

## EDGAR Submission Header Summary

Submission Form Type	20-F
XBRL	External XBRL Submission
Period of Report	12-31-2020
Filer	ICTS INTERNATIONAL N V
CIK	0001010134
CCC	@c8cpfoa
EDGAR Accelerated Filer Status	Non-Accelerated Filer
Voluntary Filer	No
Shell Company	Off
Well-known Seasoned Issuer	Off
Emerging Growth Company	Off
Ex Transition Period	Off
Exchanges	NONE
Co-Registrants	
Submission Contact	Yaron Kleiner
Contact Phone Number	972542233054
Documents	13

## Notification Emails

Emails	edgar@z-k.co.il
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## Documents

20-F	zk2125984.htm
Description	20-F
EX-4	exhibit_4.htm
Description	Exhibit 4
EX-99	exhibit_6.htm
Description	Exhibit 6
EX-12.1	exhibit_12-1.htm
Description	Exhibit 12.1
EX-12.1	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-20201231.xml
Description	XBRL Instance Document
EX-101.SCH	ictsf-20201231.xsd
Description	XBRL Taxonomy Extension Schema
EX-101.CAL	ictsf-20201231_cal.xml
Description	XBRL Taxonomy Extension Calculation Linkbase
EX-101.DEF	ictsf-20201231_def.xml
Description	XBRL Taxonomy Extension Definition Linkbase
EX-101.LAB	ictsf-20201231_lab.xml
Description	XBRL Taxonomy Extension Label Linkbase
EX-101.PRE	ictsf-20201231_pre.xml
Description	XBRL Taxonomy Extension Presentation Linkbase

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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, 2020

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@ictsintl.com, Address: Same as above

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

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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: 37,433,333.

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 Other

by the International Accounting Standards Board

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 International N.V. 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) authentication 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 authentication technology segment provides authentication security services 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 accounting principles generally accepted 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 COVID-19 outbreak has developed rapidly in 2020, with a significant number of infections. The Company is dependent mostly in Europe and the United States of America for its business on the airline industry. In addition, ICTS is an employee intensive company. As a result of flight restrictions, cancelled flights and quarantine, many employees had to be laid off and / or ordered to stay home, all of which has affected the Company's 2020 cash flow. There have been number of Government Assistance programs and the Company has applied to those that are applicable to its business. In 2020, the United States of America government approved assistance of \$13.7 million for the Company's American subsidiary of which \$12.7 million were recognized as reduction of labor expenses for the year ended December 31, 2020. Additional assistance up to \$15.9 million was granted during 2021. In the Netherlands, the Dutch government approved during 2020 assistance up to €17.6 million (\$21.6 million as of December 31, 2020) for the Company's Dutch subsidiaries and additional assistance up to €4.6 million was approved during 2021. The governmental support of both countries is subject to certain terms and conditions. The Company's business plan for the airport security and other aviation services segment, depends on the COVID-19 developments in the foreseen future and the recovery of the airline industry.

In July 2019, AU10TIX Technologies B.V (formerly ABC Technologies B.V., together with its subsidiaries, "AU10TIX", a subsidiary of ICTS issued preferred shares to an investor for a subscription price of \$60 million in cash representing 24% of the outstanding share capital of AU10TIX and 23.077% of the outstanding share capital of AU10TIX on a fully diluted basis. AU10TIX will retain \$20 million on the sale proceeds for general working capital purposes and \$40 million were transferred to its parent company, ICTS International N.V.

In July 2019, the Company repaid \$30 million to the entity related to the main shareholder who provided the Company loans as convertible notes.

In November 2019, AU10TIX issued preferred shares to a new investor for a subscription price of \$20 million in cash representing 7.401% of the outstanding share capital of AU10TIX and 7.143% of the outstanding share capital of AU10TIX on a fully diluted basis.

The following table summarizes certain balance sheet data for the Company at December 31, 2020, 2019, 2018, 2017, and 2016:

	(U.S. dollars in Thousands)				
	December 31,				
	2020	2019	2018	2017	2016
Cash and cash equivalents	\$ 51,602	\$ 52,352	\$ 12,801	\$ 9,073	\$ 3,892
Total current assets	116,554	103,136	67,219	61,982	43,908
Total assets from discontinued operations	-	-	-	306	853
Total assets	140,388	123,447	75,087	71,853	47,980
Total current liabilities	59,334	75,509	75,058	59,197	45,365
Total liabilities from discontinued operations	-	-	-	41	536
Total liabilities	95,551	84,832	109,943	98,595	81,457
Redeemable non-controlling interests	75,322	74,300	-	-	-
Shareholders' deficit	30,485	35,685	34,856	26,742	33,477

The following table summarizes certain statement of operations data for the Company for the years ended December 31, 2020, 2019, 2018, 2017, and 2016:

	U.S. Dollars in Thousands				
	Year ended December 31,				
	2020	2019	2018	2017	2016
Revenue	\$ 248,419	\$ 333,307	\$ 345,221	\$ 297,682	\$ 255,576
Cost of revenue	196,569	290,461	311,994	254,728	223,486
<b>GROSS PROFIT</b>	<b>51,850</b>	<b>42,846</b>	<b>33,227</b>	<b>42,954</b>	<b>32,090</b>
Operating expenses:					
Research and development	6,541	5,060	3,657	2,683	2,660
Goodwill impairment	-	-	1,563	-	-
Selling, general and administrative	37,239	33,063	34,924	26,201	21,583
Total operating expenses	43,780	38,123	40,144	28,884	24,243
<b>OPERATING INCOME (LOSS)</b>	<b>8,070</b>	<b>4,723</b>	<b>(6,917)</b>	<b>14,070</b>	<b>7,847</b>
Equity Income (loss) from investment in affiliate	(790)	91	124	-	-
Other expenses, net	1,288	10,518	3,586	6,172	4,501
<b>INCOME (LOSS) BEFORE INCOME TAX EXPENSES</b>	<b>5,992</b>	<b>(5,704)</b>	<b>(10,379)</b>	<b>7,898</b>	<b>3,346</b>
Income tax expenses	590	1,549	685	2,033	1,004
<b>INCOME (LOSS) FROM CONTINUING OPERATIONS</b>	<b>5,402</b>	<b>(7,253)</b>	<b>(11,064)</b>	<b>5,865</b>	<b>2,342</b>
Loss from discontinued operations	-	-	289	95	-
<b>NET INCOME (LOSS)</b>	<b>\$ 5,402</b>	<b>\$ (7,253)</b>	<b>\$ (11,353)</b>	<b>\$ 5,770</b>	<b>\$ 2,342</b>
Net income (loss) attributable to non-controlling interests	999	789	(123)	(50)	-
<b>NET INCOME (LOSS) ATTRIBUTABLE TO ICTS INTERNATIONAL N.V.</b>	<b>\$ 4,403</b>	<b>\$ (8,042)</b>	<b>\$ (11,230)</b>	<b>\$ 5,820</b>	<b>\$ 2,342</b>
<b>BASIC NET INCOME (LOSS) ATTRIBUTABLE TO</b>					
<b>ICTS INTERNATIONAL N.V. PER SHARE</b>					
Income (loss) from continuing operations	\$ 0.12	\$ (0.26)	\$ (0.47)	\$ (0.28)	\$ (0.20)
Loss from discontinued operations	-	-	(0.01)	-	-
<b>Net income (loss)</b>	<b>\$ 0.12</b>	<b>\$ (0.26)</b>	<b>\$ (0.48)</b>	<b>\$ (0.28)</b>	<b>\$ (0.20)</b>
Basic weighted average number of shares	35,827,854	30,524,461	23,415,068	21,000,000	11,518,929
<b>DILUTED NET INCOME (LOSS) ATTRIBUTABLE TO</b>					
<b>ICTS INTERNATIONAL N.V. PER SHARE</b>					
Income (loss) from continuing operations	\$ 0.11	\$ (0.26)	\$ (0.47)	\$ (0.28)	\$ (0.20)
Loss from discontinued operations	-	-	(0.01)	-	-
<b>Net income (loss)</b>	<b>\$ 0.11</b>	<b>\$ (0.26)</b>	<b>\$ (0.48)</b>	<b>\$ (0.28)</b>	<b>\$ (0.20)</b>
Diluted weighted average number of shares	38,424,718	30,524,461	23,415,068	21,000,000	11,518,929



## **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.

### **COVID-19**

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, and any related adverse public health developments, has adversely affected workforces, customers, economies, and financial markets globally, potentially leading to an economic downturn. It has also disrupted the normal operations of many businesses, including the Company's. It is not possible for the Company to predict the duration and its effects on the future business or results of operations. Some governmental authorities-imposed restrictions on non-essential activities, businesses suspended travel and popular leisure destinations temporarily closed to visitors. These conditions have impacted the Company's business operations and revenue, as seen with decrease in demand of airport services among the airlines or airports as a result of decline in travel and reduced or cancelled flights, and adversely affect the Company's business. The Company expects the pandemic to continue having a significant impact on revenue volume during 2021; however, the extent of the impact is uncertain and is largely dependent on the duration of the pandemic. As a result, the Company is taking actions to identify additional sources of liquidity and reduce or defer costs thereby maximizing working capital and increasing financial flexibility. These actions include the reduction of expenses by furloughing a significant portion of the Company's workforce and matching the hours worked to the current demand of airport services and the submission of an applications for financial assistance under the different governments support plans to be used for the continuation of payment of employee wages, salaries and benefits. Due to the unknown length of time of the pandemic, the Company cannot quantify its potential future effect or the affect in case governments will reduce or stop the governmental support.

### **Labor Concerns**

Several of our subsidiaries operate in many different jurisdictions in Europe, the United States of America and Asia and are therefore subject to the different labor laws of such jurisdictions. Any changes in such laws, as an example, the establishment or change of minimum wages, could have an adverse effect on the business of the Company.

In addition, some of our employees are covered by collective bargaining agreements with unions. Such collective agreement detail, *inter alia*, financial and non-financial entitlements to our employees that effect our financial results. Relationship with unions, including work stoppages or changes in work rules, could have an adverse impact on our financial results.

In some jurisdictions and subject to legislation related to employees' entitlements during sickness period, increase in employees' sick rate could have an adverse impact on our financial results. Lack of manpower and/or employees' turnover may lead to additional costs, as an example, recruitment and training cost, and therefore, increase in employees' turnover rate could have an adverse impact on our financial results.

If any of such changes and/or circumstances have a financial impact on the Company and the Company is not able to fully adjust its fees for its services to accommodate such changes and/or circumstances, of which there is no assurance, there could be a material adverse effect on our business.

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. In addition, labor related issues, as an example, employee dismissal, may lead to labor disputes. 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.

#### **Our Contracts with Airports or Airlines may be Cancelled or not Renewed**

Our revenues are primarily provided from services pursuant to contracts, which are cancellable on short notice at any time, with or without cause. We cannot assure you that existing clients will decide not to terminate our contracts or fail to renew a contract. In some jurisdictions and operations, contracts are subject to a tender detailing, *inter alia*, participation terms, cap pricing and award criteria. Few of the Company's material contracts are expected to be tendered during the years 2021-2022. In addition, consolidation in the airline industry could also result in a loss of customers. Any such termination, failure to renew a contract with us and/or failure in tenders, 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 of America. The aviation 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, rumours 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. Strategic targets such as high-technology aviation security assets, passenger terminals or aircrafts 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 the business of the Company, on cash flows, results of operations, financial condition, business reputation, claims etc. 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.

#### **Losses from Continuing Operations**

The Company incurred income (loss) from continuing operations of \$5.4 million, \$(7.3) million and \$(11.1) million in 2020, 2019 and 2018, respectively. The Company has a shareholders' deficit of \$30.5 million and \$35.7 million as of December 31, 2020 and 2019, respectively. If we are unable to obtain new service contracts, increase revenues, 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 Third Parties**

Our financing activities have consisted of loans from banks and other third parties. 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.

#### **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 might 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 cyber security incident as that will depend on the size and nature of the incident.

### **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. Our competitors might 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 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**

Industries on which we operate, are 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 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**

Poor 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 May 1<sup>st</sup>, 2021, the MacPherson Trust, its beneficiaries and Mr. M.J. Atzmon, own or control together approximately 76.6% 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. Their interests could conflict with yours. In addition, significant sales of shares held by them could have a negative effect on our stock price.

### **Dividends**

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

### **The Ability of Shareholders to Bring Action or Enforce Judgments Against the Company, the Managing Directors and the Supervisory Directors may be Limited Since ICTS is a Foreign Company**

The ability of shareholders of ICTS (Shareholders) to bring actions against ICTS, the members of the management board of ICTS (Management Board and its members Managing Directors) and the members of the supervisory board of ICTS (Supervisory Board and its members Supervisory Directors) or to enforce liabilities predicated upon non-Dutch laws may be limited.

