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Period of Report	12-31-2017
Filer	ICTS INTERNATIONAL N V
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Voluntary Filer	Off
Shell Company	Off
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Co-Registrants	
Submission Contact	Yaron Kleiner
Contact Phone Number	972-54-2233-054
Documents	11

Notification Emails

Emails	edgar@z-k.co.il
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Documents

20-F	zk1821606.htm
Description	20-F
EX-12.1	exhibit_12-1.htm
Description	Exhibit 12.1
EX-12.2	exhibit_12-2.htm
Description	Exhibit 12.2
EX-13.1	exhibit_13-1.htm
Description	Exhibit 13.1
EX-13.2	exhibit_13-2.htm
Description	Exhibit 13.2
EX-101.INS	ictsf-20171231.xml
Description	XBRL Instance Document
EX-101.SCH	ictsf-20171231.xsd
Description	XBRL Taxonomy Extension Schema
EX-101.CAL	ictsf-20171231_cal.xml
Description	XBRL Taxonomy Extension Calculation Linkbase
EX-101.DEF	ictsf-20171231_def.xml
Description	XBRL Taxonomy Extension Definition Linkbase
EX-101.LAB	ictsf-20171231_lab.xml
Description	XBRL Taxonomy Extension Label Linkbase
EX-101.PRE	ictsf-20171231_pre.xml
Description	XBRL Taxonomy Extension Presentation Linkbase

**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

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

For the transition period from _____ to _____

COMMISSION FILE NUMBER 0-28542

ICTS INTERNATIONAL N.V.

(Exact Name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

The Netherlands

(Jurisdiction of incorporation or organization)

Walaardt Sacréstraat 425-5, 1117 BM Schiphol-Oost, The Netherlands

(Address of principal executive offices)

Alon Raich, Tel: +31-20-3471077,
Email: alon@ictsinternational.com, Address: Same as above

(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: None

Name of each exchange on which registered: None

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

Common Stock, par value 0.45 Euro per share

(Title of Class)

Securities for which there is a reporting obligation pursuant to
Section 15(d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 21,000,000.

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

Note - Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those sections.

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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

U.S. GAAP

International Financial Reporting Standards as issued
by the International Accounting Standards Board

Other

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

Item 17 Item 18

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

YES NO

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

YES NO

When used in this Form 20-F, the words "may", "will", "expect", "anticipate", "continue", "estimates", "project", "intend" and similar expressions are intended to identify Forward-Looking Statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 regarding events, conditions and financial trends that may affect the Company's future plans of operations, business strategy, operating results and financial position. Prospective investors are cautioned that any Forward-Looking Statements are not guarantees of future performance and are subject to risks and uncertainties and those actual results may differ materially from those included within the Forward-Looking Statements as a result of various factors.

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PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not Applicable

Item 2. Offer Statistics and Expected Timetable

Not Applicable

Item 3. Key information

Operations

ICTS International N.V. was registered at the Department of Justice in Amstelveen, Netherlands on October 9, 1992. ICTS and subsidiaries (collectively referred to as "ICTS" or "Company") operate in three reportable segments: (a) corporate (b) aviation security and other aviation services and (c) technology. The corporate segment does not generate revenue and contains primarily non-operational expenses. The airport security and other aviation services business provide security and other services to airlines and airport authorities, predominantly in Europe and the United States of America. The technology segment is predominantly involved in the development and sale of authentication security software to financial and other institutions, predominantly in the United States of America and Europe.

Selected Financial Data

Selected data set forth below have been derived from the ICTS Consolidated Financial Statements, which have been prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP"). The Selected Consolidated Financial Data set forth below should be read in conjunction with Item 5 Operating and Financial Review and Prospects, the ICTS Consolidated Financial Statements and the Notes to those Consolidated Financial Statements included in Item 18 in this Annual Report.

The following table summarizes certain balance sheet data for the Company for the years ended December 31, 2017, 2016, 2015, 2014, and 2013:

	(U.S. dollars in Thousands)				
	December 31,				
	2017	2016	2015	2014	2013
Cash and cash equivalents	\$ 9,073	\$ 3,892	\$ 7,912	\$ 5,973	\$ 3,134
Total current assets	61,982	43,908	40,002	32,893	26,938
Total assets from discontinued operations	306	853	-	134	484
Total assets	70,763	47,156	42,349	35,005	29,139
Total current liabilities	59,197	45,365	45,007	35,479	32,115
Total liabilities from discontinued operations	41	536	-	102	464
Total liabilities	97,505	80,633	84,557	74,064	69,495
shareholders' deficit	(26,742)	(33,477)	(42,208)	(39,059)	(40,356)

The following table summarizes certain statement of operations data for the Company for the years ended December 31, 2017, 2016, 2015, 2014, and 2013:

	(U.S. dollars in Thousands)				
	Year ended December 31,				
	2017	2016	2015	2014	2013
Revenue	\$ 297,682	\$ 255,576	\$ 187,022	\$ 172,929	\$ 124,497
Cost of revenue	254,009	222,927	167,844	152,224	108,995
Gross profit	43,673	32,649	19,178	20,705	15,502
Operating expenses:					
Research and development	2,683	2,660	2,565	2,207	2,182
Selling, general and administrative	26,920	22,142	20,406	17,316	16,925
Forgiveness of debt	-	-	-	-	(1,312)
Total operating expenses	29,603	24,802	22,971	19,523	17,795
OPERATING INCOME (LOSS)	14,070	7,847	(3,793)	1,182	(2,293)
Other income (expenses), net	(6,172)	(4,501)	(760)	448	(3,987)
INCOME (LOSS) BEFORE INCOME TAX EXPENSE (BENEFIT)	7,898	3,346	(4,553)	1,630	(6,280)
Income tax expense(benefit)	2,033	1,004	149	90	(1,026)
INCOME (LOSS) FROM CONTINUING OPERATIONS	5,865	2,342	(4,702)	1,540	(5,254)
Income (loss) from discontinued operations	(95)	-	-	(109)	1,821
NET INCOME (LOSS)	\$ 5,770	\$ 2,342	\$ (4,702)	\$ 1,431	\$ (3,433)
NET INCOME (LOSS) PER SHARE, BASIC AND DILUTED:					
Continuing operations	\$ 0.28	\$ 0.20	\$ (0.58)	\$ 0.19	\$ (0.66)
Discontinuing operations	-	-	-	(0.01)	0.23
Net income (loss) per share	\$ 0.28	\$ 0.20	\$ (0.58)	\$ 0.18	\$ (0.43)
Weighted average number of shares outstanding	21,000,000	11,518,829	8,085,599	8,054,390	8,036,780

Risk Factors

You should carefully consider the risks described below regarding the business and the ownership of our shares. If any of the risks are realized, our business, financial condition or results of operations could be adversely affected, and the price of our common stock could decline significantly.

Labor concerns

Several of our subsidiaries operate in many different jurisdictions in the United States of America, Europe and Asia and are therefore subject to the different labor laws of such jurisdictions. Any changes in such laws, as an example, the establishment of minimum wages, could have an adverse effect on the business of the Company. If any of such changes have a financial impact on the Company and the Company is not able to adjust its fees for its services to accommodate such changes, of which there is no assurance, there could be a material adverse effect on our business.

In addition, some of our employees are covered by collective bargaining agreements with unions and our relationship with those unions, including work stoppages, changes in work rules, could have an adverse impact on our financial results. Further, escalating costs of providing employee benefits and other labor issues may lead to labor disputes and disruption of our business.

Potential liability claims

From time to time lawsuits have been commenced against the Company or its subsidiaries, usually claiming injury or damage to property. Most of these claims are covered by insurance. In the event such claims are not covered by the insurance, there could be an adverse impact on the Company.

Losses in recent years

The Company incurred income (loss) from continuing operations of \$5.9 million, \$2.3 million and \$(4.7) million in 2017, 2016 and 2015, respectively. The Company has a shareholders' deficit of \$26.7 million and \$33.5 million as of December 31, 2017, and 2016, respectively. If we are unable to obtain new service contracts, increase revenues and increase profitability and reduce the Company's shareholders deficit our financial condition and results of operations might be affected and our share price may decline.

Loans from an entity related to our principal stockholder

Our financing activities have consisted primarily of convertible loans from an entity related to our principal shareholder. There is no assurance that our principal shareholder will continue making loans to the Company and even if loans are made, there is no assurance that the terms will be favorable to the Company.

Loans from third parties

Our financing activities have consisted of loans from third parties as banks. There is no assurance that those third parties will continue providing loans to the Company and even if loans are made, there is no assurance that the terms will be favorable to the Company.

Key personnel

Our success largely depends on the services of our senior management and executive personnel. The loss of the services of one or more of such key personnel could have an adverse impact on our operations. Our success is also dependent upon our ability to hire and retain additional qualified executive personnel. We cannot assure you that we will be able to attract, assimilate and retain personnel with the attributes necessary to execute our strategy. We cannot assure you that one or more of our executives will not leave our employment and either work for a competitor or otherwise compete with us.

Our contracts with airports or airlines may be canceled or not renewed

Our revenues are primarily provided from services pursuant to contracts, which are cancelable on short notice at any time, with or without cause. We cannot assure you that existing clients will decide not to terminate us or fail to renew a contract. In addition, consolidation in the airline industry could also result in a loss of customers. Any such termination or failure to renew a contract with us could have a material adverse effect on our results of operations and financial condition.

If our relationships with our major customers are impaired, then there may be a material adverse effect on our results of operations and financial condition. Our major customers include airports in Europe and major airlines servicing the United States. The airline industry might encounter difficulties and this may have a material adverse impact on our business.

Terrorism, war or risk of war

Our business is affected by numerous factors outside of our control, such as terrorist attacks and acts of war. Future terrorist attacks against the countries where the Company has a presence, rumors or threats of war, actual conflicts involving those countries or their allies, or military or trade disruptions affecting customers may materially adversely affect operations. Our facilities, and equipment could be direct targets or indirect casualties of terrorist attacks and acts of war. As a result, there could be delays or losses in transportation and deliveries of products and services to customers, decreased sales of products and services and extension of time for payment of accounts receivable from customers. Strategic targets such as high-technology aviation security assets may be at greater risk of future terrorist attacks than other targets. It is possible that any, or a combination, of these occurrences could have a material impact on cash flows, results of operations or financial condition. In addition, insurance premiums for some or all of our current coverages could increase dramatically, or certain coverages may not be available to us in the future.

Development of new technology

As part of our technology business strategy, we develop technological solutions and systems for financial and other industries and seek other revenue producing business and business opportunities.

We cannot assure you that we will be able to develop new systems or develop systems that are commercially viable. Our success in developing and marketing our systems will also depend on our ability to adapt to rapid technology changes in the industry and to integrate such changes into our systems.

We cannot assure you that we will be successful in our attempts to change or implement our business strategy. We may not have the expertise to be successful in developing our business in areas that are not related to the security industry.

We compete in a highly competitive industry and our competitors may be more successful in developing new technology and achieving market acceptance of their products.

Acquiring or Investing in Other Businesses

From time to time the Company may seek to acquire or invest in other business, which may or may not be related to the business of the Company. No assurance can be given that the Company will acquire or invest in any companies. If the Company decides to acquire or invest, no assurance can be given that such acquisition or investment will be successful.

Cyber Security Measures

We rely on computer systems and information technology in our business and have established security programs for protection. We might be the target of attempted cyber and other security threats and despite our security measures, our systems may be vulnerable to interruption or damage from computer hackings, viruses, worms or other destructive or disruptive software, process breakdowns, denial of service attacks, social engineering or other malicious activities or any combination of the foregoing. We must continuously monitor and develop our information technology networks and infrastructure to prevent, detect, address and mitigate the risk of unauthorized access, misuse, computer viruses and other events that could have a security impact. Insider or employee cyber and security threats are increasingly a concern for all companies, including ours. It is not possible to determine the cost to the Company in the event of a cybersecurity incident as that will depend the size and nature of the incident.

Competition

Competition in the aviation security and other aviation services industry as well as in the technology industry is intense. Many of our competitors have greater financial, technical and marketing resources. We expect that our competitors will develop and market alternative systems and technologies that may have greater functionality or be more cost effective than the services we provide or the systems that we may develop. If our competitors develop such systems we may not be able to successfully market our systems. Even if we are able to develop systems with greater functionality, which are more cost effective than those developed by our competitors, we may not be able to achieve market acceptance of our systems.

Operations in international environments risk

The Company is currently engaged in direct operations in numerous countries and is therefore subject to risks associated with international operations (including economic and/or political instability and trade restrictions). Such risks can cause the Company to have significant difficulties in connection with the sale or provision of its services in international markets and have a material impact on the Company's consolidated financial position, results of operations and cash flows.

Governmental regulation

The aviation security industry is subject to extensive governmental regulation, the impact of which is difficult to predict.

The Aviation and Transportation Security Act (the "Security Act") has had a significant negative impact on our aviation security business in the USA. In addition, our ability to successfully market new systems will be dependent upon government regulations over which we have no control. Any existing or new regulation may cause us to incur increased expenses or impose substantial liability upon us. The likelihood of such new legislation is difficult to predict.

Legislation designed to protect privacy rights

From time to time, personal identity databases and technologies utilizing such databases have been the focus of organizations and individuals seeking to curtail or eliminate the use of personal identity information technologies on the grounds that personal information and these technologies may be used to diminish personal privacy rights. In the event that such initiatives result in restrictive legislation, the market for our products may be adversely affected. In addition, in the event that the Company fails to detect terrorist activity as a result of legislation designed to protect privacy rights, the market for our products may be adversely affected.

Licenses for operations

A license to operate is required from the airport authority in the airports in which we currently operate. The loss of, or failure to obtain, a license to operate in one or more of such airports could result in the loss of, or the inability to compete for, contracts in the airports in which we have licenses.

Poor Economic Conditions

Current economic conditions could adversely affect our business. Deterioration in the global economic environment may result in decreased demand for our services. Weakening economic conditions could also affect our customers, which may result in redirection of their request for our services.

Currency risk

A substantial portion of our revenue is generated in foreign countries. We generally retain our income in local currency at the location the funds are received. Since our financial statements are presented in United States dollars, any significant fluctuation in the currency exchange rate between such currency and the United States dollar would affect our results of operations and financial condition.

Limitations in price share

The market price of our common stock may from time to time be significantly affected by a large number of factors, including, among others, variations in our operating results, the depth and liquidity of the trading market for our shares, and differences between actual results of operations and the results anticipated by investors and securities analysts. Many of the factors which affect the market price of our common stock are outside of our control and may not even be directly related to us.

The market price of our common stock may be volatile, which may make it more difficult for you to resell your shares when you want at prices you find attractive.

Main shareholders

As of December 31, 2017, there are three shareholders who individually hold more than 5% of the Company's shares. All of them together hold approximately 77.6% of our shares (excluding conversion rights). Their interests could conflict with yours. In addition, significant sales of shares held by them could have a negative effect on our stock price.

As of December 31, 2017, the MacPherson Trust and Mr. M.J. Atzmon, own or control together approximately 71.8% of our issued and outstanding common stock (excluding conversion rights). As a result of such ownership and conversion rights, the MacPherson Trust together with Mr. Atzmon are able to significantly influence and / or control all matters requiring shareholder approval, including the election of directors and approval of significant corporate transactions. Such concentration may also have the effect of delaying or preventing a change in control. Mr. Atzmon, the Chairman of the Supervisory Board, disclaims any benefit or interest in the MacPherson Trust.

Dividends

We do not expect to pay any cash dividends on our common stock in the foreseeable future.

Laws in the Netherlands

Our corporate affairs are governed by our Articles of Association and by the laws governing corporations incorporated in the Netherlands. Our public shareholders may have more difficulty in protecting their interests in the face of actions by the Supervisory Board or the Management Board, or their members, or controlling shareholders, than they would as shareholders of a company incorporated in the United States. Pursuant to mandatory Dutch corporate law, adoption of our annual accounts by the general meeting of shareholders does not automatically discharge the Supervisory Board and Management Board and their members from liability in respect of the exercise of their duties for the particular financial year. In order to discharge the Supervisory Board and Management Board and their members from liability a separate resolution thereto needs to be adopted by the general meeting of shareholders (which resolution can be adopted in the same meeting in which the annual accounts will be adopted). Such discharge of the Supervisory Board and the Management Board and their members by the shareholders is subject to the provisions of Dutch law, including provisions relating to liability of members of supervisory boards and management boards upon the bankruptcy of a company pursuant to the relevant provisions of the Dutch Civil Code and is furthermore not absolute and will not be effective as to matters misrepresented or not disclosed to the shareholders. Nor will such discharge shield managing or supervisory directors from external liability i.e. by creditors or trustee for matters of tort or maladministration. An individual member of the Supervisory Board or the Management Board who can prove that he is not at fault for such an omission or misrepresentation would not be liable, or in case of external liability if he additionally can prove that he has taken measures to prevent the consequences of the shortcomings of the Board.

U.S. judgments may not be enforceable in the Netherlands

A significant number of our activities are located outside the United States. In addition, members of the Management and Supervisory Boards and certain experts named herein are residents of countries other than the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons or to enforce against such persons judgments of courts of the United States predicated upon civil liabilities under the United States federal securities laws.

There is no treaty between the United States and the Netherlands for the mutual recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. Therefore, a final judgment for the payment of money rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon the federal securities laws, would not be directly enforceable in the Netherlands. The party that wishes to enforce such judgment in the Netherlands will have to institute second proceedings before a competent court in the Netherlands in order to obtain a similar decision that is capable of enforcement. A court in the Netherlands will, under current practice, normally issue a judgment incorporating the judgment rendered by the United States court if it finds that (i) the United States court assumed jurisdiction on international recognized grounds, (ii) the judgment was obtained in compliance with principles of due process, (iii) the judgment is final and conclusive and (iv) recognition of the judgment does not contravene the public policy or public order of the Netherlands. We cannot assure you that United States investors will be able to enforce any judgments in civil and commercial matters, including judgments under the federal securities laws against us or members of the Management or Supervisory Board (or certain experts named herein) who are residents of the Netherlands or countries other than the United States. In addition, a court in the Netherlands might not impose civil liability on us or on the members of the Management or Supervisory Boards in an original action predicated solely upon the federal securities laws of the United States brought in a court of competent jurisdiction in the Netherlands.

Item 4. Information on the Company

Unless the context indicates otherwise, all references herein to the "Company" or "ICTS" include ICTS International N.V., and its subsidiaries.

History and Development of the Company

Aviation Security and Other Aviation Services Business

ICTS is a public limited liability company organized under the laws of The Netherlands in 1992. Our offices are located at Walaardt Sacréstraat 425-5, 1117 BM Schiphol-Oost, The Netherlands and its telephone number is +31-20-347-1077.

In the wake of the events which occurred on September 11, 2001, the Federal Government of the United States, in November, 2001, enacted the Security Act Public Law 107-71. Under the Security Act, entities may provide aviation security services in the United States only if they are owned and controlled at least 75% by U.S. citizens. As a company organized under the laws of the Netherlands, ICTS is not able to comply with the ownership requirements under the Security Act. The Security Act is administered through the TSA.

In the fourth quarter of 2002, pursuant to the Security Act, the Federal government through the TSA, took over substantially all of the aviation security operations in U.S. airports. As a result, ICTS, through its wholly owned subsidiary, Huntleigh, provides limited aviation security services in the United States.

In 2001 and 2002, ICTS sold substantially all of its European operations in two stages, for an aggregate purchase price of \$103 million. As a result of the sale, ICTS fully divested itself at that time from its European operations, except for its operations in the Netherlands and Russia.

In February 2005 the Company re-entered the European aviation security market. In March 2005, the Company established a wholly owned subsidiary, I-SEC International Security B.V. ("I-SEC"), under which all the European aviation security activities provided by ICTS are operated. Since then I-SEC established new subsidiaries throughout Europe and the Far East.

Technology Business

Our technology business is primarily involved in the development and sale of authentication security software to financial and other institutions, in the United States of America and Europe.

Business Overview

General

ICTS, through I-SEC International Security B.V. and its subsidiaries supplies aviation security services at airports in Europe and the Far East.

ICTS, through AUIOTIX Limited and its subsidiaries ("AUIOTIX") develops technological systems and solutions for financial and other institutions.

ICTS specializes in the provision of aviation security and other aviation services. Following the taking of its aviation security business in the United States by the TSA in 2002, ICTS through its subsidiary Huntleigh, engages primarily in aviation non-security related activities in the USA.

Business Strategy

We are currently pursuing the following business strategy:

Aviation Security Operations in Europe and the Far East

Through the I-SEC subsidiaries, we supply aviation security to airports, airlines and governments in Europe and the Far East.

Other Aviation Related Services in the U.S.

We continue to provide limited security services and non-security aviation related services in the U.S. through our subsidiary, Huntleigh.

Developing Authentication Technology

We are focusing on developing authentication technology for financial and other markets. ICTS is using the know-how and expertise it has acquired in the provision of enhanced aviation security services to develop such security systems and technologies.

Services

Services offered in Europe and the Far East

I-SEC specializes in the provision of advanced aviation security services worldwide. These include security consulting and security handling: security screening, checkpoint screening, hold baggage screening ("HBS"), X-ray operator training and integrated services.

The Company benefits from the broad know-how and international operational experience it has acquired in more than two decades of intensive activity in the field of aviation security.

I-SEC's management and key personnel are widely recognized in the industry as developers of pioneering aviation security concepts, methods and technologies, focusing primarily on high-risk environments.

With its highly skilled and experienced professional staff, supported by proprietary technological innovations, I-SEC is ideally positioned to deliver cost-effective aviation security solutions and services to airlines and airports with varying operational volumes and needs.

I-SEC has operations in The Netherlands, Germany, Spain, Denmark, Italy, Portugal and Russia, and is continuing to expand to other countries in Europe. Additionally, I-SEC currently operates at the five major airports in Japan.

Building on its management's strong reputation and on its broad know-how and experience, I-SEC is committed to provide its clients with security services at the highest professional level, while offering unprecedented cost savings, due, in part, to the integration of advanced, proprietary technologies.

I-SEC aviation security services

Checkpoint screening

I-SEC provides trained checkpoint operators and supervisors to airline and airport clients in many countries.

The Company trains its staff to perform passenger screening at checkpoints, both efficiently and effectively, fully complying with international and national regulatory requirements on the one hand, and with airline customer service requirements, on the other hand.

Hold Baggage Operation (HBS)

Regulatory agencies in Europe and the USA require airlines and airports to perform 100% hold baggage screening. I-SEC provides the trained manpower required to carry out these tasks, as well as training services for the airport's own staff.

Integrated Services

I-SEC provides a wide variety of integrated services, combining security with customer service. These integrated services which combine security processing based on numerous years of experience and expertise, fully complying with all local and international regulatory requirements, with a wide variety of customer service functions, enables airlines to improve customer services while reducing manpower needs and operational costs.

Passengers Security Screening

I-SEC's unique passenger screening method, has been upgraded several times, and adapted to comply with amendments in regulatory requirements, as well as with changes in the threat environment and developing needs.

Passenger privacy and confidentiality are strictly maintained at all times, in accordance with all relevant regulations issued by both US and EU regulators.

Cargo Security

I-SEC provides a range of services that focuses on cargo security. Company assessment: Analyzing the cargo security program currently employed; identifying gaps in coverage and points of non-compliance with regulations; and recommending requisite actions.

Security program implementation: Planning and implementation of a cargo security program; training the client's management team.

Staff training: Training the client's employees to operate in accordance with the relevant security requirements, while maintaining flexibility with regard to course content, scope, duration, location and the number of trainees.

I-SEC aviation security training services

Training programs and seminars

I-SEC's training programs are the product of over 25 years of expertise and experience in the development of training materials covering every aspect of airline and airport security operations and their implementation worldwide.

Aviation security and security awareness training courses are offered, within the framework of training programs that are modular in nature, and are adapted to meet the specific needs of each client. The courses are constantly being updated to ensure that they cover all relevant material relating to new regulations, new threats, etc. Many of the courses include simulations, role play, situational exercises, case studies, etc. Sophisticated training aids are employed to make the training experience more efficient and interesting, thus ensuring optimal results.

I-SEC aviation security consulting services

Risk analysis

A comprehensive risk analysis is the essential, primary component of any security system.

The identification of the risks relevant to the particular site or operation, and their grading according to their potential damage and probability enables to develop the security concept and design the security system that will effectively deal with these risks.

I-SEC employs security experts specializing in the performance of risk analyses in a variety of threat environments. When analysing risks, all relevant factors relating to the client, the operation, the environment, and potentially hostile elements are taken into account, to ensure the risks are fully and accurately mapped.

Security Concept Development

In order to enable the development of a cost-effective security system, that optimally meets the client's specific needs, an aviation security system must be constructed on the basis of a well thought-out security concept, which takes into consideration all relevant aspects and variables.

As the development and implementation of a comprehensive security system requires substantial resources, it is crucial that these be invested in the most productive way, in accordance with predetermined priorities.

When developing the aviation security concept, I-SEC specialists take into account the results of the risk analysis and the developing and anticipated changes and trends in the threat environment, to arrive at a concept that will be suitable for the predictable future, and easy to adapt in later years.

