board of Directors on June 29, 2015. From November 2004, following the acquisition of Odem by BOS, Mr. Zelicovsky served as the Head of Supply Chain Solutions division. Mr. Zelicovsky first joined the Company's subsidiary Odem in 1996. Mr. Zelicovsky holds a B.A. in Business Administration from the Tel Aviv College of Management and an LL.M. from the Bar-Ilan University.

Mr. Eyal Cohen was appointed as the Company's Chief Financial Officer in January 2007. In August 15, 2017, Mr. Cohen was appointed as the Company's Co-Chief Executive Officer, a position he holds together with Mr. Yuval Viner. From 2004 through 2006, Mr. Cohen served as the Company's controller, and prior to that held the position of Chief Financial Officer at Cellact Ltd, a technology company. From 1998 to 2001, Mr. Cohen was the controller of e-SIM Ltd., a technology company traded on NASDAQ in the past, and in the years 1995-1997 held an audit manager position in technology department of PricewaterhouseCoopers. Mr. Cohen holds a B.A. in Accounting and Business Administration from the College of Management in Tel-Aviv and is a certified public accountant in Israel and in the United States, in the state of Maine.

Mr. David Golan has served as an External Director of the Company (within the meaning of the Israeli Companies Law) since February 2009 and until December 12, 2017. Thereafter, following the adoption by the Company of an exemption from the requirement to appoint External Directors, Mr. Golan has been elected to serve on the Company's Board of Directors as a regular director. He currently serves as a director in several companies, both public and private. Previously, until 2002, he served as an Executive Director of a group of companies in the Rad-Bynet group. In the years 1998-2000 he served as President of the Zeevi Investments group. Between 1997-1998, Mr. Golan served as President of Clal Trading Ltd. and between 1992-1997 he served as Vice President in Clal Trading Ltd. Between the years 1988-1992 Mr. Golan served as managing director of Gal Industries Ltd. Mr. Golan holds a bachelor's degree in Economics and Statistics from the Hebrew University, an MBA from New York University and took part in a senior management course in IMD Lausaunne.

Ms. Odelia Levanon joined our Board of Directors in November 2015. Since November 2017, Ms. Levanon is the CEO of the IUCC - Inter-University Computation Center. During the years 2014-2017, Ms. Levanon has served as the Chief Information Officer of Irani Group, a leading Israeli importer and wholesaler of fashion brands. Ms. Levanon has served as the Chief Executive Officer of a venture capital fund, from 2012 to 2014 and as the Chief Information Officer and head of the technology division of Mega retail from 2000 to 2012. She also serves as a board member of the Old Jaffa Development Company Ltd. and has previously served as a member of the Board of You – loyalty club from 2008 to 2012. Since 2016, Ms. Levanon is a lecturer on management in the field of information systems in the Israel Academic College in Ramat Gan. Ms. Levanon holds an M.Sc. in Computer Sciences and a B.Sc. in Mathematics and Computer Sciences, both from Tel Aviv University.

Mr. Ziv Dekel joined our Board of Directors on June 29, 2015. Mr. Dekel has over 25 years of management and strategic counseling experience. Since 2010, Mr. Dekel provides strategic advisory services to various business entities. In 1989, Mr. Dekel joined Shaldor Strategy Counseling as an analyst, and from 2002 through 2010 served as Shaldor's CEO and Managing Partner. Mr. Dekel holds a BA in Economics and an MBA, both from Tel-Aviv University.

Ms. Revital Cohen joined our Board of Directors on December 12, 2017. Since 2011, Ms. Cohen has an expertise in implementation of ERP system in enterprises and provides consulting to companies in various fields such as business planning, finance, ERP and human resources. Prior to 2011, Ms. Cohen was a senior consultant with Step Economic Consulting Ltd. Ms. Cohen holds a bachelor's degree in Sociology and Education, and master's degree in Organizational Studies from the Hebrew University in Jerusalem. Ms. Cohen is a sister-in-law of Mr. Eyal Cohen, the Company's Co-CEO and CFO.

6B. Compensation

The following table presents the total compensation paid to or accrued on behalf of all of our directors and officers as a group for the year ended December 31, 2017:

	Salaries, Directors' fees, Service fees, Commissions and Bonus	Pension, Retirement and Similar benefits
All directors and officers as a group (then 10 persons)	$ 804,000	$ 115,000

31

Compensation Requirements under Israeli Law

Compensation Policy

In December 2012, an amendment to the Israeli Companies Law, or Amendment 20, became effective, requiring public companies to appoint a compensation committee. See “Compensation Committee” below for information concerning our Compensation Committee.

Pursuant to Amendment 20, we were required to adopt a compensation policy regarding the terms of office and employment of office holders, including compensation, severance and other benefits, exemptions from liability, insurance and indemnification. The Compensation Policy must be based on the considerations, must include the provisions and needs to reference the matters which are detailed in the Israeli Companies Law. An “office holder” is defined in the Israeli Companies Law as a general manager, chief executive officer, chief business manager, deputy general manager, vice general manager, any other person assuming the responsibilities of any of the foregoing positions without regard to such person’s title, a director and a manager directly subordinate to the chief executive officer.

As required by the Israeli Companies Law, our Compensation Policy for Executive Officers and Directors (the “Compensation Policy”) was approved by our Board of Directors, after considering the recommendations of the Compensation Committee. According to the Israeli Companies Law, a compensation policy must also be approved by a majority of a company’s shareholders, provided that (i) such majority includes at least a majority of the shareholders who are not controlling shareholders and who do not have a personal interest in the matter, who are present and voting, or (ii) the non-controlling shareholders and shareholders who do not have a personal interest in the matter who were present and voted against the policy hold two percent or less of the voting power of the company (the “Compensation Majority”). Our amended Compensation Policy was approved by a Compensation Majority on November 8, 2016.

The Compensation Policy must be approved by the Board of Directors and the Company’s shareholders every three years. In the event that the Compensation Policy is not approved by the Company’s shareholders, the Compensation Committee and the Board of Directors may still approve the policy, if the Compensation Committee and the Board of Directors determine, based on specified reasons and following further discussion of the matter, that the Compensation Policy is in the best interests of the Company.

Changes to existing terms of office and employment of office holders (other than directors), only requires the approval of the Compensation Committee, if the Compensation Committee determines that the revised terms are not

substantially different from the existing terms.

Pursuant to Amendment 20, any arrangement between a company and an office holder (other than a director or the chief executive officer) as to his or her terms of office and employment must be in line with the company's compensation policy and requires the approval of such company's compensation committee and board of directors. However, under certain circumstances and conditions, the compensation committee and the board of directors may approve an arrangement that deviates from the company's compensation policy, provided that such arrangement is approved by the Compensation Majority of the company's shareholders. The board of directors and the compensation committee of a company may, under special circumstances and for specified reasons, approve such an arrangement even if the shareholders did not approve it, following a re-discussion of the matter in which, among other things, any shareholders' objections were examined.

Directors

Pursuant to Amendment 20, any arrangement between a company and a director as to his or her terms of office and employment must be in compliance with the Compensation Policy and requires the approval of the Compensation Committee, the board of directors and the shareholders by a simple majority.

Under the Israeli Companies Law and regulations promulgated pursuant thereto, the compensation payable to External Directors and independent directors is subject to certain further limitations.

In accordance with the approval of our shareholders in December 2017, directors who are not employees or service providers of the Company (excluding the Active Chairman) are entitled to receive annual compensation of NIS 29,270 (approximately $8,500), paid on a quarterly basis, and an additional NIS 2,175 (approximately $630) for each board and board committee meeting attended (or 60% of the attendance fee for a board meeting held via teleconference or 50% of such fee for a meeting held without convening).

In addition, in December 2017 our shareholders approved a grant to each of our directors (excluding the Active Chairman) of options to purchase 7,500 Ordinary Shares. The options shall be granted to those directors elected or re-elected by the shareholders in December 2017, provided that three years have lapsed since the Company's previous grant of options to such director, and to future directors to be elected for the first time to the Board of Directors. The grant date will be the date of approval of appointment or reappointment of the director at the shareholders meeting. The options' exercise price is calculated as the weighted average of the closing prices of the shares on the Nasdaq Capital Market during the 20 trading days preceding the date of approval of the grant by the Board of Directors.

The options will vest and become exercisable annually over a period of three years, in three equal parts, such that one third of the options shall vest on each of the first, second and third anniversary of the grant date, provided that the director is still serving on the Company's Board of Directors at the applicable vesting date.

The maximum option term is five years from the date of grant.

Payment of the exercise price must be made in full upon exercise of the options, by cash or check or cash equivalent, or by the assignment of the proceeds of a sale of some or all of the Ordinary Shares being acquired upon exercise of options, or by any combination of the foregoing.

The options are exercisable only by the director, and may not be assigned or transferred except following approval of the Company's audit committee or compensation committee, as applicable, by will or by the laws of descent and distribution. The options shall be exercisable during the term the director holds office (up to five years) or within 60 days following termination of this position, with certain exceptions in the case of the death or disability.

The Compensation of the directors is in compliance with the Company's Compensation policy approved by the shareholders on November 8, 2016.

Under recent amendments to Regulation 5D of the Israeli Companies Regulations (Reliefs for Public Companies whose Shares are Listed on a Stock Exchange Outside of Israel), 5760-2000 ("Relief Regulations"), Israeli companies with securities listed on certain foreign exchanges, including NASDAQ, such as the Company, that satisfy certain conditions, namely, (i) meeting the applicable foreign country laws and regulations that apply to companies organized in that country relating to the ="margin:0pt;font-family:Times New Roman;overflow: hidden;font-size:0pt;">

stock purchase/option plans

533

5

5,619

—

—

5,624

Non-cash compensation

—

—

10,972

—

—

10,972

Settlement of convertible notes

2,742

28

1,987

—

—

2,015

Settlement of convertible note hedges

(2,604)

(26)

30

—

—

4

Settlement of common stock warrants

1

—

(276,227)

—

—

(276,227)

Foreign currency translation adjustments

—

—

—

—

67,995

67,995

BALANCE, June 30, 2014

129,104

$

1,291

$

2,649,827

$

(2,526,146)

$

34,316

$

159,288

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

4

Table of Contents

SBA COMMUNICATIONS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited) (in thousands)

	For the six months ended June 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (8,061)	$ (58,275)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, accretion, and amortization	305,447	266,725
Non-cash interest expense	18,596	29,509
Deferred income tax expense (benefit)	37	(1,396)
Non-cash asset impairment and decommission costs	5,263	7,426
Non-cash compensation expense	10,814	8,804
Amortization of deferred financing fees	8,516	7,527
Loss from extinguishment of debt, net	10,187	5,760
Other non-cash items reflected in the Statements of Operations	2,028	(1,208)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable and costs and estimated earnings in excess of billings on uncompleted contracts, net	(656)	(20,276)
Prepaid and other assets	(16,397)	(33,656)
Accounts payable and accrued expenses	(2,044)	2,416
Accrued interest	7,331	4,401
Other liabilities	11,775	10,402
Net cash provided by operating activities	352,836	228,159
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions	(967,474)	(255,409)
Capital expenditures	(72,151)	(70,202)
Other investing activities	(4,916)	213
Net cash used in investing activities	(1,044,541)	(325,398)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under Revolving Credit Facility	275,000	125,000
Repayments under Revolving Credit Facility	(390,000)	(225,000)
Repayment of Term Loans	(295,500)	(507,000)
Proceeds from employee stock purchase/stock option plans	5,624	6,105
Proceeds from Term Loans, net of fees	1,483,450	—
Proceeds from settlement of convertible note hedges	4	182,853
Proceeds from issuance of Tower Securities	—	1,305,935
Repayment of BNDES Loans	(6,320)	—

Payment of deferred financing fees	(812)	(1,268)
Payment for purchase of noncontrolling interests	—	(6,008)
Payments for settlement of convertible debt	(121,289)	(794,996)
Payments for settlement of common stock warrants	(276,227)	(23,648)
Payment of restricted cash relating to SBA Tower Trust	—	(7,333)
Other financing activities	(14,935)	(1,642)
Net cash provided by financing activities	658,995	52,998
Effect of exchange rate changes on cash and cash equivalents	18,250	584
NET DECREASE IN CASH AND CASH EQUIVALENTS	(14,460)	(43,657)
CASH AND CASH EQUIVALENTS:		
Beginning of period	122,112	233,099
End of period	$ 107,652	$ 189,442

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

5

Table of Contents

SBA COMMUNICATIONS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	For the six months ended June 30,	
	2014	2013
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 129,961	$ 118,155
Income taxes	$ 4,354	$ 3,249
SUPPLEMENTAL CASH FLOW INFORMATION OF NON-CASH ACTIVITIES:		
Assets acquired through capital leases	$ 947	$ 690
Issuance of stock for settlement of convertible debt and warrants, net of hedges	$ 283	$ 18,134

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

Table of Contents

SBA COMMUNICATIONS CORPORATION AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1.BASIS OF PRESENTATION

The accompanying consolidated financial statements should be read in conjunction with the Annual Report on Form 10-K for the fiscal year ended December 31, 2013 for SBA Communications Corporation and its subsidiaries (the “Company”). These financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, omit or condense certain footnotes and other information normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States. In the opinion of the Company’s management, all adjustments (consisting of normal recurring accruals) considered necessary for fair financial statement presentation have been made. The results of operations for an interim period may not give a true indication of the results for the year. Certain reclassifications have been made to prior year amounts or balances to conform to the presentation adopted in the current year.

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in consolidated financial statements and accompanying notes. While the Company believes that such estimates are fair when considered in conjunction with the consolidated financial statements and accompanying notes, the actual amount of such estimates, when known, will vary from these estimates.

Foreign Currency Translation

All assets and liabilities of foreign subsidiaries that do not utilize the United States dollar as its functional currency are translated at period-end rates of exchange, while revenues and expenses are translated at monthly weighted average rates of exchange for the year. Unrealized translation gains and losses are reported as foreign currency translation adjustments through other comprehensive income (loss) in shareholders’ equity.

2.FAIR VALUE MEASUREMENTS

Items Measured at Fair Value on a Recurring Basis— The Company’s earnouts related to acquisitions are measured at fair value on a recurring basis using Level 3 inputs. Level 3 valuations rely on unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. The Company determines the fair value of acquisition-related contingent consideration and any subsequent changes in fair value using a discounted probability-weighted approach using Level 3 inputs. The fair value of the earnouts is reviewed quarterly and is based on the payments the Company expects to make based on historical internal observations related to the anticipated performance of the underlying assets. The Company’s estimate of the fair value of its obligation if the performance targets contained in various acquisition agreements were met was $19.8 million and $30.1 million as of June 30, 2014 and December 31, 2013, respectively, which the Company recorded in accrued expenses on its Consolidated Balance Sheets. The maximum potential obligation related to the performance targets was $31.6 million as of June 30, 2014.