The Company is a public company with limited liability (naamloze vennootschap met beperkte aansprakelijkheid) incorporated under the laws of the Netherlands. The corporate affairs of ICTS are governed by the articles of association of ICTS (the Articles of Association) and by the laws governing companies incorporated in the Netherlands. Significant number of ICTS' assets and activities are located outside the United States of America. In addition, Managing Directors and some of the Supervisory Directors are residents of countries other than the United States of America.

The United States of America and the Netherlands currently do not have a treaty providing for reciprocal recognition and enforcement of judgments, other than arbitration awards, in civil and commercial matters. In addition, the countries of residence of the Managing Directors, the Supervisory Directors and of the Company's employees may also not have a treaty providing for the reciprocal recognition and enforcement of judgments. Consequently, a final judgment for payment given by a court in the United States of America, whether or not predicated solely upon US securities laws, would not be enforceable in the Netherlands. Accordingly, a final judgment for payment rendered by a court in the United States of America, whether or not predicated solely upon US securities laws, will not be recognized and enforced by the Dutch courts. However, if a person has obtained a final and conclusive judgment for the payment of money rendered by a court in the United States of America which is enforceable in the United States of America and files his claim with the competent Dutch court, the Dutch court will generally give binding effect to such foreign judgment insofar as it finds that (i) the jurisdiction of the US court has been based on a ground of jurisdiction that is generally acceptable according to international standards, (ii) the judgment by the US court was rendered in legal proceedings that comply with the standards of the proper administration of justice that includes sufficient safeguards (behoorlijke rechtspleging) and (iii) the judgment by the US court is not incompatible with a decision rendered between the same parties by a Dutch court, or with a previous decision rendered between the same parties by a foreign court in a dispute that concerns the same subject and is based on the same cause, provided that the previous decision qualifies for acknowledgement in the Netherlands and except to the extent that the foreign judgment contravenes Dutch public policy (openbare orde). It is uncertain whether this practice extends to default judgments as well. Dutch courts may deny the recognition and enforcement of punitive damages or other awards. Moreover, a Dutch court may reduce the amount of damages granted by a US court and recognize damages only to the extent that they are necessary to compensate actual losses or damages. Enforcement and recognition of judgments of US courts in the Netherlands are solely governed by the provisions of the Dutch Civil Procedure Code (Wetboek van Burgerlijke Rechtsvordering).

**ICTS is a Dutch Public Limited Liability Company. The rights of the Shareholders may be Different from the Rights of Shareholders in Companies Governed by the Laws of US Jurisdictions.**

The rights of Shareholders and the responsibilities of Managing Directors and Supervisory Directors may be different from the rights and obligations of shareholders in companies governed by the laws of US jurisdictions. Such differences include, among others, voting requirements for important shareholder resolutions regarding capital measures, corporate reorganizations and certain shareholder rights, such as assertion of liability claims. In the performance of its duties, the Management Board and Supervisory Board are required by Dutch law to consider the interests of the Company, the Shareholders, its employees and other stakeholders, in all cases with due observation of the principles of reasonableness and fairness. It is possible that some of these parties will have interests that are different from, or in addition to, the interests of the Shareholders.

**Item 4. Information on the Company**

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.

History and Development of the Company:

Aviation Security and Other Aviation Services Business

In the wake of the events which occurred on September 11, 2001, the Federal Government of the United States of America, 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 of America 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 Transportation Security Administration ("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 USA Corporation ("Huntleigh"), provides limited aviation security services in the United States of America.

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 decided to re-enter the European aviation security market. In March 2005, the Company established a wholly owned subsidiary, I-SEC International Security B.V. and Subsidiaries ("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.

#### Authentication Technology Business

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

#### **Business Overview**

##### General

ICTS provides the following services through its subsidiaries as follows:

I-SEC supplies aviation security services at airports in Europe and the Far East.

Huntleigh provides mostly non-security aviation related services in the United States of America.

AU10TIX develops technological systems and authentication solutions for financial and other institutions.

##### Business Strategy

We are currently pursuing the following business strategy:

Aviation Security and Critical Infrastructure Operations in Europe and the Far East

Through the I-SEC subsidiaries, we supply aviation and other high-end security services to airports, airlines, governments and critical infrastructure facilities in Europe and the Far East. Currently, I-SEC provide aviation security services to three out of the five biggest airports in Europe. I-SEC is focusing on the critical infrastructure operations in the countries where we are present, next to our core business (airports, airlines, cargo). I-SEC is continuously looking for ways to extend its operations in new and existing locations.

Other Aviation Related Services in the U.S.

Through Huntleigh, we provide limited security services and non-security aviation related services in the U.S. Huntleigh is continuously looking for ways to extend its operations in new and existing locations.

Developing Authentication Technologies

Through AU10TIX, we are focusing on developing authentication technologies in order to provide authentication services to financial and other markets all over the world. AU10TIX is continuously looking for ways to extend the services it provides, both to new and existing customers.

#### **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, cargo 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 on airport security and 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, and Sweden, and is continuing to expand to other countries in Europe. Additionally, I-SEC currently operates at the five major airports in Japan and Joint Venture with local partner in Korea providing aviation security and training to airlines.

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 focusing on hospitality 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, national 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.

Security program implementation: Planning and implementation of a cargo security program; training the client's staff and 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 and on job training. 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, national 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.

### Explosive Detection Dog Handling

In 2021 I-SEC acquired a dog handler company in Sweden specialized in the detection of Bed Bugs (BDD) for hotels and similar. Next to the current business in BDD I-SEC will invest and implement an Explosive Detection Dog Handling organization based in Sweden that can support the group.

### Critical Infrastructure

I-SEC was awarded a contract of guarding a critical infrastructure plant in The Netherlands, as a result of our scope to focus on additional security fields in addition to the aviation-oriented businesses (airports, airlines and cargo). Aim is to focus next to our core business (airports, airlines, cargo) on the critical infrastructure operations in the countries where we are present.

### **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 and in accordance with European and US regulations, furthermore, the tool was updated recently to capture the new privacy regulations.

### 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 of America**

As of December 31, 2020 Huntleigh, 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:

- Private 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.
- Catering 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 involve one of the following specific job classifications:

### Agent Services for Airlines

Agent services include: passenger service, 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, places of worship, HOA's, events, etc. In addition, Huntleigh is offering and providing camera security monitoring services.

### 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
- Waxing the aircraft exterior

#### Janitorial

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

#### 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 curb side 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 utilizing various wheelchair dispatch technologies.

#### 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.

#### VIP Meet and Greet Services

Huntleigh provides VIP meet and greet services of assisting passengers with the transition through the airport on arrival and / or departure.

#### Equipment for Passengers with Restricted Mobility

In December 2019, Aviation Mobility Solutions Inc. was formed to find, evaluate and deliver new and innovative products for passengers with restricted mobility.

#### **Authentication Systems and Solutions**

AU10TIX, an identity management company, is on a mission to obliterate fraud and further a more secure and inclusive world. The company provides critical, modular solutions to verify and link physical and digital identities so businesses and their customers can confidently connect. Over the past decade, AU10TIX has become the preferred partner of major global brands for customer onboarding and customer verification automation—and continues to work on the edge of what's next for identity's role in society. AU10TIX's proprietary technology provides results in less than 8 seconds, enabling businesses to onboard customers faster while preventing fraud, meeting compliance mandates and, importantly, promoting trust and safety.

## Product & Technology

AU10TIX's modular SaaS offering for identity verification and fraud prevention automates the capture, authentication and content retrieval from physical ID documents. AU10TIX speeds up customer screening and enrollment while enhancing security and ID fraud prevention with 100% automated (i.e., no data entry or back-office dependencies) forensic-level forgery, counterfeiting and risk factor detection and higher conversion rates of borderline quality images. AU10TIX technology handles all of this along with data-rich, fast-response exception reporting and multi-lingual document content support while providing rapid processing (typically 8 seconds or less for the complete verification process).

AU10TIX technology is designed for security-sensitive and business-sensitive environments such as airports, border control, financial services, etc. which require hi-resolution document imaging, auto image optimization, auto-classification of documents up to version level, extraction of readable + encoded content including MRZ lines and barcodes. The automated technology provides real-time cropping of face photograph, multi-factor identity authentication), immediate detailed exception alerts, ability to integrate with chip readers and barcode readers, ability to integrate with biometric inputs, and ability to query date against databases or watch-lists.

AU10TIX's core engine along with new products like SECURE.ME, a white label identity verification experience, automates all essential components of customer onboarding and KYC initiation in regulated markets including ID document authentication, face matching (typically Selfie-to-ID with additional use cases possible), Proof-Of-Address processing and identity data verification and screening (eIDVS).

AU10TIX enables fully automated ID image recognition and optimization, pre-screening, content retrieval, forgery, counterfeiting and collateral risk flag detection, and exception reporting. Clients are also offered SDK packages to improve and control ID and face image capturing by customers.

Another component is Selfie-to-ID face matching with liveness detection. These features increase strength of risk detection and fraud deterrence and offer replacement to manual video conversations.

This portfolio of services enables service providers to rapidly automate customer onboarding and AML/ATF/KYC processes.

AU10TIX incorporates advanced AI algorithms that increase the accuracy of analyzing images at a broad range of image quality levels for various types of official ID documents. The system is designed to handle images that originate from any common imaging device including mobile phones, tablets, computer webcams, etc.

AU10TIX is relevant for a variety of commercial and government markets many of which are required to comply with KYC regulations. The technology can be integrated with additional Identity Data Verification and Screening (eIDV/eIDVS) as a client or 3rd party augmented service or seamlessly integrated into AU10TIX's ID authentication and POA handling components, enabling automated submission of customer data to the required person and address verification services, as well as screening services such as PEPs & Sanctions, watchlists, etc. through a single API call.

## Target Markets

Key markets for AU10TIX are financial services including banking, insurance, payments, wallets, money transfer, lending, remittance, online investments, trading and forex, cryptocurrency exchanges, rental services, sharing economy, professional services, telecommunications and social media, etc.

## **Investments**

### **Artemis Therapeutics, Inc.**

As of December 31, 2020, the Company owns 198,311 shares or 3.8% of the outstanding common stock of Artemis Therapeutics, Inc. ("ATMS"). As of December 31, 2020, ATMS has no operating business.

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, 2020 and 2019, the Company's share of the underlying net assets of ATMS is equal to the Company's carrying value of its investment in ATMS (\$0 and \$0 at December 31, 2020 and 2019). The market value of the Company's investment in ATMS as of December 31, 2020 and 2019 is \$0.1 million and \$0 million, respectively.

The Company evaluated the stock price of ATMS but as ATMS share price is low, the number 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.

### **Freezone I-SEC Korea Inc.**

In April 2018, the Company signed a Joint Venture Agreement with a South Korean Company in order to establish a Joint Venture Company ("JVC") and to provide aviation security and non-security services in South Korea. Each one of the parties holds 50% (fifty percent) of the JVC's equity. The Company uses the equity method for this investment. As of December 31, 2020, the Company's investment is 333 million KRW (\$0.3 million as of December 31, 2020). For the years ended December 31, 2020, 2019 and 2018, the Company recognized a profit (loss) in its consolidated statements of operations of (18) million KRW, 105 million KRW and 134 million KRW, respectively (\$0), \$0.1 million and \$0.1 million as of December 31, 2020, 2019 and 2018, respectively) from its investment in the JVC.

### **Mesh Technologies, Inc.**

In January 2019, the Company invested an amount of \$0.1 million in Mesh Technologies, Inc. ("Mesh"), a company incorporated in the USA. As of December 31, 2020, the investment represented less than 1% of the issued and outstanding share capital of Mesh. Mesh is a technology company providing cross border payments technology by innovating on the existing payment rails of established card networks available in the market. As Mesh is a private, closely held company, there is no active market for this investment. Therefore, the Company measures the investment at cost minus impairment.

### **Arrow Ecology & Engineering Overseas (1999)**

In December 2019, the Company invested an amount of \$1.8 million in Arrow Ecology & Engineering Overseas (1999) Ltd ("Arrow"), a limited company incorporated in Israel. Arrow develops and operates a sustainable green process to recycle mixed and sorted municipal solid waste. The Company purchased few types of shares representing 23.3% of Arrow's equity for an amount of \$0 million and shareholders loans were purchased for a price of \$1.7 million (\$4.1 million stated value less \$2.4 million allowance for credit losses, which have not changed since the acquisition). The Company uses the equity method for this investment. During the years ended December 31, 2020 and 2019, the Company recognized its estimated share in Arrow loss in the amount of \$0.8 million and \$0, respectively, from this investment.

The Company has an agreement with an entity related to its main shareholder, according to which, if the value of the investment decrease, the related party entity has guaranteed to repurchase this full investment at a minimum amount of \$1.8 million. The guarantee is effective immediately as of the date of purchase and terminates after three years. Some Directors and managers of Arrow are related parties of the Company.