Security system design

I-SEC security experts possess broad experience in the design and development of modular, aviation security systems, customized to meet local needs and complying with international standards. Designed systems are both flexible and dynamic in nature, ensuring that any adaptations required to meet changes in the threat environment in the future can be carried out quickly, with minimal investment of effort and funds.

System development also covers the definition of needs in the areas of manpower, technical means and advanced technologies, with the aim of attaining the optimal balance, thus maximizing both efficiency and savings in operational and staffing costs. Our experts also assist the client to determine priorities in implementation, as a function of the prioritized needs and the available resources. Assistance in the recruitment of security managers and staff based on predefined standards is also offered.

Implementation and assimilation

For over two decades, I-SEC specialists have been assisting their clients to implement and assimilate proven work methods and security solutions designed on the basis of extensive know-how and experience, and tailored to meet their specific needs.

The client's staff members, at all levels, are trained to perform their relevant tasks, and are provided with ongoing consulting and support to ensure the smooth running of security operations.

Security surveys and audits

I-SEC's expert security consultants specializes in the performance of airports security surveys, the scope of which is determined together with the client, and can range from individual aspects of airport security to comprehensive, all-encompassing surveys.

Special attention is focused on verification of compliance with all applicable regulations and presentation of recommendations regarding any amendments that may be required. Security surveys are particularly important as a step in the upgrading of an existing system – only by accurately mapping the existing system, all its components, strengths and weaknesses, is it possible to determine the required modifications.

As security systems are only effective if they continue to address existing and anticipated threats, and to fully comply with international and local regulatory requirements, periodical aviation security audits are of vital importance. I-SEC experts possess vast international experience in the performance of such audits, and recommending steps that must be taken to ensure full compliance and suitability of the aviation security system at all times.

Aviation Security Technology

In the interest of enabling its client to maintain the required level of security while reducing operational costs, I-SEC utilizes several innovative, proprietary means.

NAPS (New Advanced Passenger Screening)

NAPS is a sophisticated IT system that enables pre-departure analysis of passenger information and is designed to help screen airline passengers in a faster and more efficient manner. It was developed based on the extensive experience and knowledge accumulated by the Company's professionals.

I-Check

Extremely fast and accurate travel document scanner. The I-Check document scan stand, together with the I-Check tablet app, turns a tablet into an extremely fast and accurate passport and barcode scanner. Once the I-Check tablet app is connected to the I-Check infrastructure, a wide variety of functionalities becomes available guiding the security agent and supervisors intuitively through the features and functionality.

SARA (Security Airport Realtime Application)

SARA gathers information out of multiple sources and presents them on a portable device or in any browser. SARA is a tool that provides the missing link between HR and the operational daily business of running a security operation. SARA allows you to make an operational environment paperless. You can create, sign update forms on the fly while viewing a live overview of the security situation. Employees can be tracked on their trainings, certifications and overall performance. A comprehensive chat and task system is part of the SARA suite.

ROM (Realtime Operational Management)

ROM transforms rigid and difficult day to day planning into flexible and structured planning. Through utilization of the OPS system, we can create a roster a week, a month or even a year in advance, which ideally should be as accurate as possible. In a turbulent environment like an airport, the daily dispatch efficiency of your workforce is paramount to your operation.

Services offered in the United States

Prior to the enactment of the Security Act, Huntleigh was one of the leading providers of security and non-security aviation services in the United States. Huntleigh currently provides limited aviation security services and other separate services at approximately 29 airports in 21 states.

The limited security services provided by Huntleigh involve the following:

- Charter Flight Screening for Airlines - which includes security check of passengers' body and carry-on items.
- Cargo Security Screening – for some international and domestic carriers.
- Aircraft Security Screening – for some international and domestic carriers.
- Aircraft Search – Search of the entire aircraft to detect dangerous objects.

Each of the non-security services involves one of the following specific job classifications:

Agent Services for Airlines

Agent services include: passenger service, ground handling, vendor behind counters, passenger service representative (PSR) and baggage service (BSO). Although an agent is a Huntleigh employee, the employee is considered a representative of specific airlines.

Guard Services

Guard services involve guarding secured areas, including aircraft. Huntleigh also provides guard services to schools, shopping malls, etc.

Queue Monitors

Huntleigh provides queue monitors assisting passengers before the checkpoint.

Aircraft Cleaning

Huntleigh provides employees who perform aircraft cleaning services such as the following:

- cleaning the aircraft interior
- conducting cabin searches

Janitorial

Huntleigh provides janitorial services to airline airport offices, airline terminal areas, airline gates, police stations and office buildings.

GSE Maintenance

Huntleigh provides mechanics to maintain Ground Service Equipment ("GSE") in a dedicated GSE Shop.

Shuttle Service

Huntleigh provides shuttle services to airline crews between hotels and airports.

Skycap Services Provider

A skycap assists passengers with their luggage. Located at the curbside of the check-in at airports, a skycap checks in passengers' luggage and meets security requirements established by the TSA to screen passengers. A skycap also assists arriving passengers with transporting luggage from the baggage carousel to ground transportation or other designated areas.

A skycap also may transport checked baggage from the curbside check-in to the airline counter. Concierge Service involves a skycap monitoring the baggage carousel to ensure that passengers do not remove luggage not belonging to them.

Wheelchair attendants

Wheelchair attendants transport passengers through the airport in airline and/or Company owned wheelchairs and may also operate electric carts for transporting passengers through the airport. Working closely with the attendants are dispatch agents who monitor requests and assignments for wheelchairs and dispatch the attendants as needed.

Baggage Handling Services

Huntleigh provides employees who move passengers' baggage from the check-in counter to screening machines and/or vice versa, as well as moving oversized baggage from check-in to appropriate bag belts.

Authentication Systems and Solutions

The Company, through its subsidiaries, is involved in the development and sales of the technology listed below.

Front-end Identity Document Authentication and Management System (FDI)

FDI automates the capture, authentication and content retrieval from physical ID documents. FDI speeds up customer screening and enrollment while enhancing ID fraud prevention in security-sensitive and business-sensitive environments such as airports, border control, financial services, etc.

FDI solutions can be used with 3-illumination professional scanners for high security requirements or with regular TWAIN scanners and even mobile devices for standard security requirements, thus enabling broad usability for different markets and security levels.

Key Features: Hi-Resolution document imaging, auto image optimization, readable + encoded content extraction, photograph extraction, multi-layer identity authentication (according to scanner type), immediate detailed exception alerts, ability to integrate with chip readers and barcode readers, ability to integrate with biometric inputs, ability to query data against databases or watch-lists and ability to operate in stand-alone or networked modes.

FDI is relevant for a broad range of commercial and government markets. Key markets for FDI are airports, airlines, bank branches, insurance company HQs, car selling/financing dealerships, HR departments, etc.

Back Office ID Authentication and Onboarding Automation Service (BOS)

BOS automates all essential building blocks of Customer-Not-Present (i.e. online and mobile) customer onboarding and KYC initiation in regulated markets.

These building blocks include ID document authentication and content retrieval, Selfie-to-ID face matching with liveness detection, Proof-of-Address document processing and customer data verification and screening (AML/ATF/KYC).

BOS specializes in handling customer submitted ID document and face images (as opposed to physical documents which FDI handles).

BOS speeds up customer screening and enrollment using 2nd generation technology that offers 100% automated (Data entry free, back-office free) multi-factor forensic-level forgery, counterfeiting and risk factor detection, higher conversion rates of borderline quality images, data-rich fast-response exception reporting, rapid processing (typically 8 seconds or less for the complete process), multi-lingual document content support.

BOS incorporated advanced AI algorithms that speed-up and increase the accuracy of analyzing images at a broad range of image quality levels.

BOS also offers multi-modal biometric Selfie-to-ID face matching that combines anti-spoofing liveness detection, which becomes market standard for enhancing robustness of identification and risk mitigation.

BOS is designed to handle images that originate from any common imaging device including mobile phones, tablets, computer webcams, etc.

BOS is available as a cloud (SaaS) service as well as internal (on-premise) service.

BOS can be integrated with additional client or 3rd party augment services such as data referencing, address verification, etc.

BOS is relevant for a broad range of commercial and government markets many of which are required to comply with KYC regulations.

Key markets for BOS are financial services including banking, insurance, payments, wallets, money transfer, lending, remittance, online investments, trading & forex, Cryptocurrencies, professional services, etc.

Marketing of Security Systems and Technology

We market our technologies by establishing projects with airports, airlines, financial services (including banks, leasing and car financing companies), telecom, and other existing and potential customers.

Investments

The Company owns 198,311 shares or 3.8% of the outstanding common stock of Artemis Therapeutics, Inc.

On February 2017 the Company committed to invest an aggregate amount of \$3.5 million for 12,000 shares or 10.0% of the outstanding common stock of White Line B.V., a limited company incorporated in the Netherlands. White Line is a holding and financing company. In March 2017 the Company invested an amount of \$2,000 for 7,000 shares of White Line B.V., and in October 2017, the Company invested additional amount of \$1,500 for additional 5,000 shares aggregating to 10% ownership. Should the value of this investment decrease, a company related to the main shareholder has guaranteed to purchase this full investment of a minimum amount of \$3,500. The guarantee is effective after three years of the date of purchase and terminates after five years.

Discontinued Operations

During the year ended December 31, 2014, the Company committed to a plan to cease the operations of its subsidiary in Switzerland (I-SEC Switzerland) which provided aviation security services.

During the year ended December 31, 2017 the Company committed to a plan to cease the aviation security operations of its subsidiary in Cyprus.

Major Customers

Revenue from two customers represented 76% of total revenue during the year ended December 31, 2017 of which one customer accounted for 42% and the other customer accounts for 34% of total revenue. Accounts receivable from these two customers represented 53% of total accounts receivable as of December 31, 2017.

Revenue from two customers represented 75% of total revenue during the year ended December 31, 2016, of which one customer accounted for 42% and the other customer accounts for 33% of total revenue. Accounts receivable from these two customers represented 70% of total accounts receivable as of December 31, 2016.

Revenue from two customers represented 70% of total revenue during the year ended December 31, 2015, of which one customer accounted for 37% of total revenue and the other customer accounted for 33% of total revenue. Accounts receivable from these two customers represented 64% of total accounts receivable as of December 31, 2015.

Both customers mentioned above, have been the same principle customers in the last three years.

Revenue

Revenue in Germany

Our revenue in Germany during the years 2017, 2016 and 2015 totaled \$125.9 million (42% of total revenue), \$108.7 million (43% of total revenue) and \$61.8 million (33% of total revenue), respectively.

Revenue in The Netherlands

Our revenue in The Netherlands during the years 2017, 2016 and 2015 totaled \$103.9 million (35% of total revenue), 87.3 million (33% of total revenue) and \$72.2 million (39% of total revenue), respectively.

Revenue in the U.S.

Our revenue in the United States during the years 2017, 2016 and 2015 totaled \$52.2 million (18% of total revenue), \$47.7 million (19% of total revenue) and \$41.8 million (22% of total revenue), respectively.

Revenue in other locations

Our revenue in other locations during the years 2017, 2016 and 2015 totaled \$15.7 million (5% of total revenue), \$11.8 million (5% of total revenue) and \$11.2 million (6% of total revenue), respectively.

Competition

Competition in the aviation security and aviation related services industry as well as in the technology industry is intense. Many of our competitors have greater financial, technical and marketing resources.

We expect that our competitors will develop and market alternative systems and technologies that may have greater functionality or be more cost effective than the services we provide or the systems that we may develop. If our competitors develop such systems we may not be able to successfully market our systems. Even if we are able to develop systems with greater functionality, which are more cost effective than those developed by our competitors, we may not be able to achieve market acceptance of our systems because our competitors have greater financial and marketing resources.

Aviation Security Regulatory Matters

Our aviation security activities are subject to various regulations imposed by authorities and various local and federal agencies having jurisdiction in the serviced area. The Company, on behalf of its clients, is responsible for adherence to such regulations relating to certain security aspects of their activities. The Company is also responsible to prevent passengers without proper travel documentation from boarding a flight, thereby avoiding fines otherwise imposed on its clients by immigration authorities.

We are subject to random periodic tests by government authorities with regard to the professional level of its services and training. Any failure to pass such a test may result in the loss of a contract or a license to perform services or a fine or both.

In the airports in which we operate, a license to operate is required from the respective airport authority. The Company currently holds the licenses required to operate in such locations.

Climate Change Regulation

Our business is not affected directly or indirectly in any way by existing and pending, local, state, regional, federal or international legal requirements and agreements related to climate change.

Organizational Structure

The following are the active subsidiaries of ICTS as of December 31, 2017:

I-SEC Global Security B.V. (The Netherlands - 100%) and its wholly-owned subsidiaries:

I-SEC International Security B.V. (The Netherlands - 100%), which holds the shares of:

Procheck International B.V. (The Netherlands - 100%)

I-SEC Nederland B.V. (Netherlands - 100%)

I-SEC Advanced Systems B.V. (Netherlands - 100%)

I-SEC Russia LLC (Russia - 99%) *

I-SEC Spain Services Management S.L. (Spain - 100%)

I-SEC Spain Security Management S.L. (Spain - 100%)

I-SEC Italia s.r.l. (Italy - 100%), which holds the shares of:

I-SEC Services Italia s.r.l. (Italy - 100%)

I-SEC Japan K.K. (Japan - 100%)

I-SEC International Security Portugal Unipessoal, Lda (Portugal - 100%)

I-SEC Cyprus Limited (Cyprus - 51%) **

I-SEC Security Services Private Limited (India - 67%)

I-SEC Infrastruktur GmbH (Germany - 100%)

I-SEC Nord GmbH (Germany - 100%)

I-SEC Germany GmbH (Germany - 100%) which holds the shares of:

I-SEC Deutsche Luftsicherheit GmbH (Germany - 100%)

Harsec A/S (Denmark - 100%)

ICTS USA, Inc. (New York - 100%) which holds the shares of:

Huntleigh USA, Corp. (New York - 100%)

AU10TIX Limited (Cyprus - 100%) which holds the shares of:

AU10TIX B.V. (The Netherlands - 100%) which holds the shares of:

10TIX Authentication and Identification Advanced Systems Ltd. (Israel - 100%)

Broadcasting Security Directive Limited (Ireland - 100%)

* Additional 1% is held by ICTS International N.V.

** Discontinued operations as of December 31, 2017.

Property, Plant and Equipment

The Company leases certain premises under various operating leases. Future minimum lease payments under such operating leases are as follows:

Year ended December 31,	
2018	\$ 2,009
2019	612
2020	289
2021	13
	<u>\$ 2,923</u>

Rent expense for the years ended December 31, 2017, 2016 and 2015 is \$4.7 million, \$3.9 million and \$3.4 million, respectively.

Item 5. Operating and Financial Review and Prospects

This section contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 concerning our business, operations and financial condition. All statements other than statements of historical facts included in this annual report on Form 20-F regarding ICTS's strategy, future operations, financial position, costs, prospects, plans and objectives of management are forward-looking statements. When used in this annual report on Form 20-F the words "expect", "anticipate", "intend", "plan", "believe", "seek", "estimate", and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Because these forward-looking statements involve risks and uncertainties, actual results could differ materially from those expressed or implied by these forward-looking statements for a number of important reasons, including those discussed under "Risk Factors" and elsewhere in this annual report on Form 20-F.

We cannot guarantee any future results, levels of activity, performance or achievements. The forward-looking statements contained in this annual report on Form 20-F represent management's expectations as of the date of this annual report on Form 20-F and should not be relied upon as representing ICTS's expectations as of any other date. Subsequent events and developments will cause management's expectations to change. However, while we may elect to update these forward-looking statements, ICTS specifically disclaims any obligation to do so, even if its expectations change.

Overview

The Company operates in three reportable segments (a) corporate (b) airport security and other aviation services and (c) technology. The corporate segment does not generate revenue and contains primarily non-operational expenses. The airport security and other aviation services segment provide security and other services to airlines and airport authorities, predominantly in Europe and the United States of America. The technology segment is predominantly involved in the development and sale of authentication security software to financial and other institutions, predominantly in the United States of America and Europe. All inter-segment transactions are eliminated in consolidation. The accounting policies of the segments are the same as the accounting policies of the Company as a whole.

Critical Accounting Policies

The consolidated financial statements have been prepared in accordance with U.S. GAAP. The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates. Our critical accounting policies that require the use of judgment and estimates are listed below. Please refer to Note 2 of ICTS's consolidated financial statements included in this Annual Report for the year ended December 31, 2017 for a summary of ICTS's significant accounting policies.

Accounts Receivable

Accounts receivable represent amounts due to the Company for services rendered and are recorded net of an allowance for doubtful accounts. The allowance for doubtful accounts is based on historical collection experience, factors related to a specific customer and current economic trends. The Company writes off accounts receivable against the allowance for doubtful accounts when the balance is determined to be uncollectible.

Investments

The Company follows Topic 820, "Fair Value Measurement", of FASB ASC. Topic 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value should be based on assumptions that market participants would use.

In determining the fair value, the Company assesses the inputs used to measure fair value using a three-tier hierarchy, as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Companies have the ability to access at the measurement date.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Company accounts for investments in the equity securities of companies which represent an ownership interest of 20% to 50% and the ability to exercise significant influence, provided that ability does not represent control, using the equity method. The equity method requires the Company to recognize its share of the net income (loss) of its investees in the consolidated statement of operations until the carrying value of the investment is zero.

Property and equipment

Equipment and furniture, internal use software and vehicles are stated at cost less accumulated depreciation. Depreciation is computed using the straight line method over the estimated useful lives of the assets.

Goodwill

Goodwill represents the excess purchase price over the fair value of the net tangible and intangible assets of an acquired business. Goodwill is assessed for impairment by reporting unit on an annual basis or when events or changes in circumstances indicate that the carrying value may not be recoverable. The Company would record a goodwill impairment charge for the difference between the carrying value and the fair value of the goodwill, not to exceed the carrying amount of the goodwill.

Long-Lived Assets

The Company reviews long-lived assets, other than goodwill, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The Company assesses recoverability by determining whether the net book value of the related asset will be recovered through the projected undiscounted future cash flows of the asset. If the Company determines that the carrying value of the asset may not be recoverable, it measures any impairment based on the fair value of the asset as compared to its carrying value.

Convertible Debt Instruments

The Company evaluates convertible debt instruments to determine whether the embedded conversion option needs to be bifurcated from the debt instrument and accounted for as a freestanding derivative instrument or considered a beneficial conversion option. An embedded conversion option is considered to be a freestanding derivative when: (a) the economic characteristics and risks of the embedded conversion option are not clearly and closely related to the economic characteristics and risks of the host instrument, (b) the hybrid instrument that embodies both the embedded conversion option and the host instrument is not re-measured at fair value under otherwise applicable US GAAP with changes in fair value reported in earnings as they occur, and (c) a separate instrument with the same terms as the embedded conversion option would be considered a derivative instrument subject to certain requirements (except when the host instrument is deemed to be conventional). When it is determined that an embedded conversion option should not be bifurcated from its host instrument, the embedded conversion option is evaluated to determine whether it contains any intrinsic value which needs to be discounted from the carrying value of the convertible debt instrument.

The intrinsic value of an embedded conversion option is considered to be the difference between the fair value of the underlying security on the commitment date of the debt instrument and the effective conversion price embedded in the debt instrument.

Contingent Liabilities

The Company is subject to various investigations, claims and legal proceedings covering a wide range of matters that arise in the normal course of its business activities. Liabilities for such contingencies are recognized when: (a) information available prior to the issuance of the consolidated financial statements indicates that it is probable that a liability had been incurred at the date of the consolidated financial statements and (b) the amount of loss can reasonably be estimated.

Revenue Recognition

Revenue is recognized as services are rendered based on the terms contained in the Company's contractual arrangements with customers, provided that services have been rendered, the fee is fixed or determinable, and collection of the related receivable is reasonably assured.

Cost of Revenue

Cost of revenue represent primarily payroll and employee related costs associated with employees who provide services under the terms of the Company's contractual arrangements, insurance, depreciation and amortization.

Research and Development

Research and development costs are expensed as incurred and consist primarily of payroll and related costs.

Income Taxes

The Company accounts for income taxes using the liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. A valuation allowance is established when realization of net deferred tax assets is not considered more likely than not.

Uncertain income tax positions are determined based upon the likelihood of the positions being sustained upon examination by taxing authorities. The benefit of a tax position is recognized in the consolidated financial statements in the period during which management believes it is more likely than not that the position will not be sustained. Income tax positions taken are not offset or aggregated with other positions. Income tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of income tax benefit that is more than 50 percent likely of being realized if challenged by the applicable taxing authority. The portion of the benefits associated with income tax positions taken that exceeds the amount measured is reflected as income taxes payable.

Results of Operations

The following table summarizes our results of operations for the years ended December 31, 2017, 2016 and 2015:

	(U.S. dollars in Thousands)		
	Year ended December 31,		
	2017	2016	2015
Revenue	\$ 297,682	\$ 255,576	\$ 187,022
Cost of revenue	254,009	222,927	167,844
Gross profit	43,673	32,649	19,178
Operating expenses:			
Research and development	2,683	2,660	2,565
Selling, general and administrative	26,920	22,142	20,406
Total operating expenses	29,603	24,802	22,971
OPERATING INCOME (LOSS)	14,070	7,847	(3,793)
Other expenses, net	(6,172)	(4,501)	(760)
INCOME (LOSS) BEFORE INCOME TAX EXPENSE	7,898	3,346	(4,553)
Income tax expense	2,033	1,004	149
INCOME (LOSS) FROM CONTINUING OPERATIONS	5,865	2,342	(4,702)
Loss from discontinued operations	(95)	-	-
NET INCOME (LOSS)	5,770	2,342	(4,702)
Less: Net loss attributable to non controlling interest	(50)	-	-
NET INCOME (LOSS) ATTRIBUTABLE TO ICTS INTERNATIONAL N.V.	\$ 5,820	\$ 2,342	\$ (4,702)

The following table sets forth, for the annual periods indicated, certain results of operations data as a percentage of revenue for the years ended December 31, 2017, 2016 and 2015

	Year ended December 31,		
	2017	2016	2015
	Revenue	100.0%	100.0%
Cost of revenue	85.3%	87.2%	89.7%
Gross profit	14.7%	12.8%	10.3%
Research and development	0.9%	1.0%	1.4%
Selling, general and administrative	9.0%	8.7%	10.9%
Total operating expenses	9.9%	9.7%	12.3%
OPERATING INCOME (LOSS)	4.8%	3.1%	(2.0)%
Other expenses, net	(2.1)%	(1.8)%	(0.5)%
INCOME (LOSS) BEFORE INCOME TAX EXPENSE	2.7%	1.3%	(2.5)%
Income tax expense	0.7%	0.4%	-%
INCOME (LOSS) FROM CONTINUING OPERATIONS	2.0%	0.9%	(2.5)%
Loss from discontinued operations	-%	-%	-%
NET INCOME (LOSS)	2.0%	0.9%	(2.5)%
Less: Net loss attributable to non controlling interest	-%	-%	-%
NET INCOME (LOSS) ATTRIBUTABLE TO ICTS INTERNATIONAL N.V.	2.0%	0.9%	(2.5)%

The following table sets forth, for the annual periods indicated, revenue generated by country:

	(U.S. dollars in Thousands)		
	Year ended December 31,		
	2017	2016	2015
Germany	\$ 125,896	\$ 108,692	\$ 61,765
Netherlands	103,862	87,348	72,231
United States of America	52,234	47,733	41,817
Other	15,690	11,803	11,209
Total	\$ 297,682	\$ 255,576	\$ 187,022

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Revenue

Total revenue increased from \$255.6 million in 2016 to \$297.7 million in 2017.

Revenue generated in Germany was \$125.9 million in 2017 compared to \$108.7 million in 2016. The increase in revenue generated in Germany was primarily a result of additional services provided to our local customers (Frankfurt, Hamburg and Hannover Airports).

Revenue generated in the Netherlands was \$103.9 million in 2017 compared to \$87.3 million in 2016. The increase in revenue generated in the Netherlands was primarily a result of additional services provided to Schiphol Airport.

Revenue generated in the United States of America was \$52.2 million in 2017, compared to \$47.7 million in 2016. The increase in revenue generated in the United States was primarily a result of additional services provided to customers and increase of minimum wage in certain locations which was charged to the customers.

Revenue outside Germany, The Netherlands and the United States of America totaled \$15.7 million in 2017 compared to \$11.8 million in 2016. Increase in revenue was primarily a result of increase in services provided to new and existing customers as part of the expansion of the Company's technology segment.

Cost of revenue

Cost of revenue increased from \$222.9 million or 87.2% of revenue in 2016 to \$254.0 million or 85.3% of revenue in 2017. Increase in cost of revenue primarily relates to increase in revenues in all our main locations. Increase in cost of revenues increased both because of additional services provided to customers and as a result of increase in labor costs which are usually charged to the customers.

Research and Development expenses

Research and Development stayed at \$2.7 million or 1.0% in 2016 compared to 0.9% of revenue in 2017.