The following summarizes the activity of the accrued earnouts:

	2014	2013
	(in thousands)	
Beginning balance, December 31,	$ 30,063	$ 9,840
Additions	5,375	534
Payments	(14,439)	(1,311)
Expirations	(274)	(1,786)
Change in Estimate	(1,373)	(280)
Foreign currency translation adjustments	427	18
Ending balance, June 30,	$ 19,779	$ 7,015

Items Measured at Fair Value on a Nonrecurring Basis— The Company's long-lived assets, intangibles, and asset retirement obligations are measured at fair value on a nonrecurring basis using Level 3 inputs. The Company considers many factors and makes certain assumptions when making this assessment, including but not limited to: general market and economic conditions, historical operating results, geographic location, lease-up potential and expected timing of lease-up. The fair value of the long-lived assets, intangibles, and asset retirement obligations is calculated using a discounted cash flow model. During the three and six months ended June 30, 2014, the Company recognized an impairment charge of $4.0 million and $7.6 million, respectively. The impairment charge

7

Table of Contents

includes the write off of $3.3 million and $5.6 million in carrying value of decommissioned towers and other third party decommission costs incurred related to the Company's long-lived assets and intangibles for the three and six months ended June 30, 2014, respectively. During the three and six months ended June 30, 2013, the Company recognized an impairment charge of $6.5 million and $10.2 million, respectively. The impairment charge includes the write off of $6.1 million and $7.4 million in carrying value of decommissioned towers and other third party decommission costs incurred related to the Company's long-lived assets and intangibles for the three and six months ended June 30, 2013, respectively. These write offs result from the Company's analysis that the future cash flows from certain towers would not recover the carrying value of the investment in those towers. Impairment charges and the related impaired assets relate to the Company's site leasing operating segment.

Fair Value of Financial Instruments— The carrying values of cash and cash equivalents, accounts receivable, restricted cash, accounts payable, and short-term investments approximate their estimated fair values due to the short maturity of these instruments. Short-term investments consisted of $5.6 million and $5.2 million in certificate of deposits, as of June 30, 2014 and December 31, 2013, respectively. The Company's estimate of the fair value of its held-to-maturity investments in treasury and corporate bonds, including current portion, are based primarily upon Level 1 reported market values. As of June 30, 2014, the carrying value and fair value of the held-to-maturity investments, including current portion, were $1.2 million and $1.3 million, respectively. As of December 31, 2013, the carrying value and fair value of the held-to-maturity investments, including current portion, was $1.1 million and $1.3 million, respectively.

The Company determines fair value of its debt instruments utilizing various Level 2 sources including quoted prices and indicative quotes (non-binding quotes) from brokers that require judgment to interpret market information including implied credit spreads for similar borrowings on recent trades or bid/ask prices. The fair value of the Revolving Credit Facility is considered to approximate the carrying value because the interest payments are based on Eurodollar rates that reset every month. The Company does not believe its credit risk has changed materially from the date the applicable Eurodollar Rate plus 187.5 basis points was set for the Revolving Credit Facility. The following table reflects fair values, principal balances, and carrying values of the Company's debt instruments (see Note 11).

	As of June 30, 2014			As of December 31, 2013		
	Fair Value	Principal Balance	Carrying Value	Fair Value	Principal Balance	Carrying Value
	(in thousands)					
4.000% Convertible Senior Notes due 2014	$ 1,266,140	$ 378,370	$ 370,200	$ 1,479,859	$ 499,944	$ 468,394
8.250% Senior Notes due 2019	254,719	243,750	242,484	262,031	243,750	242,387
5.625% Senior Notes due 2019	528,750	500,000	500,000	514,375	500,000	500,000
5.750% Senior Notes due 2020	848,000	800,000	800,000	832,000	800,000	800,000
4.254% 2010-1 Tower Securities	680,564	680,000	680,000	689,717	680,000	680,000
5.101% 2010-2 Tower Securities	579,508	550,000	550,000	586,586	550,000	550,000

2.933% 2012-1Tower Securities	618,418	610,000	610,000	604,736	610,000	610,000
2.240% 2013-1C Tower Securities	422,510	425,000	425,000	408,442	425,000	425,000
3.722% 2013-2C Tower Securities	569,543	575,000	575,000	530,098	575,000	575,000
3.598% 2013-1D Tower Securities	332,251	330,000	330,000	318,856	330,000	330,000
Revolving Credit Facility	100,000	100,000	100,000	215,000	215,000	215,000
2011 Term Loan	—	—	—	180,980	180,529	180,234
2012-1 Term Loan	179,550	180,000	180,000	184,538	185,000	185,000
2012-2 Term Loan	—	—	—	110,383	109,971	109,745
2014 Term Loan	1,488,750	1,500,000	1,496,407	—	—	—
BNDES Loans	—	—	—	5,847	5,847	5,847
Totals	$ 7,868,703	$ 6,872,120	$ 6,859,091	$ 6,923,448	$ 5,910,041	$ 5,876,607

8

Table of Contents

3.RESTRICTED CASH

Restricted cash consists of the following:

	As of June 30, 2014	As of December 31, 2013	Included on Balance Sheet
	(in thousands)		
Securitization escrow accounts	$ 35,428	$ 46,364	Restricted cash - current asset
Payment and performance bonds	991	941	Restricted cash - current asset
Surety bonds and workers compensation	9,342	8,991	Other assets - noncurrent
Total restricted cash	$ 45,761	$ 56,296	

Pursuant to the terms of the Tower Securities (see Note 11), the Company is required to establish a securitization escrow account, held by an indenture trustee, into which all rents and other sums due on the towers that secure the Tower Securities are directly deposited by the lessees. These restricted cash amounts are used to fund reserve accounts for the payment of (1) debt service costs, (2) ground rents, real estate and personal property taxes and insurance premiums related to towers, (3) trustee and servicing expenses, and (4) management fees and to reserve a portion of advance rents from tenants. The restricted cash in the controlled deposit account in excess of required reserve balances is subsequently released to the Borrowers (as defined in Note 11) monthly, provided that the Borrowers are in compliance with their debt service coverage ratio and that no event of default has occurred. All monies held by the indenture trustee are classified as restricted cash on the Company's Consolidated Balance Sheets.

Payment and performance bonds relate primarily to collateral requirements for tower construction currently in process by the Company. Cash is pledged as collateral related to surety bonds issued for the benefit of the Company or its affiliates in the ordinary course of business and primarily relates to the Company's tower removal obligations. As of June 30, 2014, the Company had $40.7 million in surety bonds and payment and performance bonds for which it was only required to post $3.1 million in collateral. As of December 31, 2013, the Company had $42.0 million in surety, payment and performance bonds for which it was only required to post $6.1 million in collateral. The Company periodically evaluates the collateral posted for its bonds to ensure that it meets the minimum requirements. As of June 30, 2014 and December 31, 2013, the Company had also pledged $2.6 million and $2.3 million, respectively, as collateral related to its workers compensation policy.

4.OTHER ASSETS

The Company's other assets are comprised of the following:

	As of June 30, 2014	As of December 31, 2013
	(in thousands)	
Restricted cash	$ 9,342	$ 8,991
Long-term investments	52,824	52,801
Prepaid land rent	128,153	119,047
Straight-line rent receivable	204,128	179,292
Other	48,385	40,721
Total other assets	$ 442,832	$ 400,852

5.ACQUISITIONS

The Company acquired 45 communication sites and related assets and liabilities and the rights to manage 4 additional communication sites during the three months ended June 30, 2014. These acquisitions were not significant to the Company and, accordingly, a preliminary estimate of the fair value of the assets acquired and liabilities assumed has not been presented. The Company evaluates all acquisitions after the applicable closing date of each transaction to determine whether any additional adjustments are needed to the allocation of the purchase price paid for the assets acquired and liabilities assumed by major balance sheet caption, as well as the separate recognition of intangible assets from goodwill if certain criteria are met.

9

Table of Contents

The following table summarizes all of the Company's cash acquisition capital expenditures:

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
	(in thousands)			
Towers and related intangible assets	$ 29,315	$ 35,112	$ 948,045	$ 230,865
Ground lease buyouts (1)	9,847	11,156	19,429	24,544
Total cash acquisition capital expenditures	$ 39,162	$ 46,268	$ 967,474	$ 255,409

(1) In addition, the Company paid $3.7 million and $3.1 million for ground lease extensions and term easements during the three months ended June 30, 2014 and 2013, respectively, and $5.0 million and $4.9 million for ground lease extensions during the six months ended June 30, 2014 and 2013, respectively. The Company recorded these amounts in prepaid rent on its Consolidated Balance Sheets.

Subsequent to June 30, 2014, the Company acquired 11 communication sites and related assets and liabilities and the rights to manage 1 additional communication site for $8.1 million in cash.

6.INTANGIBLE ASSETS, NET

The following table provides the gross and net carrying amounts for each major class of intangible assets:

	As of June 30, 2014			As of December 31, 2013		
	Gross carrying amount	Accumulated amortization	Net book value	Gross carrying amount	Accumulated amortization	Net book value
	(in thousands)					
Current contract intangibles	$ 3,864,470	$ (772,211)	$ 3,092,259	$ 3,154,616	$ (649,861)	$ 2,504,755
Network location intangibles	1,317,793	(368,862)	948,931	1,209,142	(326,699)	882,443
Intangible assets, net	$ 5,182,263	$ (1,141,073)	$ 4,041,190	$ 4,363,758	$ (976,560)	$ 3,387,198

All intangible assets noted above are included in the Company's site leasing segments. The Company amortizes its intangible assets using the straight-line method over an estimated economic life of 15 years. Amortization expense relating to the intangible assets was $89.5 million and $71.6 million for the three months ended June 30, 2014 and 2013, respectively, and $164.3 million and $133.6 million for the six months ended June 30, 2014 and 2013, respectively. These amounts are subject to changes in estimates resulting from purchase price adjustments.

7.PROPERTY AND EQUIPMENT, NET

Property and equipment, net (including assets held under capital leases) consists of the following:

	As of June 30, 2014	As of December 31, 2013
	(in thousands)	
Towers and related components	$ 4,037,823	$ 3,821,482
Construction-in-process	27,417	24,275
Furniture, equipment, and vehicles	44,725	40,274
Land, buildings, and improvements	390,254	364,830
	4,500,219	4,250,861
Less: accumulated depreciation	(1,808,917)	(1,672,417)
Property and equipment, net	$ 2,691,302	$ 2,578,444

Construction-in-process represents costs incurred related to towers that are under development and will be used in the Company's operations. Depreciation expense was $71.7 million and $69.5 million for the three months ended June 30, 2014 and 2013, respectively, and $140.7 million and $133.0 million for the six months ended June 30, 2014 and 2013, respectively. At June 30, 2014

10

Table of Contents

and December 31, 2013, non-cash capital expenditures that are included in accounts payable and accrued expenses were $13.3 million and $11.4 million, respectively.

8.COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS

Costs and estimated earnings on uncompleted contracts consist of the following:

	As of June 30, 2014	As of December 31, 2013
	(in thousands)	
Costs incurred on uncompleted contracts	$ 102,086	$ 94,145
Estimated earnings	42,934	32,547
Billings to date	(126,344)	(108,070)
	$ 18,676	$ 18,622

These amounts are included in the accompanying Consolidated Balance Sheets under the following captions:

	As of June 30, 2014	As of December 31, 2013
	(in thousands)	
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 25,704	$ 27,864
Other current liabilities (Billings in excess of costs and estimated earnings on uncompleted contracts)	(7,028)	(9,242)
	$ 18,676	$ 18,622

Eight significant customers comprised 87.8% and 89.6% of the costs and estimated earnings in excess of billings on uncompleted contracts, net of billings in excess of costs and estimated earnings on uncompleted contracts at June 30, 2014 and December 31, 2013, respectively.

9.CONCENTRATION OF CREDIT RISK

The Company’s credit risks consist primarily of accounts receivable with national, regional, and local wireless service providers and federal and state government agencies. The Company performs periodic credit evaluations of its customers’ financial condition and provides allowances for doubtful accounts, as required, based upon factors surrounding the credit risk of specific customers, historical trends, and other information. The Company generally does not require collateral on its lease agreements or site development contracts.

11

Table of Contents

The following is a list of significant customers (representing at least 10% of segment revenues for the periods reported) and the percentage of total segment revenues for the specified time periods derived from such customers.

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Percentage of Domestic Site Leasing Revenue				
AT&T Wireless (1)	29.6%	25.4%	29.0%	25.1%
Sprint (2)	26.3%	30.1%	26.7%	30.2%
T-Mobile (3)	19.2%	17.9%	19.5%	17.9%
Verizon Wireless	13.9%	12.8%	13.8%	12.8%

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Percentage of International Site Leasing Revenue				
Oi	49.5%	1.2%	41.0%	1.2%
Telefonica	26.0%	53.9%	30.4%	53.4%
Digicel	4.4%	12.0%	5.3%	12.1%

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Percentage of Site Development Revenue				
Sprint (2)	30.0%	0.8%	24.5%	0.5%
Ericsson, Inc.	17.2%	41.8%	17.8%	41.2%
T-Mobile (3)	10.2%	7.0%	9.7%	6.5%
Verizon Wireless	11.9%	4.0%	9.7%	4.0%
Alcatel-Lucent	2.6%	10.9%	3.6%	11.1%

(1)Prior year amounts have been adjusted to reflect the merger of AT&T Wireless and Cricket.

(2)Prior year amounts have been adjusted to reflect the merger of Sprint and Clearwire.

(3)Prior year amounts have been adjusted to reflect the merger of T-Mobile and Metro PCS.

Five significant customers comprised 43.7% and 51.5% of total gross accounts receivable at June 30, 2014 and December 31, 2013, respectively.