### **GreenFox Logistics LLC.**

In March 2020, the Company invested an amount of \$0.1 million in GreenFox Logistics, LLC. ("GreenFox"), a company incorporated in the USA. The investment was done as SAFE investment (Simple Agreement for Future Equity). GreenFox is an on-demand delivery/moving/transportation company. As GreenFox is a private, closely held company, there is no active market for this investment. Therefore, the Company measures the investment at cost minus impairment.

### **SardineAI Corp.**

In August 2020, the Company invested an amount of \$0.1 million in SardineAI Corp (“SardineAI”), a company incorporated in the USA. In return the Company received preferred shares representing less than 1% of SardineAI equity. SardineAI is a Fraud Prevention-as-a-Service (FaaS) platform for Digital businesses to detect frauds and financial crimes. As SardineAI is a private, closely held company, there is no active market for this investment. Therefore, the Company measures the investment at cost minus impairment.

### **Revenue**

Revenue generated from customers by geographical area based on the geographical location of the customers invoicing address is as following:

#### **Revenue in Germany**

Our revenue in Germany during the years 2020, 2019 and 2018 totaled \$119.5 million (48% of total revenue), \$137.2 million (41% of total revenue) and \$134.6 million (39% of total revenue), respectively.

#### **Revenue in the Netherlands**

Our revenue in The Netherlands during the years 2020, 2019 and 2018 totaled \$58.4 million (24% of total revenue), \$97.7 million (29% of total revenue) and \$121.5 million (35% of total revenue), respectively.

During the year ended December 31, 2018, Procheck was advised by its only customer, that its services are not required, its contract would not be renewed and would end on December 31, 2018, following a change in the governmental security concept in the Netherlands. Procheck revenues during the years 2020, 2019 and 2018 totaled \$0 million (0% of total revenue), \$0 million (0% of total revenue) and \$24.0 million (7% of total revenue), respectively.

#### **Revenue in the U.S.**

Our revenue in the United States of America during the years 2020, 2019 and 2018 totaled \$45.3 million (18% of total revenue), \$73.7 million (22% of total revenue) and \$69.5 million (20% of total revenue), respectively.

#### **Revenue in Other Locations**

Our revenue in other locations during the years 2020, 2019 and 2018 totaled \$25.2 million (10% of total revenue), \$24.7 million (8% of total revenue) and \$19.6 million (6% of total revenue), respectively.

### **Major Customers**

Revenue from two customers represented 70% of total revenue during the year ended December 31, 2020, of which one customer accounted for 48% and the other customer accounts for 22% of total revenue. Accounts receivable from these two customers represented 47% of total accounts receivable as of December 31, 2020.

Revenue from two customers represented 69% of total revenue during the year ended December 31, 2019 of which one customer accounted for 41% and the other customer accounts for 28% of total revenue. Accounts receivable from these two customers represented 57% of total accounts receivable as of December 31, 2019.

Revenue from two customers represented 72% of total revenue during the year ended December 31, 2018 of which one customer accounted for 38% and the other customer accounts for 34% of total revenue. Accounts receivable from these two customers represented 55% of total accounts receivable as of December 31, 2018.

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

### **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. Our competitors might 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.

### **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, 2020:

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:

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

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

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

I-SEC Spain Security Management S.L. (Spain - 100%) which holds the shares of:

I-SEC Aviation Security 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 Denmark A/S (Denmark – 100%)

I-SEC Security Services GmbH (Germany – 100%)

I-SEC Aviation Security A.B. (Sweden – 100%)

I-SEC German Holding B.V.\* (Netherlands – 100%) which holds the shares of:

I-SEC German Special Operations B.V. (Netherlands – 100%) which holds the shares of:

I-SEC Security Services GmbH (Germany 100%)

I-SEC German Aviation Holdings I B.V. (Netherlands – 100%) which holds the shares of:

I-SEC Verwaltungs SE\*\* (Germany – 100%)

Freezone I-SEC Korea Inc (South Korea – 50%)

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

Huntleigh USA Corporation (Missouri, USA - 100%)

Aviation Mobility Solutions, Inc (Texas, USA – 100%)

AU10TIX Technologies B.V. (The Netherlands – 69%, formerly ABC Technologies B.V) which holds the shares of:

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%), which holds the shares of:

AU10TIX Services, Inc (Texas, USA – 100%)

\*I-SEC German Holding B.V. is a limited partner (100%) of I-SEC Deutsche Luftsicherheit SE&Co.KG (Germany).

\*\* I-SEC Verwaltungs SE is a general partner (0%) of I-SEC Deutsche Luftsicherheit SE&Co.KG (Germany).



## Property, Plant and Equipment

The Company leases certain premises under various operating leases. Maturities of operating lease liabilities as of December 31, 2020 were as follows (in millions):

Year ended December 31,	
2021	\$ 4.0
2022	3.1
2023	2.7
2024	2.2
2025	1.0
Thereafter	1.4
	<u>\$ 14.4</u>

Rent expense for the years ended December 31, 2020, 2019 and 2018 is \$5.5 million, \$4.4 million and \$5.0 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) authentication 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 authentication 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: (a) going concern assessment and (b) deferred taxes valuation allowance. Please refer to Note 2 of ICTS's consolidated financial statements included in this Annual Report for the year ended December 31, 2020 for a summary of ICTS's significant accounting policies.

### Going Concern Assessment

Accounting Standard Update 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern requires a Company's management to assess an entity's ability to continue as a going concern, which were provided in Note 1 to our consolidated financial statements included in this report.

### 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.

## Discussion and Analysis of the Results of Operations

The following table summarizes our results of operations for the years ended December 31, 2020, 2019 and 2018, however our discussion of the results of operations excludes the comparison of the results for the years ended December 31, 2019 and 2018. Refer to item 5, Operating and Financial Review and Prospects-Results of Operations in our Annual Report on Form 20-F for the year ended December 31, 2019 which was filed with the SEC on June 15, 2020.

	U.S. dollars in Thousands		
	Year ended December 31,		
	2020	2019	2018
Revenue	\$ 248,419	\$ 333,307	\$ 345,221
Cost of revenue	196,569	290,461	311,994
Gross profit	51,850	42,846	33,227
Operating expenses:			
Research and development	6,541	5,060	3,657
Goodwill impairment	-	-	1,563
Selling, general and administrative	37,239	33,063	34,924
Total operating expenses	43,780	38,123	40,144
OPERATING INCOME (LOSS)	8,070	4,723	(6,917)
Equity income (loss) from investment in affiliate	(790)	91	124
Other expenses, net	(1,288)	(10,518)	(3,586)
INCOME (LOSS) BEFORE INCOME TAX EXPENSES	5,992	(5,704)	(10,379)
Income tax expenses	590	1,549	685
INCOME (LOSS) FROM CONTINUING OPERATIONS	5,402	(7,253)	(11,064)
Loss from discontinued operations	-	-	(289)
NET INCOME (LOSS)	5,402	(7,253)	(11,353)
Less: Net income (loss) attributable to non-controlling interests	999	789	(123)
NET INCOME (LOSS) ATTRIBUTABLE TO ICTS INTERNATIONAL N.V.	\$ 4,403	\$ (8,042)	\$ (11,230)

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, 2020, 2019 and 2018:

	Year ended December 31,		
	2020	2019	2018
Revenue	100.0%	100.0%	100.0%
Cost of revenue	79.2%	87.1%	90.4%
Gross profit	20.8%	12.9%	9.6%
Research and development	2.6%	1.5%	1.1%
Goodwill impairment	-%	-%	0.4%
Selling, general and administrative	15.0%	9.9%	10.1%
Total operating expenses	17.6%	11.4%	11.6%
OPERATING INCOME (LOSS)	3.2%	1.5%	(2.0)%
Equity loss from investment in affiliate	0.3%	-%	-%
Other expenses, net	0.5%	3.2%	1.0%
INCOME (LOSS) BEFORE INCOME TAX EXPENSES	2.4%	(1.7)%	(3.0)%
Income tax expenses	0.2%	0.5%	0.2%
INCOME (LOSS) FROM CONTINUING OPERATIONS	2.2%	(2.2)%	(3.2)%
Loss from discontinued operations	-%	-%	(0.1)%
NET INCOME (LOSS)	2.2%	(2.2)%	(3.3)%
Less: Net income (loss) attributable to non-controlling interests	0.4%	0.2%	-%
NET INCOME (LOSS) ATTRIBUTABLE TO ICTS INTERNATIONAL N.V.	1.8%	(2.4)%	(3.3)%

The following table sets forth, for the annual periods indicated, the Company's revenues generated from customers by geographical area based on the geographical location of the customers invoicing address:

	(U.S. dollars in Thousands)		
	Year ended December 31,		
	2020	2019	2018
Germany	\$ 119,500	\$ 137,207	\$ 134,646
Netherlands	58,446	97,700	121,465
United States of America	45,305	73,719	69,548
Other	25,168	24,681	19,562
Total Revenue	\$ 248,419	\$ 333,307	\$ 345,221

#### Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

The COVID-19 outbreak has developed rapidly in 2020, with a significant number of infections. The Company is dependent mostly in Europe and the United States of America for its business on the airline industry. In addition, the decisions taken by various governments have affected economic activity and the Company's business as following:

- Decrease of travel by flights, reducing the demand for services the Company provide as part of its airport security and other aviation services. As a result, our cumulative revenues of the airport security and other aviation services in the twelve months ended December 31, 2020 were \$86.9 million lower than our revenues for the twelve months ended December 31, 2019. Many of the Company's employees were laid off and / or ordered to stay home.
- Governments in some of the countries in which we operate have announced the implementation of government assistance measures, which mitigated the impact of the COVID-19 outbreak on our results and liquidity. During 2020, in the United States of America, the government has approved a payroll support of \$13.7 million to the American subsidiary of the Company, all of which has been received as of December 31, 2020. Out of this amount the American subsidiary recognized an amount of \$12.7 million as reduction of labor expenses for the year ended December 31, 2020. Additional assistance up to \$15.9 million was granted during 2021. In the Netherlands, the government has approved a support of €17.6 million (\$21.6 million as of December 31, 2020) for the year ended December 31, 2020. The Dutch government extended the support program until June 30, 2021 and might extend it beyond. For the months January through March 2021, the Company was granted additional assistance up to €4.6 million. In Germany, the employees are eligible for payroll support up to 60% of the employee's payroll (on individual basis) in case the employees meet the support plan requirements.
- Depending on the duration of the COVID-19 crisis and continued negative impact on economic activity, the Company might experience further negative results and liquidity restrains. The exact impact on our activities in the remainder of 2021 and thereafter cannot be predicted.

## Revenue

Total revenue decreased from \$333.3 million in 2019 to \$248.4 million in 2020.

Revenue generated in Germany was \$119.5 million in 2020 compared to \$137.2 million in 2019. The decrease in revenue generated in Germany was mostly a result of less services provided to our local customers (Frankfurt, Hamburg and Hannover Airports) because of the COVID-19 crisis. In addition, the Hannover Airport contract ended in August 2020. The Company's revenue from this location was \$9.2 million and \$17.6 million for the years ended December 31, 2020 and 2019, respectively. Revenue was affected also by exchange rates as revenue is being translated from Euro to USD. Revenue of 2019 according to the 2020 exchange rate would have been \$139.6 million, representing an increase of 1.7% in exchange rate.

Revenue generated in the Netherlands was \$58.4 million in 2020 compared to \$97.7 million in 2019. The decrease in revenue generated in the Netherlands was a result of less services provided to our main customer in the Netherlands (Schiphol Airport) because of the COVID-19 crisis. Revenue was affected also by exchange rates as revenue is being translated from Euro to USD. Revenue of 2019 according to the 2020 exchange rate would have been \$99.4 million, representing an increase of 1.7% in exchange rate.

Revenue generated in the United States of America was \$45.3 million in 2020, compared to \$73.7 million in 2019. The decrease in revenue generated in the United States of America was mostly a result of less services provided to our aviation related services customers because of the COVID-19 crisis.

Revenue outside Germany, the Netherlands and the United States of America totaled \$25.2 million in 2020 compared to \$24.7 million in 2019. Increase in revenue was primarily a result of increase of services provided our authentication technology to existing and new customers.

## Cost of Revenue

Cost of revenue was \$196.6 million or 79.2% of revenue in 2020, compared to \$290.5 million or 87.1% of revenue in 2019. The majority of cost of revenue relates to payroll and related costs. Following the COVID-19 crisis, the Company's revenue decreased which led to a decrease in the cost of sales and the relevant payroll expenses. Some countries provided financial assistance to the Company and its subsidiaries at the airport security and other aviation services segment, the major ones were: (a) the Netherlands provided financial and payroll support to the Dutch companies in the group of €17.6 million (\$21.6 million as of December 31, 2020) reducing the Company's labor costs in the Netherlands and; (b) the United States of America which was provided in 2020 to the Company payroll support of \$13.7 million of which \$12.7 million were used and recognized in 2020, reducing the Company's labor costs in the United States of America. Those amounts were recorded in the Company's books as reduction of payroll expenses, which decreased the cost of revenue materially. In addition, as the revenue of the Company decreased materially, the Company has been reducing other costs in order to adjust its cost of revenue to the current situation.