Selling, General and Administrative Expenses (“SG&A”)

SG&A expenses increased from \$22.1 million or 8.7% of revenue in 2016 to \$26.9 million or 9.0% of revenue in 2017. Increase in SG&A expenses is primarily a result of increase of the Company’s operations during 2017, increase of marketing expenses and expenses incurred during examinations of different acquisition possibilities, ss part of the Company’s efforts to expand current operations into new markets. In addition, the Company incurred \$2.1 million legal fees in 2017 compared to \$0.7 million in 2016, costs related mostly to litigations regarding disputes with employees.

Other expenses, net

Other expenses, net, totaled \$6.2 million or 2.1% of revenues in 2017 compared to \$4.5 million or 1.8% of revenues in 2016. The main reason for the increase of other expenses relate to foreign currency losses of \$2.5 million in 2017 compared to foreign currency gain of \$1.0 million in 2016. On the other hand, interest expense to related party decreased by \$1.3 million in 2017 from \$4.2 million in 2016 to \$2.9 million in 2017, as the 2016 interest expense to related party included a one time expense of \$1.2 million in 2016, as a result of a retroactive one percent interest increase.

Interest expense and other bank charges totaled \$1.1 million in 2017 compared to \$1.4 million in 2016. As the Company is generating positive cash flow, the Company borrowed less from its lines of credit which reduced the interest expense.

Foreign currency loss was \$2.5 million in 2017 compared to foreign currency gain of \$1.0 million in 2016. The exchange rate between the Dollar and the Euro changed from 1.06 Dollar per Euro as of December 31, 2016 to 1.20 Dollar per Euro as of December 31, 2017, an increase of 13.5% compared to a decrease of 3.2% in 2016. As substancial balanes of the Company’s liabilities are in Euros, the Company recorded foreign currency losses in 2017.

Income Tax Expense

Income tax expense increased from \$1.0 million or 0.4% of revenue in 2016 to \$2.0 million or 0.7% of revenue in 2017. Increase in income tax expense relates primarily to our operations in one of the European countries in which the Company utilized all its remaining losses for the 2016 taxes.

Loss from discontinued operations

During the year ended December 31, 207, the Company committed to a plan to cease the aviation security operations of its subsidiary in Cyprus. Loss from discontinued operations in 2017 totaled \$0.1 million.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Revenue

Total revenue increased from \$187.0 million in 2015 to \$255.6 million in 2016.

Revenue generated in the Netherlands was \$87.3 million in 2016 compared to \$72.2 million in 2015. The increase in revenue generated in the Netherlands was primarily a result of additional services provided to Schiphol Airport.

Revenue generated in Germany was \$108.7 million in 2016 compared to \$61.8 million in 2015. The increase in revenue generated in Germany was a combination of additional services provided to Frankfurt and Hamburg Airports and increases the hourly rates charged to customers.

Revenue generated in the United States of America was \$47.7 million in 2016, compared to \$41.8 million in 2015. The increase in revenue generated in the United States was primarily a result of additional services provided to customers and increase in prices of certain services provided by the Company.

Revenue outside the Netherlands, Germany and the United States totaled \$11.8 million in 2016 compared to \$11.2 million in 2015.

Cost of revenue

Cost of revenue increased from \$167.8 million or 89.7% in 2015 to \$222.9 million or 87.2% in 2016. Increases in cost of revenue primarily relates to increases in revenues in the Netherlands, Germany and the United States of America. Increases in cost of revenue in those countries increased both because of additional services provided to the customers and as a result of increases in labor costs which are charged to the customers.

Research and Development expenses ("R&D")

R&D expenses increased from \$2.6 million or 1.4% in 2015 to \$2.7 million or 1.0% in 2016.

Selling, General and Administrative Expenses ("SG&A")

SG&A expenses increased from \$20.4 million or 10.9% in 2015 to \$22.1 million or 8.7% in 2016. Increase in SG&A expenses is a result of increase of the Company's operations during 2016.

Other expenses, net

Other expenses, net, totaled \$4.5 million or 1.8% in 2016 compared to \$0.8 million or 0.5% in 2015. Interest expense to a related party increased from \$2.6 million in 2015 to \$4.2 million in 2016. In 2016, the members of the Supervisory Board approved an increase of the interest rate by one percent retroactively, since the first day of the loan from the related party. The interest expense which was recorded in 2016 and related to previous years was \$1.2 million.

Interest expense and bank charges were stable and totaled \$1.4 million both in 2016 and 2015.

Foreign currency gain was \$1.0 million in 2016 compared to \$3.1 million in 2015. The exchange rate between the Dollar and the Euro changed from 1.09 Dollar per Euro as of December 31, 2015 to 1.06 Dollar per Euro as of December 31, 2016, a decrease of 3.2%. The decrease between the Dollar and the Euro in 2015 was 9.9%. As substantial balances of the Company's liabilities are in Euros, the Company recorded foreign currency gains in 2016 and 2015 accordingly.

Income Tax Expense

Income tax expense increased from \$0.1 million or 0.1% to \$1.0 million 0.4% in 2016. Increase in income tax expense relates primarily to our operations in one of the European countries in which the Company used all its losses for tax purposes from previous years and as its operations are profitable, income taxes are due.

The following table sets forth, for the annual periods indicated, certain financial data related to the Company's reportable segments.

	Corporate	Airport Security and Other Aviation Services	Technology	Total
Year ended December 31, 2017:				
Revenue	\$ -	\$ 292,393	\$ 5,289	\$ 297,682
Depreciation and amortization	46	1,333	37	1,416
Income (loss) from continuing operations	(9,294)	15,803	(644)	5,865
Total assets from continuing operations	4,403	63,428	2,626	70,457
Year ended December 31, 2016:				
Revenue	\$ -	\$ 252,878	\$ 2,698	\$ 255,576
Depreciation and amortization	10	846	37	893
Income (loss) from continuing operations	(6,052)	10,654	(2,260)	2,342
Total assets from continuing operations	431	45,092	780	46,303
Year ended December 31, 2015:				
Revenue	\$ -	\$ 185,519	\$ 1,503	\$ 187,022
Depreciation and amortization	1	655	57	713
Income (loss) from continuing operations	(3,182)	1,597	(3,117)	(4,702)
Total assets from continuing operations	440	41,056	853	42,349

Corporate Segment

The Company's loss from continuing operations in the corporate segment increased from \$6.1 million in 2016 to \$9.3 million in 2017. The main differences compared to 2016 are primarily due to the following: (a) In 2016 the corporate had foreign currency income of \$0.8 million while in 2017 the corporate had foreign currency expense of \$2.5 million. (b) the Company had in 2017 expenses relating efforts to expand into new markets of \$0.9 million while in 2016 expenses incurred for such purposes were immaterial. (c) Interest expense to related party decreased by \$1.3 million in 2017 from \$4.2 million in 2016 to \$2.9 million in 2017, as the 2016 interest expense to related party included a one time expense of \$1.2 million in 2016, as a result of a retro active one percent interest increase.

The Company's loss from continuing operations in the corporate segment increased from \$3.2 million in 2015 to \$6.1 million in 2016. The increase is primarily due to the following: (a) increase in the interest rate to related party. Total interest to related party was \$4.2 million in 2016 compared to \$2.6 million in 2015. (b) In 2015 the Company had a foreign currency gain of \$3.1 million compared to \$1.0 million in 2016.

Airport Security and Other Aviation Services Segment

Increase in revenue from airport security and other aviation services from \$252.9 million in 2016 to \$292.4 million in 2017 relates primarily to: (a) Increase of revenues in Germany from \$108.7 million in 2016 to \$125.9 million in 2017. (b) Increase of revenues in the Netherlands from \$87.3 million in 2016 to \$103.9 million in 2017. (c) Increase of revenues in the United States of America from \$47.7 million in 2016 to \$52.2 million in 2017.

In 2017, the Company's income from continuing operations related to airport security and other aviation services was \$15.8 million in 2017 compared to \$10.7 million in 2016. The increase in profitability is a direct result of more services provided to customers, which affected the Company's profitability as following: (a) direct impact of increase in revenues and services provided to customers. (b) better utilization of manpower.

Increase in revenue from airport security and other aviation services from \$185.5 million in 2015 to \$252.9 million in 2016 relates primarily to: (a) an increase of revenues in Germany from \$61.8 million in 2015 to \$108.7 million in 2016. (b) An increase of revenues in the Netherlands from \$72.2 million in 2015 to \$87.3 million in 2016. (c) An increase of revenues in the United States of America from \$41.8 million in 2015 to \$47.7 million in 2016.

In 2016, the Company's income from continuing operations related to airport security and aviation services was \$10.7 million compared to \$1.6 million in 2015. As the Company increases its revenue in existing locations, its able to better utilize its manpower and its expenses and by that, increases its profitability.

Technology Segment

Revenue in 2017 from the technology segment was \$5.3 million compared to \$2.7 million in 2016. The loss from continuing operations in this segment amounted to \$0.6 million in 2017 compared to a loss of \$2.3 million in 2016. During 2017 the technology segment continued to increase its sales by providing more services to existing and new customers which decreased its loss from continuing operations.

Revenue in 2016 from the technology segment was \$2.7 million compared to \$1.5 million in 2015. The loss from continuing operations in this segment amounted to \$2.3 million in 2016 compared to \$3.1 million in 2015.

Liquidity and Capital Resources

The Company's most significant expenditures consist of payroll, related costs, professional fees and interest. The Company has historically financed such expenditures through cash flows from operations, funding received from lines of credit with lenders in the United States and Europe and borrowings from a convertible note arrangement with a related party.

As of December 31, 2017 and 2016, the Company had cash and cash equivalents of \$9.1 million and \$3.9 million, respectively, excluding restricted cash of \$4.4 million and \$3.8 million as of December 31, 2017 and 2016, respectively. As of December 31, 2017 and 2016 the restricted cash consist of collateral for our letters of credit in the United States and restricted bank accounts in the Netherlands, which are restricted for payments to local tax authorities.

As of December 31, 2017 and 2016, the Company had a working capital (deficit) of \$2.8 million and \$(1.5) million, respectively and shareholders' deficit of \$26.7 million and \$33.5 million, respectively. During the years ended December 31, 2017, 2016 and 2015, the Company incurred net income (loss) from continuing operations of \$5.9 million, \$2.3 million and \$(4.7) million, respectively, and cash flows provided by operating activities of \$8.8 million, \$3.5 million and \$1.5 million, respectively.

The Company's business plan projects income from operations and compliance with all financial covenants. Management believes that this plan is achievable and that they will continue to generate positive cash flows from operations. Management also believes that it will receive continued support from their lenders in financing operations. There can be no assurance that management will be successful in achieving its business plan.

The Company's borrowing capacity under the convertible notes payable to related party is up to \$37.0 million without the accrued interest. In December 2016 the Company and a commercial bank agreed to increase the existing Company's line of credit from €10.0 million to €12.0 million (\$14.4 million as of December 31, 2017).

Cash Flows from Operating Activities

Our cash flows from operating activities vary significantly from year to year, depending on our operating results and timing of cash receipts and disbursements on accounts receivable, accounts payable, accrued expenses and other current liabilities.

Net cash provided by operating activities in 2017 was \$8.8 million. This provided cash resulted primarily from net income of \$5.8 million, non-cash accrued interest convertible notes payable to related party of \$2.7 million, a non-cash charge of \$1.4 million for depreciation and amortization, an increase in accounts payable of \$1.7 million, an increase in accrued expenses and other liabilities of \$3.1 million and an increase in income taxes payable of \$1.9 million. This was offset mainly by increase in accounts receivable of \$7.5 million and increase in prepaid expenses and other current assets of \$0.6 million.

Net cash provided by operating activities in 2016 was \$3.5 million. This provided cash resulted primarily from net income of \$2.3 million, non-cash accrued interest on convertible notes payable to related party of \$4.8 million and a non-cash charge of \$0.9 million for depreciation and amortization, increase in accrued expenses and other current liabilities of \$2.0 million, increases in income taxes payable of \$1.0 million and increases in VAT payable of \$0.9 million. This was offset mainly by an increase in accounts receivable of \$8.8 million.

Net cash provided by operating activities in 2015 was \$1.5 million. The Company had net loss of \$4.7 million, a non-cash accrued interest on convertible notes payable to a related party of \$2.6 million and a non-cash charge of \$0.7 million for depreciation and amortization, an increase in accrued expenses and other current liabilities of \$9.1 million, increase of accounts payable of \$0.5 million and increase of VAT payable of \$0.5 million. This was offset by an increase in accounts receivable, net, of \$6.3 million and an increase in prepaid expenses and other current assets of \$1.0 million.

Cash Flows from Investing Activities

Net cash used in investing activities for the year ended December 31, 2017 was \$7.1 million and consisted primarily of investment in affiliate of \$3.5 million, capital expenditures of \$2.5 million and purchase of subsidiary in Denmark of \$1.1 million.

Net cash used in investing activities for the year ended December 31, 2016 was \$1.4 million and consisted primarily of capital expenditures of \$1.2 million and purchase of subsidiary in Cyprus of \$0.2 million.

Net cash used in investing activities for the year ended December 31, 2015 was \$1.0 million and consisted of capital expenditures of \$1.0 million.

Cash Flows from Financing Activities

Net cash provided by financing activities for the year ended December 31, 2017 was \$0.4 million which consisted of primarily an increase in borrowings under lines of credit of \$1.4 million, net proceeds from loan payable to related party of \$1.3 million and proceeds of \$1.2 million from a loan payable. This was offset by repayment of \$2.4 million of the convertible notes to a related party and decrease of \$1.1 million in cash overdraft.

Net cash used in financing activities in 2016 was \$5.2 million, which consisted primarily of repayments under lines of credit of \$2.9 million, repayment of \$3.3 million of the convertible notes to a related party offset by \$1.2 million proceeds from stock issuance.

Net cash provided by financing activities in 2015 was \$5.2 million, which consisted primarily of an increase of \$1.4 million, net, from the Company's convertible note arrangement with a related party, an increase of \$1.9 million on our line of credit in Europe and the United States and stock issuance for \$1.7 million.

Borrowings

United States

The Company was a party to a credit facility with a commercial lender, which provided it with up to \$6.5 million in borrowings subject to a borrowing base limitation. The borrowing base limitation was equivalent to: (i) 85% of eligible accounts receivable, as defined, plus (ii) 75% of eligible unbilled receivables, as defined, plus (iii) 95% of a \$1.0 million standby letter of credit that was provided to the lender by an entity related to the Company's main shareholder. Borrowings under the credit facility were secured by the Company's accounts receivable, unbilled receivables, equipment, cash and the \$1.0 million letter of credit that was provided to the lender by an entity related to the Company's main shareholder.

In July 2016, the Company amended the credit facility to increase the maximum borrowing capacity to \$8.5 million. The amendment also revised the existing fixed charge coverage ratio financial covenant. The credit facility expires on June 24, 2018. As of December 31, 2017 and 2016, the company was in compliance with all required debt covenants.

In December 2017, the Company amended the credit facility agreement to reduce the amount of the letter of credit provided as security to the lender by an entity related to the Company's main shareholder, from \$1.0 million to \$0.7 million. In April 2018, the letter of credit was reduced to \$0.5 million.

Borrowings made under the credit facility bear interest, which is payable monthly, at LIBOR (subject to a floor of 1.375%) plus 4.25% per annum (5.625% as of December 31, 2017).

The Company's weighted average interest rate in the United States during the years ended December 31, 2017, 2016 and 2015 is 5.64%, 5.76% and 5.88% respectively.

As of December 31, 2017 and 2016, the Company had approximately \$6.6 million and \$6.3 million respectively, outstanding under line of credit arrangements. As of December 31, 2017 and 2016, the Company had \$0.7 million and \$0.8 million, respectively, in unused borrowing capacity under the line of credit facility.

Europe

In January 2016, the Company entered into a new line of credit arrangement with a commercial bank, replacing the previous line of credit with the same commercial bank, to provide it with up to €10.0 million (\$12.0 million as of December 31, 2017) in borrowings until further notice. Borrowings under the line of credit bear interest at one month EURIBOR plus 3.5% with a minimum of 3.5% per annum (3.5% as of December 31, 2017). The Company is also subject to an unused line fee of 0.75% per annum, which is payable quarterly. The line of credit is secured by accounts receivable of five of the Company's European subsidiaries and tangible fixed assets of three of the Company's European subsidiaries. The line of credit cannot exceed 80% of the borrowing base. In December 2016, the Company and the same commercial bank agreed under the same terms and conditions to raise the existing line of credit to €12.0 million (\$14.4 million as of December 31, 2017). As of December 31, 2017 the Company had €2.8 million and €1.9 million (\$3.4 million and \$2.1 million as of December 31, 2017 and 2016) in outstanding borrowings under the line of credit arrangement.

As of December 31, 2017, the Company was in violation with one of the non-financial covenants of the agreement. The commercial bank waived this violation on March 2018.

In addition to the line of credit arrangement, a guarantee facility of €2.5 million (\$3.0 million as of December 31, 2017) is provided to the Company by the same commercial bank. As of December 31, 2017 and 2016 the Company had €2.5 million and €2.3 million (\$3.0 million and \$2.4 million as of December 31, 2017 and 2016), respectively of outstanding guarantees under the guarantee facility.

The Company's weighted average interest rate in Europe during the years ended December 31, 2017, 2016 and 2015 is 3.5%, 3.5% and 3.2%, respectively.

Related party financing

Convertible notes payable to a related party

In May 2014, the Company entered into an arrangement with an entity related to its main shareholder, which replaced all previous arrangements between the parties, to provide it with up to \$37 million in revolving loans through December 2016. The term of the arrangement can be automatically extended for four additional six-month periods at the option of the holder. All outstanding borrowings from previous arrangements were applied to the borrowing capacity of the new arrangement. Loans received under the arrangement bear interest, which is compounded semi-annually and payable at maturity, at the interest rate charged by the Company's European commercial bank (LIBOR plus 6% for U.S. dollar-denominated loans and the base rate plus 2% for Euro-denominated loans). The arrangement is secured by a 26% interest in one of the Company's European subsidiaries. In connection with the arrangement, the holder was granted an option to convert outstanding notes payable (including accrued interest) under the arrangement into the Company's common stock at a price of \$1.50 per share.

In October 2015, the Supervisory Board of Directors approved to reduce the convertible price of the unpaid interest from \$1.50 per share to \$0.75 per share. In addition, the loan period was extended until January 1, 2018. The terms of the arrangement can be automatically extended for four additional six months periods at the option of the holder.

In September 2016, the Supervisory Board of Directors approved an increase in the interest rate of the loan from the entity related to the main shareholder, by one percent, retroactively for the whole period of the loan. The interest recognized in 2016 regarding increase of the previous years interest rate totaled \$1.2 million.

In December 2016, the entity related to the main shareholder converted \$5.4 million accrued interest into 7,238,302 shares per share of common stock at a price of \$0.75 per share.

In December 2017 the loan period was extended until January 1, 2019. The terms of the arrangement can be automatically extended for four additional six months periods at the option of the holder.

The Company's weighted average interest during the years ended December 31, 2017, 2016 and 2015 is 7.27%, 7.05% and 5.99%, respectively.

At December 31, 2017 and 2016, convertible notes payable to a related party consist of \$25.0 million and \$25.1 million, respectively in principal and \$12.6 million and \$9.4 million respectively, in accrued interest. Interest expense related to these notes is \$2.7 million, \$4.2 million and \$2.6 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Loan from related party

In March 2017, the Company signed a loan agreement with a related party, to provide the Company a loan of \$2.0 million for up to one year bearing 7% interest per year. In December 2017 the Company repaid \$0.7 million against the loan. The Company incurred interest expenses regarding this loan of \$0.1 million for the year ended December 31, 2017, which is included in the loan balance at December 31, 2017.

Research and Development Costs

Research and development costs are expensed as incurred and consist primarily of payroll and related costs. Research and development costs are \$2.7 million, \$2.7 million and \$2.6 million during the years ended December 31, 2017, 2016 and 2015, respectively.

Trend Information

Labor market conditions may require the Company to increase its prices. Cost of labor is the main variable in determining any cost increases.

The Company might be affected by a worldwide economic slowdown, which might affect the aviation industry. As the Company is a service provider to this industry, such trends can affect the results of the Company.

Off-Balance Sheet Arrangements

The Company is a party to a consulting arrangements, an agency agreement and various operating lease arrangements. In addition, the Company has no unconsolidated special purpose entities.

Future Contractual Obligations

The following table summarizes our future contractual obligations as of December 31, 2017:

Contractual Obligations	Payments due by Period (U.S. Dollars in Thousands)				
	Total	Less than 1 Year	1-3 years	4-5 years	more than 5 years
Line of credit in the U.S.	\$ 6,605	\$ 6,605	\$ -	\$ -	\$ -
Lines of credit in Europe	3,410	-	3,410	-	-
Loan payable to related party, including accrued interest	1,409	1,409	-	-	-
Loan payable	1,198	1,198	-	-	-
Consulting agreements	1,078	178	540	360	-
Convertible notes payable - related party (including interest)	37,589	-	37,589	-	-
Future interest and fees on line of credit and convertible notes to a related party (1)	9,000	-	9,000	-	-
Minimum wage increase settlement	1,628	1,128	500	-	-
Operating lease obligations	2,923	2,009	914	-	-
	<u>\$ 64,840</u>	<u>\$ 12,527</u>	<u>\$ 51,953</u>	<u>\$ 360</u>	<u>\$ -</u>

(1) Interest and fees are estimated based on future interest rates expected to be applicable.

The following table summarizes the Company's other future commercial obligations as of December 31, 2017:

Contractual Obligations	Payments due by Period (U.S. Dollars in Thousands)				
	Total	Less than 1 Year	1-3 years	4-5 years	more than 5 years
Guarantees	\$ 2,952	\$ -	\$ 2,112	\$ 840	\$ -
Letters of credit	233	233	-	-	-
	<u>\$ 3,185</u>	<u>\$ 233</u>	<u>\$ 2,112</u>	<u>\$ 840</u>	<u>\$ -</u>

Item 6. Directors, Senior Management and Employees

The following table lists the directors and executive officers of ICTS:

	<u>Age</u>	<u>Position</u>
Menachem Atzmon	73	Chairman of the Supervisory Board
David W. Sass	82	Member of the Supervisory Board
Gail F. Lieberman	74	Member of the Supervisory Board, Member of the Audit Committee and Chairman of the Compensation Committee
Gordon Hausmann	72	Member of the Supervisory Board, Member of the Compensation Committee and Member of the Audit Committee
Philip M. Getter	81	Member of the Supervisory Board, Chairman of the Audit Committee
Ran Langer	72	Managing Director
Alon Raich	42	Chief Financial Officer

Menachem J. Atzmon is a CPA (Isr). Since 1976 Mr. Atzmon serves as director and chairman of Spencer Corporation. From 1996 until 2012 Mr. Atzmon has been the managing director of Albermale Investment Ltd., an investment company. Since 1998 until 2012 he has served as the Chairman of the Management Board of Seehafen Rostock, Umschlagsgesellschaft GmbH and its Holding Company. Mr. Atzmon has been a member of the Supervisory Board of ICTS since 1999 and acts as the Chairman of the Supervisory Board since 2004. Since 2010 he serves as the Chairman of Arrow Ecology & Engineering Overseas (1999) Ltd, an advance recycling company. During 2014 Mr. Atzmon was appointed in addition to his role of Chairman of the Supervisory Board to CEO of the Arrow Ecology & Engineering Overseas Ltd.

David W. Sass for the past 56 years has been a practicing attorney in New York City and is currently a Special Council in the law firm of McLaughlin & Stern, LLP. Mr. Sass has been a director of ICTS since 2002 and is also a director of several privately held corporations. Mr. Sass is an Honorary Trustee of Ithaca College.

Gail F. Lieberman is the founder and Managing Partner of Rudder Capital, LLC, which provides financial and strategic advisory services for middle-market companies in the services & technology sectors. Previously, she was the Chief Financial Officer for Thomson Corporation's Financial & Professional Publishing division, Moody's Investor Service, Inc. and Scali, McCabe, Sloves, Inc. (Ogilvy Group). Ms. Lieberman is a director of Thesys Group, a private financial technology company and a board member of WL Gore & associates. Formerly Mrs. Lieberman served as board member for the South Central Connecticut Regional Water Authority, board member, Compensation Committee Chair and Audit Committee Member for Dara Biosciences (NASDAQ: DARA), board member and Audit Committee Chair for I-Trax Inc. (Amex: DMX), board member and Audit and Governance Committee Member for TriPath Imaging Inc. (NASDAQ: TPTH) and board member and Audit Committee Chair for Breeze-Eastern Corporation (Amex: BZC). She also served on the board of FTEN, a financial technology company. Ms. Lieberman holds a BA in Mathematics and Physics and an MBA in Finance from Temple University.

Gordon Hausmann is the senior partner of his own law firm, founded in London over 35 years ago. He specializes, amongst other things, in corporate and commercial law, including business finance and banking law, litigation and representation of several substantial family offices. Mr. Hausmann holds office as a board member of numerous companies and institutions, including listed companies in the UK Israel and elsewhere. These include an international airline, some Embassies, finance companies (including a company associated with a private Swiss banking group) and other well-known and governmental entities. Mr. Hausmann also holds office and advises a number of charities, including Governor of the Hebrew University.