10.ACCRUED EXPENSES

The Company's accrued expenses are comprised of the following:

	As of June 30, 2014	As of December 31, 2013
	(in thousands)	
Accrued earnouts	$ 19,779	$ 30,063
Salaries and benefits	10,662	11,351
Real estate and property taxes	8,712	9,814
Other	37,278	34,903
	$ 76,431	$ 86,131

12

Table of Contents

11. DEBT

The carrying and principal values of debt consist of the following (in thousands):

	Maturity Date	As of June 30, 2014		As of December 31, 2013	
		Principal Balance	Carrying Value	Principal Balance	Carrying Value
4.000% Convertible Senior Notes	Oct. 1, 2014	$ 378,370	$ 370,200	$ 499,944	$ 468,394
8.250% Senior Notes	Aug. 15, 2019	243,750	242,484	243,750	242,387
5.625% Senior Notes	Oct. 1, 2019	500,000	500,000	500,000	500,000
5.750% Senior Notes	July 15, 2020	800,000	800,000	800,000	800,000
4.254% 2010-1 Tower Securities	April 15, 2015	680,000	680,000	680,000	680,000
5.101% 2010-2 Tower Securities	April 17, 2017	550,000	550,000	550,000	550,000
2.933% 2012-1 Tower Securities	Dec. 15, 2017	610,000	610,000	610,000	610,000
2.240% 2013-1C Tower Securities	April 17, 2018	425,000	425,000	425,000	425,000
3.722% 2013-2C Tower Securities	April 17, 2023	575,000	575,000	575,000	575,000
3.598% 2013-1D Tower Securities	April 17, 2018	330,000	330,000	330,000	330,000
Revolving Credit Facility	May 9, 2017	100,000	100,000	215,000	215,000
2011 Term Loan	June 30, 2018	—	—	180,529	180,234
2012-1 Term Loan	May 9, 2017	180,000	180,000	185,000	185,000
2012-2 Term Loan	Sept. 28, 2019	—	—	109,971	109,745
2014 Term Loan	Mar. 24, 2021	1,500,000	1,496,407	—	—
BNDES Loans	various	—	—	5,847	5,847
Total debt		$ 6,872,120	$ 6,859,091	$ 5,910,041	$ 5,876,607
Less: current maturities of long-term debt			(1,080,200)		(481,886)
Total long-term debt, net of current maturities			$ 5,778,891		$ 5,394,721

The table below reflects cash and non-cash interest expense amounts recognized by debt instrument for the periods presented:

For the three months ended June 30,				For the six months ended June 30,			
2014		2013		2014		2013	
Cash Interest	Non-cash Interest	Cash Interest	Non-cash Interest	Cash Interest	Non-cash Interest	Cash Interest	Non-cash Interest

(in thousands)

1.875% Convertible Senior Notes	$ —	$ —	$ 551	$ 2,161	$ —	$ —	$ 2,671	$ 10,435
4.0% Convertible Senior Notes	3,847	8,130	5,000	9,900	8,845	18,332	10,000	18,876
8.25% Senior Notes	5,027	49	5,027	45	10,055	97	10,055	89
5.625% Senior Notes	7,031	—	7,031	—	14,063	—	14,063	—
5.75% Senior Notes	11,500	—	11,500	—	23,000	—	23,000	—
2010 Secured Tower Rev Securities	14,345	—	14,344	—	28,691	—	28,688	—
2012 Secured Tower Rev Securities	4,521	—	4,521	—	9,042	—	9,042	—
2013 Secured Tower Rev Securities	10,804	—	8,784	—	21,609	—	8,784	—
Revolving Credit Facility	940	—	1,121	—	2,272	—	2,482	—
2011 Term Loan	—	—	2,456	24	696	6	7,072	68
2012-1 Term Loan	1,114	—	1,193	—	2,114	—	2,393	—
2012-2 Term Loan	—	—	1,496	14	424	4	4,308	41
2014 Term Loan	12,323	114	—	—	16,453	157	—	—
Other	46	—	93	—	261	—	24	—
Total	$ 71,498	$ 8,293	$ 63,117	$ 12,144	$ 137,525	$ 18,596	$ 122,582	$ 29,509

Table of Contents

Revolving Credit Facility under the Senior Credit Agreement

The Revolving Credit Facility is governed by the Senior Credit Agreement. As of June 30, 2014, the Revolving Credit Facility consisted of a revolving loan under which up to $770.0 million aggregate principal amount may be borrowed, repaid and redrawn, subject to compliance with specific financial ratios and the satisfaction of other customary conditions to borrowing. Amounts borrowed under the Revolving Credit Facility accrue interest at the Eurodollar Rate plus a margin that ranges from 187.5 basis points to 237.5 basis points or at a Base Rate plus a margin that ranges from 87.5 basis points to 137.5 basis points, in each case based on the ratio of Consolidated Total Debt to Annualized Borrower EBITDA, calculated in accordance with the Senior Credit Agreement. If not earlier terminated by SBA Senior Finance II LLC ("SBA Senior Finance II"), a subsidiary of the Company, the Revolving Credit Facility will terminate on, and SBA Senior Finance II will repay all amounts outstanding on or before, May 9, 2017. The proceeds available under the Revolving Credit Facility may be used for general corporate purposes. A per annum commitment fee of 0.375% to 0.5% of the unused commitments under the Revolving Credit Facility is charged based on the ratio of Consolidated Total Debt to Annualized Borrower EBITDA (calculated in accordance with the Senior Credit Agreement). SBA Senior Finance II may, from time to time, borrow from and repay the Revolving Credit Facility. Consequently, the amount outstanding under the Revolving Credit Facility at the end of a period may not be reflective of the total amounts outstanding during such period.

During the three and six months ended June 30, 2014, the Company borrowed $100.0 million and $275.0 million, respectively, under the Revolving Credit Facility. During the six months ended June 30, 2014, the Company repaid $390.0 million of the outstanding balance under the Revolving Credit Facility. As of June 30, 2014, $100.0 million was outstanding under the Revolving Credit Facility. Subsequent to June 30, 2014, the Company repaid the remaining $100.0 million outstanding balance under the Revolving Credit Facility with proceeds from the issuance of the 4.875% Notes (defined below). As of the date of this filing, no amounts were outstanding under the Revolving Credit Facility, and the amount available based on specified covenants under the facility was $720.0 million.

On February 7, 2014, SBA Senior Finance II entered into a Second Amended and Restated Credit Agreement (as amended and restated, the "Senior Credit Agreement") with several banks and other financial institutions or entities from time to time parties to the Senior Credit Agreement to, among other things, obtain a $1.5 billion senior secured term loan (the "2014 Term Loan") and to amend certain terms of the existing senior credit agreement. In addition to providing for the 2014 Term Loan, the Senior Credit Agreement was amended to, among other things, amend the terms of certain events of default, modify certain negative covenants and remove the parent financial maintenance leverage covenant to reflect the increased size of SBA Senior Finance II and its restricted subsidiaries. All other material terms of the Senior Credit Agreement, as it existed prior to February 7, 2014, remained unchanged.

Term Loans under the Senior Credit Agreement

2011 Term Loan

On February 7, 2014, the Company repaid the remaining $180.5 million outstanding principal balance of the 2011 Term Loan. In connection with the prepayment, the Company expensed $1.1 million of net deferred financing fees and $0.3 million of discount related to the debt.

2012-1 Term Loan

The 2012-1 Term Loan consists of a senior secured term loan with an initial aggregate principal amount of $200.0 million that matures on May 9, 2017. The 2012-1 Term Loan accrues interest, at SBA Senior Finance II's election, at either the Base Rate plus a margin that ranges from 100 to 150 basis points or the Eurodollar Rate plus a margin that ranges from 200 to 250 basis points, in each case based on the ratio of Consolidated Total Debt to Annualized

Borrower EBITDA (calculated in accordance with the Senior Credit Agreement). As of June 30, 2014, the 2012-1 Term Loan was accruing interest at 2.65% per annum. Principal payments on the 2012-1 Term Loan commenced on September 30, 2012 and are being made in quarterly installments on the last day of each March, June, September, and December, in an amount equal to $2.5 million for each of the first eight quarters, $3.75 million for the next four quarters and $5.0 million for each quarter thereafter. SBA Senior Finance II has the ability to prepay any or all amounts under the 2012-1 Term Loan without premium or penalty. To the extent not previously repaid, the 2012-1 Term Loan will be due and payable on the maturity date. The 2012-1 Term Loan was issued at par. The Company incurred deferred financing fees of $2.7 million in relation to this transaction which are being amortized through the maturity date.

During the three and six months ended June 30, 2014, the Company repaid $2.5 million and $5.0 million, respectively, of principal on the 2012-1 Term Loan. As of June 30, 2014, the 2012-1 Term Loan had a principal balance of $180.0 million.

Table of Contents

2012-2 Term Loan

On February 7, 2014, the Company repaid the entire $110.0 million outstanding principal balance of the 2012-2 Term Loan. In connection with the prepayment, the Company expensed $1.0 million of net deferred financing fees and $0.2 million of discount related to the debt.

2014 Term Loan

The 2014 Term Loan consists of a senior secured term loan with an initial aggregate principal amount of $1.5 billion that matures on March 24, 2021. The 2014 Term Loan accrues interest, at SBA Senior Finance II's election, at either the Base Rate plus 150 basis points (with a Base Rate floor of 1.75%) or the Eurodollar Rate plus 250 basis points (with a Eurodollar Rate floor of 0.75%). The 2014 Term Loan was issued at 99.75% of par value. As of June 30, 2014, the 2014 Term Loan was accruing interest at 3.25% per annum. Principal payments on the 2014 Term Loan will commence on September 30, 2014 and will be made in quarterly installments on the last day of each March, June, September, and December in an amount equal to $3.75 million. SBA Senior Finance II has the ability to prepay any or all amounts under the 2014 Term Loan. However, to the extent the 2014 Term Loan is prepaid prior to August 7, 2014 from proceeds of certain refinancing or repricing transactions, a prepayment fee equal to 1.0% of the aggregate principal amount of such prepayment will apply. The Company has incurred deferred financing fees of approximately $12.8 million to date in relation to this transaction which are being amortized through the maturity date.

Net proceeds from the 2014 Term Loan were used (1) to repay in full the remaining $180.5 million balance of the 2011 Term Loan, (2) to repay in full the remaining $110.0 million balance of the 2012-2 Term Loan, (3) to repay the $390.0 million outstanding balance under the Revolving Credit Facility, (4) to pay the cash consideration in connection with SBA's acquisition of towers from Oi S.A. in Brazil, and (5) for general corporate purposes.

Secured Tower Revenue Securities

2010 Tower Securities

On April 16, 2010, the Company, through a New York common law trust (the "Trust"), issued $680.0 million of 2010-1 Tower Securities and $550.0 million of 2010-2 Tower Securities (together the "2010 Tower Securities"). The 2010-1 Tower Securities have an annual interest rate of 4.254% and the 2010-2 Tower Securities have an annual interest rate of 5.101%. The weighted average annual fixed interest rate of the 2010 Tower Securities is 4.7%, including borrowers' fees, payable monthly. The anticipated repayment date and the final maturity date for the 2010–1 Tower Securities is April 15, 2015 and April 16, 2040, respectively. The anticipated repayment date and the final maturity date for the 2010–2 Tower Securities is April 17, 2017 and April 15, 2042, respectively. The sole asset of the Trust consists of a non-recourse mortgage loan made in favor of those SBA entities that are borrowers on the mortgage loan (the "Borrowers"). The Company incurred deferred financing fees of $18.0 million in relation to this transaction which are being amortized through the anticipated repayment date of each of the 2010 Tower Securities.

2012-1 Tower Securities

On August 9, 2012, the Company, through the Trust, issued $610.0 million of Secured Tower Revenue Securities Series 2012-1 (the "2012-1 Tower Securities") which have an anticipated repayment date and a final maturity date of December 15, 2017 and December 15, 2042, respectively. The fixed interest rate of the 2012-1 Tower Securities is 2.933% per annum, payable monthly. The Company incurred deferred financing fees of $14.9 million in relation to this transaction which are being amortized through the anticipated repayment date of the 2012-1 Tower Securities.

2013 Tower Securities

On April 18, 2013, the Company, through the Trust, issued $425.0 million of 2.240% Secured Tower Revenue Securities Series 2013-1C which have an anticipated repayment date and a final maturity date of April 17, 2018 and April 17, 2043, respectively, $575.0 million of 3.722% Secured Tower Revenue Securities Series 2013-2C which have an anticipated repayment date and a final maturity date of April 17, 2023 and April 17, 2048, respectively, and $330.0 million of 3.598% Secured Tower Revenue Securities Series 2013-1D which have an anticipated repayment date and a final maturity date of April 17, 2018 and April 17, 2043, respectively (collectively the “2013 Tower Securities”). The aggregate $1.33 billion of 2013 Tower Securities have a blended interest rate of 3.218% and an initial weighted average life through the anticipated repayment date of 7.2 years. The Company incurred an aggregate of deferred financing fees of $25.5 million in relation to this transaction which are being amortized through the anticipated repayment date of each of the 2013 Tower Securities.

15

Table of Contents

As of June 30, 2014, the Borrowers met the debt service coverage ratio required by the mortgage loan agreement and were in compliance with all other covenants as set forth in the agreement.

4.0% Convertible Senior Notes due 2014

On April 24, 2009, the Company issued $500.0 million of its 4.0% Convertible Senior Notes ("4.0% Notes") in a private placement transaction. Interest on the 4.0% Notes is payable semi-annually on April 1 and October 1. The maturity date of the 4.0% Notes is October 1, 2014. The Company incurred fees of $11.7 million with the issuance of the 4.0% Notes of which $7.7 million was recorded as deferred financing fees and $4.0 million was recorded as a reduction to shareholders' equity.

The 4.0% Notes are convertible, at the holder's option, into shares of the Company's Class A common stock, at an initial conversion rate of 32.9164 shares of its Class A common stock per $1,000 principal amount of 4.0% Notes (subject to certain customary adjustments), which is equivalent to an initial conversion price of approximately $30.38 per share or a 22.5% conversion premium based on the last reported sale price of $24.80 per share of the Company's Class A common stock on the Nasdaq Global Select Market on April 20, 2009, the purchase agreement date.

Concurrently with the pricing of the 4.0% Notes, the Company entered into convertible note hedge and warrant transactions with affiliates of certain of the initial purchasers of the convertible notes. The initial strike price of the convertible note hedge transactions relating to the 4.0% Notes is $30.38 per share of the Company's Class A common stock (the same as the initial conversion price of the 4.0% Notes) and the upper strike price of the warrant transactions is $44.64 per share.

The Company is amortizing the debt discount on the 4.0% Notes utilizing the effective interest method over the life of the 4.0% Notes which increases the effective interest rate of the 4.0% Notes from its coupon rate of 4.0% to 12.8%. As of June 30, 2014, the carrying amount of the equity component related to the 4.0% Notes was $166.9 million.

The 4.0% Notes are reflected in current maturities of long-term debt in the Consolidated Balance Sheets at their carrying value. The following table summarizes the balances for the 4.0% Notes:

	As of June 30, 2014	December 31, 2013
	(in thousands)	
Principal balance	$ 378,370	$ 499,944
Debt discount	(8,170)	(31,550)
Carrying value	$ 370,200	$ 468,394

At the time of the issuance of the 4.0% Notes, the Company elected to settle its conversion obligations in stock. Effective March 17, 2014, the Company elected to settle the principal amount of any conversions in cash and any additional conversion consideration at the conversion rate then applicable in shares of its Class A common stock. Concurrently with the settlement of any 4.0% Notes converted, the Company will settle the associated convertible note hedges and receive an equal number of shares to those issued to the noteholders.

During the three and six months ended June 30, 2014, the 4.0% Notes were convertible based on the fact that the closing price per share of the Company's Class A common stock exceeded $39.49 for at least 20 trading days during the 30 consecutive trading day period ending on March 31, 2014 and December 31, 2013, respectively, and remain convertible as of the date of this filing. During the three and six months ended June 30, 2014, holders of the 4.0% Notes converted $121.5 million and $121.6 million, respectively, in principal amount of 4.0% Notes. The Company settled its conversion obligation through the payment of the principal amount in cash and the issuance of 2.7 million shares of its Class A common stock during the three and six months ended June 30, 2014. Concurrently with these conversions, the related convertible note hedges were settled, and the Company received 2.7 million shares of its Class A common stock, of which 0.1 million shares were received subsequent to June 30, 2014. As a result, the Company's outstanding share count has not been impacted by the conversion of these notes. In addition, the Company received conversion notices totaling $11.3 million in principal amount of the 4.0% Notes which will settle during the third quarter of 2014 for cash and shares of its Class A common stock.