## Research and Development Expenses ("R&D")

Research and development costs were \$6.5 million or 2.6% of revenue, compared to \$5.1 million or 1.5% in 2019. As the authentication technology segment continues to increase its sales, developments and activities, the Company increased the number of employees in its Research and Development department, resulting mostly in increase of the R&D payroll costs. The sharp increase in the percentage of the R&D is because the percentage is being affected by the decrease of the Company's revenues.

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

SG&A expenses were \$37.2 million or 15.0% of revenue in 2020, compared to \$33.1 million or 9.9% of revenue in 2019. The authentication technology segment, increased its SG&A costs by \$2.0 million in 2020, primarily payroll, related expenses and marketing expenses, as part of its expansion and increase of sales. Additionally the Company’s legal expenses increased by \$2.0 million, partly costs that relate to new bids in 2020, legal costs in regards to decrease of employees, costs incurred as due diligence costs and legal costs regarding the termination of Procheck’s contract litigation.

#### Equity Income (Loss) from Investment in Affiliate

In April 2018, the Company signed a Joint Venture Agreement with a South Korean Company, in order to provide aviation security and non-security services in South Korea. The equity income (loss) from this investment was \$0.0 million, \$0.1 million and \$0.1 million, for the years 2020, 2019 and 2018, respectively.

In December 2019, the Company purchased 23.3% of Arrow Ecology & Engineering Overseas (1999). The Company recognized its estimated share in Arrow loss in the amount of \$0.8 million and \$0.0 million, respectively, from this investment for the years 2020 and 2019.

#### Other Expenses, net

Other expenses, net, were \$1.3 million or 0.5% of revenues in 2020, compared to \$10.5 million or 3.2% of revenues in 2019. During 2019, the Company paid a one-time compensation for exchange rate and related losses in the amount of \$8.1 million to the entity related to the main shareholder who provided the Company loans as convertible notes. Additionally, the Company repaid \$30 million of the convertible notes on July 2019, which reduced the interest expense for the full year 2020 and for the second half of the year of 2019. Interest expense to related parties totaled \$0.2 million in 2020 compared to \$1.2 million in 2019. Total foreign currency loss in 2020 was \$0.3 million compared to loss of \$0.1 million in 2019.

Other interest expenses and other bank charges were \$0.9 million in 2020 compared to \$1.5 million in 2019. Decrease relates to the decrease of usage of the line of credits in Europe and the United States of America, following the receipt the funds of the governmental supports and the fact that many payments to the authorities were postponed as part of support programs.

#### Income Tax Expenses

Income tax expenses were \$0.6 million or 0.2% of revenue in 2020 compared to \$1.5 million or 0.5% of revenue in 2019. Income tax expenses relating to the authentication technology segment were \$0.7 million in 2020 compared to \$1.3 million in 2019, as result of the decrease in the authentication technology segment profitability. Income tax expenses (benefit) relating to the airport security and other aviation services were \$(0.1) million in 2020 compared to \$0.2 million in 2019. In 2020, although some of the subsidiaries of the Company were profitable, previous net operating losses were utilized to reduce the current year income taxes.

#### Reportable Segment

The following table sets forth, for the annual periods indicated, certain financial data related to the Company’s reportable segments, however our discussion of the reportable segments excludes the comparison for the year ended December 31, 2018. Refer to item 5, Operating and Financial Review and Prospects – Results of Operations in our Annual Report on Form 20-F for the year ended December 31, 2019, which was filed with the SEC on June 15, 2020.

	U.S. Dollars in thousands			
	Corporate	Airport Security and Other Aviation Services	Authentication Technology	Total
<b>Year ended December 31, 2020:</b>				
Revenue	\$ -	\$ 222,654	\$ 25,765	\$ 248,419
Depreciation and amortization	72	1,302	716	2,090
Income (loss) from continuing operations	(3,853)	6,056	3,199	5,402
Goodwill	-	746	-	746
Total assets from continuing operations	12,448	86,550	41,350	140,388
<b>Year ended December 31, 2019:</b>				
Revenue	\$ -	\$ 309,548	\$ 23,759	\$ 333,307
Depreciation and amortization	46	1,328	314	1,688
Income (loss) from continuing operations	(11,740)	(2,406)	6,893	(7,253)
Goodwill	-	681	-	681
Total assets from continuing operations	23,381	64,647	35,419	123,447
<b>Year ended December 31, 2018:</b>				
Revenue	\$ -	\$ 329,150	\$ 16,071	\$ 345,221
Depreciation and amortization	45	1,756	96	1,897
Income (loss) from continuing operations	(6,205)	(9,163)	4,304	(11,064)
Goodwill	-	695	-	695
Total assets from continuing operations	329	66,373	8,385	75,087

#### Corporate Segment

The Company's loss from continuing operations in the corporate segment decreased from \$11.7 million in 2019 to \$3.9 million in 2020. In 2019, the Company had the one-time expense compensation of \$8.1 million for exchange rate and related losses as noted above. In addition, interest expenses to related party decreased after the major amount of the loan was repaid in July 2019 from \$1.2 million in 2019 to \$0.2 million in 2020. In addition, the Company incurred expenses of \$0.5 million in 2020 regarding examination of potential deals which did not mature into deals.

#### Airport Security and Other Aviation Services Segment

Decrease in revenue from airport security and other aviation services from \$309.5 million in 2019 to \$222.7 million in 2020 relates primarily to the COVID-19 crisis, which materially affected the aviation industry due to flight restrictions, cancelled flights and quarantine requirements.

The Company's income from continuing operations related to airport security and other aviation services was \$6.1 million in 2020 compared to loss of \$2.4 million in 2019. The main reasons for the difference between 2020 and 2019 are: (a) in 2020 the segment received financial and payroll support from the Dutch government of €7.6 million (\$21.6 million as of December 31, 2020), which was recorded as reduction of expenses (b) in 2020 the segment received payroll support from the United States of America government of \$12.7 million, which was recorded as reduction of expenses and (d) during the year 2019, the segment's operational costs as training, sick pay and overtime payments to employees increased which reduced the profitability of the segment.

#### Authentication Technology Segment

Revenue in 2020 from the authentication technology segment was \$25.8 million compared to \$23.8 million in 2019. The segment continued to increase its revenue from existing customers in addition to new ones. During 2020, revenue from some customers was reduced following the COVID-19 crisis, however, the revenue of the segment still increased compared to last year. The profit from continuing operations in this segment amounted to \$3.2 million in 2020 compared to \$6.9 million in 2019. Decrease of profitability in 2020 relates to increase in R&D expenses which grew in 2020 to \$6.5 million compared to \$5.1 million in 2019 and increase of approximately \$2.0 million in SG&A expenses, as the Company is looking to increase its sales and penetrate into new markets.

## 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, loans with lenders in Europe, the United States of America and borrowings from a convertible note arrangement with a related party.

As of December 31, 2020 and 2019, the Company had cash, cash equivalents and restricted cash of \$61.1 million and \$54.8 million, respectively. As of December 31, 2020 and 2019, restricted cash were \$9.5 million and \$2.5 million which consist of collateral for our letters of credit and restricted bank accounts in the Netherlands, which are restricted for payments to local tax authorities.

As of December 31, 2020 and 2019, the Company had a working capital of \$57.2 million and \$27.6 million, respectively and shareholders' deficit of \$30.5 million and \$35.7 million, respectively. During the years ended December 31, 2020, 2019 and 2018, the Company incurred net income (loss) from continuing operations of \$5.4 million, \$(7.3) million and \$(11.1) million, respectively, and cash flows provided by (used in) operating activities of \$24.2 million, \$(9.1) million and \$7.4 million, respectively.

As of December 31, 2020, the Company had a line of credit in the Netherlands up to €12 million (\$14.7 million as of December 31, 2020), which expired in March 2021, although it continued until May 2021 (except the line of credit for guarantees of €2.5 million which is still in place) and additional line of credit in the United States of America up to \$10 million, which will expire in October 2021. As of April 30, 2021, the Company is not using its line of credit in the United States of America and is not expecting to use it in the foreseeable period.

In October 2020, the Company extended the agreement with the entity related to the main shareholder to extend the period of the notes until January 2022. The maximum amount of the notes will be \$3.0 million, excluding interest, out of this amount \$1.2 million are convertible into the Company's shares at a price of \$0.4 per share.

The Company's business plan, project profit from operations in 2021, including the expected governmental assistances. The COVID-19 outbreak developed rapidly in 2020, with a significant number of infections. The Company is dependent mostly in Europe and the United States of America for its business on the airline industry. In addition, ICTS is an employee intensive company. The Company's business plan depends on the COVID-19 developments in the foreseen future and the recovery of the airline industry.

The decisions taken by various governments have affected economic activity and the Company's business as following:

- Decrease of travel by flights, reducing the demand for services the Company provide as part of its airport security and other aviation services. As a result, our revenues in 2020 were \$248.4 million compared to \$333.3 million in 2019.
- Governments in some of the countries in which we operate have announced the implementation of government assistance measures, which mitigated the negative impact of the COVID-19 outbreak on our results and liquidity. In the United States of America, the government has approved in 2020 a payroll support of \$13.7 million to the American subsidiary of the Company and additional \$15.9 million in 2021. In the Netherlands, the government has approved a support of €17.6 million (\$21.6 million as of December 31, 2020) for the period April 1, 2020 until December 31, 2020 and additional assistance up to €4.6 million for the period January through March 2021. The Company is entitled to request additional support for the period April 1, 2021 until June 30, 2021. In Germany, the Company's employees are eligible for payroll support up to 60% of the employee's payroll (on individual basis) in case the employees meet the support plan requirements. The Company pays to its German employees their full salary and the Company is being reimbursed by the German government for the payroll support amount. The Company has already applied for this support starting April 2020. These available governmental support plans might be extended and/or changed according to the future COVID-19 developments.
- Depending on the duration of the COVID-19 crisis and continued negative impact on economic activity, the Company might experience negative results and liquidity restrains. The exact impact on our activities in the remainder of 2021 and thereafter cannot be predicted.

## Alternate Sources of Liquidity

The Company's business plan for twelve months from the issuance of this report projects income from operations, positive cash flows and includes the receipt of governmental funding from the United States of America and the Netherlands as discussed above. If the impact of COVID-19 negatively impacts the global economy beyond its current forecast, the Company expects that the governmental support programs could be extended and the Company might receive additional funding in the Netherlands under the NOW and from the United States of America under the Payroll Support Program. Furthermore, the Company has alternate sources of liquidity that it could access to ensure its ability to continue as a going concern. There can be no assurance that management will be successful in achieving its business plan.

The below analysis of cash flows excludes discussions related to year ended December 31, 2018. Refer to items 5, operating and Financial review and Prospects-Liquidity and Capital Resources in our Annual Report on Form 20-F for the year ended December 31, 2019, which was filed with the SEC on June 15, 2020.

### Cash Flows from Operating Activities

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

Net cash provided by operating activities for the year ended December 31, 2020 was \$24.2 million. This provided cash resulted primarily from increase in other liabilities of \$23.8 million which relate mostly to the postponement of wage tax and other payments to the Dutch government as part of the governmental assistance in the Netherlands. The VAT payable increased by \$4.0 mainly attributable to the German government allowed to postpone the VAT payment for the period from April through June 2020 to the end of 2021. In addition, the Company had a net income from continuing operations of \$5.4 million and a non-cash charge of \$2.1 million for depreciation and amortization was recognized in 2020. This was offset mainly by \$13.6 million increase of prepaid expenses and other current assets which relates mostly to receivable from the Dutch tax authorities of \$12.3 million, a decrease of \$5.1 million of accrued expenses and other current liabilities and decrease of \$2.5 million of accounts payable.

Net cash used in operating activities for the year ended December 31, 2019 was \$9.1 million. This cash used in, resulted primarily from decrease in accrued expenses and other current liabilities of \$8.9 million relating to the payment of Procheck's termination costs, decrease of income taxes payable of \$1.8 million following the lower profitability in the European operations of the aviation security, decrease of VAT payable of \$4.7 million, mostly as a result of time difference between the actual dates of payment and the fact that the VAT as of December 31, 2019, does not include VAT for the operations of Procheck, and net loss of \$7.3 million. This was offset mainly by one-time charge of \$8.1 million revaluation and related costs reimbursed to a related party, decrease of income tax receivable of \$1.3 million, decrease of accounts receivable, net, of \$0.7 million and non-cash charge of \$1.7 million for depreciation and amortization.