Philip M. Getter has been managing member of GEMPH Development LLC since 1985. Mr. Getter has more than 30 years of corporate finance experience. From 2000 to 2005 he was president of DAMG Capital, LLC Investment Bankers. Prior thereto he was head of Investment Banking and a member of the board of directors of Prime Charter, Ltd. After graduation from Cornell University he served as Administrative Assistant to the Director of United States Atomic Energy Commission. From 1960 to 1969 he was a partner with Shearson, Hammill and from 1969 to 1975 Senior Partner of Devon Securities, an international investment-banking boutique. From 1975 to 1984 he was President/CEO of Generics Corporation of America, then one of the largest generic drug companies in the United States. As Chairman and CEO of Wolins Pharmacal (1977 to 1984) he led the reorganization and restructuring of this distributor of medical supplies. Mr. Getter was Chairman of Inksure Technologies, Inc. a manufacturer of security inks and a founder of KIDSRx an all-natural pharmaceutical company and chairman of TCI College of Technology. Mr. Getter has been a member of The Broadway League [League of American Theaters and Producers] Senior Executive Vice Chairman of The Kurt Weill Foundation for Music, and Trustee of the American Theatre Wing [TONY and OBIE Awards]. He has been involved in most aspects of the entertainment industry and has produced for Broadway, television and film.

Ran Langer joined ICTS in 1988 through 1998 as General Manager of the German subsidiaries of ICTS. From 1998 to 2013, he served as General Manager of Seehafen Rostock Umschlagsgesellschaft GmbH, the operator of the Seaport in Rostock, Germany. Mr. Langer became a Managing Director of ICTS in 2004. In 2013 Mr. Langer was appointed also as CEO of I-SEC International Security B.V., a fully owned subsidiary of ICTS.

Alon Raich is a CPA (Isr), joined ICTS in September 2005 as Financial Controller and became Chief Financial Officer (CFO) of the Company in 2008. From 2001 to 2005 he worked in the accounting firm, Kesselman & Kesselman, PriceWaterhouseCoopers (PwC). Mr. Raich holds a BA degree in economics and accounting and an MA degree in law from Bar-Ilan University, Israel.

Summary Compensation Table

The following table sets forth compensation earned by the Company's Managing Directors and the highest paid executives during the years 2015 through 2017 (U.S. Dollars in thousands):

Principal Position	Year	Salary \$	Bonus \$	All Other Compensations \$	Non-equity Incentive Plan Compensation \$	Nonqualified Deferred Compensation Earnings \$	Number of Option Award	Number of Stock Awards	Total \$
Managing Director (a)	2017	423	-	32	-	-	-	-	455
	2016	332	1,106	60	-	-	-	-	1,498
	2015	222	1,110	21	-	-	-	-	1,353

(a) Highest paid employee in 2017, 2016 and 2015.

Each member of the Supervisory Board who is not an employee of the Company receives an annual fee of \$20 thousand and a fee for each Supervisory Board or committee meeting attended of \$2 thousand. The Chairman of the Audit Committee receives an additional \$10 per year. The Chairman of the Board receives an annual fee of \$50 thousand.

Mr. Langer has been employed as Managing Director without compensation until 2013. In 2013, the Company signed an employment agreement with Mr. Langer for which he will be entitled to a yearly salary of €144 thousand per year (\$172 thousand as of December 2017). In May 2015 the compensation committee and the Supervisory Board approved to increase Mr. Langer's salary to €240 thousand per year (\$287 thousand as of December 2017) and a bonus of €1.0 million (\$1.2 million as of December 31, 2017). In May 2016, an additional increase of salary to €300 thousand per year (\$362 thousand as of December 31, 2017) and a bonus of \$1.0 million (\$1.2 million as of December 31, 2017) was approved by the Supervisory Board. In May 2017, Mr. Langer's salary was increased to €420 thousand per year (\$503 thousand as of December 31, 2017).

In December 2015 the compensation committee approved an annual fee of \$60 for the Chairman of the Supervisory Board, in addition to a one time grant of \$660 thousand representing the annual salary for the last eleven years for which he was not compensated. In 2016 the Chairman of the Supervisory Board waived an amount of \$600 of the grant.

The following table sets forth information concerning the aggregate compensation paid or accrued on behalf of all of our directors and executive officers as a group for the year ended December 31, 2017.

	Salaries, fees, commissions and bonuses	Pension, retirement and other similar benefits
	(in thousands)	
Supervisory Directors as a group (5 persons)	\$ 174	\$ -
Officers as a group (4 persons)	\$ 1,081	\$ 129

Background and Compensation Philosophy

Our Compensation Committee consists of Gail Lieberman, Chairman and Gordon Hausmann, all independent directors. The Compensation Committee and, prior to its establishment our Supervisory Board of Directors determined the compensation to be paid to our executive officers based on our financial and operating performance and prospects, the level of compensation paid to similarly situated executives in comparably sized companies, and contributions made by the officers' to our success. Each of the named officers will be measured by a series of performance criteria by the Supervisory Board of directors, or the compensation committee on a yearly basis. Such criteria will be set forth based on certain objective parameters such as job characteristics, required professionalism, management skills, interpersonal skills, related experience, personal performance and overall corporate performance.

Our Supervisory Board of Directors and Compensation Committee have not adopted or established a formal policy or procedure for determining the amount of compensation paid to our executive officers. The Compensation Committee makes an independent evaluation of appropriate compensation of key employees, with input from management. The Compensation Committee has oversight of executive compensation plans, policies and programs.

Our compensation program for our executive officers and all other employees is designed such that it will not incentivize unnecessary risk-taking. The base salary component of our compensation program is a fixed amount and does not depend on performance. Our cash incentive program takes into account multiple metrics, thus diversifying the risk associated with any single performance metric, and we believe it does not incentivize our executive officers to focus exclusively on short-term outcomes. Our equity awards are limited by the terms of our equity plans to a fixed maximum specified in the plan, and are subject to vesting to align the long-term interests of our executive officers with those of our stockholders.

Elements of Compensation

We provide our executive officers with a base salary and certain bonuses to compensate them for services rendered during the year. Our policy of compensating our executives with a cash salary has served us well.

Board Practices

We have a Supervisory Board and a Management Board. The Supervisory Board has the primary responsibility for supervising the policies of the Management Board and the general course of corporate affairs and recommending the adoption of the annual financial statements of ICTS by its shareholders. The Management Board is responsible for the day-to-day operations of ICTS. Members of the Supervisory Board and the Management Board are appointed by the shareholders for a term of one year. Non-executive officers are appointed by and serve at the satisfaction of the Management Board.

The members of the Supervisory Board as of December 31, 2017 and the initial year they joined the Supervisory Board are as follows: Menachem Atzmon (1999), David W. Sass (2002), Philip M. Getter (2003), Gordon Hausmann (2005) and Gail F. Lieberman (2010).

The Audit Committee consists of Philip M. Getter, Chairman, Gail F. Lieberman and Gordon Hausmann, all of whom are independent. Mr. Getter and Ms. Lieberman have financial expertise. The audit committee evaluates ICTS's accounting policies and practices and financial reporting and internal control structures, selects independent auditors to audit the Company's financial statements and confers with the auditors and the officers. The Audit Committee has an Operating Charter as well.

We do not have a Nominating Committee. The members of the Audit Committee and Compensation Committee are all independent and were never officers or employees of the Company.

The Supervisory Board of the Company has adopted a Code of Ethics for principal Executive Officers, Directors and senior financial officers.

The Articles of Association of ICTS require at least one member of both the Management Board and the Supervisory Board, but do not specify a maximum number of members for such boards. The general meeting of shareholders determines the exact number of members of both the Management Board and the Supervisory Board. Under the laws of the Netherlands and the Articles of Association, each member of the Supervisory Board and Management Board holds office until such member's resignation, death or removal, with or without cause, by the shareholders.

Employees

As of December 31, 2017, the Company has 6,680 employees, of which 4,637 employees are located in Europe, Far East and Israel and 2,243 are located in the United States.

Share Ownership

See tables under Item 7: "Major Shareholders" and "Related Party Transactions" below.

Options to Purchase Securities

In February 2005, the Company adopted the 2005 Equity Incentive Plan and reserved 1,500,000 shares of common stock for future issuance. The plan expired in 2015 (the "Plan").

During the year ended December 31, 2017 all outstanding options under the plan expired. As the plan expired there are no more options available for grant under this plan.

On December 2008 shareholders adopted the 2008 Employee, Director and Commitment Stock Option Plan (the "Plan"). The Plan provides a means whereby employees, officers, directors, and certain consultants and independent contractors of the Company ("Qualified Grantees") may acquire the Common Shares of the Company pursuant to grants of (i) Incentive Stock Options ("ISO") and (ii) "non-qualified stock options". A summary of the significant provisions of the Plan is set forth below. The following description of the Plan is qualified in its entirety by reference to the Plan itself.

The purpose of the Plan is to further the long-term stability, continuing growth and financial success of the Company by attracting and retaining key employees, directors and selected advisors through the use of stock incentives, while stimulating the efforts of these individuals upon whose judgment and interest the Company is and will be largely dependent for the successful conduct of its business. The Company believes that the Plan will strengthen these individuals' desire to remain with the Company and will further the identification of their interests with those of the Company's shareholders.

The Plan provides that options to purchase up to 1,500,000 Common Shares of the Company may be issued to the employees and outside directors. All present and future employees shall be eligible to receive incentive awards under the Plan, and all present and future non-employee directors shall be eligible to receive non-statutory options under the Plan. An eligible employee or non-employee director shall be notified in writing, stating the number of shares for which options are granted, the option price per share, and conditions surrounding the grant and exercise of the options.

The exercise price of shares of Company Stock covered by an ISO shall not be less than 100% of the fair market value of such shares on the date of grant; provided that if an ISO is granted to an employee who, at the time of the grant, is a 10% shareholder, then the exercise price of the shares covered by the incentive stock option shall not be less than 110% of the fair market value of such shares on the date of the grant. The exercise price of shares covered by a non-qualified stock option shall be not less than 85% of the fair market value of such shares on the date of the grant. The Plan shall be administered by the Compensation Committee

As of December 31, 2017, there were no outstanding options under the plan. Options available for grant under the plan are 1,500,000. The plan expires in 2018.

U.S. Federal Income Tax Consequences

The rules governing the U.S. federal tax treatment of stock options, restricted stock and shares acquired upon the exercise of stock options are quite technical. Therefore, the description of U.S. federal income tax consequences set forth below is necessarily general in nature and does not purport to be complete.

Moreover, the statutory provisions are subject to change, as are their interpretations, and their application may vary in individual circumstances. In particular, the "American Jobs Creation Act of 2004" imposed rules concerning the taxation of various deferred compensation arrangements. It is not clear whether, and to what extent, these rules apply to awards under the Plan. Although the Company does not believe that awards under the Plan are affected by the rules, there can be no assurance to that effect until adequate guidance is forthcoming from the U.S. Treasury Department. Finally, the tax consequences under applicable state, local and foreign income tax laws may not be the same as under the U.S. federal income tax laws.

Incentive Stock Options

ISOs granted pursuant to the Plan are intended to qualify as incentive stock options within the meaning of Section 422A of the Internal Revenue Code. If the participant makes no disposition of the shares acquired pursuant to exercise of an ISO within one year after the transfer of shares to such participant and within two years from grant of the option, such participant will realize no taxable income as a result of the grant or exercise of such option, and any gain or loss that is subsequently realized may be treated as long-term capital gain or loss, as the case may be. Under these circumstances, neither the Company nor any subsidiary will be entitled to a deduction for federal income tax purposes with respect to either the issuance of the ISOs or the issuance of shares upon their exercise.

If shares acquired upon exercise of ISOs are disposed of prior to the expiration of the above time periods, the participant will recognize ordinary income in the year in which the disqualifying disposition occurs, the amount of which will generally be the lesser of (i) the excess of the fair market value of the shares on the date of exercise over the option price, or (ii) the gain recognized on such disposition. Such amount will ordinarily be deductible for federal income tax purposes by the Company or subsidiary for which the participant performs services ("service recipient") in the same year, provided that the amount constitutes reasonable compensation for services that would result in a deduction for U.S. federal income tax purposes and that certain federal income tax withholding requirements are satisfied. In addition, the excess, if any, of the amount realized on a disqualifying disposition over the market value of the shares on the date of exercise will be treated as capital gain.

The foregoing discussion does not consider the impact of the alternative minimum tax, which may be particularly applicable to the year in which an ISO is exercised.

Non-qualified Stock Options

A participant who acquires shares by exercise of Non Qualified Stock Options generally realizes as taxable ordinary income, at the time of exercise, the difference between the exercise price and the fair market value of the shares on the date of exercise. Such amount will ordinarily be deductible by the service recipient for federal income tax purposes in the same year, provided that the amount constitutes reasonable compensation for services that would result in a deduction for U.S. federal income tax purposes and that certain federal income tax withholding requirements are satisfied. Subsequent appreciation or decline in the value of the shares on the sale or other disposition of the shares will generally be treated as capital gain or loss.

Restricted Stock

A participant granted shares of restricted stock under the Plan is not required to include the value of such shares in ordinary income until the first time such participant's rights in the shares are transferable or are not subject to substantial risk of forfeiture, whichever occurs earlier, unless such participant timely files an election under Section 83(b) of the Internal Revenue Code to be taxed on the receipt of the shares.

In either case, the amount of such income will be equal to the excess of the fair market value of the stock at the time the income is recognized over the amount (if any) paid for the stock.

The service recipient will ordinarily be entitled to a deduction, in the amount of the ordinary income recognized by the participant, for the service recipient's taxable year in which the participant recognizes such income, provided that the amount constitutes reasonable compensation for services that would result in a deduction for U.S. federal income tax purposes and that certain federal income tax withholding requirements are satisfied.

Item 7. Major Shareholders and Related Party Transactions

Major Shareholders

The following table sets forth certain information regarding ownership of the Company's Common Shares as of May 1, 2018 with respect to:

- (1) Each person who is known by the Company to own beneficially more than 5% of the Company's outstanding Common Shares.
- (2) All directors and officers as a group.

Name Shareholders Holding Five Percent or More	Percent of Amount Beneficially Owned (a)	Common shares Outstanding (b)
MacPherson Trust (c)	49.6%	12,085,528
Menachem J. Atzmon	19.9%	4,850,000
All officers and directors as a group and the MacPherson Trust (9 persons)	87.2%	21,221,574

(a) As to each shareholder, the percentage is calculated using the amount beneficially owned by such shareholder divided by the number of total outstanding common shares and the shares issuable pursuant to the exercise of options exercisable within 60 days from the date of the grant, if any held by such shareholder. Common shares subject to options that are immediately exercisable or exercisable within 60 days of the date of the grant are deemed outstanding for computing the ownership percentage of the shareholder holding such options, but are not deemed outstanding for computing the ownership of any other shareholders.

(b) The amounts include common shares owned by each of the above, directly or indirectly.

(c) 1. The MacPherson Trust ("Trust") was created for the benefit of the family of Mr. Menachem J. Atzmon. The Trust owns Spencer Corporation, Limited, which holds together with the Trust approximately 49.6% of the issued and outstanding Common Shares on behalf of the Trust. Mr. Atzmon disclaims any beneficial interest in the MacPherson Trust. Spencer Corporation, Limited and the MacPherson Trust together with Mr. Atzmon are able to appoint all the directors of ICTS and control the affairs of ICTS.

2. As of May 1, 2018 the Company has convertible notes payable to a related party in the total amount of \$23.0 million and accrued interest of \$13.7 million. The principle is convertible to the Company's common stock at a rate of \$1.50 per share and the accrued interest is convertible at a rate of \$0.75 per share. The calculation above does not take into consideration the conversion of those loans.

Review, Approval or Ratification of Transactions with Related Persons

All ongoing and future transactions between the Company and any of our officers and directors and their respective affiliates, including loans by our officers and directors, will be on terms believed by us to be no less favorable than are available from unaffiliated third parties. Such transactions or loans, including any forgiveness of loans, will require prior approval by the Audit Committee (whose members are independent directors) and by a majority of our disinterested independent directors (to the extent we have any) or the members of our Supervisory Board who do not have an interest in the transaction, in either case who had access, at our expense, to our attorneys or independent legal counsel. We will not enter into any such transaction unless our disinterested and independent directors determine that the terms of such transaction are no less favorable to us than those that would be available to us with respect to such a transaction from unaffiliated third parties. We will not enter into a business combination or invest alongside any of our directors, officers, any affiliate of ours or of any of our directors or officers or a portfolio company of any affiliate of our directors or officers.

Related Party Transactions

Entities related to two of the Company's Supervisory Board members provide legal services to the Company. Legal expense related to these services is \$47 thousand, \$58 thousand and \$47 thousand for the years ended December 31, 2017, 2016 and 2015, respectively. Included in accounts payable on the accompanying consolidated balance sheets is \$9 thousand and \$6 thousand due for these services as of December 31, 2017 and 2016, respectively.

The Company engages the services of a related party to provide certain selling and management services to its technology segment. The Company incurred expenses of \$0.3 million, \$0.2 million and \$0.2 million for such services for the years ended December 31, 2017, 2016 and 2015, respectively.

An entity related to the Company's main shareholder provided a letter of credit of \$1.0 million to a commercial bank to guarantee a borrowing arrangement on behalf of one of the Company's subsidiaries. In December 2017, the Company agreed with the commercial bank to reduce the letter of credit to \$0.7 million. In April 2018, the letter of credit was reduced to \$0.5 million.

The Company engages the services of a related party to provide certain selling services to its technology segment. The Company incurred expenses of \$45 thousand, \$52 thousand and \$48 thousand for such services for the years ended December 31, 2017, 2016 and 2015, respectively.

The Company engages the services of a related party to provide certain administrative services. The Company incurred expenses of \$0, \$0 and \$15 thousand for such services in each of the years ended December 31, 2017, 2016 and 2015, respectively.

In November 2015, the Company engaged the services of a related party to provide internal audit services. The Company incurred expenses of \$114 thousand, \$112 thousand and \$13 thousand for such services for the years ended December 31, 2017, 2016 and 2015, respectively.

In December 2015, the Supervisory Board approved an annual compensation for the Chairman of the Supervisory Board, a related party, of \$60 thousand. In addition, as the Chairman of the Supervisory Board was not compensated for the last eleven years, a one-time grant of \$660 thousand was approved. In September 2016, the chairman of the Supervisory Board forgave \$600 thousand of this grant. Annual compensation was reduced to \$50 thousand.

In December 2015, the Company issued 2.9 million shares to certain directors and officers of the Company for a purchase price of \$0.60 per share.

In November and December 2016, the Company issued 2.8 million shares to certain directors and officers of the Company for a purchase price ranging from \$0.40 - \$0.45 per share.

In January 2017, a company related to the main shareholder of the Company has guaranteed the White Line B.V. investment of \$3.5 million.

In August 2017 the Company engaged the services of a related party to provide certain selling and administrative services to its technology segment. The Company incurred expenses of \$39 thousand for such services for the year ended December 31, 2017.

Item 8. Financial Information

The Consolidated Financial Statements and Financial Statement Schedule are included herein on pages F-1 through F-37.

Legal Proceedings

September 11, 2001 Terrorist Attacks

As a result of the September 11, 2001 terrorist attacks, numerous lawsuits charging the Company with wrongful death and/or property damage were commenced in the United States District Court, Southern District of New York (the "Court"), resulting from certain airport security services provided by the Company for United Flight 175 out of Logan Airport in Boston, Massachusetts.

As of December 31, 2017 all the cases have been settled or dismissed at no cost to the Company because the payments were covered by the Company's insurance. The Court approved the settlements.

Claims by former employees

The Company is subject to wrongful termination claims made by certain former employees of one of its European subsidiaries. The aggregate amount of such claims is approximately \$0.8 million. In February 2018 the court has ruled in those cases in favor of the Company.

Minimum wage increase

In August 2015, the Company was informed about a court decision, which approved an increase to the minimum wage for the city of SeaTac, Washington (location of Seattle Airport). The increase to the minimum wage was originally approved by a vote in King County, Washington in 2013 (to be effective January 1, 2014). However, a court ruled that SeaTac employees were excluded from this increase because the airport was under the jurisdiction of the Port of Seattle and not the city of SeaTac. In August 2015, this decision was overturned by the State Supreme Court and accordingly, the Company is required to increase the minimum wage of its employees at the SeaTac Airport according to the court decision, effective January 1, 2014. At December 31, 2016 the Company has estimated that it has a liability of approximately \$3.6 million for back wages (inclusive of interest amounting to approximately \$0.6 million) and has recorded an accrual for this liability.

A class action lawsuit was filed against the Company in the United States District Court for the Western District of Washington, Seattle, by an employee of the Company. The employee alleges the Company failed to pay the proper minimum wage in violation of the City of Sea Tax Municipal Code.

Additional two lawsuits were filed against the Company in the District Court for the Southern District of Texas, Huston Division and in the Superior Court of Washington, King County, on the same subject.

During the year ended December 31, 2017 the three legal disputes for back wages due to the SeaTac, WA Minimum Wage ordinance were settled in the courts and the Company paid out approximately \$1.9 million. As of December 31, 2017, the Company has an accrued amount of approximately \$1.6 million (inclusive of interest amounting to approximately \$0.3 million) for the remainder of the settlement. Approximately \$1.1 million (including interest) of this amount is included in accrued expenses and other current liabilities and is due in 2018. The additional \$0.5 million (including interest) is shown as a long term liability in other liabilities since payment is due in 2019.

General

The Company is subject to various investigations, claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. These claims are primarily related to grievances filed by current and former employees for unfair labor practices or discrimination, and for passenger aviation claims. Management recognizes a liability for any matter when the likelihood of an unfavorable outcome is deemed to be probable and the amount is able to be reasonably estimated. Management has concluded that such claims, in the aggregate, would not have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

Item 9. The Offer and Listing

Our shares of common stock are currently traded on the OTC under the symbol ICTSF.

The reported high and low closing sales prices per shares during the last five years were as follows:

<u>Year</u>	<u>High</u>	<u>Low</u>
2013	\$ 1.30	\$ 0.45
2014	\$ 2.39	\$ 0.75
2015	\$ 0.85	\$ 0.51
2016	\$ 0.71	\$ 0.40
2017	\$ 1.30	\$ 0.45

The reported high and low closing sales prices per share during each quarter for the last 3 years were as follows:

2017	High	Low
First quarter	\$ 0.55	\$ 0.45
Second quarter	\$ 0.62	\$ 0.45
Third quarter	\$ 0.80	\$ 0.55
Fourth quarter	\$ 1.30	\$ 0.51
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2016	High	Low
First quarter	\$ 0.55	\$ 0.47
Second quarter	\$ 0.50	\$ 0.45
Third quarter	\$ 0.65	\$ 0.40
Fourth quarter	\$ 0.71	\$ 0.40
<hr/>		
2015	High	Low
First quarter	\$ 0.85	\$ 0.59
Second quarter	\$ 0.73	\$ 0.55
Third quarter	\$ 0.79	\$ 0.56
Fourth quarter	\$ 0.60	\$ 0.51

Item 10. Additional Information

Articles of Association

Introduction

The material provisions of the Company's Articles of Association are summarized below. Such summaries do not purport to be complete statements of these provisions and are qualified in their entirety by reference to such exhibit. The Company was registered by the Department of Justice at Amstelveen, Netherlands on October 9, 1992. The objectives of the Company are generally to manage and finance businesses, extend loans and invest capital as described in greater detail in Article 2 of the Company's Articles of Association.

Shares

As a Netherlands "Naamloze Vennootschap" (N.V.), public limited liability company, we are subject to certain requirements not generally applicable to corporations organized under the laws of jurisdictions within the United States. Among other things, the authority to issue shares is vested in the general meeting of shareholders, except to the extent such authority to issue shares has been delegated by the shareholders or by the Articles of Association to another corporate body for a period not exceeding five years.

The issuance of the common shares is generally subject to shareholder pre-emptive rights, except to the extent that such pre-emptive rights have been excluded or limited by the general meeting of shareholders (subject to a qualified majority of two-thirds of the votes if less than 50% of the outstanding share capital is present or represented) or by the corporate body designated to do so by the general meeting of shareholders or the Articles of Association. Such a designation may only take place if such corporate body has also been designated to issue shares. The resolution by which the pre-emptive rights are excluded or limited needs to be filed with the Dutch Trade Registry, which is publically accessible, within 8 days of such resolution.

In this regard, the general meeting of shareholders has authorized our Supervisory Board to issue any authorized and unissued shares at any time up to five years from December 27, 2012, the date of such authorization, and has authorized the Supervisory Board to exclude or limit shareholder pre-emptive rights with respect to any issuance of common shares prior to such date. Such authorizations may be renewed by the general meeting of shareholders from time to time, for up to five years at a time. This authorization would also permit the issuance of shares in an acquisition, provided that shareholder approval is required in connection with a statutory merger (except that, in certain limited circumstances, the board of directors of a surviving company may resolve to legally merge the company). Shareholders do not have pre-emptive rights with respect to shares which are issued against payment other than in cash or which are issued to employees of the Company or subsidiary. Should the Company issue so-called preferred shares, i.e. shares that exclude or only grant to a limited extent its shareholders a right to share in the profits above a certain percentage of the nominal value of their shares or a share in a liquidation surplus above the nominal value of their shares, then these shareholders do not have pre-emptive rights regarding the issuance of ordinary shares; ordinary shareholders do not have pre-emptive rights regarding the issuance of preferred shares.