During the three months ended June 30, 2014, the Company paid $276.2 million to early settle approximately 30% of the outstanding warrants sold in connection with the issuance of the 4.0% Notes, representing approximately 4.9 million underlying shares of Class A common stock, scheduled to mature in the first quarter of 2015. Subsequent to June 30, 2014, the Company paid $66.5 million to early settle approximately 7.5% of the original total outstanding warrants, representing approximately 1.2 million

Table of Contents

underlying shares, scheduled to mature in the first quarter of 2015. The Company's obligations under the remaining 10.3 million warrants are scheduled to settle over a 60 trading day period commencing on January 2, 2015 unless otherwise settled early.

Senior Notes

8.25% Senior Notes

On July 24, 2009, SBA Telecommunications LLC ("Telecommunications"), the Company's wholly owned subsidiary, issued $375.0 million of unsecured senior notes due August 15, 2019 (the "8.25% Notes"). The 8.25% Notes have an interest rate of 8.25% per annum and were issued at a price of 99.152% of their face value. Interest is due semi-annually on February 15 and August 15 of each year beginning on February 15, 2010. The Company incurred deferred financing fees of $5.4 million in relation to the 8.25% Notes which are being amortized through the maturity date.

On April 13, 2012, the Company used the proceeds of an equity offering to redeem $131.3 million in aggregate principal amount of its 8.25% Notes and to pay $10.8 million as a premium on the redemption of the 8.25% Notes. The Company expensed $0.9 million and $2.4 million of debt discount and deferred financing fees, respectively, related to the redemption of the 8.25% Notes.

As of June 30, 2014, the principal balance of the 8.25% Notes was $243.8 million.

On July 15, 2014, the Company provided notice to the trustee that it would be exercising its call right with respect to the 8.25% Notes effective August 15, 2014. As of this date, the Company will repay the remaining $243.8 million principal and a call premium of $10.1 million to fully settle these notes.

5.75% Senior Notes

On July 13, 2012, Telecommunications issued $800.0 million of unsecured senior notes due July 15, 2020 (the "5.75% Notes"). The 5.75% Notes accrue interest at a rate of 5.75% and were issued at par. Interest on the 5.75% Notes is due semi-annually on July 15 and January 15 of each year beginning on January 15, 2013. The Company incurred deferred financing fees of $14.0 million in relation to this transaction which are being amortized through the maturity date.

5.625% Senior Notes

On September 28, 2012, the Company issued $500.0 million of unsecured senior notes due October 1, 2019 (the "5.625% Notes"). The 5.625% Notes accrue interest at a rate of 5.625% per annum and were issued at par. Interest on the 5.625% Notes is due semi-annually on April 1 and October 1 of each year beginning on April 1, 2013. The Company incurred deferred financing fees of $8.5 million in relation to this transaction which are being amortized through the maturity date.

4.875% Senior Notes

On July 1, 2014, the Company issued $750.0 million of unsecured senior notes due July 15, 2022 (the "4.875% Notes"). The 4.875% Notes were issued at 99.178% of par value. Interest on the 4.875% Notes is payable semi-annually on January 15 and July 15 of each year beginning January 15, 2015. Net proceeds from the 4.875% Notes were used to pay the conversion obligations with respect to $121.5 million aggregate principal amount of the 4.0% Notes. The remaining net proceeds will be used to redeem all of the 8.25% Notes due 2019 including the associated call premium and for general corporate purposes.

BNDES Loans

During the six months ended June 30, 2014, the Company had borrowings of $0.4 million and repayments of $6.3 million under the BNDES Loans. The BNDES Loans were repaid in full in April 2014.

12.SHAREHOLDERS’ EQUITY

Common Stock equivalents

The Company has potential common stock equivalents related to its outstanding stock options (see Note 13), restricted stock units, and the 4.0% Notes and related warrants (see Note 11). These potential common stock equivalents were not included in diluted

Table of Contents

loss per share because the effect would have been anti-dilutive for each of the three and six months ended June 30, 2014 and 2013, respectively. Accordingly, basic and diluted loss per common share and the weighted average number of shares used in the computation are the same for each period presented.

Stock Repurchases

The Company's Board of Directors authorized a stock repurchase program on April 27, 2011. This program authorizes the Company to purchase, from time to time, up to $300.0 million of the Company's outstanding Class A common stock through open market repurchases in compliance with Rule 10b-18 of the Securities Exchange Act of 1934, as amended, and/or in privately negotiated transactions at management's discretion based on market and business conditions, applicable legal requirements and other factors. This program became effective on April 28, 2011 and will continue until otherwise modified or terminated by the Company's Board of Directors at any time in the Company's sole discretion.

During the six months ended June 30, 2014, the Company did not repurchase any shares in conjunction with the stock repurchase program. As of June 30, 2014, the Company had a remaining authorization to repurchase an additional $150.0 million of its common stock under its current $300.0 million stock repurchase program.

13.STOCK-BASED COMPENSATION

Stock Options

The Company records compensation expense for employee stock options based on the estimated fair value of the options on the date of grant using the Black-Scholes option-pricing model with the assumptions included in the table below. The Company uses a combination of historical data and historical volatility to establish the expected volatility. Historical data is used to estimate the expected option life and the expected forfeiture rate. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for the estimated life of the option. The following assumptions were used to estimate the fair value of options granted using the Black-Scholes option-pricing model:

	For the six months ended June 30,	
	2014	2013
Risk free interest rate	1.15% - 1.325%	0.51% - 1.03%
Dividend yield	0.0%	0.0%
Expected volatility	22.0%	25.0% - 29.0%
Expected lives	4.4 years	3.9 - 4.8 years

The following table summarizes the Company's activities with respect to its stock option plans for the six months ended June 30, 2014 as follows (dollars and number of shares in thousands, except for per share data):

	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2013	2,979	$ 48.30		
Granted	1,115	$ 95.47		
Exercised	(571)	$ 36.55		
Canceled	(23)	$ 79.48		
Outstanding at June 30, 2014	3,500	$ 65.03	5.0	$ 130,412
Exercisable at June 30, 2014	1,247	$ 40.16	3.2	$ 77,482
Unvested at June 30, 2014	2,253	$ 78.80	5.9	$ 52,930

Table of Contents

The weighted-average fair value of options granted during the six months ended June 30, 2014 and 2013 was $19.48 and $17.34, respectively. The total intrinsic value for options exercised during the six months ended June 30, 2014 and 2013 was $33.8 million and $23.2 million, respectively.

Restricted Stock Units

The following table summarizes the Company’s restricted stock unit activity for the six months ended June 30, 2014:

	Number of Units (in thousands)	Weighted-Average Grant Date Fair Value per Share
Outstanding at December 31, 2013	305	$ 55.60
Granted	117	$ 95.51
Vested	(120)	$ 50.11
Forfeited/canceled	(3)	$ 76.06
Outstanding at June 30, 2014	299	$ 73.25

14.INCOME TAXES

During the three months ended June 30, 2014, the Company had federal and state taxable income which was offset by net operating losses for the six months ended June 30, 2014. The Company had U.S. taxable losses during the three months ended June 30, 2014 and 2013 and for the six months ended June 30, 2013, and, as a result, federal and state net operating loss carry-forwards have been generated. The U.S. federal and state net operating loss carry-forwards of the Company have a full valuation allowance as management believes it is not “more-likely-than-not” that the Company will generate sufficient taxable income in future periods to realize the losses. A foreign tax provision is recognized because certain international subsidiaries of the Company have profitable operations or a net deferred tax liability position.

15.SEGMENT DATA

The Company operates principally in two business segments: site leasing and site development. The Company's reportable segments are strategic business units that offer different services. They are managed separately based on the fundamental differences in their operations. The site leasing segment includes results of the managed and sublease businesses. The site development segment includes the results of both consulting and construction related activities.

Commencing in the second quarter of 2014, the Company expanded the presentation of its site leasing business into two reporting segments, domestic site leasing and international site leasing as a result of its international site leasing revenues exceeding 10% of total revenues. All prior periods have been restated to conform to the current year presentation.

Table of Contents

Revenues, cost of revenues (exclusive of depreciation, accretion and amortization), capital expenditures (including assets acquired through the issuance of shares of the Company's Class A common stock) and identifiable assets pertaining to the segments in which the Company continues to operate are presented below:

	Domestic Site Leasing	Int'l Site Leasing	Site Development	Not Identified by Segment (1)	Total
	(in thousands)				
For the three months ended June 30, 2014					
Revenues	$ 285,168	$ 55,284	$ 42,968	$ —	$ 383,420
Cost of revenues (2)	60,314	15,068	32,056	—	107,438
Depreciation, amortization and accretion	130,363	29,351	609	682	161,005
Operating income (loss)	72,513	6,339	8,259	(3,794)	83,317
Cash capital expenditures (3)	62,734	11,847	1,931	3,395	79,907
For the three months ended June 30, 2013					
Revenues	$ 259,754	$ 19,747	$ 44,804	$ —	$ 324,305
Cost of revenues (2)	61,220	6,564	35,941	—	103,725
Depreciation, amortization and accretion	129,724	10,418	472	475	141,089
Operating income (loss)	51,685	(1,934)	6,448	(6,665)	49,534
Cash capital expenditures (3)	60,279	18,919	839	264	80,301
For the six months ended June 30, 2014					
Revenues	$ 560,228	$ 89,543	$ 79,198	$ —	$ 728,969
Cost of revenues (2)	122,528	22,594	59,483	—	204,605
Depreciation, amortization and accretion	256,377	46,368	1,128	1,574	305,447
Operating income (loss)	135,204	7,491	14,587	(6,831)	150,451
Cash capital expenditures (3)	337,823	695,406	3,772	3,571	1,040,572
For the six months ended June 30, 2013					
Revenues	$ 513,826	$ 39,179	$ 84,372	$ —	$ 637,377
Cost of revenues (2)	122,609	13,276	68,535	—	204,420
Depreciation, amortization and accretion	244,032	20,718	1,031	944	266,725
Operating income (loss)	108,241	(6,897)	10,930	(5,974)	106,300
Cash capital expenditures (3)	290,325	32,611	2,647	718	326,301
Assets					
As of June 30, 2014	$ 5,530,137	$ 1,747,761	$ 62,056	$ 224,629	$ 7,564,583
As of December 31, 2013	5,427,969	1,040,401	76,214	238,604	6,783,188

(1)Assets not identified by segment consist primarily of general corporate assets.

(2)Excludes depreciation, amortization, and accretion.

(3)Includes cash paid for capital expenditures and acquisitions and vehicle capital lease additions.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We are a leading independent owner and operator of wireless communications tower structures, rooftops and other structures that support antennas used for wireless communications, which we collectively refer to as "towers" or "sites." Our principal operations are in the United States and its territories. In addition, we own and operate towers in Canada, Central America, and South America. Our primary business line is our site leasing business, which contributed 96.2% of our total segment operating profit for the six months ended June 30, 2014. In our site leasing business, we (1) lease antenna space to wireless service providers on towers that we own or operate and (2) manage rooftop and tower sites for property owners under various contractual arrangements. The towers that we own have been constructed by us at the request of a wireless service provider, constructed based on our own initiative, or acquired. As of June 30, 2014, we owned 22,305 towers, a substantial portion of which have been built by us or built by other tower owners or operators who, like us, have built such towers to lease space to multiple wireless service providers. We also managed or leased approximately 5,500 actual or potential towers, approximately 500 of which were revenue producing as of June 30, 2014. Our other business line is our site development business, through which we assist wireless service providers in developing and maintaining their own wireless service networks.

Site Leasing Services

Our primary focus is the leasing of antenna space on our multi-tenant towers to a variety of wireless service providers under long-term lease contracts in the United States, Canada, Central America, and South America. Commencing in the second quarter of 2014, we have classified our site leasing business into two reporting segments, domestic site leasing and international site leasing as a result of our international site leasing revenues exceeding 10% of our total revenues.

Site leasing revenues are received primarily from wireless service provider tenants, including AT&T, Sprint, Verizon Wireless, T-Mobile, Oi, Digicel, American Movile, and Telefonica.

Cost of site leasing revenue primarily consists of:

•Rental payments on ground leases and other underlying property interests;

•Straight-line rent adjustment for the difference between rental payments made and the expense recorded as if the payments had been made evenly throughout the lease term (which may include renewal terms) of the underlying property interests;

•Property taxes;

•Site maintenance and monitoring costs (exclusive of employee related costs);

•Utilities;

•Property insurance; and

•Deferred lease origination cost amortization.

As of June 30, 2014, approximately 72% of our tower structures were located on parcels of land that we own, land subject to perpetual easements, or parcels of land in which we have a leasehold interest that extends beyond 20 years. For any given tower, costs are relatively fixed over a monthly or an annual time period. As such, operating costs for

owned towers do not generally increase as a result of adding additional customers to the tower. The amount of direct costs associated with operating a tower varies from site to site depending on the taxing jurisdiction and the height and age of the tower. The ongoing maintenance requirements are typically minimal and include replacing lighting systems, painting a tower, or upgrading or repairing an access road or fencing.

Domestic Site Leasing

As of June 30, 2014, we had 15,038 sites in the United States. For the three months ended June 30, 2014, we generated 83.8% of our site leasing revenue from these sites. In the United States, wireless service providers typically enter into different tenant leases with us, each of which relates to the lease or use of space at an individual tower. Our tenant leases in the United States are generally for an initial term of five to ten years with five 5-year renewal periods at the option of the tenant. These tenant leases typically contain

21

Table of Contents

specific rent escalators, which average 3-4% per year, including the renewal option periods. Our ground leases in the United States are generally for an initial term of five years or more with multiple renewal terms of 5-year periods, at our option, and provide for rent escalators which typically average 2-3% annually.

International Site Leasing

As of June 30, 2014, we had 7,267 sites in our international markets, located in Canada, Costa Rica, El Salvador, Guatemala, Nicaragua, Panama, and Brazil. For the three months ended June 30, 2014, we generated 16.2% of our site leasing revenue from these sites. Our operations in these countries are solely in the site leasing business, and we expect to expand operations through new builds and acquisitions.

Our tenant leases in Canada typically have similar terms and conditions as those in the United States with an initial term of five to ten years with five 5-year renewal periods at the option of the tenant. These tenant leases typically contain specific rent escalators, which average 3-4% per year, including the renewal option periods. Tenant leases in our Central America and Brazil markets typically have an initial term of 10 years with 5-year renewal periods. In Central America, we have similar rent escalators to that of leases in the United States and Canada while our leases in Brazil typically escalate in accordance with a standard cost of living index. In Brazil, site leases are typically governed by master lease agreements, which provide for the material terms and conditions that will govern the terms of the use of the site. These site leases typically provide for a fixed rental amount and a pass-through charge for a portion of the underlying ground lease rent. Our ground leases in Canada, Central America and Brazil generally have similar terms and conditions as those in the United States, except that the annual escalator in Brazil is a cost of living index.

In our Central American markets, significantly all of our tenant leases and most of our operating expenses, including our ground leases, are denominated in U.S. dollars. In our Central American markets, our local currency denominated operating expenses are principally limited to (1) permitting and other local fees, (2) utilities, (3) taxes, and (4) selling, general, and administrative expenses. In our Canadian and Brazilian operations, significantly all of our revenue and expenses are denominated in the respective local currency.