### Cash Flows from Investing Activities

Net cash used in investing activities for the year ended December 31, 2020 was \$3.1 million and consisted primarily of capital expenditures of \$2.2 million and capitalization of software costs of \$0.6 million.

Net cash used in investing activities for the year ended December 31, 2019 was \$3.4 million and consisted primarily of capital expenditures of \$1.9 million and investments in Arrow Ecology & Engineering Overseas (1999) of \$1.8 million.

### Cash Flows from Financing Activities

Net cash used in financing activities for the year ended December 31, 2020 was \$16.5 million which consisted of primarily repayment of \$13.1 million of the borrowings under the lines of credit, repayment of \$1.5 million loan payable to a related party and repayment of \$1.1 million loan payable.

Net cash provided by financing activities for the year ended December 31, 2019, was \$51.9 million which consisted primarily of \$80.0 million proceeds from sale of AU10TIX's preferred shares and additional borrowings under lines of credit, net, of \$8.1 million, increase following the severance payments done in 2019 to the Procheck employees following their employment termination totaling more than \$7.7 million. This was offset mostly by repayment of the convertible notes payable to a related party of \$29.6 million, repayment of loan payable of \$1.1 million, and payment of \$6.1 million of transaction costs related to the sale of AU10TIX's preferred shares.



## **Borrowings**

### United States of America

The Company's U.S. subsidiary is a party to a credit facility with a commercial lender, which provides a maximum borrowing capacity up to \$10.0 million, subject to a borrowing base limitation. The borrowing base limitation was equivalent to: (i) 85% of eligible accounts receivable, as defined, plus (ii) 80% of eligible unbilled receivables, as defined, plus (iii) 95% of a \$0.5 million standby letter of credit that was provided to the lender by an entity related to the main Shareholder. Borrowings under the credit facility are secured by the U.S. subsidiary's accounts receivable, unbilled receivables, equipment, cash and the \$0.5 million letter of credit that was provided to the lender by the Company.

As of December 31, 2020, and 2019, the Company had approximately \$0.0 million and \$6.5 million, respectively, outstanding under the line of credit arrangement. As of December 31, 2020 and 2019, the Company had \$4.1 million and \$3.5 million, respectively, in unused borrowing capacity under the line of credit facility.

Borrowings made under the credit facility bear interest, which is payable monthly, at LIBOR plus 3% per annum (3.14% as of December 31, 2020).

The Company's weighted average interest rate in the United States of America during the years ended December 31, 2020, 2019 and 2018 is 4.42%, 5.44% and 6.0% respectively. The Company is required to maintain a minimum fixed charge coverage ratio. The credit facility expires in October 2021.

### Europe

The Company has a credit arrangement with a commercial bank, to provide it with up to €12.0 million (\$14.7 million as of December 31, 2020) in borrowings which was renewed in May 2020 through March 2021. Borrowings under the line of credit bear interest at one-month EURIBOR plus 4.8% with a minimum of 4.8% per annum. The Company is also subject to unused line fee of 0.75% per annum, which is payable quarterly. The line of credit is secured by accounts receivable of ten of the Company's European subsidiaries, tangible fixed assets and a bank guarantee of €2.0 million (\$2.5 million as of December 31, 2020) provided by the parent company, ICTS International N.V. The line of credit cannot exceed 70% of the borrowing base. The line of credit includes certain financial covenants.

As of December 31, 2020 and 2019, the Company had €6.4 million and €1.9 million (\$7.9 million and \$13.3 million as of December 31, 2020 and 2019), respectively, in outstanding borrowings under the line of credit arrangement.

In addition to the line of credit arrangement, a guarantee facility of €2.5 million (\$3.1 million as of December 31, 2020) is provided to the Company by the same commercial bank, which was also renewed until March 2021, with an interest of 2.5% per annum and an unused line fee of 0.75% per annum which is payable quarterly. As of December 31, 2020 and 2019, the Company had €1.0 million and €2.3 million (\$1.2 million and \$2.6 million as of December 31, 2020 and 2019), respectively, of outstanding guarantees under the guarantee facility, which related to leases and performance guarantees for contracts.

The line of credit was not renewed and management expects to renew the guarantee facility which will be extended for one year under the same conditions. The guarantee facility is secured by the accounts receivables of ten of the Company's European subsidiaries.

The Company's weighted average interest rate in Europe during the years ended December 31, 2020, 2019 and 2018, is 4.4%, 3.5% and 3.5% respectively.

The Company has an additional credit arrangement in Sweden to provide it with up to 4.0 million SEK (\$0.5 million as of December 31, 2020) in borrowings. Borrowings under the line of credit bear annual interest of 2.8% and subject to annual extension by the financial institution. The line of credit is secured by accounts receivable of the Swedish subsidiary. As of December 31, 2020 and 2019, the Company had 1.6 million SEK and 1.1 million SEK (\$0.2 million and \$0.1 million as of December 31, 2020 and 2019) respectively in outstanding borrowings under the line of credit facility.

## **Related Parties Financing**

### Convertible Notes Payable to a Related Party

The Company has an agreement with an entity related to its main shareholder, to provide it with up to \$37.0 million in revolving loans through June 30, 2020. The term of the arrangement can be automatically extended for four additional six-month periods at the option of the holder. Loans received under the arrangement bear interest, which is compounded semi-annually and payable at maturity, at the interest rate of LIBOR plus 7% for U.S. dollar-denominated loans and the Company's European commercial bank interest base rate plus 3% 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 the outstanding principal notes payable under the arrangement into the Company's common stock at a price of \$1.50 per share and the unpaid accrued interest at a price of \$0.75 per share.

In January 2019, the entity related to the main shareholder converted \$2.9 million accrued interest into 3,852,364 shares at a price of \$0.75 per share.

In May 2019, the Company granted this entity, the option to convert up to \$2.0 million of the loan into the Company's shares at a price of \$0.40 per share, and all other conversion rights for the balance of the debt except \$2.6 million, which is convertible at a price of \$0.75 per share, would eliminate. In December 2019, this entity converted the \$2.6 million accrued interest into 3,480,968 shares at a price of \$0.75 per share. In October 2020, the entity converted \$0.8 million into 2,000,000 shares.

In June 2019, the Board of Directors approved a one-time compensation of \$8.1 million to this entity for exchange rate and related losses suffered in connection with its convertible notes to the Company during the years. Compensation was approved subject to closing of investment transaction in the Company's subsidiary, AU10TIX Technologies B.V. ("AU10TIX", formerly ABC Technologies B.V.), which happened in July 2019. As a result, the Company recorded \$8.1 million in connection with this payment which is included in other expenses in the consolidated statement of operation and comprehensive income (loss).

In July 2019, the Company repaid \$30.0 million of the convertible notes.

In October 2020, the loan was extended until January 2022, the loan amount was reduced to \$3.0 million and the pledge of 26% interest in one of the Company's European subsidiaries was terminated.

The Company's weighted average interest during the years ended December 31, 2020, 2019 and 2018 is 7.60%, 8.30% and 7.70%, respectively.

As of December 31, 2020 and 2019, convertible notes payable to this related party consist of \$1.2 million and \$2.0 million, respectively.

### Note Payable to Related Party

As of December 31, 2020 and 2019, notes payable to this related party consist of \$0 and \$1.5 million, respectively.

Total interest expense related to these notes is \$0.2 million, \$1.2 million and \$2.7 million for the years ended December 31, 2020, 2019 and 2018, respectively.

### **Sale of AU10TIX Technologies B.V. (Formerly ABC Technologies B.V.) Preferred Shares**

On July 3, 2019, AU10TIX, entered into a Series A Preferred Subscription Agreement (the "Agreement") with TPG Lux 2018 SC I, S.a.r.l ("TPG"), according to which AU10TIX issued Series A Preferred Shares ("Series A Shares") to TPG for a subscription price of US\$60.0 million in cash representing approximately 24% of the outstanding share capital of AU10TIX and 23.077% of the fully-diluted share capital of AU10TIX. Transaction costs totaled \$4.5 million and were deducted from the redeemable non-controlling interests balance.

On November 7, 2019, AU10TIX entered into a Series A and Series A-1 Preferred Subscription Agreement with Oak HC/FT Partners II, L.P. ("Oak"), according to which AU10TIX issued 1,000,000 Series A Preferred Shares and 23,622 Series A-1 Preferred Shares ("Series A-1 Shares" and together with Series A Shares – "the Preferred Shares") to Oak for a subscription price of US\$20.0 million in cash representing approximately 7.4% of the outstanding share capital of AU10TIX and 7.1% of the fully-diluted share capital of AU10TIX. For accounting purposes, the investment was allocated to the Series A and Series A-1 Preferred Shares on a relative fair value basis: \$19.5 million and \$0.4 million, respectively. Transaction costs totaled \$1.5 million and were deducted from the respective investment amounts.

Following the Oak investment, on November 7, 2019, TPG subscribed for 307,087 Series A-1 Shares at nominal value (US\$0.001 per share) (“Bonus Issue Series A-1 Shares”) in order to preserve its 23.077% ownership interest in the fully diluted share capital of AU10TIX.

#### The Preferred Shares Rights

**Liquidation Preference:** The holders of Series A Shares (“Series A Holders”) are entitled to a liquidation preference upon the occurrence of a sale, initial public offering (“IPO”), merger, consolidation, reorganization, winding-up, dissolution or liquidation of AU10TIX, pursuant to which the Series A Holders are entitled, on the occurrence of such event and in priority to the ordinary shares, to receive the greater of: (a) an amount equal to the initial subscription price for the Series A Shares, plus all accrued but unpaid dividends in respect of the Series A Shares, less all dividends previously paid on the Series A Shares, and (b) the proceeds distributable in respect of the Series A Shares had they been converted into ordinary shares. The initial subscription price for the Series A Shares (and calculations derived therefrom) are subject to customary adjustments as set forth in the agreements executed in connection with the Sale.

**Conversion Rights:** The Series A Shares are subject to conversion into ordinary shares of AU10TIX: (a) on the written request by any Series A Shareholder; and (b) immediately prior to a qualifying IPO of AU10TIX (being an IPO where the net aggregate gross proceeds to AU10TIX exceed US\$75.0 million and where the subscription price per share paid by the public is not less than 150% of the initial subscription price paid for the Series A Shares). Pursuant to these conversion arrangements, the Series A Shares will convert into ordinary shares on a 1:1 basis (subject to certain agreed upon adjustments).

**Anti-Dilution Protection:** The Shareholders Agreements contain customary broad-based weighted average anti-dilution protection whereby, if further shares are issued by AU10TIX at a price per new security that is less than the initial subscription price paid for the Series A Shares, then the Series A Holders shall be entitled to receive additional Series A Shares (at no further cost) on a weighted-average basis, reflecting the value of equity in AU10TIX as determined based on the subscription price paid in the new issue of securities.

**Pre-emption Rights:** The Shareholders Agreements contain a restriction on issuing any securities ranking senior to or on par with the Series A Shares for as long as TPG and/or any subsequent investor holds at least one third of the overall number of Series A Shares in issue as at the date of completion of the Sale. In addition, each shareholder holding in excess of 3% of the shares of AU10TIX has the right to participate in any new issuance of securities by the AU10TIX, subject to customary exceptions.

**Exit Rights:** At any time from and after the fifth (5th) anniversary of completion of the issuance, upon written request by TPG, AU10TIX is required to use reasonable endeavours to facilitate the sale by TPG of the Preferred Shares (or, following conversion, ordinary shares) to a third party at a price in excess of 150% of the initial subscription price paid for the Series A Shares and subject to a right of first refusal in favour of the Company. In the event that, three (3) months thereafter, a sale of the Preferred Shares held by TPG has not been consummated, upon written request by TPG, AU10TIX is required to facilitate a sale of AU10TIX within six (6) months after such written request, and thereafter, TPG has the right to require AU10TIX to facilitate a sale or IPO of AU10TIX. On the exercise of such rights, each other shareholder (including the Company) is required to cooperate with TPG regarding such sale or IPO and TPG has the right to exercise drag rights over the shares held by other shareholders in order to facilitate such exit event.

The Exit Right is part of the issuance of the Series A Shares, and was not entered into separately from the transaction that created the non-controlling interests. The Exit Right is not legally detachable from the non-controlling interests because it is non-transferrable (i.e., the instrument cannot be transferred without the underlying preferred shares). Thus, the Exit Right would not be separately exercisable from the non-controlling interests shares because the non-controlling interests shares will be settled when the Exit Right is exercised. As a result, the Exit Right would be considered embedded in the Series A Shares held by TPG.