On December 27, 2012, at the general meeting of shareholders it was approved to increase the authorized share capital to €15 million or 33,333,334 shares. In addition, it was approved at the shareholders' meeting that in the event that at least ninety percent of the authorized share capital is issued, the authorized capital of the Company can be increased to €67.5 million or 150,000,000 shares.

Our authorized share capital is currently divided into 33,333,334 common shares, par value 0.45 Euro per common share. Article 24, of the Articles of Association provide that in the event the Management Board files a declaration with the Dutch Chamber of Commerce that at least ninety percent of the authorized share capital is issued, Article 3 of the Articles of Association will provide as follows: "The authorized capital of the Company amounts to EUR 67,500,000 dividend into one hundred fifty million (150,000,000) shares, each share having a par value of EUR 0.45."

The common shares may be in bearer or registered form. As of December 31, 2017, 21,000,000 shares were issued and outstanding.

Dividends

The Supervisory Board, may decide that all or part of the Company's profits should be retained and not be made available for distribution to shareholders. Those profits that are not retained shall be distributed to holders of common shares, provided that the distribution does not reduce shareholders' equity below the issued share capital increased by the amount of reserves required by Netherlands law.

Dividends on common shares may be paid out of annual profits shown in the Company's annual accounts, which must be adopted by the general meeting. At its discretion, subject to statutory provisions, the Management Board may, with the prior approval of the Supervisory Board, distribute one or more interim dividends on the common shares before the annual accounts have been adopted by the Company's general meeting. Existing reserves that are distributable in accordance with Netherlands law may be made available for distribution upon proposal by the Management Board, subject to prior approval by the Supervisory Board. With respect to cash payments, the rights to dividends and distributions shall lapse if such dividends or distributions are not claimed within five years following the day after the date on which they were made payable.

Supervisory Board

Members of our Supervisory Board are appointed by the general meeting for a term of one year.

General Meeting of Shareholders

The Company's general meeting of shareholders will be held at least once a year, not later than six months after the end of the fiscal year. Notices convening a general meeting will be mailed to holders of registered shares at least 15 days before the general meeting and will be published in national newspapers in the Netherlands and abroad in countries where the Company's bearer shares are admitted for official quotation.

In order to attend, address and vote at the general meeting of shareholders, the holders of the Company's registered shares must notify it in writing of their intention to attend the meeting and holders of the Company's bearer shares must direct the depository to their bearer shares, each as specified in the published notice. However, shareholders and other persons entitled to attend the general meetings of shareholders may be represented by proxies with written authority.

Other general meetings of shareholders may be held as often as deemed necessary by the Supervisory Board or the Management Board and must be held if one or more shareholders or other persons entitled to attend the general meeting of shareholders jointly representing at least 10% of the Company's issued share capital make a written request to the Supervisory Board or the Management Board that a meeting must be held and specifying in detail the business to be dealt with at such meeting. Resolutions are adopted at general meetings of shareholders by a majority of the votes cast, except where a different proportion of votes are required by the Articles of Association or Netherlands law, in a meeting in which holders of at least fifty percent (50%) of the outstanding common shares are represented. Each share carries one vote.

Amendment of Articles of Association and Winding Up

A resolution presented to the general meeting amending the Company's Articles of Association or winding up the Company may only be taken when a proposal thereto is stated in the notice of meeting and with respect to amending the Company's Articles of Association, a copy of the proposal in which the modification is stated in full on file and available for inspection.

A resolution to dissolve the Company must be approved by at least a two-third majority of the votes cast, in a meeting in which holders of at least fifty percent (50%) of the outstanding common shares are represented.

Adoption of Annual Accounts

The Company's annual Netherlands statutory accounts, together with a certificate of its auditors, will be submitted to the general meeting of shareholders for adoption.

Contrary to what is provided in the Company's Articles of Association, approval of the annual accounts by the shareholders does not discharge the Management Board and the Supervisory Board from liability for the performance of their respective duties for the past financial year. In order to discharge the Supervisory Board and Management Board and their members from liability a separate resolution thereto needs to be adopted by the general meeting of shareholders (which resolution can be adopted in the same meeting in which the annual accounts will be adopted). Under Netherlands law, this discharge is not absolute and will not be effective with respect to matters which are not disclosed to the shareholders.

Liquidation Rights

In the event of the Company's dissolution and liquidation, the assets remaining after payment of all debts and liquidation expenses are to be divided proportionately among the holders of the common shares.

Issues of new shares and pre-emptive rights

The authority to issue shares is vested in the general meeting of shareholders, except to the extent such authority to issue shares has been delegated by the shareholders to another corporate body for a period not exceeding five years.

The issuance of the common shares is generally subject to shareholder pre-emptive rights, except to the extent that such pre-emptive rights have been excluded or limited by the general meeting of shareholders (subject to a qualified majority of two-thirds of the votes if less than 50% of the outstanding share capital is present or represented) or by the corporate body designated to do so by the general meeting of shareholders. Such a designation may only take place if such corporate body has also been designated to issue shares. In this regard, the general meeting of shareholders has authorized our Supervisory Board to issue any authorized and unissued shares at any time up to five years from December 27, 2012, the date of such authorization, and has authorized the Supervisory Board to exclude or limit shareholder pre-emptive rights with respect to any issuance of common shares prior to such date.

This authorization would also permit the issuance of shares in an acquisition, provided that shareholder approval is required in connection with a statutory merger (except that, in certain limited circumstances, the Supervisory Board of directors of a surviving company may resolve to legally merge the company).

Repurchase and Cancellation of Shares

We may repurchase our common shares, subject to compliance with the requirements of certain laws of the Netherlands (and provided the aggregate nominal value of the Company's common shares acquired by it at any one time amounts to no more than one-tenth of its issued share capital). Common shares owned by the Company may not be voted or counted for quorum purposes. Any such purchases are subject to the authorization of the general meeting of shareholders. Such authorization is not effective for more than 18 months. The Company may resell shares it purchases. Upon a proposal of the Supervisory Board, the Company's general meeting shall have the power to decide to cancel shares acquired by the Company or to reduce the nominal value of the common shares.

Any such proposal is subject to general requirements of Netherlands law with respect to reduction of share capital.

Only shares which the Company holds or for which it holds the depository receipts may be cancelled.

Material contracts

For material contracts See "Item 8 - Financial Information".

Exchange controls

There are no governmental laws, decrees or regulations in The Netherlands, the Company's jurisdiction of organization, that restrict the Company's export or import of capital in any material respect, including, but not limited to, foreign exchange controls.

There are no limitations imposed by Netherlands law or the Company's charter documents on the right of non-resident or foreign owners to hold or vote Common Shares.

Taxation

The following discussion summarizes the material anticipated U.S. federal income tax consequences of the acquisition, ownership and disposition of shares by a U.S. Holder (as defined below). This summary deals only with shares held as capital assets and does not deal with the tax consequences applicable to all categories of investors some of which (such as tax-exempt entities, banks, broker-dealers, investors who hold shares as part of hedging or conversion transactions and investors whose functional currency is not the U.S. dollar) may be subject to special rules.

The summary does not purport to be a complete analysis or listing of all the potential tax consequences of holding shares, nor does it purport to furnish information in the same detail or with the attention to an investor's specific tax circumstances that would be provided by an investor's own tax adviser. Accordingly, U.S. holders of shares are advised to consult their own tax advisers with respect to their particular circumstances and with respect to the effects of U.S. federal, state, local, or other laws to which they may be subject.

As used herein, the term "U.S. Holder" means a beneficial owner of shares that is (i) for United States federal income tax purposes a citizen or resident of the United States, (ii) a corporation or other entity created or organized in or under the laws of the United States or any political subdivision thereof, (iii) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or (iv) an estate, the income of which is subject to United States federal income taxation regardless of its source.

The summary is based on the Internal Revenue Code of 1986, as amended (the "Code"), judicial decisions, administrative pronouncements, and existing and proposed Treasury Department regulations, changes to any of which after the date of this Annual Report on Form 20-F could apply on a retroactive basis and affect the tax consequences described herein.

Taxation of Dividends

For U.S. federal income tax purposes, the gross amount of distributions, if any, (including any withholding tax thereon) made by the Company out of its current or accumulated earnings and profits (as determined under U.S. federal income tax principles) will be included in the gross income of a direct U.S. Holder as foreign source dividend income on the date of receipt but will not be eligible for the dividends received deduction generally allowed to U.S. corporations.

Subject to the discussion below regarding passive foreign investment companies, the Company should be considered to be a "qualified foreign corporation" so that such dividends should be eligible to be taxed as net capital gains (at a maximum U.S. federal rate of 20 percent).

Distributions in excess of the earnings and profits of the Company will be treated, for U.S. federal income tax purposes, first as a nontaxable return of capital to the extent of the U.S. Holder's basis in the shares (thereby increasing the amount of any gain and decreasing the amount of any loss realized on the subsequent disposition of such shares) and then as a gain from the sale or exchange of the shares. The amount of any dividend paid in Euro will be equal to the U.S. dollar value of the Euro on the date of receipt regardless of whether the U.S. Holder converts the payment into U.S. dollars.

The declaration of dividends will be at the discretion of the Company's Supervisory Board of directors and will depend upon the Company's earnings, capital requirements, financial position, general economic conditions, and other pertinent factors. The Company cannot assure Holders that dividends will be paid in the future.

Foreign Tax Credits

U.S. Holders will generally be entitled to claim a credit against their United States federal income tax liability for the amount of Netherlands dividend withholding tax imposed on dividends paid to U.S. Holders.

See Netherlands Dividend Withholding Tax. U.S. Holders who are entitled to the benefits of a reduced rate of Netherlands dividend withholding tax under the tax treaty between the United States and the Netherlands will be allowed a credit for only the amount of withholding tax provided for under the U.S. Tax Treaty (i.e. 15%).

However, the full amount of the dividend, including any withheld amounts, will be subject to current United States federal income taxation whether or not such Holder obtained a refund of the excess amount withheld. In the event the Company pays a dividend to a U.S. Holder out of the earnings of a non-Dutch subsidiary, however, it is possible that under certain circumstances such U.S. Holder would not be entitled to claim a credit for a portion of any Dutch taxes withheld by the Company from such dividend. The portion of Dutch withholding tax that may not be creditable in this instance equals a maximum of 3% of the gross amount of such dividend (or 20% of the Dutch taxes withheld in the case of a U.S. Holder entitled to claim a 15% withholding rate under the U.S. Tax Treaty). This limitation could potentially apply only under circumstances where the Company pays dividends on the shares.

Depending on the particular circumstances of the U.S. Holder, dividends accrued from shares will generally be classified, for foreign tax credit purposes, as passive income. A U.S. Holder who finds it more advantageous because of such limitations, to claim the Netherlands dividend withholding tax as a deduction instead of a credit may do so, but only for a year for which such Holder does not claim a credit for any foreign taxes. If the U.S. Holder is a U.S. partnership, trust, or estate, any tax credit is available only to the extent that the income derived by such partnership, trust, or estate is subject to U.S. tax on the income of a resident either in its hands or in the hands of its partners or beneficiaries, as the case may be.

Taxation on Sale or Disposition of Shares

Subject to the discussion below regarding passive foreign investment companies, U.S. Holders will recognize capital gain or loss for U.S. federal income tax purposes on the sale or other disposition of shares in an amount equal to the difference between the U.S. dollar value of the amount realized and the U.S. Holder's adjusted tax basis in the shares. In general, a U.S. Holder's adjusted tax basis in the shares will be equal to the amount paid by the U.S. Holder for such shares reduced by any distribution in excess of the earnings and profits of the Company.

For shares held for one year or less, any such gain or loss will generally be treated as short-term gain or loss. Short-term capital gains are taxed at the same rate as ordinary income.

If the shares have been held for more than a year, any such gain or loss will generally be treated as long-term capital gain or loss. U.S. Holders are advised to consult a competent tax adviser regarding applicable capital gains tax provisions and sourcing of capital gains and losses for foreign tax credit purposes.

Gift and Estate Tax

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

Backup Withholding and Information Reporting

Payments in respect of the shares may be subject to information reporting to the IRS and to a 31% U.S. backup withholding tax. Backup withholding generally will not apply, however, to a Holder who furnishes a correct taxpayer identification number or certificate of foreign status and makes any other required certification or who is otherwise exempt from backup withholding. Generally, a U.S. Holder will provide such certification on Form W-9 (Request for Taxpayer Identification Number and Certification) and a non-US Holder will provide such certification on a version of Form W-8 (Certificate of Foreign Status).

Passive Foreign Investment Company

Management has determined that the Company has not been a passive foreign investment company ("PFIC") for United States federal income tax purposes for prior taxable years and believes that the Company will not be treated as a PFIC for the current and future taxable years, but this conclusion is a factual determination made annually and thus subject to change. The Company would be a PFIC with respect to a U.S. Holder if, for any taxable year in which such U.S. Holder held shares, either (i) at least 75% of the Company's gross income for the taxable year is passive income, or (ii) at least 50% of the Company's assets are assets that produce or are held for the production of passive income. Under a "look-through" rule, a corporation takes into account a pro rata share of the income and the assets of any corporation in which it owns, directly or indirectly, 25% or more of the stock by value.

Passive income generally includes dividends, interest, royalties, rents (other than rents and royalties derived from the active conduct of a trade or business and not derived from a related person), annuities, and gains from assets that produce passive income. The 50% asset test would apply to the Company based on fair market values.

If the Company is a PFIC for any taxable year during which a U.S. Holder holds shares, the U.S. Holder will be subject to special tax rules with respect to:

Any "excess distribution" that the U.S. Holder receives on shares, and any gain the U.S. Holder realizes from a sale or other disposition (including a pledge) of the shares unless the U.S. Holder makes a "qualified electing fund" or "mark-to-market" election as discussed below.

Distributions the U.S. Holder receives in a taxable year that are greater than 125% of the average annual distributions the U.S. Holder received during the shorter of the three preceding taxable years or the U.S. Holder's holding period for the shares will be treated as an excess distribution. Under these special tax rules:

The excess distribution or gain will be allocated ratably over the U.S. Holder's holding period for the shares,

The amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which the Company was a PFIC, will be treated as ordinary income, and

The amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

The tax liability for amounts allocated to years prior to the year of disposition or "excess distribution" cannot be offset by any net operating losses, and gains (but not losses) realized on the sale of the shares cannot be treated as capital, even if the U.S. Holder holds the shares as capital assets.

If the Company were to become a PFIC, a U.S. Holder may avoid taxation under the excess distribution rules discussed above by making a "qualified electing fund" election to include the U.S. Holder's share of the Company's income on a current basis. However, a U.S. Holder may make a qualified electing fund election only if the Company, as a PFIC, agrees to furnish the shareholder annually with certain tax information. Management has not decided whether, under such circumstances, the Company would prepare or provide such information.

Alternatively, if the Company were to become a PFIC, a U.S. Holder might, depending on the volume of trading of our stock, make a mark-to-market election to elect out of the excess distribution rules discussed above.

If a U.S. Holder made a mark-to-market election for the shares, the U.S. Holder would include in income each year an amount equal to the excess, if any, of the fair market value of the shares as of the close of the U.S. Holder's taxable year over the U.S. Holder's adjusted basis in such shares. A U.S. Holder is allowed a deduction for the excess, if any, of the adjusted basis of the shares over their fair market value as of the close of the taxable year only to the extent of any net mark-to-market gains on the shares included in the U.S. Holder's income for prior taxable years. Amounts included in a U.S. Holder's income under a mark-to-market election, as well as gain on the actual sale or other dispositions of the shares are treated as ordinary income. Ordinary loss treatment also applies to the deductible portion of any mark-to-market loss on the shares, as well as to any loss realized on the actual sale or disposition of the shares, to the extent that the amount of such loss does not exceed the net mark-to-market gains previously included for such shares. A U.S. Holder's basis in the shares will be adjusted to reflect any such income or loss amounts.

The mark-to-market election is available only for stock which is regularly traded on a national securities exchange that is registered with the Securities and Exchange Commission, or the national market system established pursuant to section 11A of the Exchange Act, or any exchange or market that the IRS has determined has rules sufficient to carry out the purposes of the income tax rules. There can be no assurance that the Company will continue to satisfy the requirements of the mark-to-market election.

Taxes in the Netherlands

The following is a general non-exhaustive discussion of the tax laws in the Netherlands as they relate to the operations of the Company.

Corporate Income Taxes

We are incorporated under the laws of the Netherlands and are therefore subject to the tax laws of the Netherlands. In 2017 the standard corporate income tax rate was 20% on profits up to €0.2 million (\$0.2 million as of December 31, 2017) and 25% on the excess. In 2018 the standard corporate income tax rate will be the same as in 2017.

ICTS International and a number of our Dutch resident subsidiary companies form a fiscal unity for Dutch corporate income tax purposes. As a result, Dutch corporate income tax is levied from these entities on a consolidated basis at the level of ICTS.

For Dutch corporate income tax purposes business affiliates should calculate their profits on an "at arm's length" basis. In case transactions between such affiliates are made or imposed on conditions (transfer prices) which differ from those conditions which would have been made or imposed between independent entities in the free market, the profits of those entities are determined as if the latter conditions had been agreed.

Participation Exemption

Under the Dutch participation exemption regime that is applicable as from 1 January 2010, roughly summarized, when determining whether or not the participation exemption is applicable, it should first be considered with what objective the parent company holds its participation in the subsidiary company.

If the parent company holds its participation in the subsidiary company as a portfolio investment, the participation exemption is not applicable, unless it is a “qualifying portfolio investment”. This is a subjective test and should be determined on a case by case basis taking into account all of the relevant facts and circumstances.

The parent company would be considered to hold the participation in the subsidiary company as a portfolio investment, if holding this participation is merely aimed at receiving a return therefrom that could be expected for normal asset management. The parent company would generally not be considered to hold the participation in the subsidiary company as a portfolio investment, if the business carried on by the subsidiary company is in line with the business carried on by the parent company. This should normally also apply to a holding company, which, based on its activities on a managerial, policy-making or financial level, performs a material function for the benefit of the group of companies that it forms part of, or to an intermediate holding company in case this company plays a linking role between the business activities of its parent company and the business activities of its subsidiary companies.

The subsidiary company would be deemed to be held as a portfolio investment by the parent company if (i) generally the subsidiary company’s assets consist on a consolidated basis for more than 50% of interests of less than 5% in other entities, or (ii) the subsidiary company’s activities consist for more than 50% of group financing activities. Group finance includes loans, credit instruments and also leasing of equipment, intangibles and other assets.

If the parent company would (be deemed to) hold the participation in the subsidiary company as a portfolio investment, the participation exemption would still be applicable if the investment is a “qualifying portfolio investment”. That would be the case if the “subject-to-tax” test or the “asset test” is met. We will not elaborate on these tests.

In case the participation exemption is applicable, income in the hands of ICTS arising from dividends paid by subsidiaries or capital gains from the disposal of its shares in such subsidiaries is exempt from corporate income tax in The Netherlands. Apart from special provisions in relation to certain liquidation losses, capital losses incurred in relation to qualifying participations are not deductible for Dutch corporate income tax purposes.

As of 2016, the participation exemption is no longer applicable to (interest) income that is tax-deductible in country of the debtor, whereas the corresponding income is exempt under the scope of the participation exemption. This will be the case e.g. if the country of the debtor qualifies the distribution as an interest expense, whereas the Netherlands qualifies the income as a dividend.

In case the participation exemption is not applicable, income derived from a subsidiary company will be taxed in the hands of ICTS against ordinary corporate income tax rates, while a (partial) credit may be allowed for underlying taxes. In certain cases, a yearly revaluation of the participation to its fair market value is required.

Costs related to the acquisition of qualifying participations are generally added to the cost price of the participation and are as such not deductible.

Costs related to the disposal of participations falling within the scope of the participation exemption are also not deductible. Other expenses relating to participations (e.g. the cost of financing) are in principle deductible.

Interest deduction limitations

As per January 1, 2013, the thin capitalization rules have been abandoned. Instead, as per the same date the "participation debt interest limitation" was introduced in the Netherlands.

The participation debt interest limitation applies to interest and costs of loans that are (deemed to be) related to the financing of subsidiaries ("participation debt"). The interest limitation only affects the tax deductibility of the so called "excessive participation interest", whereby excessive relates to the fiscal value of participations exceeding the taxpayer's equity for tax purposes. Financing of subsidiaries includes the acquisition of subsidiaries and capital injections in subsidiaries.

Investments in subsidiaries that relate to the operational expansion of the activities of the group are excluded from the participation debt interest limitation. The participation debt interest limitation only applies to groups that qualify for the participation exemption.

The first €0.8 million (\$1.0 million as of December 31, 2017) of "excessive participation interest" is exempt from the interest deduction limitation and is therefore deductible (unless other interest limitation rules apply). "Excessive participation interest" that exceeds the €0.8 million threshold is not tax deductible; it makes no difference if this interest is paid to related entities or to third parties.

According to the definition of the interest limitation, interest costs include: foreign exchange results, the costs of hedging currency risks and the costs of hedging interest risks. The interest costs also include, besides the cost of loans, the costs of financial lease contracts and hire-purchase contracts.

An investment can never be considered to be an expansion of the operational activities in case the financing is artificially constructed in order to obtain a tax advantage, if the interest can be deducted twice in the group (double dip) or when a hybrid loan is used (e.g. a profit participating loan).

In case of ICTS, there is no excessive debt at this stage, since its equity exceeds the cost price of the participations. Insofar this is the situation, participation debt interest limitation rules in principle do not apply.

Besides the participation debt interest limitation, Dutch tax law includes various other sets of anti-abuse provisions in relation to deduction of interest. Further, interest deduction may be disallowed based on case law.

Loss compensation

As of 2007 the term for carry-back of operating losses is reduced to one year. Further, the term for carry-forward of losses is restricted to nine years, subject to certain anti-abuse provisions. Not yet compensated losses will disappear after these terms have lapsed.

Limitations on loss compensation may also apply in the case of so-called "holding losses", being losses incurred in a book year during which the activities of ICTS (jointly with the subsidiary companies that form part of the fiscal unity for Dutch corporate income tax purposes) for the entire or almost entire year, entirely or almost entirely consist of the holding of participations or the financing of related companies. This will be deemed not to be the case if at least 25 employees are engaged in other activities on a full-time basis.

Innovation box

In the innovation box regime, which has entered into force as per 2010, income from self-developed intangible assets will be taxed against an effective tax rate of 5%. The innovation box is not only applicable to intangible assets for which a patent was granted, but also to intangible assets which are eligible for an R&D certificate (S&O verklaring). Further, application of the innovation box regime is subject to the condition that the income generated with an intangible asset, can for 30% or more, be attributed to the intangible. Brands, images and similar assets are excluded from the innovation box regime.

Application of the innovation box regime is optional on a product by product basis. ICTS may also decide to deduct R&D costs against other regularly taxed income when determining its taxable income. At a later stage and subject to certain conditions aiming at avoiding that costs are deducted against regular corporate income tax rates whereas income is taxed under the innovation box regime against an effective rate of 5%, ICTS may in this case still decide to apply the innovation box regime.

Depreciation limitations: depreciation at will

As of January 1, 2007 restrictions apply on the depreciation amount for goodwill and other business assets. The maximum yearly depreciation charge for goodwill is 10% of the cost price. The maximum yearly depreciation charge for other business assets is 20% of the cost price of said assets. It should still be possible to value assets at lower going-concern value. Further, restrictions have been introduced on the depreciation of real estate property. Depreciation of investment property is no longer allowed in case the book value of the property falls below the official fair market value of the property for tax purposes. The depreciation of real estate property used as part of a trade or business is allowed as long as the book value of the real estate property does not fall below 50% of the official fair market value of the property for tax purposes.

Dutch Tax Consequences of Holding Shares by a non-Dutch resident shareholder

The following is a general, non-exhaustive summary of Dutch tax consequences to a holder of Common Shares who is not, or is not deemed to be, a resident of the Netherlands for purposes of the relevant tax codes (a "non-resident Shareholder") and is based upon laws and relevant interpretations thereof in effect as of the date of this Annual Report, all of which are subject to change, possibly on a retroactive basis.

The summary does not address taxes imposed by the Netherlands other than dividend withholding tax, personal income tax, corporate income tax and gift and inheritance tax. The discussion does not address the tax consequences under tax laws of any other jurisdiction than the Netherlands.

Dividend Withholding Tax in the Netherlands

We currently do not anticipate distributing any dividends in the foreseeable future. To the extent that dividends are distributed by ICTS, such dividends ordinarily would be subject, under the tax laws of the Netherlands, to a withholding tax at a rate of 15%. Dividends include distributions in cash or in kind, deemed dividends and redemption and liquidation proceeds in excess of, for Dutch tax purposes, recognized paid-in capital.

In case there are profits or in case profits can be anticipated, the repayment of ICTS' share premium is also subject to dividend withholding tax. Further, stock dividends are subject to Dutch dividend withholding tax, unless distributed out of the paid-in share premium of ICTS as recognized for tax purposes in the Netherlands.