Table of Contents

As indicated in the table below, our site leasing business generates substantially all of our total segment operating profit. For information regarding our operating segments, see Note 15 of our Condensed Notes to Consolidated Financial Statements included in this quarterly report.

	Revenues			
	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
	(dollars in thousands)			
Domestic site leasing revenue	$ 285,168	$ 259,754	$ 560,228	$ 513,826
International site leasing revenue	$ 55,284	$ 19,747	$ 89,543	$ 39,179
Total site leasing revenue	$ 340,452	$ 279,501	$ 649,771	$ 553,005
Total revenues	$ 383,420	$ 324,305	$ 728,969	$ 637,377
Domestic site leasing revenue as percentage of total revenues	74.4%	80.1%	76.9%	80.6%
International site leasing revenue as percentage of total revenues	14.4%	6.1%	12.3%	6.1%
Total site leasing revenue as percentage of total revenues	88.8%	86.2%	89.1%	86.8%

	Segment Operating Profit			
	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
	(dollars in thousands)			
Domestic site leasing segment operating profit (1)	$ 224,854	$ 198,534	$ 437,700	391,217
International site leasing segment operating profit (1)	$ 40,216	$ 13,183	$ 66,949	25,903
Total site leasing segment operating profit (1)	$ 265,070	$ 211,717	$ 504,649	$ 417,120
Total segment operating profit (1)	$ 275,982	$ 220,580	$ 524,364	432,957
Domestic site leasing segment operating profit as percentage of total segment operating profit (1)	81.5%	90.0%	83.5%	90.4%
International site leasing segment operating profit as percentage of total segment operating profit (1)	14.6%	6.0%	12.8%	6.0%
Total site leasing segment operating profit as percentage of total segment operating profit (1)	96.1%	96.0%	96.3%	96.4%

(1)Site leasing segment operating profit and total segment operating profit are non-GAAP financial measures. We reconcile these measures and other Regulation G disclosures in this quarterly report in the section entitled Non-GAAP Financial Measures.

We believe that over the long-term, site leasing revenues will continue to grow as wireless service providers lease additional antenna space on our towers due to increasing minutes of network use and data transfer, network expansion and network coverage requirements. We believe our site leasing business is characterized by stable and long-term recurring revenues, predictable operating costs and minimal non-discretionary capital expenditures. Due to the relatively young age and mix of our tower portfolio, we expect future expenditures required to maintain these towers to be minimal. Consequently, we expect to grow our cash flows by (1) adding tenants to our towers at minimal incremental costs by using existing tower capacity or requiring wireless service providers to bear all or a portion of the cost of tower modifications and (2) executing monetary amendments as wireless service providers upgrade their equipment. Furthermore, because our towers are strategically positioned and our customers typically do not relocate, we have historically experienced low tenant lease terminations as a percentage of revenue.

Table of Contents

Site Development Services

Our site development business, which is conducted in the United States only, is complementary to our site leasing business and provides us the ability to keep in close contact with the wireless service providers who generate substantially all of our site leasing revenue and to capture ancillary revenues that are generated by our site leasing activities, such as antenna and equipment installation at our tower locations. Site development services revenues are earned primarily from providing a full range of end to end services to wireless service providers or companies providing development or project management services to wireless service providers. Our services include: (1) network pre-design; (2) site audits; (3) identification of potential locations for towers and antennas; (4) support in buying or leasing of the location; (5) assistance in obtaining zoning approvals and permits; (6) tower and related site construction; (7) antenna installation; and (8) radio equipment installation, commissioning, and maintenance. We provide site development services at our towers and at towers owned by others.

Critical Accounting Policies and Estimates

We have identified the policies and significant estimation processes listed in the Annual Report on Form 10-K as critical to our business operations and the understanding of our results of operations. The listing is not intended to be a comprehensive list. In many cases, the accounting treatment of a particular transaction is specifically dictated by accounting principles generally accepted in the United States, with no need for management’s judgment in their application. In other cases, management is required to exercise judgment in the application of accounting principles with respect to particular transactions. The impact and any associated risks related to these policies on our business operations is discussed throughout “Management’s Discussion and Analysis of Financial Condition and Results of Operations” where such policies affect reported and expected financial results. For a detailed discussion on the application of these and other accounting policies, see Note 2 of our Consolidated Financial Statements contained in our Annual Report on Form 10-K for the year ended December 31, 2013. Our preparation of our financial statements requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements, and the reported amounts of revenue and expenses during the reporting periods. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. There can be no assurance that actual results will not differ from those estimates and such differences could be significant.

KEY PERFORMANCE INDICATORS

Non-GAAP Financial Measures

This report contains certain non-GAAP measures, including Segment Operating Profit and Adjusted EBITDA information. We have provided below a description of such non-GAAP measures, a reconciliation of such non-GAAP measures to their most directly comparable GAAP measures and an explanation as to why management utilizes these measures.

Table of Contents

Segment Operating Profit:

We believe that Segment Operating Profit is an indicator of the operating performance of our site leasing and site development segments and is used to provide management with the ability to monitor the operating results and margin of each segment, while excluding the impact of depreciation, accretion, and amortization, which is largely fixed and non-cash in nature. Segment Operating Profit is not intended to be an alternative measure of revenue or segment gross profit as determined in accordance with GAAP.

	Domestic site leasing segment					
	For the three months ended June 30,		Dollar	For the six months ended June 30,		Dollar
	2014	2013	Change	2014	2013	Change
	(in thousands)					
Segment revenue	$ 285,168	$ 259,754	$ 25,414	$ 560,228	$ 513,826	$ 46,402
Segment cost of revenues (excl. depreciation, accretion, and amortization)	(60,314)	(61,220)	906	(122,528)	$ (122,609)	81
Segment operating profit	$ 224,854	$ 198,534	$ 26,320	$ 437,700	$ 391,217	$ 46,483

	International site leasing segment					
	For the three months ended June 30,		Dollar	For the six months ended June 30,		Dollar
	2014	2013	Change	2014	2013	Change
	(in thousands)					
Segment revenue	$ 55,284	$ 19,747	$ 35,537	$ 89,543	$ 39,179	$ 50,364
Segment cost of revenues (excl. depreciation, accretion, and amortization)	(15,068)	(6,564)	(8,504)	(22,594)	$ (13,276)	(9,318)
Segment operating profit	$ 40,216	$ 13,183	$ 27,033	$ 66,949	$ 25,903	$ 41,046

	Site development segment					
	For the three months ended June 30,		Dollar	For the six months ended June 30,		Dollar
	2014	2013	Change	2014	2013	Change
	(in thousands)					
Segment revenue	$ 42,968	$ 44,804	$ (1,836)	$ 79,198	$ 84,372	$ (5,174)
Segment cost of revenues (excl. depreciation, accretion, and amortization)	(32,056)	(35,941)	3,885	(59,483)	$ (68,535)	9,052

Segment operating profit	$ 10,912	$ 8,863	$ 2,049	$ 19,715	$ 15,837	$ 3,878

Domestic site leasing segment operating profit increased $26.3 million for the three months ended June 30, 2014, as compared to the prior year, primarily due to additional profit generated by (i) 298 towers acquired and 118 towers built since April 1, 2013 and (ii) organic site leasing growth from new leases, contractual rent escalators, and lease amendments with current tenants which increased the related rent as a result of additional equipment added to our towers in addition to improving control of our site leasing cost of revenue, and the positive impact of our ground lease purchase program.

Domestic site leasing segment operating profit increased $46.5 million for the six months ended June 30, 2014, as compared to the prior year, primarily due to additional profit generated by (i) 320 towers acquired and 148 towers built since January 1, 2013 and (ii) organic site leasing growth from new leases, contractual rent escalators, and lease amendments with current tenants which increased the related rent as a result of additional equipment added to our towers in addition to improving control of our site leasing cost of revenue, and the positive impact of our ground lease purchase program.

International site leasing segment operating profit increased $27.0 million for the three months ended June 30, 2014, as compared to the prior year, primarily due to additional profit generated by (i) 4,396 towers acquired and 262 towers built since April 1, 2013 and (ii) organic site leasing growth from new leases, contractual rent escalators, and lease amendments with current tenants which increased the related rent as a result of additional equipment added to our towers in addition to improving control of our site

Table of Contents

leasing cost of revenue, and the positive impact of our ground lease purchase program. The increase in international segment operating profit includes the negative impact of $0.3 million from fluctuations in foreign currency exchange rates as compared to the prior year.

International site leasing segment operating profit increased $41.0 million for the six months ended June 30, 2014, as compared to the prior year, primarily due to additional profit generated by (i) 4,415 towers acquired and 294 towers built since January 1, 2013 and (ii) organic site leasing growth from new leases, contractual rent escalators, and lease amendments with current tenants which increased the related rent as a result of additional equipment added to our towers in addition to improving control of our site leasing cost of revenue, and the positive impact of our ground lease purchase program. The increase in international segment operating profit includes the negative impact of $0.9 million from fluctuations in foreign currency exchange rates as compared to the prior year.

Site development segment operating profit increased $2.0 million and $3.8 million for the three and six months ended June 30, 2014, respectively, as compared to the prior year, primarily due to higher margin carrier direct work performed in the current year, in particular the Sprint 2.5 GHz initiative.

Adjusted EBITDA

We define Adjusted EBITDA as net income (loss) excluding the impact of non-cash straight-line leasing revenue, non-cash straight-line ground lease expense, non-cash compensation, net loss from extinguishment of debt, other income and expenses, acquisition related expenses, asset impairment and decommission costs, net interest expenses, depreciation, accretion, and amortization, provision (benefit) for taxes, and income from discontinued operations.

We believe that Adjusted EBITDA is an indicator of the financial performance of our core businesses. Adjusted EBITDA is a component of the calculation that has been used by our lenders to determine compliance with certain covenants under our Senior Credit Agreement and the indentures relating to our 8.25% Notes, 5.625% Notes, 5.75% Notes, and 4.875% Notes. Adjusted EBITDA is not intended to be an alternative measure of operating income or gross profit margin as determined in accordance with GAAP.

The reconciliation of Adjusted EBITDA is as follows:

	For the three months ended June 30,		Dollar	For the six months ended June 30,		Dollar
	2014	2013	Change	2014	2013	Change
	(in thousands)					
Net loss	$ (9,467)	$ (35,899)	$ 26,432	$ (8,061)	$ (58,275)	$ 50,214
Non-cash straight-line leasing revenue	(15,217)	(16,833)	1,616	(26,245)	(34,292)	8,047

Non-cash straight-line ground lease expense	9,172	9,009	163	18,145	18,128	17
Non-cash compensation	6,196	4,930	1,266	10,814	8,804	2,010
Loss from extinguishment of debt, net	8,236	5,618	2,618	10,187	5,760	4,427
Other income	(1,384)	(547)	(837)	(19,774)	(699)	(19,075)
Acquisition related expenses	2,225	1,957	268	10,786	7,779	3,007
Asset impairment and decommission costs	3,994	6,493	(2,499)	7,562	10,215	(2,653)
Interest income	(180)	(697)	517	(266)	(1,338)	1,072
Interest expense (1)	84,069	79,184	4,885	164,637	159,618	5,019
Depreciation, accretion, and amortization	161,005	141,089	19,916	305,447	266,725	38,722
Provision for taxes (2)	2,407	2,085	322	4,490	1,684	2,806
Adjusted EBITDA	$ 251,056	$ 196,389	$ 54,667	$ 477,722	$ 384,109	$ 93,613

(1)Interest expense includes interest expense, non-cash interest expense, and amortization of deferred financing fees.

(2)Provision for taxes includes $364 and $210 of franchise and gross receipt taxes for the three months ended June 30, 2014 and 2013, respectively, and $762 and $450 of franchise and gross receipt taxes for the six months ended June 30, 2014 and 2013, respectively, reflected in selling, general, and administrative expenses on the Consolidated Statement of Operations

Adjusted EBITDA increased $54.7 million for the three months ended June 30, 2014 as compared to the prior year and increased $93.6 million for the six months ended June 30, 2014 as compared to the prior year, primarily the result of increased

26

Table of Contents

segment operating profit from our site leasing and site development segments offset partially by the increase in our cash selling, general, and administrative expenses.

RESULTS OF OPERATIONS

Three months ended June 30, 2014 compared to three months ended June 30, 2013

	For the three months ended June 30, 2014	2013	Dollar Change	Percentage Change
	(in thousands)			
Revenues:				
Domestic site leasing	$ 285,168	$ 259,754	$ 25,414	9.8%
International site leasing	55,284	19,747	35,537	180.0%
Site development	42,968	44,804	(1,836)	(4.1%)
Total revenues	383,420	324,305	59,115	18.2%
Operating expenses:				
Cost of revenues (exclusive of depreciation, accretion, and amortization shown below):				
Cost of domestic site leasing	60,314	61,220	(906)	(1.5%)
Cost of international site leasing	15,068	6,564	8,504	129.6%
Cost of site development	32,056	35,941	(3,885)	(10.8%)
Selling, general, and administrative	25,441	21,507	3,934	18.3%
Acquisition related expenses	2,225	1,957	268	13.7%
Asset impairment and decommission costs	3,994	6,493	(2,499)	(38.5%)
Depreciation, accretion, and amortization	161,005	141,089	19,916	14.1%
Total operating expenses	300,103	274,771	25,332	9.2%
Operating income	83,317	49,534	33,783	68.2%
Other income (expense):				
Interest income	180	697	(517)	(74.2%)
Interest expense	(71,498)	(63,117)	(8,381)	13.3%
Non-cash interest expense	(8,293)	(12,144)	3,851	(31.7%)
Amortization of deferred financing fees	(4,278)	(3,923)	(355)	9.0%
Loss from extinguishment of debt, net	(8,236)	(5,618)	(2,618)	46.6%
Other income	1,384	547	837	153.0%
Total other expense	(90,741)	(83,558)	(7,183)	8.6%
Loss before provision for income taxes	(7,424)	(34,024)	26,600	(78.2%)
Provision for income taxes	(2,043)	(1,875)	(168)	9.0%
Net loss	$ (9,467)	$ (35,899)	$ 26,432	(73.6%)

Revenues:

Domestic site leasing revenues increased $25.4 million for the three months ended June 30, 2014, as compared to the prior year, due largely to (i) revenues from 298 towers acquired and 118 towers built since April 1, 2013 and (ii) organic site leasing growth from new leases, contractual rent escalators, and lease amendments which increased the related rent to reflect additional equipment added to our towers.

International site leasing revenues increased $35.5 million for the three months ended June 30, 2014, as compared to the prior year, due largely to (i) revenues from 4,396 towers acquired and 262 towers built since April 1, 2013 and (ii) organic site leasing growth from new leases, contractual rent escalators, and lease amendments which increased the related rent to reflect additional equipment added to our towers. The increase in international site leasing revenues includes the negative impact of $0.6 million from fluctuations in foreign currency exchange rates as compared to the prior year.

27

Table of Contents

Site development revenues decreased $1.8 million for the three months ended June 30, 2014, as compared to the prior year, primarily due to a reduction in the volume of work performed during the quarter for Sprint, which had more activity in the prior year from the Network Vision Initiative than the current year 2.5GHz initiative.