Shares of redeemable convertible preferred stock are not mandatorily or currently redeemable. However, the Exit Right would constitute a contingent redemption event that is outside of the Company’s control. As such, Series A Shares have been presented outside of permanent equity as redeemable non-controlling interests. The Company has adjusted the carrying value of the redeemable non-controlling interests to adjust for the non-controlling interests share in AU10TIX’s profits and Other Comprehensive Income (Loss). The Company has not adjusted the carrying values of the redeemable non-controlling interests to the deemed liquidation values of such shares since a liquidation event was not probable at any of the balance sheet dates. Subsequent adjustments to increase or decrease the carrying values to the ultimate liquidation values will be made only if and when it becomes probable that such a liquidation event will occur.

The Series A-1 Preferred Shares do not entitle their holders to any liquidation or exit rights as the Series A Preferred Shares, and therefore are classified within permanent equity, as non-controlling interests.

The anti-dilution provisions cited above have not been bifurcated from the host contract since they are to be settled into AU10TIX's non-traded shares, thus the "net settlement" criteria is not met.

**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 \$6.5 million, \$5.1 million and \$3.7 million during the years ended December 31, 2020, 2019 and 2018, respectively.

**Trend Information**

Labor market conditions may require the Company to increase its prices when possible according to the contracts with customers. 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. As of 2020 the company has been materially affected by the COVID-19 crisis as mentioned before.

**Off-Balance Sheet Arrangements**

The Company is a party to a consulting arrangement and agency agreements, 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, 2020:

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
Lines of credit in Europe	\$ 13,814	\$ 13,814	\$ -	\$ -	\$ -
Consulting agreements	1,104	184	552	368	-
Convertible notes payable - related party	1,200	-	1,200	-	-
Operating lease obligations	14,418	4,048	8,063	1,465	842
Governmental payments in the Netherlands (VAT, social security and wage tax)	25,548	2,115	23,433	-	-
	<u>\$ 56,084</u>	<u>\$ 20,161</u>	<u>\$ 33,248</u>	<u>\$ 1,833</u>	<u>\$ 842</u>

The following table summarizes the Company's other future commercial obligations as of December 31, 2020:

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	\$ 1,195	\$ -	\$ 1,195	\$ -	\$ -
Letters of credit	3,991	775	3,216	-	-
	<u>\$ 5,186</u>	<u>\$ 775</u>	<u>\$ 4,411</u>	<u>\$ -</u>	<u>\$ -</u>

**Item 6. Directors, Senior Management and Employees**

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

	Age	Position
Menachem Atzmon	76	Chairman of the Supervisory Board
Ron Atzmon	47	Member of the Supervisory Board and Managing Director of AU10TIX
Gil Atzmon	45	Member of the Supervisory Board
Philip M. Getter	84	Member of the Supervisory Board, Chairman of the Audit Committee
David W. Sass	85	Member of the Supervisory Board
Gail F. Lieberman	77	Member of the Supervisory Board, Member of the Audit Committee and Chairman of the Compensation Committee
Gordon Hausmann	75	Member of the Supervisory Board, Member of the Audit Committee and member of the Compensation Committee
Alon Raich	45	Joint Managing Director and Chief Financial Officer
Rom Shaked	38	Joint Managing Director

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.

Ron Atzmon is the Managing Director of the AU10TIX Group since September 2008. Mr. Atzmon was the CEO and founder of 1ST2C.com between April 2005 until January 2009. Mr. Atzmon holds an MA in Business Administration from the College of Management Academic, Israel and an MBA from the Imperial College London, UK.

Gil Atzmon is the CEO of Arrow Ecology since February 2017. Mr. Atzmon was a Director of Sales at S. Juwal & Co from 2002 to 2017. Mr. Atzmon holds a BA in Business Administration and Management from IDC Herzliya, Israel and an MBA from the London Metropolitan University, UK.

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 Chairman/CEO of Generics Corporation of America, then one of the largest generic drug companies in the United States of America. As President 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 RFID and security inks. He was 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 Theatres 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. His productions have earned Pulitzer Prize, Tony and Grammy Awards including winner of the 2019 Tony Award for Hedestown as best musical.

David W. Sass for the past 61 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 is also licensed in the State of Texas. 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 and Chairman of the Audit & Finance Committee of WL Gore & associates. Mrs. Lieberman is a board member of Equilend, a financial technology company. 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.

Alon Raich is a CPA (Isr). From 2001 to 2002, Mr. Raich worked in the accounting firm Kesselman & Kesselman, PriceWaterhouseCoopers (PWC). Mr. Raich joined ICTS in September 2005 as Financial Controller and became Chief Financial Officer (CFO) of ICTS in 2008. Since February 2020, Mr. Raich is a joint Managing Director of the Company. Mr. Raich holds a BA degree in economics and accounting and a MA degree in law from Bar Ilan University, Israel.

Rom Shaked is a CPA (Isr.) and an attorney at law (Isr.). Mr. Shaked joined ICTS in 2015 as an Internal Auditor. In April 2019 Mr. Shaked was nominated as Deputy CEO of I-SEC International Security B.V. and is responsible for I-SEC's Quality Assurance, Corporate HR, and is providing support in project management in different areas. As of February 2020, Mr. Shaked is a joint Managing Director of the Company and for I-SEC International. Before joining ICTS Mr. Shaked was working as a financial auditor and in the Israeli Securities Authority (ISA).

## Summary Compensation Table

The following table sets forth compensation earned by the Company's Managing Directors and the highest paid executives during the years 2018 through 2020 (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)	2020	342	-	10	-	-	-	-	352
	2019	476	-	20	-	-	-	-	496
	2018	481	295	21	-	-	-	-	797

(a) Highest paid employee in 2018. The Managing Director retired on September 30, 2020.

Principal Position	Year	Salary	Bonus / Commission	All Other Compensations	Non-equity Incentive Plan Compensation	Nonqualified Deferred Compensation Earnings	Number of Option Award	Number of Stock Awards	Total
		\$	\$	\$	\$	\$			\$
Managing Director of a subsidiary (b)	2020	192	459	90	-	-	-	-	741
	2019	185	529	87	-	-	-	-	801

(b) Highest paid employee in 2020 and 2019

Each member of the Supervisory Board who is not an employee of the Company receives an annual fee of \$30 thousands and a fee for each Supervisory Board or committee meeting attended of \$2 thousands. The Chairman of the Audit Committee receives an additional \$20 thousands per year. The Chairman of the Board receives an annual fee of \$50 thousands. Managing Directors are being employed by the Company and the total expenses regarding the employment of the current Managing Directors for the year ended December 31, 2020 was \$0.5 million.

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, 2020:

	Salaries, fees, commissions and bonuses	Pension, retirement and other similar benefits
	(in thousands)	
Supervisory Directors as a group (7 persons)	\$ 322	\$ -
Officers as a group (6 persons)	\$ 1,324	\$ 163

## 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 and commissions as well as equity awards in some cases to compensate them for services rendered during the year. The Compensation Committee determines the composition and amount of director and key employee compensation. When the annual award consists of equity purchases, it is only permitted at a price equal or above market.

#### **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, 2020 and the initial year they joined the Supervisory Board are as follows: Menachem Atzmon (1999), Ron Atzmon (2018), Gil Atzmon (2018), 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, 2020, the Company has 6,235 employees, of which 4,709 employees are located in Europe, Far East and Israel and 1,526 are located in the United States of America.

#### **Share Ownership**

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

## Options to Purchase Securities

In June 2016, one of the Company's subsidiaries adopted a Stock Option Plan and reserved 500,000 shares of common stock for that subsidiary's future issuance. As of December 31, 2020, the subsidiary has 13,000,000 authorized shares of which 12,500,000 shares are issued and outstanding. Under the stock option plan, stock options may be granted to that subsidiary's employees, officers, directors, consultants and service providers of the subsidiary at an exercise price as determined by the subsidiary's board of directors with expiration terms of not more than ten years after the date such option is granted. Options granted under the plan generally vest over a period of four years.

During the years ended December 31, 2020, 2019 and 2018, the subsidiary did not grant any options.

As of December 31, 2020, there are 200,500 options outstanding and exercisable.

## 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 December 31, 2020 with respect to:

Each person who is known by the Company to own beneficially more than 5% of the Company's outstanding Common Shares.

All directors and officers as a group.

Name Shareholders Holding Five Percent or More	Percent of Amount Beneficially Owned (a)	Common shares Outstanding (a)
MacPherson Trust and its Ultimate Beneficial Owners (b)	62.6%	23,418,861
Menachem J. Atzmon	13.0%	4,850,000
Igal Tabori	5.1%	1,902,483
All officers and directors as a group (9 persons), the MacPherson Trust and its Ultimate Beneficial Owners	84.6%	31,680,721

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

(b) 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 and its Ultimate Beneficial Owners approximately 62.6% of the issued and outstanding Common Shares. Mr. Atzmon disclaims any beneficial interest in the MacPherson Trust. Spencer Corporation Limited and the MacPherson Trust and its Ultimate Beneficial Owners together with Mr. Atzmon are able to appoint all the directors of ICTS and control the affairs of ICTS.

2. As of December 31, 2020 the Company has convertible notes payable to a related party in the total amount of \$1.2 million, convertible at a rate of \$0.40 per share. The calculation above does not take into consideration the conversion of convertible notes.

### Related Party Transactions

An entity related to one of the Company's Supervisory Board members provide legal services to the Company. Legal expense related to these services is \$46 thousands, \$46 thousands and \$35 thousands for the years ended December 31, 2020, 2019 and 2018, respectively.

The Company engages the services of a related party to provide certain selling and management services to the authentication technology segment. The Company incurred expenses of \$0.7 million, \$0.8 million and \$0.7 million for such services for the years ended December 31, 2020, 2019 and 2018, respectively. As of December 31, 2020, and 2019 the outstanding balances due for these services were \$0.1 million and \$0.2 million, respectively, included in accrued expenses and other current liabilities. In addition, since April 2018, the related party serves as a board member of the Company and was paid an amount of \$38 thousands, \$28 thousands and \$15 thousands as board fees, for the years ended December 31, 2020, 2019 and 2018, respectively.

An entity related to the Company's main shareholder provided a letter of credit of \$0.5 million to a commercial bank to guarantee a borrowing arrangement on behalf of one of the Company's subsidiaries. In December 2019, the Company replaced the letter of credit by its own letter of credit.

The Company engages the services of a related party to provide certain selling services to its authentication technology segment. The Company incurred expenses of \$0.1 million for such services for each of the years ended December 31, 2020, 2019 and 2018, respectively.

The Company engages the services of a related party to provide internal audit services. As of February 2020, the related party acts as a Managing Director of the Company. The Company incurred expenses of \$0.2 million for such services for each of the years ended December 31, 2020, 2019 and 2018.

The chairman of the board, a related party, receives annual compensation of \$0.1 million for his services as chairman. In addition, in 2020, the Company incurred expenses of \$0.1 million for the services he provides to AU10TIX.

In August 2017, the Company engaged the services of a related party to provide certain selling and administrative services to its authentication technology segment. The Company incurred expenses of \$0, \$39 thousands and \$103 thousands for such services for the years ended December 31, 2020, 2019 and 2018, respectively. In addition, the related party serves as a board member of the Company, and was paid an amount of \$38 thousands, \$30 thousands and \$15 thousands as board fees, for the years ended December 31, 2020, 2019 and 2018, respectively.

In May 2018, the Company engaged the services of a related party to provide certain administration services. The Company incurred expenses of \$0.1 million for such services for each of the years ended December 31, 2020, 2019 and 2018.

In May 2019, the Company engaged the services of Arrow to provide some administrative services. The Company incurred expenses of \$0.1 million for such services for each of the years ended December 31, 2020 and 2019.

In June 2019, the Company issued 3,000,000 shares to certain directors and officers of the Company for a purchase price of \$0.40 per share. The Compensation Committee determines the composition and amount of director and key employee compensation. When the annual award consists of equity purchases, it is only permitted at a price equal or above market.

In December 2019, the Company purchased shares and shareholders debt of Arrow for \$1.8 million.

In May 2020, an entity related to the Company's main shareholder provided a letter of credit of €2.0 million (\$2.5 million as of December 31, 2020) to a commercial bank to guarantee a borrowing arrangement on behalf of one of the Company's subsidiaries. The Company provided to the related party a deposit of \$2.2 million against the letter of credit which will be paid back to the Company once the letter of credit will be cancelled.

The Company has debt to related parties as described before in section "Related Parties Financing".

#### **Item 8. Financial Information**

The Consolidated Financial Statements and Financial Statement Schedule are included herein on pages F-1 through F-41.

#### **Legal Proceedings**

##### 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 in that country are sold in the future, the third-party agent is entitled to a payment of €3.0 million (\$3.7 million as of December 31, 2020).