A non-resident Shareholder could be eligible for a reduction or a refund of Dutch dividend withholding tax under a tax convention which is in effect between the country of residence of the shareholder and the Netherlands, or under provisions similar to the EU Parent/Subsidiary Directive. The Netherlands has concluded such conventions with, among others, the United States, most European Union member states, Canada, Switzerland and Japan. Under most of these conventions, dividend withholding tax in the Netherlands is effectively set at a rate of 15% (primarily applicable to individual shareholder) and may be further reduced to lower rates in the case of a corporate shareholder with a certain percentage of shareholding interest, depending on the applicable tax treaty. Based on Dutch domestic law, a 0% withholding tax rate applies to certain (corporate) shareholders.

Under the tax convention currently in force between the United States and the Netherlands (the "Treaty"), dividends paid by us to an individual shareholder resident in the United States or a corporate shareholder organized under the laws of the United States or any State or territory thereof holding less than 10% of the voting power in ICTS (each, a "U.S. Treaty Shareholder"), are subject to Dutch dividend withholding tax of 15%, unless such U.S. Treaty Shareholder has a permanent establishment or permanent representative in the Netherlands to which or to whom the Common Shares are attributable. Subject to certain conditions, the dividend withholding tax rate may be reduced to 5% or 0% in case a qualifying U.S. resident corporate shareholder would hold at least 10% respectively at least 80% of the voting power in ICTS.

Generally, there is no dividend withholding tax applicable in the Netherlands on the sale or disposition of Common Shares to persons other than ICTS or its subsidiaries or affiliates. In case of sale or disposition of Common Shares to ICTS or any of its subsidiaries, dividend withholding tax in the Netherlands may apply.

In addition, in an effort to prevent the practice of dividend stripping, strict beneficial ownership rules are incorporated in the Dutch dividend withholding tax act, which may have an impact on the levy of dividend withholding taxes.

Non-resident shareholders: Income Tax and Corporate Income Tax in the Netherlands

Based on Dutch domestic tax law, a non-resident Shareholder is subject to Dutch personal income tax or Dutch corporate income tax with respect to dividends distributed by us on the Common Shares or with respect to capital gains derived from the sale or disposal of Common Shares in case:

(a) the non-resident Shareholder carries on a business in the Netherlands through a permanent establishment or a permanent representative to which or to whom the Common Shares are attributable; or

(b) the non-resident Shareholder has a direct or indirect substantial interest or deemed substantial interest in the share capital of ICTS as defined in the tax code of the Netherlands, which interest does not form part of the assets of an enterprise of that non-resident Shareholder and the interest is held with the main purpose, or one of the main purposes, to prevent the levy of personal income tax or dividend withholding tax at the level of another (legal) person; or

(c) the non-resident Shareholder is entitled to a share in the profits of an enterprise effectively managed in The Netherlands, other than through ownership of securities or, in the case of an individual shareholder, through employment, to which enterprise the Common Shares are attributable.

Generally, there is a substantial interest in the share capital of ICTS if the Shareholder, alone or together with his or her partner (spouse, registered partner or other individuals as defined in Dutch tax law), owns, directly or indirectly, (i) 5% or more of the issued capital of any class of shares in ICTS, (ii) options to acquire 5% or more of the issued capital of any class of shares or (iii) profit-sharing rights to 5% or more of the annual profits or liquidation distributions of ICTS. If an individual, alone or together with his partner, does not have a substantial interest based on these tests, he or she may nevertheless be deemed to have a substantial interest in case certain relatives hold a substantial interest in ICTS. In case of a substantial interest held by a corporate shareholder, a receivable the non-resident Shareholder has from ICTS may also belong to such substantial interest. Non-resident Shareholders owning a substantial interest in ICTS may be subject to income tax upon the occurrence of certain events, for example when they cease to own a substantial interest.

The Netherlands' right to levy tax with respect to dividends distributed by ICTS to a non-resident Shareholder or capital gains derived from the sale or disposal of shares in ICTS by a non-resident Shareholder may be limited under a tax convention which may be in effect between the country of residence of the shareholder and the Netherlands.

In case Dutch income tax is due with respect to dividends distributed by ICTS, Dutch dividend withholding tax levied with respect to such dividends can generally be credited against the income tax due as a pre-tax.

Netherlands Gift and Inheritance Tax

A gift or inheritance of Common Shares received from a non-resident Shareholder will be subject to Dutch gift or inheritance tax in case:

(a) the non-resident Shareholder has been a resident of the Netherlands at any time during the ten years preceding the time of the gift or death and is a national of the Netherlands at the time of the gift or death; or

(b) for purposes of the tax on gifts, the non-resident Shareholder has been a resident of the Netherlands at any time during the twelve months preceding the time of the gift.

Please note that this summary of Dutch gift and inheritance tax is not exhaustive.

Documents on display

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended. In accordance with these requirements, the Company files reports and other information with the United States Securities and Exchange Commission ("SEC").

These materials may be inspected at the Company's office in Schiphol-Oost, The Netherlands. Documents filed with the SEC may also be read and copied at the SEC's public reference room at 100 F Street N.E. Room 1580 Washington, DC 20549 USA.

For further information please call the SEC at 1-800-SEC-0330. All the SEC filings made electronically by ICTS are available to the public on the SEC web site at <http://www.sec.gov> (commission file number 0-28542). Those reports are also available free of charge at www.ictsintl.com.

Subsidiary Information

Not applicable

Item 11. Quantitative and Qualitative Disclosure About Market Risk

Foreign Currency Exchange Risk - applies to our operations outside the USA. In 2017, approximately 18% of the Company's revenues were derived in the United States, and approximately 82% was derived in Europe and the Far East. The Company is subject to market risks associated with foreign currency exchange rate fluctuations.

We do not utilize derivative instruments to manage the exposure to such market risk. As such, significant foreign currency exchange rate fluctuations can have a material impact of the Company's financial position, results of operations, and cash flows.

Interest Rate Risk - We are subject to changes in interest rates based on Federal Reserve actions and general market conditions. The Company does not utilize derivative instruments to manage its exposure to interest rate risk. An increase of 1% in the interest rate would have increased the Company's interest expense for bank loans, convertible notes payable to a related party and other parties, by approximately \$0.8 million in the year ended December 31, 2017.

Item 12. Description of Securities Other than Equity Securities

Not applicable.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

Not applicable.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

Not applicable

Item 15. Controls and Procedures

Management's report on internal control over financial reporting

(a) Our management, including our Managing Director and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(d) and 15d-15(d) of the Exchange Act) as of the end of the period covered by this annual report (the "Evaluation Date").

Based on such evaluation, the Managing Director and the Chief Financial Officer have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective.

(b) Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Our management, including our Managing Director and our Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework and criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as of the end of the period covered by this report. Based on that evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2017. Notwithstanding the foregoing, there can be no assurance that our internal control over financial reporting will detect or uncover all failures of persons within the Company to comply with our internal procedures, as all internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective may not prevent or detect misstatements.

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

(c) On the evaluation conducted by our Managing Director and our Chief Financial Officer pursuant to Rules 13a-15(d) and 15d-15(d) under the Exchange Act, our management has concluded that there was no change in our internal control over financial reporting that occurred during the year ended December 31, 2017 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 16A. Audit Committee Financial Experts

The members of the Audit Committee consist of Philip M. Getter, Gordon Hausmann and Gail F. Lieberman. All members are independent, with no relationship with management. Mr. Getter and Ms. Lieberman have financial expertise. Mr. Getter is the Chairman of the Audit Committee.

Item 16B. Code of Ethics

The Company has adopted a Code of Ethics for principal's executive officers and senior financial officers.

Item 16C. Principal Accountant Fees and Services

The following table sets forth the aggregate fees billed by our independent registered public accounting firms, Mayer Hoffman McCann CPAs ("MHM"), for services rendered to us during the years ended December 31, 2017 and 2016.

The audit committee has considered whether the provision of these services is compatible with maintaining the principal accountant's independence and has concluded that such services are compatible. All fees were reviewed and pre-approved by the audit committee (U.S. Dollars in thousands).

	2017	2016
Audit fees	\$ 225	\$ 250
Audit related fees	-	-
Tax fees	-	-
Total fees	<u>\$ 225</u>	<u>\$ 250</u>

MHM leases substantially all its personnel, who work under the control of MHM shareholders, from wholly owned subsidiaries of CBIZ, Inc. in an alternative practice structure.

Item 16D. Exemptions from the Listing Standards for Audit committees

Not applicable.

Item 16E. Purchase of Equity Securities by the Issuer and Affiliated Purchasers

Not applicable.

Item 16F. Change in Registrant's Certifying Accountant.

Not applicable.

Item 16G. Corporate Governance.

There are no significant differences between the corporate governance practices in the Netherlands and the U.S. The Company has adopted the U.S. practices.

PART III

Item 17. Financial Statements

See Item 18.

Item 18. Financial Statements

The Consolidated Financial Statements and Financial Statement Schedule of the Company as of December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017, including the report of our independent registered public accounting firm thereon are set forth on pages F-1 to F-37.

Item 19. Exhibits

1. [Articles of Association of the Company.*](#)
2. [Articles of Amendment of the Articles of Association filed as Exhibit to Form 6K dated April 22, 2009.*](#)
3. [Articles of Amendment of the Articles of Association filed as exhibit to Form 20-F for the year ended December 31, 2012.*](#)
4. [Specimen of the Company's Common Stock.*](#)
5. [Code of Ethics for Principal Executive Officers and Senior Financial Officers.**](#)
- 12.1 [Certification by the registrant's Managing Director and Principal Executive Officer pursuant to Rule 13a-14\(a\)](#)
- 12.2 [Certification by the registrant's Principal Financial Officer pursuant to Rule 13a-14\(a\)](#)
- 13.1 [Certification by the Registrant's Managing Director and Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 13.2 [Certification by the Registrant's Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)

* Incorporated by reference to the Company's 1999 annual report filed with the Commission on Form 20-F.

** Incorporated by reference to the Company's 2003 annual report filed with the Commission on Form 20-F.

SIGNATURES

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

ICTS INTERNATIONAL N.V. AND SUBSIDIARIES

By: /s/ Ran Langer

Name: Ran Langer

Title: Managing Director

Date: May 9, 2018

ICTS INTERNATIONAL N.V. AND SUBSIDIARIES
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Report of Independent Registered Public Accounting Firm

To the Supervisory Board of Directors and
Shareholders of ICTS International N.V. and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of ICTS International N.V. (the "Company") as of December 31, 2017 and 2016, and the related consolidated statements of operations and comprehensive income (loss), shareholders' deficit, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and schedule (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Mayer Hoffman McCann CPAs
(The New York Practice of Mayer Hoffman McCann P.C.)

We have served as the Company's auditor since 2006.

New York, New York
May 9, 2018

ICTS INTERNATIONAL N.V. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	December 31,	
	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 9,073	\$ 3,892
Restricted cash	4,432	3,787
Accounts receivable, net	45,343	33,844
Prepaid expenses and other current assets	2,853	2,045
Current assets from discontinued operations	281	340
Total current assets	<u>61,982</u>	<u>43,908</u>
Deferred tax assets, net	349	337
Investments	3,500	-
Property and equipment, net	3,205	1,758
Non current assets from discontinued operations	25	513
Goodwill	1,044	314
Other assets	658	326
Total assets	<u>\$ 70,763</u>	<u>\$ 47,156</u>
LIABILITIES AND SHAREHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Notes payable-banks	\$ 10,015	\$ 8,352
Accounts payable	5,459	3,158
Accrued expenses and other current liabilities	30,708	26,336
Income tax payable	3,144	1,130
Value added tax (VAT) payable	7,223	6,170
Loan payable	1,198	-
Loan payable to related party, including accrued interest	1,409	-
Current liabilities from discontinued operations	41	219
Total current liabilities	<u>59,197</u>	<u>45,365</u>
Convertible notes payable to a related party, including accrued interest	37,589	34,511
Other liabilities	719	440
Non current liabilities from discontinued operations	-	317
Total liabilities	<u>97,505</u>	<u>80,633</u>
COMMITMENTS AND CONTINGENCIES (NOTES 7 AND 15)		
SHAREHOLDERS' DEFICIT:		
Common stock, €0.45 par value; 33,333,334 shares authorized as of December 31, 2017 and 2016; 21,000,000 shares issued and outstanding as of December 31, 2017 and 2016.	10,655	10,655
Additional paid-in capital	23,128	23,128
Accumulated deficit	(53,734)	(59,554)
Accumulated other comprehensive loss	(6,914)	(7,859)
Non controlling interest in subsidiaries	123	153
Total shareholders' deficit	<u>(26,742)</u>	<u>(33,477)</u>
Total liabilities and shareholders' deficit	<u>\$ 70,763</u>	<u>\$ 47,156</u>

See accompanying notes to the consolidated financial statements.

ICTS INTERNATIONAL N.V. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(In thousands, except share data)

	For the Years Ended December 31,		
	2017	2016	2015
Revenue	\$ 297,682	\$ 255,576	\$ 187,022
Cost of revenue	254,009	222,927	167,844
GROSS PROFIT	43,673	32,649	19,178
Operating expenses:			
Research and development	2,683	2,660	2,565
Selling, general and administrative	26,920	22,142	20,406
Total operating expenses	29,603	24,802	22,971
OPERATING INCOME (LOSS)	14,070	7,847	(3,793)
Other expense, net	(6,172)	(4,501)	(760)
INCOME (LOSS) BEFORE INCOME TAX EXPENSE	7,898	3,346	(4,553)
Income tax expense	2,033	1,004	149
INCOME (LOSS) FROM CONTINUING OPERATIONS	5,865	2,342	(4,702)
Loss from discontinued operations	(95)	-	-
NET INCOME (LOSS)	5,770	2,342	(4,702)
Less: Net loss attributable to non-controlling interests	(50)	-	-
NET INCOME (LOSS) ATTRIBUTABLE TO ICTS INTERNATIONAL N.V.	\$ 5,820	\$ 2,342	\$ (4,702)
INCOME (LOSS) PER SHARE - BASIC AND DILUTED			
Continuing operations	\$ 0.28	\$ 0.20	\$ (0.58)
Discontinued operations (*)	-	-	-
Net income (loss)	\$ 0.28	\$ 0.20	\$ (0.58)
Weighted average number of shares outstanding	21,000,000	11,518,929	8,085,599
COMPREHENSIVE INCOME (LOSS)			
Net income (loss)	\$ 5,770	\$ 2,342	\$ (4,702)
Translation adjustment	965	(352)	(186)
Comprehensive income (loss)	6,735	1,990	(4,888)
Less: Comprehensive loss attributable to non-controlling interests.	(30)	-	-
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO ICTS INTERNATIONAL N.V.	\$ 6,765	\$ 1,990	\$ (4,888)

(*) Income (loss) per share – Basic and Diluted from discontinued operations is being calculated based on loss from discontinued operations, less net loss attributable to a non-controlling interests.

See accompanying notes to the consolidated financial statements.

ICTS INTERNATIONAL N.V. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' DEFICIT
(In thousands, except share data)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Non Controlling Interest	Total Shareholders' Deficit
	Shares	Amount					
BALANCE AT DECEMBER							
31, 2014	8,061,698	\$ 4,507	\$ 20,949	\$ (57,194)	\$ (7,321)	\$ -	\$ (39,059)
Issuance of common stock	2,900,000	1,421	318	-	-	-	1,739
Net loss	-	-	-	(4,702)	-	-	(4,702)
Translation adjustment	-	-	-	-	(186)	-	(186)
BALANCE AT DECEMBER							
31, 2015	10,961,698	5,928	21,267	(61,896)	(7,507)	-	(42,208)
Issuance of common stock	10,038,302	4,727	1,861	-	-	-	6,588
Non controlling interest in subsidiaries	-	-	-	-	-	153	153
Net income	-	-	-	2,342	-	-	2,342
Translation adjustment	-	-	-	-	(352)	-	(352)
BALANCE AT DECEMBER							
31, 2016	21,000,000	10,655	23,128	(59,554)	(7,859)	153	(33,477)
Net income (loss)	-	-	-	5,820	-	(50)	5,770
Translation adjustment	-	-	-	-	945	20	965
BALANCE AT DECEMBER							
31, 2017	<u>21,000,000</u>	<u>\$ 10,655</u>	<u>\$ 23,128</u>	<u>\$ (53,734)</u>	<u>\$ (6,914)</u>	<u>\$ 123</u>	<u>\$ (26,742)</u>

See accompanying notes to the consolidated financial statements.

ICTS INTERNATIONAL N.V. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands, except share data)

	Year Ended December 31,		
	2017	2016	2015
CASH FLOW FROM OPERATING ACTIVITIES:			
Income from continuing operations	\$ 5,865	\$ 2,342	\$ (4,702)
Loss from discontinued operations	(95)	-	-
Net income (loss)	5,770	2,342	(4,702)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	1,416	893	713
Accrued interest on convertible notes payable to a related party	2,706	4,801	2,601
Accrued interest on loan payable to a related party	109	-	-
Bad debt expense (income)	19	34	(43)
Deferred income taxes	33	(248)	26
Changes in assets and liabilities:			
Accounts receivable, net	(7,513)	(8,755)	(6,279)
Prepaid expenses and other current assets	(585)	(71)	(1,020)
Other assets	(359)	93	(15)
Accounts payable	1,667	155	463
Accrued expenses and other current liabilities	3,144	2,016	9,102
Income taxes payable	1,866	1,043	40
VAT payable	232	926	491
Other liabilities	231	293	66
Net cash provided by discontinued operations	95	-	27
Net cash provided by operating activities	8,831	3,522	1,470
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(2,529)	(1,236)	(1,037)
Purchase of subsidiary in Denmark, net of acquired cash of \$499	(1,066)	-	-
Investment in White Line B.V.	(3,500)	-	-
Purchase of subsidiary in Cyprus, discontinued operations	-	(164)	-
Net cash used in investing activities	\$ (7,095)	\$ (1,400)	\$ (1,037)

ICTS INTERNATIONAL N.V. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands, except share data)

	Year Ended December 31,		
	2017	2016	2015
CASH FLOW FROM FINANCING ACTIVITIES:			
Borrowings (repayments) under lines of credit, net	\$ 1,387	\$ (2,874)	\$ 1,877
Net proceeds (repayments) from convertible notes payable to a related party	(2,426)	(3,282)	1,364
Net proceeds from loan payable to a related party	1,300	-	-
Proceeds from stock issuance	-	1,159	1,739
Increase (decrease) in cash overdraft	(1,109)	(191)	264
Proceeds from loan payable	1,198	-	-
Net cash provided by (used in) financing activities	350	(5,188)	5,244
EFFECT OF CHANGES IN FOREIGN CURRENCY EXCHANGE RATES ON CASH, CASH EQUIVALENTS AND RESTRICTED CASH			
	3,740	(1,555)	(4,110)
INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	5,826	(4,621)	1,567
CASH, CASH EQUIVALENTS AND RESTRICTED CASH BEGINNING OF YEAR	7,679	12,300	10,733
CASH, CASH EQUIVALENTS AND RESTRICTED CASH END OF YEAR	\$ 13,505	\$ 7,679	\$ 12,300
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES			
Conversion of accrued interest to related party to shares of common stock	\$ -	\$ 5,429	\$ -
Purchase of Cyprus Subsidiary included in current and non current liabilities from discontinued operations	\$ -	\$ 421	\$ -
Acquisition of subsidiary funded by non controlling interest, discontinued operations	\$ -	\$ 153	\$ -
SUPPLEMENTAL DISCLOSURES OF CASH FLOW ACTIVITIES			
Cash paid during the year for:			
Interest	\$ 634	\$ 678	\$ 543
Income taxes	\$ 120	\$ 164	\$ 305

See accompanying notes to the consolidated financial statements.

ICTS INTERNATIONAL N.V. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share data)

NOTE 1 – ORGANIZATION

Description of Business

ICTS International N.V. was registered at the Department of Justice in Amstelveen, Netherlands on October 9, 1992. ICTS and subsidiaries (collectively referred to as "ICTS" or the "Company") operate in three reportable segments: (a) corporate (b) airport security and other aviation services and (c) technology. The corporate segment does not generate revenue and contains primarily non-operational expenses. The airport security and other aviation services segment provides security and other services to airlines and airport authorities, predominantly in Europe and the United States of America. The technology segment is predominantly involved in the development and sale of authentication security software to financial and other institutions, predominantly in the United States of America and Europe.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The significant accounting policies are as follows:

Functional Currency

The accompanying consolidated financial statements are presented in United States dollars. The Company has determined that the functional currency of its foreign subsidiaries is the local currency, which is predominantly the Euro. For financial reporting purposes, the assets and liabilities of such subsidiaries are translated into United States dollars using exchange rates in effect at the balance sheet date. The revenue and expenses of such subsidiaries are translated into United States dollars using average exchange rates in effect during the reporting period. Resulting translation adjustments are presented as a separate category in shareholders' deficit called accumulated other comprehensive loss.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. The most significant estimates and assumptions included in these consolidated financial statements consist of the: (a) calculation of the allowance for doubtful accounts, (b) determination of the fair value of stock options, (c) recognition of contingent liabilities and (d) valuation allowance of deferred income taxes .

Principles of Consolidation

The consolidated financial statements include the accounts of ICTS International N.V. and its wholly owned and majority-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents.

ICTS INTERNATIONAL N.V. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share data)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Cash

Restricted cash as of December 31, 2017 consists of: (a) \$233 held in a bank account that serves as cash collateral for outstanding letters of credit and (b) \$4,199 held in several bank accounts in the Netherlands, which is restricted for payments to local tax authorities.

Restricted cash as of December 31, 2016 consists of: (a) \$233 held in a bank account that serves as cash collateral for outstanding letters of credit and (b) \$3,554 held in several bank accounts in the Netherlands, which is restricted for payments to local tax authorities.

During the year ended December 31, 2017, the Company adopted Accounting Standards Update (“ASU”) No. 2016-18 guidance for presentation of restricted cash on the statements of cash flows using a retrospective approach. Restricted cash amounts are now reported on the statements of cash flows together with cash as one line item. Previously, restricted cash was shown separately in the investing activities section of the statements of cash flows. Restricted cash amounts as of December 31, 2016, 2015 and 2014 have been reclassified in the statements of cash flows in order to comply with the new guidance.

The following table provides a reconciliation of cash and restricted cash reported on the balance sheet that sum to the total of the same such amounts shown in the statements of cash flows.

	December 31,	
	2017	2016
Cash and cash equivalents	\$ 9,073	\$ 3,892
Restricted cash	4,432	3,787
Total cash, cash equivalents and restricted cash shown in the statement of cash flows.	\$ 13,505	\$ 7,679

Accounts Receivable

Accounts receivable represent amounts due to the Company for services rendered and are recorded net of an allowance for doubtful accounts. The allowance for doubtful accounts is based on historical collection experience, factors related to a specific customer and current economic trends. The Company writes off accounts receivable against the allowance for doubtful accounts when the balance is determined to be uncollectible. As of December 31, 2017 and 2016, the allowance for doubtful accounts is \$103 and \$84, respectively.

Investments

The Company follows Topic 820, “Fair Value Measurement”, of FASB ASC. Topic 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value should be based on assumptions that market participants would use.

ICTS INTERNATIONAL N.V. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share data)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (continued)

In determining the fair value, the Company assesses the inputs used to measure fair value using a three-tier hierarchy, as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Companies have the ability to access at the measurement date.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Company accounts for investments in the equity securities of companies which represent an ownership interest of 20% to 50% and the ability to exercise significant influence, provided that ability does not represent control, using the equity method. The equity method requires the Company to recognize its share of the net income (loss) of its investees in the consolidated statement of operations until the carrying value of the investment is zero.

Investment in Artemis Therapeutics, Inc. is valued using level 1 inputs, however, the Company has determined that value of the investment is impaired (see note 5).

Property and Equipment

Equipment and furniture, internal-use software, and vehicles are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives used in determining depreciation are as follows:

	Years
Equipment and facilities	3-7
Internal- use software	7
Vehicles	3-7

Leasehold improvements are amortized using the straight-line method over the shorter of the term of the lease or the estimated useful lives of the assets.

ICTS INTERNATIONAL N.V. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share data)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capitalized Internal-Use Software Costs

The Company capitalizes the cost of internal-use software that has a useful life in excess of one year in property and equipment. These costs consist of payments made to third party consultants for the installation and integration of software and related travel costs. Software maintenance and training costs, including related travel costs, are expensed in the period in which they are incurred.

Goodwill

Goodwill represents the excess purchase price over the fair value of the net tangible and intangible assets of an acquired business. Goodwill is assessed for impairment by reporting unit on an annual basis or when events or changes in circumstances indicate that the carrying value may not be recoverable. The Company would record a goodwill impairment charge for the difference between the carrying value and the fair value of the goodwill not to exceed the carrying amount of the goodwill. As of January 1, 2017 the Company adopted Accounting Standards Update 2017-04 which eliminates step two from the goodwill impairment test. During the years ended December 31, 2017, 2016 and 2015, the Company did not record impairment charges on its goodwill relating its continuing operations.