Operating Expenses:

Domestic site leasing cost of revenues decreased $0.9 million for the three months ended June 30, 2014, as compared to the prior year, primarily as a result of a non-recurring property tax adjustment and by the positive impact of our ground lease purchase program, partially offset by the growth in the number of towers owned by us.

International site leasing cost of revenues increased $8.5 million for the three months ended June 30, 2014, as compared to the prior year, primarily as a result of the growth in the number of towers owned by us, partially offset by the positive impact of our ground lease purchase program. The increase in international site leasing cost of revenues includes the positive impact of $0.3 million from fluctuations in foreign currency exchange rates as compared to the prior year.

Site development cost of revenues decreased $3.9 million for the three months ended June 30, 2014, as compared to the prior year, as a result of a reduction in the volume of work performed due to the timing of our wireless carrier customers' initiatives, as well as an increase in higher margin direct work.

Selling, general, and administrative expenses increased $3.9 million for the three months ended June 30, 2014, as compared to the prior year, primarily as a result of an increase in personnel, salaries, benefits, non-cash compensation, and other expenses due in large part to our continued portfolio expansion.

Acquisition related expenses increased $0.3 million for the three months ended June 30, 2014, as compared to the prior year, primarily as a result of an increase in acquisition and integration related activities including the Oi S.A. acquisition which closed on March 31, 2014.

Depreciation, accretion, and amortization expense increased $19.9 million for the three months ended June 30, 2014, as compared to the prior year, due to the increase in the number of towers we acquired and built since April 1, 2013.

Operating Income:

Operating income increased $33.8 million for the three months ended June 30, 2014, as compared to the prior year, primarily due to higher segment operating profit in both the site leasing and site development segments, partially offset by increases in depreciation, accretion, and amortization expense, acquisition related costs, and selling, general, and administrative expenses.

Other Income (Expense):

Interest expense increased $8.4 million due to the higher average principal amount of cash-interest bearing debt outstanding for the three months ended June 30, 2014 compared to the prior year, primarily resulting from the issuance of the 2013 Tower Securities and 2014 Term Loan, partially offset by the maturity of the 1.875% Notes, full repayment of the 2011 Term Loan and 2012-2 Term Loan, and the settlement of a portion of the 4.0% Notes.

Non-cash interest expense decreased $3.9 million for the three months ended June 30, 2014, as compared to the prior year. This decrease primarily reflects the full repayment of the 1.875% Notes and the settlement of a portion of the 4.0% Notes.

Amortization of deferred financing fees increased $0.4 million for the three months ended June 30, 2014 compared to the prior year, primarily resulting from the issuance of the 2013 Tower Securities and 2014 Term Loan, partially offset by the maturity of the 1.875% Notes and full repayment of the 2011 Term Loan and 2012-2 Term Loan.

Loss from extinguishment of debt increased $2.6 million for the three months ended June 30, 2014, as compared to the prior year, primarily due to the write-off of a portion of the related debt discount and deferred financing fees associated with the settlement of a portion of the 4.0% Notes.

Table of Contents

Net Loss:

Net loss was $9.5 million for the three months ended June 30, 2014, a decrease of $26.4 million compared to a loss of $35.9 million in the prior year, primarily due to an increase in our total segment operating profit and a decrease in non-cash interest expense as compared to the prior year. These items were partially offset by increases in selling, general, and administrative expenses, acquisition related costs, depreciation, amortization, and accretion, and interest expense.

Six months ended June 30, 2014 compared to six months ended June 30, 2013

	For the six months ended June 30, 2014	2013	Dollar Change	Percentage Change
	(in thousands)			
Revenues:				
Domestic site leasing	$ 560,228	$ 513,826	$ 46,402	9.0%
International site leasing	89,543	39,179	50,364	128.5%
Site development	79,198	84,372	(5,174)	(6.1%)
Total revenues	728,969	637,377	91,592	14.4%
Operating expenses:				
Cost of revenues (exclusive of depreciation, accretion, and amortization shown below):				
Cost of domestic site leasing	122,528	122,609	(81)	(0.1%)
Cost of international site leasing	22,594	13,276	9,318	70.2%
Cost of site development	59,483	68,535	(9,052)	(13.2%)
Selling, general, and administrative	50,118	41,938	8,180	19.5%
Acquisition related expenses	10,786	7,779	3,007	38.7%
Asset impairment and decommission costs	7,562	10,215	(2,653)	(26.0%)
Depreciation, accretion, and amortization	305,447	266,725	38,722	14.5%
Total operating expenses	578,518	531,077	47,441	8.9%
Operating income	150,451	106,300	44,151	41.5%
Other income (expense):				
Interest income	266	1,338	(1,072)	(80.1%)
Interest expense	(137,525)	(122,582)	(14,943)	12.2%
Non-cash interest expense	(18,596)	(29,509)	10,913	(37.0%)
Amortization of deferred financing fees	(8,516)	(7,527)	(989)	13.1%
Loss from extinguishment of debt, net	(10,187)	(5,760)	(4,427)	76.9%
Other income	19,774	699	19,075	2,728.9%
Total other expense	(154,784)	(163,341)	8,557	(5.2%)
Loss before provision for income taxes	(4,333)	(57,041)	52,708	(92.4%)

Provision for income taxes	(3,728)	(1,234)	(2,494)	202.1%
Net loss	$ (8,061)	$ (58,275)	$ 50,214	(86.2%)

Revenues:

Domestic site leasing revenues increased $46.4 million for the six months ended June 30, 2014, as compared to the prior year, due largely to (i) revenues from 320 towers acquired and 148 towers built since January 1, 2013 and (ii) organic site leasing growth from new leases, contractual rent escalators, and lease amendments which increased the related rent to reflect additional equipment added to our towers.

International site leasing revenues increased $50.4 million for the six months ended June 30, 2014, as compared to the prior year, due largely to (i) revenues from 4,415 towers acquired and 294 towers built since January 1, 2013 and (ii) organic site leasing growth from new leases, contractual rent escalators, and lease amendments which increased the related rent to reflect additional

29

Table of Contents

equipment added to our towers. The increase in international site leasing revenues includes the negative impact of $1.7 million from fluctuations in foreign currency exchange rates as compared to the prior year.

Site development revenues decreased $5.2 million for the six months ended June 30, 2014, as compared to the prior year, primarily due to a reduction in the volume of work performed during the six months for Sprint, which had more activity in the prior year from the Network Vision Initiative than the current year 2.5GHz initiative.

Operating Expenses:

Domestic site leasing cost of revenues decreased $0.1 million for the six months ended June 30, 2014, as compared to the prior year, primarily as a result of the positive impact of our ground lease purchase program, partially offset by the growth in the number of towers owned by us.

International site leasing cost of revenues increased $9.3 million for the six months ended June 30, 2014, as compared to the prior year, primarily as a result of the growth in the number of towers owned by us, partially offset by the positive impact of our ground lease purchase program. The increase in international site leasing cost of revenues includes the positive impact of $0.8 million from fluctuations in foreign currency exchange rates as compared to the prior year.

Site development cost of revenues decreased $9.1 million for the six months ended June 30, 2014, as compared to the prior year, as a result of a reduction in the volume of work performed due to the timing of our wireless carrier customers' initiatives, as well as an increase in higher margin direct work.

Selling, general, and administrative expenses increased $8.2 million for the six months ended June 30, 2014, as compared to the prior year, primarily as a result of an increase in personnel, salaries, benefits, non-cash compensation, and other expenses due in large part to our continued portfolio expansion.

Acquisition related expenses increased $3.0 million for the six months ended June 30, 2014, as compared to the prior year, primarily as a result of an increase in acquisition and integration related activities including the Oi S.A. acquisition which closed on March 31, 2014.

Depreciation, accretion, and amortization expense increased $38.7 million for the six months ended June 30, 2014, as compared to the prior year, due to the increase in the number of towers we acquired and built since January 1, 2013.

Operating Income:

Operating income increased $44.2 million for the six months ended June 30, 2014, as compared to the prior year, primarily due to higher segment operating profit in both the site leasing and site development segments, partially offset by increases in depreciation, accretion, and amortization expense, acquisition related costs, and selling, general, and administrative expenses.

Other Income (Expense):

Interest expense increased $14.9 million due to the higher average principal amount of cash-interest bearing debt outstanding for the six months ended June 30, 2014 compared to the prior year, primarily resulting from the issuance of the 2013 Tower Securities and 2014 Term Loan, partially offset by the maturity of the 1.875% Notes, full repayment of the 2011 Term Loan and 2012-2 Term Loan, and the settlement of a portion of the 4.0% Notes.

Non-cash interest expense decreased $10.9 million for the six months ended June 30, 2014, as compared to the prior year. This decrease primarily reflects the full repayment of the 1.875% Notes and the settlement of a portion of the 4.0% Notes.

Amortization of deferred financing fees increased $1.0 million for the six months ended June 30, 2014 compared to the prior year, primarily resulting from the issuance of the 2013 Tower Securities and 2014 Term Loan, partially offset by the maturity of the 1.875% Notes and full repayment of the 2011 Term Loan and 2012-2 Term Loan.

Loss from extinguishment of debt increased $4.4 million for the six months ended June 30, 2014, as compared to the prior year, primarily due to the write-off of a portion of the related debt discount and deferred financing fees associated with the repayment of the 2011 Term Loan, 2012-2 Term Loan, and the settlement of a portion of the 4.0% Notes.

Table of Contents

Other income increased $19.1 million for the six months ended June 30, 2014, as compared to the prior year, primarily due to a $17.9 million gain realized on the settlement of two foreign currency contracts entered into to hedge the purchase price of the Oi acquisition in Brazil, which were entered into and settled during the first quarter of 2014.

Net Loss:

Net loss was $8.1 million for the six months ended June 30, 2014, a decrease of $50.2 million compared to a loss of $58.3 million in the prior year, primarily due to an increase in our total segment operating profit, an increase in other income, and a decrease in non-cash interest expense as compared to the prior year. These items were partially offset by increases in selling, general, and administrative expenses, acquisition related costs, depreciation, amortization, and accretion, and interest expense.

LIQUIDITY AND CAPITAL RESOURCES

SBA Communications Corporation (“SBAC”) is a holding company with no business operations of its own. SBAC’s only significant asset is the outstanding capital stock of SBA Telecommunications LLC (“Telecommunications”), which is also a holding company that owns equity interests in entities that directly or indirectly own all of our domestic and international towers and assets. We conduct all of our business operations through Telecommunications’ subsidiaries. Accordingly, our only source of cash to pay our obligations, other than financings, is distributions with respect to our ownership interest in our subsidiaries from the net earnings and cash flow generated by these subsidiaries.

A summary of our cash flows is as follows:

	For the six months ended June 30,	
	2014	2013
	(in thousands)	
Cash provided by operating activities	$ 352,836	$ 228,159
Cash used in investing activities	(1,044,541)	(325,398)
Cash provided by financing activities	658,995	52,998
Decrease in cash and cash equivalents	(32,710)	(44,241)
Effect of exchange rate changes on cash and cash equivalents	18,250	584
Cash and cash equivalents, beginning of the period	122,112	233,099
Cash and cash equivalents, end of the period	$ 107,652	$ 189,442

Operating Activities

Cash provided by operating activities was $352.8 million for the six months ended June 30, 2014 as compared to $228.2 million for the six months ended June 30, 2013. This increase was primarily due to an increase in segment operating profit from the site leasing and site development operating segments and increases in cash inflows associated with working capital changes partially offset by increased selling, general, and administrative expenses, as

well as, increased cash interest payments relating to the higher average amount of cash-interest bearing debt outstanding for the six months ended June 30, 2014 compared to the six months ended June 30, 2013.

Table of Contents

Investing Activities

A detail of our cash capital expenditures is as follows:

	For the six months ended June 30,	
	2014	2013
	(in thousands)	
Acquisitions (1)	$ 948,045	$ 230,864
Construction and related costs on new tower builds	33,664	41,424
Augmentation and tower upgrades	23,525	20,099
Ground lease buyouts (2)	19,429	24,544
Purchase of headquarters building	3,538	-
Tower maintenance	7,764	6,094
General corporate	3,660	2,586
Total cash capital expenditures	$ 1,039,625	$ 325,611

(1) Included in our cash capital expenditures for the six months ended June 30, 2014 is $673.9 million related to our acquisition of 2,007 towers from Oi S.A. which closed on March 31, 2014.
(2) Excludes $5.0 million and $4.9 million spent on ground lease extensions and term easements for the six months ended June 30, 2014 and 2013, respectively.

Subsequent to June 30, 2014, we acquired 11 towers and related assets for $8.1 million in cash.

During all of 2014, inclusive of the capital expenditures made during the six months ended June 30, 2014, we expect to incur non-discretionary cash capital expenditures associated with tower maintenance and general corporate expenditures of $24.0 million to $29.0 million and discretionary cash capital expenditures, based on current obligations, of $1,732.0 million to $1,762.0 million primarily associated with the Oi acquisition closed March 31, 2014 and the acquisition of an additional 1,641 sites from Oi for R$1.2 billion (or approximately $527.0 million at current exchange rates) expected to close before year-end, as well as new tower construction, additional tower acquisitions, tower augmentations, and ground lease purchases. We expect to fund these cash capital expenditures from cash on hand, cash flow from operations, and borrowings under the Revolving Credit Facility or new financings. The exact amount of our future cash capital expenditures will depend on a number of factors including amounts necessary to support our tower portfolio, our new tower build and acquisition programs, and our ground lease purchase program.

Financing Activities

During the first quarter of 2014, our subsidiary, SBA Senior Finance II, obtained a new senior secured term loan with an initial aggregate principal amount of $1.5 billion that was issued at 99.75% of par value and matures on March 24, 2021 (the “2014 Term Loan”). Net proceeds from the 2014 Term Loan were used to (1) repay in full the remaining $180.5 million balance of the 2011 Term Loan, (2) repay in full the remaining $110.0 million balance of the 2012-2

Term Loan, (3) repay the $390.0 million outstanding balance under our Revolving Credit Facility, and (4) pay the cash consideration in connection with the Oi S.A. acquisition which closed on March 31, 2014. The remaining net proceeds were used for general corporate purposes.

During the six months ended June 30, 2014, we borrowed $275.0 million and repaid $390.0 million under the Revolving Credit Facility. As of June 30, 2014, we had $100.0 million outstanding under the $770.0 million Revolving Credit Facility. Subsequent to June 30, 2014, we repaid the remaining $100.0 million outstanding balance under the Revolving Credit Facility with proceeds from the 4.875% Senior Notes (see below). As of the date of this filing, no amounts were outstanding under the Revolving Credit Facility, and the amount available based on specified covenants under the facility was $720.0 million.

During the second quarter of 2014, we received conversion notices totaling $127.9 million in principal of the 4.0% Notes and settled $121.5 million in principal of the 4.0% Notes for $121.5 million in cash and 2.7 million shares of our Class A common stock with the remaining to be settled in the third quarter of 2014. Concurrently with the settlement of our conversion obligation, we settled the convertible note hedges receiving 2.7 million shares of our Class A common stock. As a result, our outstanding share count has not been and will not be impacted by the conversion of these notes under the current settlement election. Subsequent to the end of the second quarter, we received additional conversion notices totaling $4.6 million of principal which will settle in the third quarter of 2014.