In March 2016, the Company entered into an agreement with a third party to assist the Company with the possible sale of one of the Company's subsidiaries. The fees depend on the outcome of the assignment and are between 2% - 5% of the sale consideration but not less than \$4.0 million. In February 2019 the agreement was amended. According to the amendment, in case that less than 50% of the voting stock or majority of the subsidiary assets are being sold the transaction fee will be 5% of the sale consideration but not lower than \$3.0 million.

In August 2017, the Company entered into an agreement with a third party to assist the Company with a possible sale of one of the Company's subsidiaries. The fees depend on the outcome of the assignment and are between 2% - 10% of the sale consideration but not less than €2.0 million (\$2.5 million as of December 31, 2020).

## 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:

Year	High		Low	
2016	\$	0.71	\$	0.40
2017	\$	1.30	\$	0.45
2018	\$	1.09	\$	0.40
2019	\$	3.00	\$	0.15
2020	\$	4.09	\$	1.34

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

2020	High	Low
First quarter	\$ 4.09	\$ 2.40
Second quarter	\$ 3.00	\$ 1.34
Third quarter	\$ 3.35	\$ 2.56
Fourth quarter	\$ 4.00	\$ 2.31

  

2019	High	Low
First quarter	\$ 0.26	\$ 0.25
Second quarter	\$ 0.25	\$ 0.15
Third quarter	\$ 1.45	\$ 0.19
Fourth quarter	\$ 3.00	\$ 1.05

  

2018	High	Low
First quarter	\$ 1.09	\$ 0.60
Second quarter	\$ 0.80	\$ 0.40
Third quarter	\$ 0.80	\$ 0.47
Fourth quarter	\$ 0.48	\$ 0.40

## Item 10. Additional Information

### Memorandum and Articles of Association

#### Introduction

ICTS is a public company with limited liability (naamloze vennootschap met beperkte aansprakelijkheid) incorporated under Dutch law on October 9, 1992. ICTS' statutory seat is in Amstelveen, the Netherlands, and its registered office address at Schiphol, the Netherlands. ICTS is registered with the trade register of the Dutch Chamber of Commerce under number 33279300.

As a Dutch public company with limited liability, ICTS is subject to certain requirements not generally applicable to corporations organized under the laws of jurisdictions within the United States of America. Set forth below is a summary of the material provisions of the articles of association of ICTS as lastly amended on January 4, 2021 (the Articles of Association) and Dutch law, where appropriate. This summary does not purport to be complete and is qualified in its entirety by reference to the Articles of Association. All references in this summary to the Netherlands and Dutch law are to the European part of the Netherlands and its law, respectively, only.

#### Corporate Objects

The objectives of ICTS are described in Article 2 of the Articles of Association and include, without limitation, to manage and finance businesses, extend loans and invest capital.

#### Share Capital

The shares of ICTS are subject to, and have been created under, the laws of the Netherlands. ICTS' share capital is divided into common shares (Shares).

All Shares are in registered form (op naam) and are only available in the form of an entry in ICTS' shareholders' register.

Under Dutch law, ICTS' authorized share capital sets out the maximum amount and number of shares that it may issue without amending its Articles of Association. The Articles of Association provide for an authorized share capital in an amount of EUR 67,500,000 divided into 150,000,000 Shares, each Share with a nominal value of EUR 0.45.

As of December 31, 2020, 37,433,333 Shares were issued and outstanding.

#### Issue of Shares and Pre-Emptive Rights

The General Meeting is authorized to issue Shares or to grant rights to subscribe for Shares and to restrict and/or exclude statutory pre-emptive rights in relation to the issuance of Shares or the granting of rights to subscribe for Shares. The General Meeting may designate another body of ICTS competent to issue Shares (or grant rights to subscribe for Shares) and to determine the issue price and other conditions of the issue for a specified period not exceeding five years (which period can be extended from time to time for further periods not exceeding five years) so long as the maximum number of Shares which may be issued is specified. Shares may not be issued at less than their nominal value and must be fully paid-up upon issue. A resolution by the General Meeting to issue Shares (or grant rights to subscribe for Shares) or to designate another body as the competent corporate body requires an absolute majority of the votes cast. Such resolution was adopted in December 2019 for a period of five years until December 2024. Designation by resolution of the General Meeting cannot be withdrawn unless determined otherwise at the time of designation. No resolution is required for the issue of Shares pursuant to the exercise of a previously-granted right to subscribe for Shares.

Under Dutch law and the Articles of Association, each Shareholder has a pre-emptive right in proportion to the aggregate nominal value of their shareholding upon the issue of Shares (or the granting of rights to subscribe for Shares). Exceptions to this pre-emptive right include the issue of Shares (or the granting of rights to subscribe for Shares): (i) to employees of ICTS or another member of its Group; (ii) against payment in kind (contribution other than in cash) and (iii) to persons exercising a previously-granted right to subscribe for Shares. The pre-emptive rights in respect of newly issued Shares or the granting of rights to subscribe for Shares may be restricted or excluded by a resolution of the General Meeting. The General Meeting may designate another corporate body as competent to resolve upon the restriction or exclusion of the pre-emptive rights if such other corporate body has also been designated as the competent body to resolve upon the issue of Shares for a specified period not exceeding five years (which period can be extended from time to time for further periods not exceeding five years). A resolution of the General Meeting to exclude or restrict pre-emptive rights, or to authorize another corporate body to exclude or restrict pre-emptive rights, requires a majority of at least two thirds of the votes cast, if less than half of the issued share capital of ICTS is present or represented at the General Meeting. Such resolution was adopted in December 2019 for a period of five years until December 2024. The resolution by which the pre-emptive rights are excluded or limited needs to be filed with the Netherlands Chamber of Commerce within eight days of such resolution. A resolution designating another corporate body to resolve upon the restriction or exclusion of the pre-emptive rights cannot be withdrawn unless provided otherwise in such resolution.

#### Acquisition of Own Shares

ICTS cannot subscribe for Shares in its own capital at the time Shares are issued. Subject to the certain provisions of the Articles of Association, ICTS may acquire fully paid-up Shares provided no consideration is given or provided, (i) its shareholders' equity less the payment required to make the acquisition, does not fall below the sum of called-up and paid-in share capital and any reserves to be maintained by Dutch law and/or the Articles of Association, (ii) ICTS and its subsidiaries would thereafter not hold Shares or hold a pledge over Shares with an aggregate nominal value exceeding 50% of ICTS' issued share capital and (iii) the Management Board has been authorized thereto by the General Meeting. Any acquisition by ICTS of Shares that are not fully paid-up shall be null and void.

The General Meeting's authorization to the Management Board to acquire own Shares is valid for a maximum of 18 months. As part of the authorization, the General Meeting must specify the number of Shares that may be repurchased, the manner in which the Shares may be acquired and the price range within which the Shares may be acquired. The authorization is not required for the acquisition of Shares for employees of the Company, under a scheme applicable to such employees. In 2020, the shareholders approved to amend the articles of association, so that the Company will be entitled to buy back up to 20% of the issued shares.

Shares held by the Company in its own share capital do not carry a right to any distribution. Furthermore, no voting rights may be exercised for any of the Shares held by the Company or its subsidiaries unless such Shares are subject to the right of usufruct or to a pledge in favour of a person other than the Company or its subsidiaries and the voting rights were vested in the pledgee or usufructuary before the Company or its subsidiaries acquired such Shares. The Company or its subsidiaries may not exercise voting rights in respect of Shares for which the Company or its subsidiaries have a right of usufruct or a pledge.

#### Reduction of Share Capital

The General Meeting may resolve to reduce the issued share capital by (i) cancelling Shares or (ii) amending the Articles of Association to reduce the nominal value of the Shares of ICTS. In either case, this reduction would be subject to provisions of Dutch law and the Articles of Association. Only Shares held by ICTS or Shares for which it holds the depositary receipts may be cancelled. Under Dutch law, a resolution of the General Meeting to reduce the number of Shares must designate the shares to which the resolution applies and must lay down rules for the implementation of the resolution. A resolution by the General Meeting to reduce the issued share capital of ICTS must be approved by at least a two third majority of the votes cast, in a meeting in which holders of more than half of ICTS' issued and outstanding share capital is present or represented.

#### Dividends

Pursuant to Dutch law and the Articles of Association, the distribution of profits will take place following the adoption of ICTS' annual accounts by the General Meeting, from which ICTS will determine whether such distribution is permitted. ICTS may make distributions to the Shareholders, whether from profits or from its freely distributable reserves, only insofar as its shareholders' equity exceeds the sum of the paid-up and called-up share capital plus the reserves required to be maintained by Dutch law or pursuant to the Articles of Association.

Subject to Dutch law and the Articles of Association, the Supervisory Board may determine which part of ICTS' profits as per its financial statements for the relevant financial year will be added to the reserves. The remaining part of the profits will be at the disposal of the General Meeting.

Subject to Dutch law and the Articles of Association, the Management Board, with the prior approval of the Supervisory Board, may resolve to distribute an interim dividend if it determines such interim dividend to be justified by ICTS' profits. For this purpose, the Management Board must prepare an interim statement of assets and liabilities. Such interim statement shall show the financial position of ICTS not earlier than on the first day of the third month before the month in which the resolution to make the interim distribution is announced. An interim dividend can only be paid if (a) an interim statement of assets and liabilities is drawn up showing that the funds available for distribution are sufficient, and (b) ICTS' shareholders' equity exceeds the sum of the paid-up and called-up share capital plus the reserves required to be maintained by Dutch law.

An entitlement to any dividend distribution shall be barred five years after the date on which those dividends were released for payment.

## General Meeting of Shareholders

### Annual General Meeting

The General Meeting will be held at least once a year and no later than six months from the end of the preceding financial year of ICTS. The purpose of the annual General Meeting is to discuss, amongst other things, the annual report, the adoption of the annual accounts, allocation of profits (including the proposal to distribute dividends), release of the Managing Directors from liability for their management and the Supervisory Directors from liability for their supervision thereon, filling of any vacancies and other proposals brought up for discussion by the Management Board and the Supervisory Board.

### Convocation Notice and Agenda

A General Meeting can be convened by the Management Board or the Supervisory Board by a convening notice. 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 a national newspaper in the Netherlands and otherwise in other countries as required pursuant to the relevant laws where ICTS' Shares have been admitted to trading on a trading facility.

### Extraordinary General Meeting

Other General meetings may be held as often as deemed necessary by the Management Board and Supervisory Board and must be held if one or more Shareholders or other persons entitled to attend the general meeting jointly representing at least 10% of ICTS' issued share capital make a written request to the Management Board or the Supervisory Board that a meeting must be held and specifying in detail the business to be dealt with at such meeting.

### Agenda

Under Dutch law, one or more Shareholders representing solely or jointly at least 3% of the ICTS' issued and outstanding share capital in value are entitled to request the Management Board to include items on the agenda of the General Meeting.

### Place General Meeting

General Meetings are held in Amstelveen, the Netherlands (the place of the statutory seat of ICTS) or in Amsterdam, Rotterdam, Schiphol Oost or The Hague, the Netherlands.

### Admission

All shareholders of ICTS, and each usufructuary and pledgee to whom the right to vote on Shares accrues, are entitled, in person or represented by a proxy authorized in writing, to attend and address the General Meeting and exercise voting rights pro rata to their shareholding.

In order to attend, address and vote at the General Meeting, the holders of ICTS' registered shares must notify it in writing of their intention to attend the meeting and holders of ICTS' Shares admitted to trading on a trading facility must direct the depository to their Shares, each as specified in the published notice. However, Shareholders and other persons entitled to attend the General Meeting may be represented by proxies with written authority.

### Voting Rights

Each Share confers the right on the holder to cast one vote at the General Meeting. Resolutions are passed by an absolute majority of the votes cast provided a quorum of at least 50% of the outstanding share capital is represented, unless Dutch law or the Articles of Association prescribe a larger majority. Under Dutch law, no votes may be cast at a General Meeting in respect of Shares which are held by ICTS itself.



### Management Structure

ICTS has a two-tier board structure comprising of the Management Board (bestuur) and the Supervisory Board (raad van commissarissen).

The Management Board is collectively responsible for ICTS' general affairs and is in charge of the day-to-day management, formulating strategies and policies, and setting and achieving ICTS' objectives. The Supervisory Board supervises the Management Board and the general affairs of ICTS and the business connected with it and provides the Management Board with advice.

### Management Board

#### Powers, Responsibilities and Function

The Management Board is the executive body of ICTS, collectively responsible for, among other things, defining and attaining ICTS' objectives, determining ICTS' strategy and risk management policy, the day-to-day management, the ICTS' general affairs and ICTS' representation, subject to the supervision of the Supervisory Board. The Management Board may perform all acts necessary or useful for achieving ICTS' objectives, with the exception of those acts that are prohibited by law or by the Articles of Association. The Management Board may allocate its responsibilities and powers to its individual members. All Managing Directors remain collectively responsible for proper management regardless of the allocation of tasks. In performing their duties, the Managing Directors must carefully consider and shall act in accordance with the interests of ICTS and the business connected with it, taking into consideration the interests of all corporate stakeholders, such as Shareholders, creditors, employees, customers, patient populations and suppliers.