Long-Lived Assets

The Company reviews long-lived assets, other than goodwill, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The Company assesses recoverability by determining whether the net book value of the related asset will be recovered through the projected undiscounted future cash flows of the asset. If the Company determines that the carrying value of the asset may not be recoverable, it measures any impairment based on the fair value of the asset as compared to its carrying value. During the years ended December 31, 2017, 2016, and 2015, the Company did not record any impairment charges on its long-lived assets.

Convertible Debt Instruments

The Company evaluates convertible debt instruments to determine whether the embedded conversion option needs to be bifurcated from the debt instrument and accounted for as a freestanding derivative instrument or considered a beneficial conversion option. An embedded conversion option is considered to be a freestanding derivative when: (a) the economic characteristics and risks of the embedded conversion option are not clearly and closely related to the economic characteristics and risks of the host instrument, (b) the hybrid instrument that embodies both the embedded conversion option and the host instrument is not re-measured at fair value under otherwise applicable US GAAP with changes in fair value reported in earnings as they occur, and (c) a separate instrument with the same terms as the embedded conversion option would be considered a derivative instrument subject to certain requirements (except when the host instrument is deemed to be conventional). When it is determined that an embedded conversion option should not be bifurcated from its host instrument, the embedded conversion option is evaluated to determine whether it contains any intrinsic value which needs to be discounted from the carrying value of the convertible debt instrument.

The intrinsic value of an embedded conversion option is considered to be the difference between the fair value of the underlying security on the commitment date of the debt instrument and the effective conversion price embedded in the debt instrument.

ICTS INTERNATIONAL N.V. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share data)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contingent Liabilities

The Company is subject to various investigations, claims and legal proceedings covering a wide range of matters that arise in the normal course of its business activities. Liabilities for such contingencies are recognized when: (a) information available prior to the issuance of the consolidated financial statements indicates that it is probable that a liability had been incurred at the date of the consolidated financial statements and (b) the amount of loss can reasonably be estimated.

Comprehensive Income (Loss) and Accumulated Other Comprehensive Loss

The Company's comprehensive income (loss) for the years ended December 31, 2017, 2016 and 2015 consists of the Company's net income (loss) and foreign currency translation adjustments.

Accumulated other comprehensive loss consist of the Company's accumulated foreign exchange currency adjustments.

Stock-Based Compensation

Stock-based compensation to employees, including stock options, are measured at the fair value of the award on the date of grant based on the estimated number of awards that are ultimately expected to vest. The compensation expense resulting from stock-based compensation to management and administrative employees is recorded over the vesting period of the award in selling, general and administrative expense on the accompanying consolidated statements of operations and comprehensive income (loss). Compensation expense resulting from stock-based compensation to operational employees is recorded over the vesting period of the award in cost of revenue.

Stock-based compensation issued to non-employees for services rendered are recorded at either the fair value of the services rendered or the fair value of the stock-based compensation, whichever is more readily determinable.

Non-controlling interest

The Company's non-controlling interest represent the minority shareholder's ownership interest related to the Company's subsidiaries. The Company reports its non-controlling interest in subsidiaries as a separate component of equity in the consolidated balance sheets and reports net income (loss) attributable to the non-controlling interest in the consolidated statement of operations.

Revenue Recognition

Revenue is recognized as services are rendered based on the terms contained in the Company's contractual arrangements with customers, provided that services have been rendered, the fee is fixed or determinable, and collection of the related receivable is reasonably assured.

Cost of Revenue

Cost of revenue represents primarily payroll and employee related costs associated with employees who provide services under the terms of the Company's contractual arrangements, insurance and depreciation and amortization.

ICTS INTERNATIONAL N.V. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share data)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Research and Development Costs

Research and development costs are expensed as incurred and consist primarily of payroll and related costs.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs during the years ended December 31, 2017, 2016 and 2015 are \$316, \$247 and \$202, respectively.

Value Added Tax

Certain of the Company's operations are subject to Value Added Tax ("VAT") applied on the services sold in those respective countries. The Company is required to remit the VAT collected to the tax authorities, but may deduct the VAT paid on certain eligible purchases.

Income Taxes

The Company accounts for income taxes using the liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities resulting from a change in tax rates is recognized in the period that includes the enactment date. A valuation allowance is established when realization of net deferred tax assets is not considered more likely than not.

Uncertain income tax positions are determined based upon the likelihood of the positions being sustained upon examination by taxing authorities. The benefit of a tax position is recognized in the consolidated financial statements in the period during which management believes it is more likely than not that the position will not be sustained. Income tax positions taken are not offset or aggregated with other positions. Income tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of income tax benefit that is more than 50 percent likely of being realized if challenged by the applicable taxing authority. The portion of the benefits associated with income tax positions taken that exceeds the amount measured is reflected as income taxes payable.

The Company recognizes interest related to uncertain tax positions in interest expense. The Company recognizes penalties related to uncertain tax positions in selling, general and administrative expenses.

Income (Loss) Per Share

Basic income (loss) per share is computed by dividing net income (loss) available to common shareholders by the weighted average number of shares of common stock outstanding during the period. Diluted income (loss) per share is determined in the same manner as basic income (loss) per share, except that the number of shares is increased to include potentially dilutive securities using the treasury stock method.

The Company had an income from continuing operations for the year ended December 31, 2017. Potentially dilutive securities were excluded from the computation of diluted income (loss) per share as the conversion rate of the convertible note payable to related party was higher than the weighted average computed price of the Company's stock for the year 2017 and the effect of including them is anti-dilutive.

ICTS INTERNATIONAL N.V. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share data)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income (Loss) Per Share (continued)

The Company had an income from continuing operations for the year ended December 31, 2016. Potentially dilutive securities were excluded from the computation of diluted income (loss) per share as the conversion rate of the convertible note payable to related party and the exercise price of the stock options was higher than the market price of the Company's common stock as of December 31, 2016 and the effect of including them is anti-dilutive.

The following table summarizes the number of shares of common stock attributable to potentially dilutive securities outstanding for each of the periods which were excluded from the calculation of diluted income (loss) per share:

	Year Ended December 31,		
	2017	2016	2015
Stock Options	-	150,000	150,000
Shares issuable upon conversion of convertible notes payable to related party at a price of \$1.50	16,652,333	16,852,097	19,365,121
Shares issuable upon conversion of accrued interest payable to related party at a price of \$0.75	16,815,677	12,310,501	13,806,589
Total	<u>33,468,010</u>	<u>29,312,598</u>	<u>33,321,710</u>

Fair Value of Financial Instruments

The fair values of cash and cash equivalents, restricted cash, accounts receivable, prepaid expenses and other current assets, accounts payable, accrued expenses and other current liabilities, income taxes payable, value added tax (VAT) payable, notes payable – banks, loan payable and loan payable to related party approximate their carrying values due to the short-term nature of the instruments. The carrying values of the convertible notes payable to a related party and other liabilities are not readily determinable because: (a) these instruments are not traded and, therefore, no quoted market prices exist upon which to base an estimate of fair value and (b) there were no readily determinable similar instruments on which to base an estimate of fair value.

Concentration of Credit Risk

Financial instruments which are subject to concentrations of credit risk consist primarily of cash and cash equivalents, restricted cash and accounts receivable.

The Company maintains cash and cash equivalents and restricted cash in accounts with financial institutions in the United States, Europe, Japan and Israel. As of December 31, 2017, accounts at financial institutions located in the United States are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250 per institution. As of December 31, 2017, cash and cash equivalents and restricted cash of \$282 is being held in the United States. Bank accounts located in Europe, Japan and Israel, totaling \$13,223 as of December 31, 2017, are uninsured.

The Company renders services to a limited number of airlines and airports through service contracts and provides credit without collateral. Some of these airlines and airports may have difficulties in meeting their financial obligations, which can have a material adverse effect on the Company's consolidated financial position, results of operations and cash flows. To mitigate this risk, the Company regularly reviews the creditworthiness of its customers through its credit evaluation process.

ICTS INTERNATIONAL N.V. AND SUBSIDIARIES
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NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentration of Credit Risk (continued)

Revenue from two customers represented 76% of total revenue during the year ended December 31, 2017, of which one customer accounted for 42% and the other customer accounted for 34% of total revenue. Accounts receivable from these two customers represented 53% of total accounts receivable as of December 31, 2017.

Revenue from two customers represented 75% of total revenue during the year ended December 31, 2016, of which one customer accounted for 42% and the other customer accounts for 33% of total revenue. Accounts receivable from these two customers represented 70% of total accounts receivable as of December 31, 2016.

Revenue from two customers represented 70% of total revenue during the year ended December 31, 2015, of which one customer accounted for 37% and the other customer accounts for 33% of total revenue. Accounts receivable from these two customers represented 64% of total accounts receivable as of December 31, 2015.

Both customers mentioned above, have been principle customers in the last three years.

Risks and Uncertainties

The Company is currently engaged in direct operations in numerous countries and is therefore subject to risks associated with international operations (including economic and/or political instability and trade restrictions). Such risks can cause the Company to have significant difficulties in connection with the sale or provision of its services in international markets and have a material impact on the Company's consolidated financial position, results of operations and cash flows.

The Company is subject to changes in interest rates based on Federal Reserve actions and general market conditions. The Company does not utilize derivative instruments to manage its exposure to interest rate risk.

Furthermore, as a result of its international operations, the Company is subject to market risks associated with foreign currency exchange rate fluctuations. The Company does not utilize derivative instruments to manage its exposure to such market risk. As such, significant foreign currency exchange rate fluctuations can have a material impact on the Company's consolidated financial position, results of operations and cash flows.

Reclassification

Certain amounts have been reclassified in prior years balance sheets, statements of operations and statements of cash flows to conform with current period presentation.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued Accounting Pronouncements

Accounting Standards Update 2015-14 and related updates

In May 2014, the FASB issued ASU no. 2014-09, Revenue from Contracts with Customers (Topic 606). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, and the guidance defines a five-step process to achieve this core principle. In August 2015, the FASB issued ASU No. 2015-14, which deferred the effective date of ASU 2014-09 by one year. The ASU, as amended, is effective for the Company's 2018 fiscal year and may be applied either (i) retrospectively to each prior reporting period presented with an election for certain specified practical expedients, or (ii) retrospectively with the cumulative effect of initially applying the ASU recognized at the date of initial application, with additional disclosure requirements.

We have prepared an analysis of how we currently recognize revenue compared to the accounting treatment required under the new guidance, in order to determine the impact of the accounting treatment under the new guidance and evaluation of the adoption method. We have concluded that the guidance will not have a material impact on our consolidated financial statements. We will adopt the new guidance beginning January 1, 2018, and will use the modified retrospective method.

Accounting Standards Update 2016-01

In January 2016, the FASB issued ASU 2016-01, "financial Instruments –Overall (Topic 825-10): "Recognition and Measurement of Financial Assets and Financial Liabilities." ASU 2016-01 amends the guidance on the classification and measurement of financial instruments. Some of the amendments in ASU 2016-01 include among others the following: 1) requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; 2) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; 3) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; and 4) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value.

For public business entities, the amendments of ASU 2016-01 are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years.

This update is not expected to have a material impact on the Company's financial statements.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued Accounting Pronouncements (continued)

Accounting Standards Update 2016-02

The FASB has issued its new lease accounting guidance in Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842).

Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date:

- A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and
- A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term.

The new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing.

Public companies should apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted for all public companies upon issuance.

Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach.

The Company is currently evaluating the impact on the Company's financial statement.

Accounting Standards Update 2016-15

In August 2016, the FASB issued Accounting Standards Update 2016-15, "Statements of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"). ASU 2016-15 will make eight targeted changes to how cash receipts and cash payments are presented and classified in the statements of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017. The new standard requires adoption on a retrospective basis unless it is impracticable to apply, in which case it would be required to apply the amendments prospectively as of the earliest date practicable.

The update is not expected to have a material impact on the Company's financial statements.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued Accounting Pronouncements (continued)

Accounting Standards Update 2016-16

The FASB has issued Accounting Standards Update (ASU) No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. Current GAAP prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. This prohibition on recognition is an exception to the principle of comprehensive recognition of current and deferred income taxes in GAAP.

The amendments require an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The amendments eliminate the exception for an intra-entity transfer of an asset other than inventory. Two common examples of assets included in the scope of the amendments are intellectual property and property, plant, and equipment.

The amendments do not include new disclosure requirements; however, existing disclosure requirements might be applicable when accounting for the current and deferred income taxes for an intra-entity transfer of an asset other than inventory.

The amendments align the recognition of income tax consequences for intra-entity transfers of assets other than inventory with International Financial Reporting Standards. IAS 12, Income Taxes, requires recognition of current and deferred income taxes resulting from an intra-entity transfer of any asset (including inventory) when the transfer occurs.

The amendments are effective for public business entities for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods.

The amendments should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption.

The update is not expected to have a material impact on the Company's financial statements.

Accounting Standards Update 2017-01

The FASB has issued Accounting Standards Update (ASU) No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, clarifying the definition of a business. The amendments affect all companies and other reporting organizations that must determine whether they have acquired or sold a business.

The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The amendments are intended to help companies and other organizations evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments provide a more robust framework to use in determining when a set of assets and activities is a business. They also provide more consistency in applying the guidance, reduce the costs of application, and make the definition of a business more operable.

For public companies, the amendments are effective for annual periods beginning after December 15, 2017, including interim periods within those periods.

The update is not expected to have a material impact on the Company's financial statements.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued Accounting Pronouncements (continued)

Accounting Standards Update 2017-05

The FASB has issued Accounting Standards Update No. 2017-05, Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets.

A contract may involve the transfer of both nonfinancial assets and financial assets (e.g., cash and receivables). The amendments clarify that a financial asset is within the scope of Subtopic 610-20 if it meets the definition of an in substance nonfinancial asset. The amendments also define the term in substance nonfinancial asset.

The amendments clarify that nonfinancial assets within the scope of Subtopic 610-20 may include nonfinancial assets transferred within a legal entity to a counterparty. For example, a parent may transfer control of nonfinancial assets by transferring ownership interests in a consolidated subsidiary. A contract that includes the transfer of ownership interests in one or more consolidated subsidiaries is within the scope of Subtopic 610-20 if substantially all of the fair value of the assets that are promised to the counterparty in a contract is concentrated in nonfinancial assets.

The amendments clarify that an entity should identify each distinct nonfinancial asset or in substance nonfinancial asset promised to a counterparty and derecognize each asset when a counterparty obtains control of it.

The amendments are effective at the same time Topic 606, Revenue from Contracts with Customers, is effective. For public entities, the amendments are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period.

The update is not expected to have a material impact on the Company's financial statements.

Accounting Standards Updates 2017-09

The FASB has issued Accounting Standards Update (ASU) No. 2017-09, Compensation—Stock Compensation (Topic 718) — Scope of Modification Accounting. ASU 2017-09 applies to entities that change the terms or conditions of a share-based payment award.

The FASB adopted ASU 2017-09 to provide clarity and reduce diversity in practice as well as cost and complexity when applying the guidance in Topic 718, Compensation—Stock Compensation, to the modification of the terms and conditions of a share-based payment award.

Diversity in practice has arisen in part because some entities apply modification accounting under Topic 718 for modifications to terms and conditions that they consider substantive, but do not when they conclude that particular modifications are not substantive. Others apply modification accounting for any change to an award, except for changes that they consider purely administrative in nature. Still others apply modification accounting when a change to an award changes the fair value, the vesting, or the classification of the award. In practice, it appears that the evaluation of a change in fair value, vesting, or classification may be used to evaluate whether a change is substantive.

Although the Master Glossary of the FASB Accounting Standards Codification™ currently defines the term modification as “a change in any of the terms or conditions of a share-based payment award,” Topic 718 does not contain guidance on what changes are substantive or purely administrative.

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NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued Accounting Pronouncements (continued)

Accounting Standards Update 2017-09 (continued)

The amendments in ASU 2017-09 include guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 718.

These amendments require the entity to account for the effects of a modification unless all of the following conditions are met:

- The fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or value using an alternative measurement method) of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification;
- The vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; and
- The classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified.

The amendments are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017.

Early adoption is permitted, including adoption in any interim period for: (a) public business entities for reporting periods for which financial statements have not yet been issued, and (b) all other entities for reporting periods for which financial statements have not yet been made available for issuance. The amendments should be applied prospectively to an award modified on or after the adoption date.

The update is not expected to have a material impact on the Company's financial statements.

NOTE 3 – BUSINESS COMBINATION

On July 19, 2017, the Company acquired 100% of the outstanding shares of Harsec A/S ("Harsec") in Denmark. Harsec provides cargo security services in the Danish airports and is serving international parcel companies. Consideration of the acquisition for the shares was 10 million Danish Krone ("DKK") (\$1,579 as of the purchase date) in cash of which 90% was paid upon the signing of the purchase contract and 10% paid three months after that. The acquisition was done in order to expand our services to the Danish market.

The acquisition was accounted for as a purchase and accordingly a purchase price was allocated to the assets acquired and liabilities assumed at their fair values.

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NOTE 3 – BUSINESS COMBINATION (CONTINUED)

The following represents the allocation of the purchase price as of the purchase rate in DKK and the translation to United States Dollars as of the purchase date:

	DKK	U.S. Dollars
Cash	3,161	499
Accounts receivable	3,219	508
Other receivables	124	20
Fixed assets	665	105
Goodwill	4,478	707
Total identifiable assets acquired	<u>11,647</u>	<u>1,839</u>
Accounts payable and accrued expenses	1,647	260
Total liabilities assumed	<u>1,647</u>	<u>260</u>
	<u>10,000</u>	<u>1,579</u>

On December 7, 2016, the Company acquired 51% of the outstanding shares of Easyserve Ltd (“New Subsidiary”) in Cyprus together with third party, which holds the additional 49% of the New Subsidiary. Consideration of the acquisition for the 100% shares included €300 (\$359 as of December 31, 2017) in cash upon the signing of the purchase contract.

The Company with its New Subsidiary participated in a tender for services in Cyprus, according to the contract terms. Upon winning the tender, the Company will pay additional €100 (\$120 as of December 31, 2017). In addition, the purchase price will include a maximum of €300 (\$359 as of December 31, 2017) out of the net profits of the New Subsidiary, which relate to the business of the New Subsidiary as it is presently carried out and which does not relate to the business resulting from the award of the tender or any other new business.

In the event that the New Subsidiary is not successful with the tender, then the seller will repay to the Company the payments made by the Company, in return the Company will transfer the shares back to the seller.

The 2016 acquisition was accounted for as a purchase and, accordingly, the purchase price was allocated to the assets acquired and liabilities assumed at their fair values. The results of operations from the date of acquisition to December 31, 2016 are not significant.

ICTS INTERNATIONAL N.V. AND SUBSIDIARIES
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NOTE 3 – BUSINESS COMBINATION (CONTINUED)

The following is the allocation of the purchase price as of December 31, 2016:

	Euro	U.S. Dollars
Cash	300	317
Due at obtaining contract tender	100	106
Earn out liability	300	317
Total consideration given	700	740
Recognized amounts of identifiable assets acquired and liabilities assumed:		
Accounts receivable	269	284
Prepaid expenses	53	56
Property and equipment	25	26
Goodwill	377	398
Other assets	84	89
Total identifiable assets acquired	808	853
Accounts payable	51	53
Accrued expenses and other liabilities	57	60
Total liabilities assumed	108	113
	700	740

As the Company was not successful with the tender, the Company reached an agreement with the seller during 2018, that the shares will be transferred back to the seller and will be kept in escrow for a period of three years, in which the seller will pay back to the Company an amount of €150 (\$180 as of December 31, 2017). Balances and results from those operations are being presented as discontinued operations (see note 4).

ICTS INTERNATIONAL N.V. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 4 – DISCONTINUED OPERATIONS

During the year ended December 31, 2014, the Company committed to a plan to cease the aviation security operations of its subsidiary in Switzerland (I-SEC Switzerland).

During the year ended December 31, 2017, the Company committed to a plan to cease the aviation security operations of its subsidiary in Cyprus. As of December 31, 2017 and 2016 the Company presented in its equity \$123 and \$153, respectively, as non- controlling interest in subsidiaries regarding its investment in Cyprus.

A summary of the Company's balance sheet accounts from the above discontinued operations for the years ended December 31, 2017 and 2016 are as follows:

	December 31,	
	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2	\$ -
Restricted cash	25	-
Accounts receivable, net	128	284
Prepaid expenses and other current assets	126	56
Total current assets from discontinued operations	281	340
Property and equipment, net	25	26
Goodwill	-	398
Other assets	-	89
Total assets from discontinued operations	\$ 306	\$ 853
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	\$ 26	\$ 53
Accrued expenses and other current liabilities	15	166
Total current liabilities from discontinued operations	41	219
Other liabilities	-	317
Total liabilities from discontinued operations	\$ 41	\$ 536

ICTS INTERNATIONAL N.V. AND SUBSIDIARIES
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NOTE 4 – DISCONTINUED OPERATIONS (CONTINUED)

A summary of the Company’s statement of operations from the above discontinued operations for the years ended December 31, 2017, 2016 and 2015 are as follows:

	Year Ended December 31,		
	2017	2016	2015
Revenue	\$ 609	\$ -	\$ 97
Cost of revenue	588	-	94
GROSS PROFIT	21	-	3
Selling, general and administrative expenses	116	-	6
OPERATING LOSS	(95)	-	(3)
Other income, net	-	-	3
Net loss	(95)	-	-
LESS: Net loss attributable to non controlling interest	47	-	-
LOSS FROM DISCONTINUED OPERATIONS ATTRIBUTABLE TO ICTS INTERNATIONAL N.V.	<u>\$ (48)</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 5 – INVESTMENTS

Artemis Therapeutics, Inc.

As of December 31, 2017, the Company owns 198,311 shares or 3.8% of the outstanding common stock of Artemis Therapeutics, Inc (“ATMS”).

The Company suspended its use of the equity method to accounting for this investment in 2007 after its investment balance was reduced to zero.

As of December 31, 2017 and 2016, the Company’s share of the underlying net assets of ATMS exceeds the Company’s carrying value of its investment in ATMS (\$0 at December 31, 2017 and 2016) by \$4 and \$130, respectively. The market value of the Company’s investment in ATMS as of December 31, 2017 and 2016 is \$317 and \$162 respectively.

The Company evaluated the increase in the stock price in 2017 of ATMS but as the amount of shares that are being traded is low, and as ATMS still does not have any revenue, the Company determined that the value of the investment is impaired and accordingly, valued the investment at zero as of December 31, 2017.

White Line B.V.

In March 2017 the Company invested an amount of \$2,000 for 7,000 shares of White Line B.V., a limited company incorporated in the Netherlands. White Line is a holding and finance company. Because White Line B.V. is a private, closely-held company, there is no active market for this investment. Therefore, the Company accounts for this investment under the cost method. In October 2017, the Company invested additional amount of \$1,500 for additional 5,000 shares aggregating to 10% ownership.

Should the value of this investment decrease, a company related to the main shareholder has guaranteed to repurchase this full investment at a minimum amount of \$3,500. The guaranty is effective after three years of the date of purchase and terminates after five years.

ICTS INTERNATIONAL N.V. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment is as follows:

	December 31,	
	2017	2016
Equipment and facilities	\$ 6,780	\$ 5,118
Internal-use software	554	531
Vehicles	1,737	1,127
Leasehold improvements	460	257
	9,531	7,033
Less: accumulated depreciation and amortization	6,326	5,275
Total property and equipment, net	\$ 3,205	\$ 1,758

Depreciation and amortization expense is \$1,416, \$893 and \$713 for the years ended December 31, 2017, 2016 and 2015 respectively.

NOTE 7 – NOTES PAYABLE – BANKS

United States

The Company was a party to a credit facility with a commercial lender, which provided it with up to \$6,500 in borrowings subject to a borrowing base limitation. The borrowing base limitation was equivalent to: (i) 85% of eligible accounts receivable, as defined, plus (ii) 75% of eligible unbilled receivables, as defined, plus (iii) 95% of a \$1,000 standby letter of credit that was provided to the lender by an entity related to the Company's main shareholder. Borrowings under the credit facility were secured by the Company's accounts receivable, unbilled receivables, equipment, cash and the \$1,000 letter of credit that was provided to the lender by an entity related to the Company's main shareholder.

In July 2016, the Company amended the credit facility to increase the maximum borrowing capacity to \$8,500. The amendment also revised the existing fixed charge coverage ratio financial covenant. The credit facility expires on June 24, 2018. As of December 31, 2017 and 2016, the company was in compliance with all required debt covenants.

In December 2017, the Company amended the credit facility agreement to reduce the amount of the letter of credit provided as security to the lender by an entity related to the Company's main shareholder, from \$1,000 to \$700. In April 2018, the letter of credit was reduced to \$500.

Borrowings made under the credit facility bear interest, which is payable monthly, at LIBOR (subject to a floor of 1.375%) plus 4.25% per annum (5.625% as of December 31, 2017).

The Company's weighted average interest rate in the United States during the years ended December 31, 2017, 2016 and 2015 is 5.64%, 5.76% and 5.88% respectively.

The Company evaluated the terms of the amendments and concluded that they do not constitute substantive modification.