During the second quarter, we paid $276.2 million to early settle approximately 30% of the outstanding warrants sold in connection with the issuance of the 4.0% Notes, representing approximately 4.9 million underlying shares of Class A common stock, scheduled to mature in the first quarter of 2015. Subsequent to the second quarter, we paid $66.5 million to early settle approximately 7.5% of the original total outstanding warrants, representing approximately 1.2 million underlying shares, scheduled to mature in the first quarter of 2015.

On July 1, 2014, we issued $750.0 million aggregate principal amount of our 4.875% Senior Notes due 2022 (the "4.875% Notes"). The 4.875% Notes were issued at 99.178% of par value. Interest on the 4.875% Notes is payable semi-annually on January 15 and July 15 of each year beginning January 15, 2015. The 4.875% Notes mature on July 15, 2022. Net proceeds from the 4.875% Notes will be used to redeem all of the 8.25% Notes due 2019 including the associated call premium and pay the conversion obligations with respect to approximately $121.0 million aggregate principal amount of our 4.0% Convertible Senior Notes due 2014 (the "4.0% Notes"). All remaining net proceeds will be used for general corporate purposes.

During the six months ended June 30, 2014, we did not repurchase any shares of our Class A common stock under our stock repurchase program. As of June 30, 2014, we had a remaining authorization to repurchase $150.0 million of Class A common stock under our current $300.0 million stock repurchase program.

Registration Statements

We have on file with the Commission a shelf registration statement on Form S-4 registering shares of Class A common stock that we may issue in connection with the acquisition of wireless communication towers or antenna sites and related assets or companies who own wireless communication towers, antenna sites, or related assets. During the six months ended June 30, 2014, we did not issue any shares of Class A common stock under this registration statement. As of June 30, 2014, we had approximately 1.7 million shares of Class A common stock remaining under this shelf registration statement.

On February 27, 2012, we filed with the Commission an automatic shelf registration statement for well-known seasoned issuers on Form S-3ASR. This registration statement enables us to issue shares of our Class A common stock, preferred stock or debt securities either separately or represented by warrants, or depositary shares as well as units that include any of these securities. Under the rules governing automatic shelf registration statements, we will file a prospectus supplement and advise the Commission of the amount and type of securities each time we issue securities under this registration statement. No shares were issued in 2013 or the first and second quarters of 2014.

Debt Instruments and Debt Service Requirements

Revolving Credit Facility under the Senior Credit Agreement

The Revolving Credit Facility is governed by the Senior Credit Agreement. As of June 30, 2014, the Revolving Credit Facility consisted of a revolving loan under which up to $770.0 million aggregate principal amount may be borrowed, repaid and redrawn, subject to compliance with specific financial ratios and the satisfaction of other customary conditions to borrowing. Amounts borrowed under the Revolving Credit Facility accrue interest at the Eurodollar Rate plus a margin that ranges from 187.5 basis points to 237.5 basis points or at a Base Rate plus a margin that ranges from 87.5 basis points to 137.5 basis points, in each case based on the ratio of Consolidated Total Debt to Annualized Borrower EBITDA, calculated in accordance with the Senior Credit Agreement. If not earlier terminated by SBA Senior Finance II LLC ("SBA Senior Finance II"), a subsidiary of the Company, the Revolving Credit Facility will terminate on, and SBA Senior Finance II will repay all amounts outstanding on or before, May 9, 2017. The proceeds available under the Revolving Credit Facility may be used for general corporate purposes. A per annum commitment fee of 0.375% to 0.5% of the unused commitments under the Revolving Credit Facility is charged based on the ratio

of Consolidated Total Debt to Annualized Borrower EBITDA (calculated in accordance with the Senior Credit Agreement).

SBA Senior Finance II may, from time to time, borrow from and repay the Revolving Credit Facility. Consequently, the amount outstanding under the Revolving Credit Facility at the end of a period may not be reflective of the total amounts outstanding during such period.

During the three and six months ended June 30, 2014, we borrowed $100.0 million and $275.0 million, respectively, under the Revolving Credit Facility. During the six months ended June 30, 2014, we repaid $390.0 million of the outstanding balance under the Revolving Credit Facility. As of June 30, 2014, $100.0 million was outstanding under the Revolving Credit Facility. Subsequent to June 30, 2014, we repaid the remaining $100.0 million outstanding balance under the Revolving Credit Facility with proceeds from the issuance of the 4.875% Notes (defined below). As of the date of this filing, no amounts were outstanding under the Revolving Credit Facility, and the amount available based on specified covenants under the facility was $720.0 million.

33

Table of Contents

On February 7, 2014, SBA Senior Finance II entered into a Second Amended and Restated Credit Agreement (as amended and restated, the "Senior Credit Agreement") with several banks and other financial institutions or entities from time to time parties to the Senior Credit Agreement to, among other things, obtain a $1.5 billion senior secured term loan (the "2014 Term Loan") and to amend certain terms of the existing senior credit agreement. In addition to providing for the 2014 Term Loan, the Senior Credit Agreement was amended to, among other things, amend the terms of certain events of default, modify certain negative covenants and remove the parent financial maintenance leverage covenant to reflect the increased size of SBA Senior Finance II and its restricted subsidiaries. All other material terms of the Senior Credit Agreement, as it existed prior to February 7, 2014, remained unchanged.

Term Loans under the Senior Credit Agreement

2011 Term Loan

On February 7, 2014, we repaid the remaining $180.5 million outstanding principal balance of the 2011 Term Loan. In connection with the prepayment, we expensed $1.1 million of net deferred financing fees and $0.3 million of discount related to the debt.

2012-1 Term Loan

The 2012-1 Term Loan consists of a senior secured term loan with an initial aggregate principal amount of $200.0 million that matures on May 9, 2017. The 2012-1 Term Loan accrues interest, at SBA Senior Finance II's election, at either the Base Rate plus a margin that ranges from 100 to 150 basis points or the Eurodollar Rate plus a margin that ranges from 200 to 250 basis points, in each case based on the ratio of Consolidated Total Debt to Annualized Borrower EBITDA (calculated in accordance with the Senior Credit Agreement). As of June 30, 2014, the 2012-1 Term Loan was accruing interest at 2.65% per annum. Principal payments on the 2012-1 Term Loan commenced on September 30, 2012 and are being made in quarterly installments on the last day of each March, June, September and December, in an amount equal to $2.5 million for each of the first eight quarters, $3.75 million for the next four quarters and $5.0 million for each quarter thereafter. SBA Senior Finance II has the ability to prepay any or all amounts under the 2012-1 Term Loan without premium or penalty. To the extent not previously repaid, the 2012-1 Term Loan will be due and payable on the maturity date. The 2012-1 Term Loan was issued at par. We incurred deferred financing fees of $2.7 million in relation to this transaction which are being amortized through the maturity date.

During the three and six months ended June 30, 2014, we repaid $2.5 million and $5.0 million, respectively, of principal on the 2012-1 Term Loan. As of June 30, 2014, the 2012-1 Term Loan had a principal balance of $180.0 million.

2012-2 Term Loan

On February 7, 2014, we repaid the entire $110.0 million outstanding principal balance of the 2012-2 Term Loan. In connection with the prepayment, we expensed $1.0 million of net deferred financing fees and $0.2 million of discount related to the debt.

2014 Term Loan

The 2014 Term Loan consists of a senior secured term loan with an initial aggregate principal amount of $1.5 billion that matures on March 24, 2021. The 2014 Term Loan accrues interest, at SBA Senior Finance II's election, at either the Base Rate plus 150 basis points (with a Base Rate floor of 1.75%) or the Eurodollar Rate plus 250 basis points (with a Eurodollar Rate floor of 0.75%). The 2014 Term Loan was issued at 99.75% of par value. As of June 30,

2014, the 2014 Term Loan was accruing interest at 3.25% per annum. Principal payments on the 2014 Term Loan will commence on September 30, 2014 and will be made in quarterly installments on the last day of each March, June, September, and December in an amount equal to $3.75 million. SBA Senior Finance II has the ability to prepay any or all amounts under the 2014 Term Loan. However, to the extent the 2014 Term Loan is prepaid prior to August 7, 2014 from proceeds of certain refinancing or repricing transactions, a prepayment fee equal to 1.0% of the aggregate principal amount of such prepayment will apply. We incurred deferred financing fees of approximately $12.8 million to date in relation to this transaction which are being amortized through the maturity date.

Net proceeds from the 2014 Term Loan were used (1) to repay in full the remaining $180.5 million balance of the 2011 Term Loan, (2) to repay in full the remaining $110.0 million balance of the 2012-2 Term Loan, (3) to repay the $390.0 million outstanding balance under the Revolving Credit Facility, (4) to pay the cash consideration in connection with our acquisition of towers from Oi S.A. in Brazil, and (5) for general corporate purposes.

Secured Tower Revenue Securities

2010 Tower Securities

On April 16, 2010, we, through a New York common law trust (the "Trust"), issued $680.0 million of 2010-1 Tower Securities and $550.0 million of 2010-2 Tower Securities (together the "2010 Tower Securities"). The 2010-1 Tower Securities have an annual interest rate of 4.254% and the 2010-2 Tower Securities have an annual interest rate of 5.101%. The weighted average annual fixed interest rate of the 2010 Tower Securities is 4.7%, including borrowers' fees, payable monthly. The anticipated repayment date and the final maturity date for the 2010–1 Tower Securities is April 15, 2015 and April 16, 2040, respectively. The anticipated repayment date and the final maturity date for the 2010–2 Tower Securities is April 17, 2017 and April 15, 2042, respectively. The sole asset of the Trust consists of a non-recourse mortgage loan made in favor of the Borrowers. We incurred deferred financing fees of $18.0 million in relation to this transaction which are being amortized through the anticipated repayment date of each of the 2010 Tower Securities.

2012-1 Tower Securities

On August 9, 2012, we, through the Trust, issued $610.0 million of Secured Tower Revenue Securities Series 2012-1 (the "2012-1 Tower Securities") which have an anticipated repayment date and a final maturity date of December 15, 2017 and December 15, 2042, respectively. The fixed interest rate of the 2012-1 Tower Securities is 2.933% per annum, payable monthly. We incurred deferred financing fees of $14.9 million in relation to this transaction which are being amortized through the anticipated repayment date of the 2012-1 Tower Securities.

2013 Tower Securities

On April 18, 2013, we, through the Trust, issued $425.0 million of 2.240% Secured Tower Revenue Securities Series 2013-1C which have an anticipated repayment date and a final maturity date of April 17, 2018 and April 17, 2043, respectively, $575.0 million of 3.722% Secured Tower Revenue Securities Series 2013-2C which have an anticipated repayment date and a final maturity date of April 17, 2023 and April 17, 2048, respectively, and $330.0 million of 3.598% Secured Tower Revenue Securities Series 2013-1D which have an anticipated repayment date and a final maturity date of April 17, 2018 and April 17, 2043, respectively (collectively the "2013 Tower Securities"). The aggregate $1.33 billion of 2013 Tower Securities have a blended interest rate of 3.218% and an initial weighted average life through the anticipated repayment date of 7.2 years. We incurred an aggregate of deferred financing fees of $25.5 million in relation to this transaction which are being amortized through the anticipated repayment date of each of the 2013 Tower Securities.

4.0% Convertible Senior Notes due 2014

On April 24, 2009, we issued $500.0 million of our 4.0% Convertible Senior Notes ("4.0% Notes") in a private placement transaction. Interest on the 4.0% Notes is payable semi-annually on April 1 and October 1. The maturity date of the 4.0% Notes is October 1, 2014. We incurred fees of $11.7 million with the issuance of the 4.0% Notes of which $7.7 million was recorded as deferred financing fees and $4.0 million was recorded as a reduction to shareholders' equity.

The 4.0% Notes are convertible, at the holder's option, into shares of our Class A common stock, at an initial conversion rate of 32.9164 shares of our Class A common stock per $1,000 principal amount of 4.0% Notes (subject to certain customary adjustments), which is equivalent to an initial conversion price of approximately $30.38 per share or a 22.5% conversion premium based on the last reported sale price of $24.80 per share of our Class A common stock on the Nasdaq Global Select Market on April 20, 2009, the purchase agreement date.

Concurrently with the pricing of the 4.0% Notes, we entered into convertible note hedge and warrant transactions with affiliates of certain of the initial purchasers of the convertible notes. The initial strike price of the convertible note hedge transactions relating to the 4.0% Notes is $30.38 per share of our Class A common stock (the same as the initial conversion price of the 4.0% Notes) and the upper strike price of the warrant transactions is $44.64 per share.

We are amortizing the debt discount on the 4.0% Notes utilizing the effective interest method over the life of the 4.0% Notes which increases the effective interest rate of the 4.0% Notes from its coupon rate of 4.0% to 12.8%. As of June 30, 2014, the carrying amount of the equity component related to the 4.0% Notes was $166.9 million.

Table of Contents

The 4.0% Notes are reflected in current maturities of long-term debt in the Consolidated Balance Sheets at their carrying value. The following table summarizes the balances for the 4.0% Notes:

	As of June 30, 2014	December 31, 2013
	(in thousands)	
Principal balance	$ 378,370	$ 499,944
Debt discount	(8,170)	(31,550)
Carrying value	$ 370,200	$ 468,394

At the time of the issuance of the 4.0% Notes, we elected to settle our conversion obligations in stock. Effective March, 17, 2014, we elected to settle the principal amount of any conversions in cash and any additional conversion consideration at the conversion rate then applicable in shares of our Class A common stock. Concurrently with the settlement of any 4.0% Notes converted, the Company will settle the associated convertible note hedges and receive an equal number of shares to those issued to the noteholders.

During the three and six months ended June 30, 2014, the 4.0% Notes were convertible based on the fact that the closing price per share of our Class A common stock exceeded $39.49 for at least 20 trading days during the 30 consecutive trading day period ending on March 31, 2014 and December 31, 2013, respectively, and remain convertible as of the date of this filing. During the three and six months ended June 30, 2014, holders of the 4.0% Notes converted $121.5 million and $121.6 million, respectively, in principal amount of 4.0% Notes. We settled our conversion obligation through the payment of the principal amount in cash and the issuance of 2.7 million shares of our Class A common stock during the three and six months ended June 30, 2014. Concurrently with these conversions, the related convertible note hedges were settled, and we received 2.7 million shares of our Class A common stock, of which 0.1 million shares were received subsequent to June 30, 2014. As a result, our outstanding share count has not been impacted by the conversion of these notes. In addition, we received conversion notices totaling $11.3 million in principal amount of the 4.0% Notes which will settle during the third quarter of 2014 for cash and shares of our Class A common stock.

During the three months ended June 30, 2014, we paid $276.2 million to early settle approximately 30% of the outstanding warrants sold in connection with the issuance of the 4.0% Notes, representing approximately 4.9 million underlying shares of Class A common stock, scheduled to mature in the first quarter of 2015. Subsequent to June 30, 2014, we paid $66.7 million to early settle approximately 7.5% of the original total outstanding warrants, representing approximately 1.2 million underlying shares, scheduled to mature in the first quarter of 2015. Our obligations under the remaining 10.3 million warrants are scheduled to settle over a 60 trading day period commencing on January 2, 2015 unless otherwise settled early.