As of December 31, 2017 and 2016, the Company had approximately \$6,605 and \$6,301 respectively, outstanding under line of credit arrangements. As of December 31, 2017 and 2016, the Company had \$700 and \$833, respectively, in unused borrowing capacity under the line of credit facility.

ICTS INTERNATIONAL N.V. AND SUBSIDIARIES
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NOTE 7 – NOTES PAYABLE – BANKS (CONTINUED)

Europe

In January 2016, the Company entered into a new line of credit arrangement with a commercial bank, replacing the previous line of credit with the same commercial bank, to provide it with up to €10,000 (\$11,977 as of December 31, 2017) in borrowings until further notice. Borrowings under the line of credit bear interest at one month EURIBOR plus 3.5% with a minimum of 3.5% per annum (3.5% as of December 31, 2017). The Company is also subject to an unused line fee of 0.75% per annum, which is payable quarterly. The line of credit is secured by accounts receivable of five of the Company's European subsidiaries and tangible fixed assets of three of the Company's European subsidiaries. The line of credit cannot exceed 80% of the borrowing base. In December 2016, the Company and the same commercial bank agreed under the same terms and conditions to raise the existing line of credit to €12,000 (\$14,372 as of December 31, 2017). As of December 31, 2017 and 2016 the Company had €2,848 and €1,943 (\$3,410 and \$2,051 as of December 31, 2017 and 2016), respectively in outstanding borrowings under the line of credit arrangement.

As of December 31, 2017, the Company was in violation with one of the non-financial covenants of the agreement. The commercial bank waived this violation on March 2018.

In addition to the line of credit arrangement, a guarantee facility of €2,500 (\$2,994 as of December 31, 2017) is provided to the Company by the same commercial bank. As of December 31, 2017 and 2016 the Company had €2,465 and €2,289 (\$2,952 and \$2,415 as of December 31, 2017 and 2016), respectively, of outstanding guarantees under the guarantee facility.

The Company evaluated the terms of the amendments and concluded that they do not constitute a substantive modification.

The Company's weighted average interest rate in Europe during the years ended December 31, 2017, 2016 and 2015 is 3.5%, 3.5% and 3.2%, respectively.

NOTE 8 - ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities are as follows:

	December 31,	
	2017	2016
Accrued payroll and related costs	\$ 18,067	\$ 14,328
Accrued vacation	5,432	3,415
Accrual for minimum wage increase	1,128	3,581
Cash overdraft	-	1,109
Labor union contribution	1,912	1,564
Other	4,169	2,339
Total accrued expenses and other current liabilities	\$ 30,708	\$ 26,336

The cash overdraft balance above represents outstanding checks as of December 31, 2016.

ICTS INTERNATIONAL N.V. AND SUBSIDIARIES
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NOTE 9 – LOAN PAYABLE

In June 2017, the Company entered into an arrangement with a financing company to provide it €1,000 (\$1,198 as of December 31, 2017) as a loan until June 2018. The loan bears interest of ten percent per annum. Interest is being paid quarterly.

NOTE 10 – DEBT TO RELATED PARTIES

Convertible notes payable to a related party

In May 2014, the Company entered into an arrangement with an entity related to its main shareholder, which replaced all previous arrangements between the parties, to provide it with up to \$37,000 in revolving loans through December 2016. The term of the arrangement can be automatically extended for four additional six-month periods at the option of the holder. All outstanding borrowings from previous arrangements were applied to the borrowing capacity of the new arrangement. Loans received under the arrangement bear interest, which is compounded semi-annually and payable at maturity, at the interest rate charged by the Company's European commercial bank (LIBOR plus 6% for U.S. dollar-denominated loans and the base rate plus 2% for Euro-denominated loans). The arrangement is secured by a 26% interest in one of the Company's European subsidiaries. In connection with the arrangement, the holder was granted an option to convert outstanding notes payable (including accrued interest) under the arrangement into the Company's common stock at a price of \$1.50 per share. The Company determined that the new arrangement did not represent a substantive modification and, therefore, it was not necessary to evaluate whether the conversion feature qualified as a free-standing derivative instrument or contained any intrinsic value which would be considered beneficial.

In October 2015, the Supervisory Board of Directors approved to reduce the convertible price of the unpaid interest from \$1.50 per share to \$0.75 per share. In addition, the loan period was extended until January 1, 2018. The terms of the arrangement can be automatically extended for four additional six months periods at the option of the holder. The Company determined that the new arrangement did not represent a substantive modification and therefore it was not necessary to evaluate whether the conversion feature qualifies as a free-standing derivative instrument or contained any intrinsic value which would be considered beneficial.

In September 2016, the Supervisory Board of Directors approved an increase in the interest rate of the loan from the entity related to the main shareholder, by one percent, retroactively for the whole period of the loan. The Company determined that the new arrangement did not represent a substantive modification and therefore it was not necessary to evaluate whether the conversion feature qualifies as a freestanding derivative instrument or contained any intrinsic value, which would be considered beneficial. The interest recognized in 2016 regarding increase of the previous years interest rate totaled \$1,159.

In December 2016, the entity related to the main shareholder converted \$5,429 accrued interest into 7,238,302 shares at a price of \$0.75 per share.

In December 2017 the loan period was extended until January 1, 2019. The terms of the arrangement can be automatically extended for four additional six months periods at the option of the holder.

The Company's weighted average interest during the years ended December 31, 2017, 2016 and 2015 is 7.27%, 7.05% and 5.99%, respectively.

At December 31, 2017 and 2016, convertible notes payable to a related party consist of \$24,977 and \$25,078, respectively, in principal and \$12,612 and \$9,433, respectively, in accrued interest. Interest expense related to these notes is \$2,706, \$4,171 and \$2,601 for the years ended December 31, 2017, 2016 and 2015, respectively .

ICTS INTERNATIONAL N.V. AND SUBSIDIARIES
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NOTE 10 – DEBT TO RELATED PARTIES (CONTINUED)

Loan from related party

In March 2017, the Company signed a loan agreement with a related party, to provide the Company a loan of \$2,000 for up to one year bearing 7% interest per year. In December 2017 the Company repaid \$700 against the loan. The Company incurred interest expenses regarding this loan of \$109 for the year ended December 31, 2017, which is included in the loan balance at December 31, 2017.

NOTE 11 – STOCK-BASED COMPENSATION

In February 2005, the Company adopted the 2005 Equity Incentive Plan and reserved 1,500,000 shares of common stock for future issuance. The plan expired in 2015.

In December 2008, the Company adopted the 2008 Employees and Directors Commitment Stock Option Plan and reserved 1,500,000 shares of common stock for future issuance. The plan expires in 2018.

Under the Company's stock option plans, stock options may be granted to employees, officers, directors and consultants of the Company at an exercise price equivalent to at least the fair market value of the Company's common stock on the date of grant with expiration terms of not more than ten years. Options granted under the plans generally vest over a period of three years.

There were no stock options granted or exercised during the years ended December 31, 2017 and 2016. During the year ended December 31, 2017 all granted options expired.

As of December 31, 2017, the Company has 1,500,000 options available for future grants.

A summary of the Company's stock option activity is as follows:

	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Intrinsic Value
Outstanding as of January 1, 2017	150,000	\$ 1.05	0.33	\$ -
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited / Expired	150,000	-	-	-
Outstanding as of December 31, 2017	-	\$ -	-	\$ -

During the years ended December 31, 2017, 2016 and 2015, there were no compensation expenses related to the issuance of stock option plans.

As of December 31, 2017 the Company does not have any unrecognized compensation cost related to stock options granted under the stock option plans.

ICTS INTERNATIONAL N.V. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share data)

NOTE 12 – OTHER EXPENSE, NET

Other expense, net is summarized as follows:

	Year ended December 31,		
	2017	2016	2015
Interest expense to related parties (see Note 10)	\$ (2,875)	\$ (4,171)	\$ (2,601)
Interest expense and other bank charges	(1,073)	(1,430)	(1,374)
Interest income	170	116	169
Foreign currency gain (loss)	(2,450)	1,005	3,066
Other income (expense)	56	(21)	(20)
Total other expense, net	<u>\$ (6,172)</u>	<u>\$ (4,501)</u>	<u>\$ (760)</u>

NOTE 13 – INCOME TAXES

The components of income (loss) before income tax expense from continuing operations are as follows:

	Year Ended December 31,		
	2017	2016	2015
The Netherlands	\$ 1,602	\$ (631)	\$ (2,048)
Subsidiaries outside of the Netherlands	6,296	3,977	(2,505)
Income (loss) before income tax expense	<u>\$ 7,898</u>	<u>\$ 3,346</u>	<u>\$ (4,553)</u>

The current income tax expense from subsidiaries outside of the Netherlands is \$2,045, \$1,249 and \$110 for the years ended December 31, 2017, 2016 and 2015, respectively. There was no current income tax expense for the Netherlands for the years ended December 31, 2017, 2016 and 2015, respectively.

The deferred income tax (expense) benefit from subsidiaries outside of the Netherlands is \$12, \$245 and \$(39) for the years ended December 31, 2017, 2016 and 2015, respectively. There was no deferred income tax expense for the Netherlands for the years ended December 31, 2017, 2016 and 2015.

ICTS INTERNATIONAL N.V. AND SUBSIDIARIES
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NOTE 13 – INCOME TAXES (CONTINUED)

The components of deferred tax assets and liabilities are as follows:

	December 31,	
	2017	2016
Deferred tax assets:		
Operating loss carryforwards	\$ 14,761	\$ 18,907
Capital loss carryforwards	147	145
Allowance for doubtful accounts	13	20
Tax credit carryforwards	558	558
Accrued expenses	910	2,032
Total deferred tax assets	16,389	21,662
Deferred tax liabilities:		
Depreciation of property and equipment	(139)	(56)
	16,250	21,606
Valuation allowance	(15,901)	(21,269)
Deferred tax assets, net	\$ 349	\$ 337

The ultimate realization of the net deferred tax assets in each jurisdiction the Company does business in is dependent upon the generation of future taxable income in that jurisdiction during the periods in which net operating loss carry forwards are available and items that gave rise to the net deferred tax assets become deductible. At present, the Company does not have a sufficient history of generating taxable income in the various jurisdictions it does business in to conclude that it is more likely than not that the Company will be able to realize its net deferred tax assets in the near future and, therefore, a valuation allowance was established for the carrying value of the net deferred tax assets, with the exception of two locations, which are currently generating taxable income. A valuation allowance will be maintained until sufficient positive evidence exists to support the reversal of any portion of the valuation allowance in other jurisdictions.

In the United States of America, the Tax Cuts and Jobs act of 2017 was signed into law on December 2017. The law include significant changes to the U.S. corporate income tax system, including a Federal corporate rate reduction from 35% to 21%, limitations on the deductibility of interest expense and limitation on net operating losses generated after December 31, 2017. The re-measurement of deferred tax grants and liabilities due to the corporate rate deduction yielded a reduction in net deferred tax assets of \$4,419, which was offset by a full valuation allowance.

The Company does not expect the legislation to have a near term impact on the Company's current taxes because of the expectation of net losses utilization in future years.

As of December 31, 2017, the Company has net operating loss carry forwards of \$23,769 in the Netherlands, which will expire in 2017 through 2025. As of December 31, 2017, the Company has net operating loss carry forwards of \$29,267 in the United States, which will expire in 2025 through 2034 and \$5,257 in Israel, which do not expire. The ultimate utilization of such net operating loss carry forwards is limited in certain situations.

As of December 31, 2017, the Company has capital loss carry forwards of \$641 in Israel. Such capital loss carry forwards do not expire and can be offset against future capital gains generated in Israel.

ICTS INTERNATIONAL N.V. AND SUBSIDIARIES
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(In thousands, except share data)

NOTE 13 – INCOME TAXES (CONTINUED)

As of December 31, 2017, the Company has \$558 in tax credits for the welfare to work and work opportunity programs in the United States that expire in 2024 through 2029.

During the year ended December 31, 2017 and 2016 the valuation allowance decreased by \$5,368 and \$874, respectively.

The Company's effective income tax rate differs from The Netherlands' statutory rate of 25% as follows:

	Year Ended December 31,		
	2017	2016	2015
Effective loss (income) tax benefit from continuing operations at statutory rate	\$ (1,975)	\$ (837)	\$ 1,138
Rate differential	(545)	(493)	334
Non-deductible expenses	(131)	(89)	(162)
Adjustments to prior year tax losses	-	-	1,097
Tax rate change-impact on prior years	(4,472)	-	-
Changes in valuation allowance	5,368	874	(2,868)
Other	(278)	(459)	312
Income tax expense from continuing operations	<u>\$ (2,033)</u>	<u>\$ (1,004)</u>	<u>\$ (149)</u>

As of December 31, 2017 and 2016 there are no unrecognized tax benefits. As of December 31, 2017 and 2016, the Company has income tax payable of \$3,144 and \$1,130, respectively.

The Company files income tax returns in the Netherlands and other foreign jurisdictions. Income tax returns for the tax years 2014 to 2016 are subject to examination in the Netherlands and the United States. Income tax returns for the tax years 2013 to 2017 are subject to examination in foreign jurisdictions.

NOTE 14 - RELATED PARTY TRANSACTIONS

Entities related to two of the Company's Supervisory Board members provide legal services to the Company. Legal expense related to these services is \$47, \$58 and \$47 for the years ended December 31, 2017, 2016 and 2015, respectively. Included in accounts payable on the accompanying consolidated balance sheets is \$9 and \$6 due for these services as of December 31, 2017 and 2016, respectively.

The Company engages the services of a related party to provide certain selling and management services to its technology segment. The Company incurred expenses of \$254, \$227 and \$223 for such services for the years ended December 31, 2017, 2016 and 2015, respectively.

An entity related to the Company's main shareholder provides a letter of credit of \$1,000 to a commercial bank to guarantee a borrowing arrangement on behalf of one of the Company's subsidiaries. In December 2017, the Company agreed with the commercial bank to reduce the letter of credit to \$700. In April 2018, the letter of credit was reduced to \$500. (see note 7).

ICTS INTERNATIONAL N.V. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share data)

NOTE 14 - RELATED PARTY TRANSACTIONS - CONTINUED

The Company engages the services of a related party to provide certain selling services to its technology segment. The Company incurred expenses of \$95, \$52 and \$48 for such services for the years ended December 31, 2017, 2016 and 2015, respectively.

The Company engages the services of a related party to provide certain administrative services. The Company incurred expenses of \$0, \$0 and \$15 for such services for the years ended December 31, 2017, 2016 and 2015, respectively.

In November 2015, the Company engaged the services of a related party to provide internal audit services. The Company incurred expenses of \$114, \$112 and \$13 for such services for the years ended December 31, 2017, 2016 and 2015, respectively.

In December 2015, the Supervisory Board approved an annual compensation for the Chairman of the Supervisory Board, a related party, of \$60. In addition, as the Chairman of the Supervisory Board was not compensated for the last eleven years, a one-time grant of \$660 was approved. In September 2016, the chairman of the Supervisory Board forgave \$600 of this grant. Annual compensation was reduced to \$50.

In December 2015, the Company issued 2.9 million shares to certain directors and officers of the Company for a purchase price of \$0.60 per share.

In November and December 2016, the Company issued 2.8 million shares to certain directors and officers of the Company for a purchase price ranging from \$0.40 - \$0.45 per share.

In January 2017, a company related to the main shareholder of the Company has guaranteed the White Line B.V. investment of \$3,500 (see note 5).

In August 2017 the Company engaged the services of a related party to provide certain selling and administrative services to its technology segment. The Company incurred expenses of \$39 for such services for the year ended December 31, 2017.

ICTS INTERNATIONAL N.V. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share data)

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases certain premises under various operating leases.

Future minimum lease payments under such operating leases are as follows:

Year ending December 31,		
2018	\$	2,009
2019		612
2020		289
2021		13
	\$	<u>2,923</u>

Rent expense for the years ended December 31, 2017, 2016 and 2015 is \$4,662, \$3,900, and \$3,409 respectively.

Letters of Credit and Guarantees

As of December 31, 2017 and 2016, the Company has approximately \$233 in outstanding letters of credit. Such letters of credit are being secured by the same amounts in restricted cash with a commercial bank (see Note 2).

As of December 31, 2017 and 2016 the Company has €2,465 and €2,289 (\$2,952 and \$2,415 as of December 31, 2017 and 2016 respectively) in outstanding guarantees on its lines of credit arrangement in Europe (see Note 7).

Legal Proceedings

September 11, 2001 Terrorist Attacks

As a result of the September 11, 2001 terrorist attacks, numerous lawsuits charging the Company with wrongful death and/or property damage were commenced in the United States District Court, Southern District of New York (the "Court"), resulting from certain airport security services provided by the Company for United Flight 175 out of Logan Airport in Boston, Massachusetts.

As of December 31, 2017 all the cases have been settled or dismissed at no cost to the Company because the payments were covered by the Company's insurance. The Court approved the settlements.

Claims by former employees

The Company is subject to wrongful termination claims made by certain former employees of one of its European subsidiaries. The aggregate amount of such claims is approximately \$807. In February 2018 the court has ruled in those cases in favor of the Company.

ICTS INTERNATIONAL N.V. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share data)

NOTE 15 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Legal Proceedings (continued)

Minimum wage increase

In August 2015, the Company was informed about a court decision, which approved an increase to the minimum wage for the city of SeaTac, Washington (location of Seattle Airport). The increase to the minimum wage was originally approved by a vote in King County, Washington in 2013 (to be effective January 1, 2014). However, a court ruled that SeaTac employees were excluded from this increase because the airport was under the jurisdiction of the Port of Seattle and not the city of SeaTac. In August 2015, this decision was overturned by the State Supreme Court and accordingly, the Company is required to increase the minimum wage of its employees at the SeaTac Airport according to the court decision, effective January 1, 2014. At December 31, 2016 the Company has estimated that it has a liability of approximately \$3,600 for back wages (inclusive of interest amounting to approximately \$600) and has recorded an accrual for this liability.

A class action lawsuit was filed against the Company in the United States District Court for the Western District of Washington, Seattle, by an employee of the Company. The employee alleges the Company failed to pay the proper minimum wage in violation of the City of SeaTac Municipal Code.

Additional two lawsuits were filed against the Company in the District Court for the Southern District of Texas, Houston Division and in the Superior Court of Washington, King County, on the same subject.

During the year ended December 31, 2017 the three legal disputes for back wages due to the SeaTac, WA Minimum Wage ordinance were settled in the courts and the Company paid out approximately \$1,933. As of December 31, 2017, the Company has an accrued amount of approximately \$1,628 (inclusive of interest amounting to approximately \$307) for the remainder of the settlement. Approximately \$1,128 (including interest) of this amount is included in accrued expenses and other current liabilities (see note 8) and is due in 2018. The additional \$500 (including interest) is shown as a long term liability in other liabilities since payment is due in 2019.

General

The Company is subject to various investigations, claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. These claims are primarily related to grievances filed by current and former employees for unfair labor practices or discrimination, and for passenger aviation claims. Management recognizes a liability for any matter when the likelihood of an unfavorable outcome is deemed to be probable and the amount is able to be reasonably estimated. Management has concluded that such claims, in the aggregate, would not have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

Agency Agreements

In April 2013, prior to the purchase of one of the current subsidiaries in Europe, the Company entered into an agency agreement with a third party to assist it with this transaction. According to the agreement, in the event that the operations of the subsidiary are sold in the future, the third party agent is entitled to a payment of €2,000 (\$2,395 as of December 31, 2017).

In June 2015, the Agency agreement was amended. As part of the changes, in the event that the Company's operations in that country are sold, the third party agent is entitled to a payment of €3,000 (\$3,593 as of December 31, 2017) instead of €2,000 (\$2,395 as of December 31, 2017).

ICTS INTERNATIONAL N.V. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share data)

NOTE 16 – SEGMENT AND GEOGRAPHICAL INFORMATION

The Company operates in three reportable segments: (a) corporate (b) airport security and other aviation services and (c) technology. The corporate segment does not generate revenue and contains primarily non-operational expenses. The airport security and other aviation services segment provides security and other aviation services to airlines and airport authorities, predominantly in Europe and the United States of America. The technology segment is predominantly involved in the development and sale of authentication security software to financial and other institutions, predominantly in Europe and the United States of America. All inter-segment transactions are eliminated in consolidation. The accounting policies of the segments are the same as the accounting policies of the Company as a whole.

The operating results of these reportable segments are regularly reviewed by the chief operating decision.

	Corporate	Airport Security and Other Aviation Services	Technology	Total
Year ended December 31, 2017:				
Revenue	\$ -	\$ 292,393	\$ 5,289	\$ 297,682
Depreciation and amortization	46	1,333	37	1,416
Income (loss) from continuing operations	(9,294)	15,803	(644)	5,865
Total assets from continuing operations	4,403	63,428	2,626	70,457
Year ended December 31, 2016:				
Revenue	\$ -	\$ 252,878	\$ 2,698	\$ 255,576
Depreciation and amortization	10	846	37	893
Income (loss) from continuing operations	(6,052)	10,654	(2,260)	2,342
Total assets from continuing operations	431	45,092	780	46,303
Year ended December 31, 2015:				
Revenue	\$ -	\$ 185,519	\$ 1,503	\$ 187,022
Depreciation and amortization	1	655	57	713
Income (loss) from continuing operations	(3,182)	1,597	(3,117)	(4,702)
Total assets from continuing operations	440	41,056	853	42,349

Revenue by country is summarized as follows:

	Year Ended December 31,		
	2017	2016	2015
Germany	\$ 125,896	\$ 108,692	\$ 61,765
The Netherlands	103,862	87,348	72,231
United States	52,234	47,733	41,817
Other	15,690	11,803	11,209
Total	\$ 297,682	\$ 255,576	\$ 187,022

ICTS INTERNATIONAL N.V. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share data)

NOTE 16 – SEGMENT AND GEOGRAPHICAL INFORMATION (CONTINUED)

Property and equipment, net of accumulated depreciation and amortization, by country is summarized as follows:

	December 31,	
	2017	2016
Germany	\$ 333	\$ 359
The Netherlands	1,668	729
United States	742	487
Other	462	183
Total	\$ 3,205	\$ 1,758

NOTE 17 - SUBSEQUENT EVENTS

In January 2018, the Company acquired 100% of the outstanding shares of Abydos Consultores de Sistemas S.L.U., a Spanish company. Consideration of the acquisition was 183 euros. The acquisition was done in order to expand the services we provide in Spain.

The acquisition was accounted for as a purchase and accordingly a purchase price was allocated to the assets acquired and liabilities assumed at their fair values.

The following represents the allocation of the purchase price as of the purchase date in Euros and the translation to United States Dollars as of the purchase date:

	EUR	U.S. Dollars
Cash	29	36
Accounts receivable	142	175
Fixed assets	88	108
Other assets	11	14
Goodwill	188	232
Total identifiable assets acquired	458	565
Notes payables - banks	11	14
Accounts payable	19	23
Accrued expenses and other current liabilities	126	155
Other liabilities	119	147
Total liabilities assumed	275	339
	183	226

In April 2018, the Company issued 3.4 million shares to certain directors and officers of the Company for a purchase price of \$0.66 per share.

ICTS INTERNATIONAL N.V. AND SUBSIDIARIES
FINANCIAL STATEMENT SCHEDULE
(In thousands, except share data)

Valuation and Qualifying Accounts
(US \$ in thousands)

	Beginning of year	Charges (credit) to Costs and Expenses	Charges to other accounts	Deductions	End of Year
Allowance for doubtful accounts (1):					
Year ended December 31, 2015	\$ 116	\$ (65)	\$ -	\$ (1)	\$ 50
Year ended December 31, 2016	50	34	-	-	84
Year ended December 31, 2017	84	97	(78)	-	103
Allowance for net deferred tax assets:					
Year ended December 31, 2015	\$ 19,275	\$ -	\$ -	\$ 2,868	\$ 22,143
Year ended December 31, 2016	22,143	-	-	(874)	21,269
Year ended December 31, 2017	21,269	-	-	(5,368)	15,901

(1) Write-off net of recoveries for the allowance for doubtful accounts.

CERTIFICATIONS*

I, Ran Langer, certify that:

1. I have reviewed this annual report on Form 20-F of ICTS International, N.V. (the "Company") for the year ended December 31, 2017;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's Supervisory Board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Dated: May 9, 2018

By: /s/ Ran Langer
Ran Langer, Managing Director and Principal Executive Officer

CERTIFICATIONS*

I, Alon Raich, certify that:

1. I have reviewed this annual report on Form 20-F of ICTS International, N.V. (the "Company") for the year ended December 31, 2017;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's Supervisory Board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Dated: May 9, 2018

By: /s/ Alon Raich
Alon Raich, Principal Financial Officer

CERTIFICATION

In connection with the annual report of ICTS International, N.V. (the "Company") on Form 20-F for the period ending December 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ran Langer, Managing Director and Principal Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Ran Langer
Ran Langer, Managing Director and Principal Executive Officer

Dated: May 9, 2018

CERTIFICATION

In connection with the annual report of ICTS International, N.V. (the "Company") on Form 20-F for the period ending December 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Alon Raich, Principal Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Alon Raich
Alon Raich, Principal Financial Officer

Dated: May 9, 2018