Senior Notes

8.25% Senior Notes

On July 24, 2009, SBA Telecommunications LLC (“Telecommunications”), our wholly owned subsidiary, issued $375.0 million of unsecured senior notes due August 15, 2019 (the “8.25% Notes”). The 8.25% Notes have an interest rate of 8.25% per annum and were issued at a price of 99.152% of their face value. Interest is due semi-annually on

February 15 and August 15 of each year beginning on February 15, 2010. We incurred deferred financing fees of $5.4 million in relation to the 8.25% Notes which are being amortized through the maturity date.

On April 13, 2012, we used the proceeds of an equity offering to redeem $131.3 million in aggregate principal amount of our 8.25% Notes and to pay $10.8 million as a premium on the redemption of the 8.25% Notes. We expensed $0.9 million and $2.4 million of debt discount and deferred financing fees, respectively, related to the redemption of the 8.25% Notes.

As of June 30, 2014, the principal balance of the 8.25% Notes was $243.8 million.

On July 15, 2014, we provided notice to the trustee that we would be exercising our call right with respect to the 8.25% Notes effective August 15, 2014. As of this date, we will repay the remaining $243.8 million principal and a call premium of $10.1 million to fully settle these notes.

Table of Contents

5.75% Senior Notes

On July 13, 2012, Telecommunications issued $800.0 million of unsecured senior notes due July 15, 2020 (the “5.75% Notes”). The 5.75% Notes accrue interest at a rate of 5.75% and were issued at par. Interest on the 5.75% Notes is due semi-annually on July 15 and January 15 of each year beginning on January 15, 2013. We incurred deferred financing fees of $14.0 million in relation to this transaction which are being amortized through the maturity date.

5.625% Senior Notes

On September 28, 2012, we issued $500.0 million of unsecured senior notes due October 1, 2019 (the “5.625% Notes”). The 5.625% Notes accrue interest at a rate of 5.625% per annum and were issued at par. Interest on the 5.625% Notes is due semi-annually on April 1 and October 1 of each year beginning on April 1, 2013. We incurred deferred financing fees of $8.5 million in relation to this transaction which are being amortized through the maturity date.

4.875% Senior Notes

On July 1, 2014, we issued $750.0 million of unsecured senior notes due July 15, 2022 (the “4.875% Notes”). The 4.875% Notes were issued at 99.178% of par value. Interest on the 4.875% Notes is payable semi-annually on January 15 and July 15 of each year beginning January 15, 2015. Net proceeds from the 4.875% Notes were used to pay the conversion obligations with respect to $121.5 million aggregate principal amount of the 4.0% Notes. The remaining net proceeds will be used to redeem all of the 8.25% Notes due 2019 including the associated call premium and for general corporate purposes.

BNDES Loans

During the six months ended June 30, 2014, we had borrowings of $0.4 million and repayments of $6.3 million under the BNDES Loans. The BNDES Loans were repaid in full in April 2014.

Debt Service

As of June 30, 2014, we believe that our cash on hand, capacity available under our Revolving Credit Facility, our cash flows from operations for the next twelve months, and future financings will be sufficient to service our outstanding debt during the next twelve months.

Table of Contents

The following table illustrates our estimate of our debt service requirement over the next twelve months based on the amounts outstanding as of June 30, 2014 and the interest rates accruing on those amounts on such date (in thousands):

4.000% Convertible Senior Notes due 2014	$ 382,045
8.250% Senior Notes due 2019 (1)	20,109
5.625% Senior Notes due 2019	28,125
5.750% Senior Notes due 2020	46,000
4.254% Secured Tower Revenue Securities Series 2010-1	703,081
5.101% Secured Tower Revenue Securities Series 2010-2	28,230
2.933% Secured Tower Revenue Securities Series 2012-1	18,085
2.240% Secured Tower Revenue Securities Series 2013-1C	9,655
3.722% Secured Tower Revenue Securities Series 2013-2C	21,584
3.598% Secured Tower Revenue Securities Series 2013-1D	11,978
Revolving Credit Facility	3,515
2012-1 Term Loan	19,522
2014 Term Loan	63,445
Total debt service for next 12 months: (2) (3)	$ 1,355,374

(1) On July 15, 2014, we provided notice to the trustee that we would be exercising our call right with respect to the 8.25% Notes effective August 15, 2014. As of this date, we will repay the remaining $243.8 million principal and a call premium of $10.1 million.

(2) Our total debt service does not include any amounts for the 4.875% Notes issued July 1, 2014. Total debt service for the next twelve months related to the 4.875% Notes is $36.6 million.

(3) Total debt service excludes amounts necessary to settle the remaining 10.3 million warrants scheduled to settle over a 60 trading day period commencing on January 2, 2015.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to certain market risks that are inherent in our financial instruments. These instruments arise from transactions entered into in the normal course of business.

The following table presents the future principal payment obligations and fair values associated with our long-term debt instruments assuming our actual level of long-term indebtedness as of June 30, 2014:

	2014	2015	2016	2017	2018	Thereafter	Total	Fair Value
Debt:	(in thousands)							
4.000% Convertible Senior Notes due 2014 (1)	$ 378,370	$ —	$ —	$ —	$ —	$ —	$ 378,370	$ 1,266,140
8.250% Senior Notes due 2019	—	—	—	—	—	243,750	243,750	254,719
5.625% Senior Notes due 2019	—	—	—	—	—	500,000	500,000	528,750
5.750% Senior Notes due 2020	—	—	—	—	—	800,000	800,000	848,000
4.254% 2010-1 Tower Securities (2)	—	680,000	—	—	—	—	680,000	680,564
5.101% 2010-2 Tower Securities (2)	—	—	—	550,000	—	—	550,000	579,508
2.933% 2012-1 Tower Securities (2)	—	—	—	610,000	—	—	610,000	618,418
2.240% 2013-1C								

Tower Securities (2)	—	—	—	—	425,000	—	425,000	422,510
3.722% 2013-2C Tower Securities (2)	—	—	—	—	—	575,000	575,000	569,543
3.598% 2013-1D Tower Securities (2)	—	—	—	—	330,000	—	330,000	332,251
Revolving Credit Facility	—	—	—	100,000	—	—	100,000	100,000
2012-1 Term Loan	7,500	17,500	20,000	135,000	—	—	180,000	179,550
2014 Term Loan	7,500	15,000	15,000	15,000	15,000	1,432,500	1,500,000	1,488,750
Total debt obligation	$ 393,370	$ 712,500	$ 35,000	$ 1,410,000	$ 770,000	$ 3,551,250	$ 6,872,120	$ 7,868,703

(1) Amounts set forth reflect the principal amount of the convertible notes and do not reflect the total obligations that may be due on the convertible notes if they are converted prior to their maturity date. As of June 30, 2014, the 4.0% Notes are convertible pursuant to the terms of their applicable indenture.
(2) The anticipated repayment date and the final maturity date for the 2010-1 Tower Securities is April 15, 2015 and April 16, 2040, respectively.
The anticipated repayment date and the final maturity date for the 2010-2 Tower Securities is April 17, 2017 and April 15, 2042, respectively.

The anticipated repayment date and the final maturity date for the 2012-1 Tower Securities is December 15, 2017 and December 15, 2042, respectively.

The anticipated repayment date and the final maturity date for the 2013-1C Tower Securities is April 17, 2018 and April 17, 2043, respectively.

The anticipated repayment date and the final maturity date for the 2013-2C Tower Securities is April 17, 2023 and April 17, 2048, respectively.

The anticipated repayment date and the final maturity date for the 2013-1D Tower Securities is April 17, 2018 and April 17, 2043, respectively.

Our current primary market risk exposure is (1) our ability to refinance our debt at commercially reasonable rates, if at all, (2) interest rate risk relating to our ability to meet financial covenants, and (3) interest rate risk relating to the impact of interest rate movements on our 2012-1 Term Loan and 2014 Term Loan and any borrowings that we may incur under our Revolving Credit

39

Table of Contents

Facility, which are at floating rates. We manage the interest rate risk on our outstanding debt through our large percentage of fixed rate debt. While we cannot predict our ability to refinance existing debt or the impact interest rate movements will have on our existing debt, we continue to evaluate our financial position on an ongoing basis. In addition, in connection with our convertible notes, we are subject to market risk associated with the market price of our common stock.

We are exposed to market risk from changes in foreign currency exchange rates in connection with our operations in Brazil, Canada, Costa Rica, Guatemala, and Nicaragua. In each of these countries, we pay most of our selling, general, and administrative expenses and a portion of our operating expenses, such as taxes and utilities incurred in the country in local currency. In addition, in Brazil and Canada, we receive significantly all of our revenue and pay significantly all of our operating expenses in local currency. All transactions denominated in currencies other than the U.S. Dollar are reported in U.S. Dollars at the applicable exchange rate. All assets and liabilities are translated into U.S. Dollars at exchange rates in effect at the end of the applicable fiscal reporting period and all revenues and expenses are translated at average rates for the period. The cumulative translation effect is included in equity as a component of Accumulated other comprehensive income (loss). For the six months ended June 30, 2014, approximately 8.7% of our revenues and approximately 10.0% of our total operating expenses were denominated in foreign currencies.

We have performed a sensitivity analysis assuming a hypothetical 10% adverse movement in the Brazilian Reais from the quoted foreign currency exchange rates at June 30, 2014. As of June 30, 2014, the analysis indicated that such an adverse movement would have caused our revenues and operating results to fluctuate by less than 1% for the six months ended June 30, 2014.

Special Note Regarding Forward-Looking Statements

This quarterly report contains “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. These statements concern expectations, beliefs, projections, plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. Specifically, this quarterly report contains forward-looking statements regarding:

•our expectations on the future growth and financial health of the wireless industry and the industry participants, and the drivers of such growth;

•our beliefs regarding our ability to capture and capitalize on industry growth and the impact of such growth on our financial and operational results;

•our expectations regarding the opportunities in the international wireless markets in which we currently operate or have targeted for growth, our beliefs regarding how we can capitalize on such opportunities, and our intent to continue expanding internationally through new builds and acquisitions;

•our belief that over the long-term, site leasing revenues will continue to grow as wireless service providers lease additional antenna space on our towers due to increasing minutes of network use and data transfer, network expansion and network coverage requirements;

•our belief that our site leasing business is characterized by stable and long-term recurring revenues, predictable operating costs, and minimal non-discretionary capital expenditures;

•our expectation that, due to the relatively young age and mix of our tower portfolio, future expenditures required to maintain these towers will be minimal;

•our expectation that we will grow our cash flows by adding tenants to our towers at minimal incremental costs and executing monetary amendments;

•our intent to grow our tower portfolio, domestically and internationally;

•our expectation that we will continue our ground lease purchase program and the estimates of the impact of such program on our financial results;

•our expectation that we will continue to incur losses;

Table of Contents

•our expectations regarding our future cash capital expenditures, both discretionary and non-discretionary, including expenditures required to maintain, improve, and modify our towers, ground lease purchases, and general corporate expenditures, and the source of funds for these expenditures;

•our intended use of our liquidity;

•our expectations regarding our annual debt service in 2014 and thereafter, and our belief that our cash on hand, cash flows from operations for the next twelve months and availability under our Revolving Credit Facility will be sufficient to service our outstanding debt during the next twelve months;

•our belief regarding our credit risk; and

•our estimates regarding certain accounting and tax matters.

These forward-looking statements reflect our current views about future events and are subject to risks, uncertainties and assumptions. We wish to caution readers that certain important factors may have affected and could in the future affect our actual results and could cause actual results to differ significantly from those expressed in any forward-looking statement. The most important factors that could prevent us from achieving our goals, and cause the assumptions underlying forward-looking statements and the actual results to differ materially from those expressed in or implied by those forward-looking statements include, but are not limited to, the following:

•the impact of consolidation among wireless service providers on our leasing revenue;

•our ability to continue to comply with covenants and the terms of our credit instruments and our ability to obtain additional financing to fund our capital expenditures;

•our ability to successfully manage the risks associated with international operations, including risks relating to political or economic conditions, tax laws, currency restrictions, legal or judicial systems, and land ownership;

•our ability to successfully manage the risks associated with our acquisition initiatives, including our ability to effectively integrate acquired towers into our business and to achieve the financial results projected in our valuation models for the acquired towers;

•developments in the wireless communications industry in general, and for wireless communications infrastructure providers in particular, that may slow growth or affect the willingness or ability of the wireless service providers to expend capital to fund network expansion or enhancements;

•our ability to secure as many site leasing tenants as anticipated, recognize our expected economies of scale with respect to new tenants on our towers, and retain current leases on towers;

•our ability to secure and deliver anticipated services business at contemplated margins;

•our ability to build new towers, including our ability to identify and acquire land that would be attractive for our clients and to successfully and timely address zoning, permitting, weather, availability of labor and supplies and other issues that arise in connection with the building of new towers;

•competition for the acquisition of towers and other factors that may adversely affect our ability to purchase towers that meet our investment criteria and are available at prices which we believe will be accretive to our shareholders and allow us to maintain our long-term target leverage ratios;

•our ability to protect our rights to the land under our towers, and our ability to acquire land underneath our towers on terms that are accretive;

•our ability to sufficiently increase our revenues and maintain expenses and cash capital expenditures at appropriate levels to permit us to meet our anticipated uses of liquidity for operations, debt service and estimated portfolio growth;

41

Table of Contents

•our ability to successfully estimate the impact of regulatory and litigation matters;

•our ability to successfully estimate the impact of certain accounting and tax matters, including the effect on our company of adopting certain accounting pronouncements and the availability of sufficient net operating losses to offset future taxable income;

•natural disasters and other unforeseen damage for which our insurance may not provide adequate coverage;

•a decrease in demand for our towers; and

•the introduction of new technologies or changes in a tenant's business model that may make our tower leasing business less desirable to potential tenants.

ITEM 4. CONTROLS AND PROCEDURES

In order to ensure that the information we must disclose in our filings with the SEC is recorded, processed, summarized and reported on a timely basis, we have formalized our disclosure controls and procedures. Our principal executive officer and principal financial officer have reviewed and evaluated the effectiveness of our disclosure controls and procedures, as defined in Securities and Exchange Act Rule 13a-15(e) as of June 30, 2014. Based on such evaluation, such officers have concluded that, as of June 30, 2014, our disclosure controls and procedures were effective.

There have been no changes in our internal control over financial reporting during the quarter ended June 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Description of Exhibits
*31.1	Certification by Jeffrey A. Stoops, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification by Brendan T. Cavanagh, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	Certification by Jeffrey A. Stoops, Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*32.2	

	Certification by Brendan T. Cavanagh, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
**101.INS	XBRL Instance Document.
**101.SCH	XBRL Taxonomy Extension Schema Document.
**101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
**101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
**101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
**101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

*Filed herewith

**Furnished herewith.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	SBA COMMUNICATIONS CORPORATION
August 5, 2014	/s/ Jeffrey A. Stoops Jeffrey A. Stoops Chief Executive Officer (Duly Authorized Officer)
August 5, 2014	/s/ Brendan T. Cavanagh Brendan T. Cavanagh Chief Financial Officer (Principal Financial Officer)