Subject to certain statutory exceptions, the Management Board as a whole is authorized to represent ICTS. In addition, should the Management Board be comprised of two or more members, two Managing Directors acting jointly are also authorized to represent ICTS.

#### Composition, Appointment, Term of Appointment and Dismissal

The Articles of Association provide that the Management Board shall consist of one or more members and that the General Meeting determines the exact number of Managing Directors.

The General Meeting appoints the Managing Directors. Managing Directors are appointed by the General meeting for an indefinite period.

The General Meeting and the Supervisory Board may suspend Managing Directors at any time, and the General Meeting may remove Managing Directors at any time. A General Meeting must be held within three months after a suspension of a Managing Director has taken effect, in which meeting a resolution must be adopted to either terminate or extend the suspension, provided that in the case that such suspension is not terminated, the suspension does not last longer than three months in aggregate. The suspended Managing Director must be given the opportunity to account for his or her actions at that meeting. If neither such resolution is adopted nor the General Meeting has resolved to dismiss the Managing Director, the suspension will cease after the period of suspension has expired.

#### Decision-Making

In a meeting of the Management Board, each Managing Director is entitled to cast one vote. All resolutions by the Management Board are adopted by the favourable vote of a majority of the Managing Directors present or represented at the meeting (and in respect of whom no conflict of interest exists).

The Supervisory Board may also adopt resolutions outside a meeting, in writing or otherwise, provided that the proposal concerned is submitted to all Managing Directors then in office (and in respect of whom no conflict of interest exists) and provided that none of them objects to such decision-making process. Resolutions in writing shall be adopted by written statements from all relevant Managing Directors then in office in respect of whom no conflict of interest exists.

#### Conflicts of Interests

A Managing Director shall not participate in any discussions and decision-making process if he or she has a direct or indirect personal interest conflicting with the interests of the Company. Such a conflict of interest only exists if in the situation at hand the Managing Director is deemed to be unable to serve the Company's interest and its connected business with the required level of integrity and objectivity. If for this reason no resolution can be taken by the Managing Directors, the Supervisory Board will resolve on the matter.

## Supervisory Board

### Powers, Responsibilities and Function

The role of the Supervisory Board is to supervise the conduct and policies of the Management Board and the general affairs of ICTS and the business connected with it as well as to provide the Management Board with advice. The Supervisory Directors are not authorized to represent ICTS. In performing their duties, the Supervisory Directors are required to be guided by the interests of ICTS and the business connected with it, and shall consider the interests of the ICTS' stakeholders, which include but are not limited to its shareholders, creditors, employees, customers and suppliers. The Supervisory Board may, at ICTS' expense, seek the advice which it deems desirable for the correct performance of its duties.

### Composition, Appointment, Term of Appointment and Dismissal

The Articles of Association provide that the Supervisory Board shall consist of one or more members and that the General Meeting determines the exact number of Supervisory Directors.

The members of the Supervisory Board are appointed by the General Meeting for a term of one year.

The General Meeting may suspend and remove Supervisory Directors at any time. A General Meeting must be held within three months after a suspension of a Supervisory Director has taken effect, in which meeting a resolution must be adopted to either terminate or extend the suspension, provided that in the case that such suspension is not terminated, the suspension does not last longer than three months in aggregate. The suspended Supervisory Director must be given the opportunity to account for his or her actions at that meeting. If neither such resolution is adopted nor the General Meeting has resolved to dismiss the Supervisory Director, the suspension will cease after the period of suspension has expired.

### Decision-Making

In a meeting of the Supervisory Board, each Supervisory Director is entitled to cast one vote. A Supervisory Director may grant a written proxy to another Supervisory Director (if in office) to represent him at a meeting. All resolutions by the Supervisory Board are adopted by the favourable vote of a majority of the Supervisory Directors present or represented at the meeting (and in respect of whom no conflict of interest exists).

The Supervisory Board may also adopt resolutions outside a meeting, in writing or otherwise, provided that the proposal concerned is submitted to all Supervisory Directors then in office (and in respect of whom no conflict of interest exists) and provided that none of them objects to such decision-making process. Adoption of resolutions in writing shall be adopted by written statements from all relevant Supervisory Directors then in office in respect of whom no conflict of interest exists.

### Conflicts of Interests

A Supervisory Director shall not participate in any discussions and decision-making process if he or she has a direct or indirect personal interest conflicting with the interests of the Company. Such a conflict of interest only exists if in the situation at hand the Supervisory Director is deemed to be unable to serve the Company's interest and its connected business with the required level of integrity and objectivity. If for this reason no resolution can be taken by the Supervisory Directors, the General Meeting will resolve on the matter.

### Financial Year and Annual Accounts

The financial year of ICTS coincides with the calendar year. Annually within five months after the end of the financial year, the Management Board prepares the annual accounts. The annual accounts must be accompanied by the Report of Independent Registered Public Accounting Firm, an annual report, a report by the Management Board and a report by the Supervisory Board and certain other information required under Dutch law. All Managing Directors and Supervisory Board sign the annual accounts and if one of them does not so sign, the reason for this omission must be stated. The Management Board must make the annual accounts, the annual report and other information required under Dutch law available for inspection by the Shareholders and other persons entitled to attend and address the General Meeting at the offices of ICTS from the day of the notice convening the annual General Meeting. The annual accounts must be adopted by the General Meeting at the annual General Meeting.

Contrary to what is provided in Article 19 paragraph 4 of the Articles of Association, approval of the annual accounts by the Shareholders does not discharge the Managing Directors and the Supervisory Board from liability for the performance of their respective duties for the past financial year. In order to discharge the Managing Directors and Supervisory Board from liability a separate resolution thereto needs to be adopted by the General Meeting (which resolution can be adopted in the same meeting in which the annual accounts will be adopted). Under Dutch law, this discharge is not absolute and will not be effective with respect to matters which are not disclosed to the Shareholders.

#### Amendment of Articles of Association

Only the General Meeting may resolve to amend the Articles of Association. A proposal to amend the Articles of Association must be included in the notice convening the General Meeting. A copy of the proposal containing the verbatim text of the proposed amendment must be available at ICTS for inspection by every shareholder of ICTS and every holder of meeting right until the end of the General Meeting.

A resolution by the General Meeting to amend the Articles of Association must be approved by at least a two third majority of the votes cast, in a meeting in which holders of more than half of ICTS' issued and outstanding share capital is present or represented.

#### Dissolution and Liquidation

A proposal to dissolve ICTS must be included in the notice convening the General Meeting. A resolution by the General Meeting to dissolve ICTS must be approved by at least a two third majority of the votes cast, in a meeting in which holders of more than half of ICTS' issued and outstanding share capital is present or represented.

If the General Meeting has resolved to dissolve ICTS, the Managing Directors will be charged with the liquidation of the business of ICTS in accordance with Dutch law and the Articles of Association under supervision of the Supervisory Board. During liquidation, the provisions of the Articles of Association will remain in force as far as possible.

Any surplus remaining after settlement of all debts and liquidation costs will be distributed to the Shareholders in proportion to the nominal value of their shareholdings.

#### **Material contracts**

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

#### **Exchange controls**

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

There are no limitations imposed by Dutch law or ICTS' charter documents on the right of non-resident or foreign owners to hold or vote 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 of America, (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 of America 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 in the case of a U.S. Holder that is a corporation, generally will not be eligible for the dividends received deduction allowed to U.S. corporations unless the Company constitutes a so-called "specified 10%-owned foreign corporation" with respect to such a U.S. Holder.

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 in the hands of a non-corporate U.S. Holder) plus potentially a net investment income tax (for non-corporate U.S. Holders) at a maximum rate of 3.8%.

Distributions in excess of the earnings and profits of the Company will be treated, for U.S. federal income tax purposes, first as a non-taxable 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 Euros will be determined based on 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 of America and the Netherlands will be allowed a credit for only the amount of withholding tax provided for under the U.S. Tax Treaty (generally 15%).

However, the full amount of the dividend, including any withheld amounts, generally will be subject to current United States federal income taxation whether or not such Holder obtains the benefit of a credit for the 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 that 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. Based on historic economics, the portion of Dutch withholding tax that may not be creditable in this instance should equal 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 would 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 24% U.S. backup withholding tax. Backup withholding generally will not apply, however, to a Holder who furnishes a correct U.S. 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

##### Corporate Income Tax – General

We are incorporated under the laws of the Netherlands and are therefore subject to Netherlands corporate income tax. As of 2020, the standard corporate income tax rate is 16.5% on profits up to €0.2 million and 25% on the excess. In 2021, the statutory corporate income tax rates will be lowered further to 15% and 25%, respectively. In 2022 the statutory corporate income tax rates will be 15% on profits up to €0.4 million and 25%, on the excess.

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

For Netherlands corporate income tax purposes, affiliated entities should calculate their profits on an "at arm's length" basis. In case transactions between such affiliated entities 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 "at arm's length" conditions had been agreed.

### Participation Exemption

Pursuant to the Netherlands participation exemption, income and capital gains derived from the investment by a parent company in a qualifying subsidiary are exempt from corporate income tax provided that the parent company meets the 5 per cent threshold test, and the participation is not considered to be a portfolio investment. The 5 per cent threshold test requires that the parent company (i) owns at least 5 per cent of the nominal share capital in the subsidiary, or (ii) is shareholder in and related to the subsidiary, whilst an entity related to the parent owns at least 5 per cent of the nominal share capital in the subsidiary, or (iii) has owned for an uninterrupted period of at least one year at least 5 per cent of the nominal share capital in subsidiary and three years have not yet passed after the shareholding by the parent in the subsidiary dropped below 5 per cent.

If the parent company holds its participation in the subsidiary as a portfolio investment, the participation exemption is not applicable, unless it qualifies as a “qualifying portfolio investment”. A portfolio investment is a shareholding in a subsidiary that is held by the parent with the intent of realizing a return on investment that can be expected from normal, active asset management activities. This is a subjective facts and circumstances test. The specific purpose for making the investment in the subsidiary must be analysed on a case-by-case basis taking into account all of the relevant facts and circumstances.

A 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 would be deemed to be held as a portfolio investment by the parent company if (i) the assets of the subsidiary usually consist, on a consolidated basis, for more than 50 per cent. of shareholdings (and similar rights) of less than 5 per cent. in other entities or (ii) the subsidiary company’s activities consist for more than 50% of group financing activities. Group financing 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 as a portfolio investment, such portfolio investment may still qualify for the application of the participation exemption if (i) the subsidiary is subject to an income/profits tax resulting in an effective tax burden that is realistic under Netherlands principles, or (ii) the assets of the subsidiary, directly or indirectly, usually consist for less than 50 per cent of low-taxed free investments.

Apart from special provisions in relation to certain liquidation losses, capital losses incurred in relation to qualifying participations are not deductible for Netherlands corporate income tax purposes

Costs related to the acquisition of qualifying participations are generally not deductible. Costs related to the disposal of qualifying participations are also generally not deductible. Other expenses relating to participations (e.g. the cost of financing) are in principle deductible.

The participation exemption does not apply to accrued payments (of dividend, interest, or other) that are tax-deductible in the 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 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 are exempt from corporate income tax in the Netherlands.

If the participation exemption is not applicable, income derived by ICTS from a subsidiary will be taxed at the statutory corporate income tax rates.

### Interest Deduction Limitations

As of 1 January 2019, the Netherlands has implemented the generic interest stripping rule provided for in the EU Anti-Tax Avoidance Directive (“ATAD”) into domestic law. The earnings stripping rule limits the possibility to deduct “excess” interest costs (i.e. the balance of interest costs and interest income) to 30% of a taxpayer’s EBITDA. The earnings stripping rule provides for a €1.0 million threshold, which means that the deduction of excess interest costs up to €1.0 million will not be restricted.

Besides the earnings stripping rule, Netherlands tax law includes other anti-abuse provisions in relation to the deductibility of interest. In addition, interest deductions may be disallowed based on the abuse of law doctrine (“fraud legis”).

### Loss Compensation

According to Netherlands tax law, losses incurred may be carried back for one year. As of January 1 2019, the possibility to carry forward losses is limited from nine years to six years.

### Depreciation Limitations

For Netherlands corporate income tax purposes, restrictions apply to the depreciation of goodwill, real estate and other business assets. The maximum yearly depreciation charge for acquired goodwill is 10% of its cost price. Depreciation of real estate property is not allowed in case the book value of the property falls below 100% of the value used for purposes of the Valuation of Immovable Property Act ("WOZ value"). The maximum yearly depreciation charge for other business assets is 20% of the cost price of such assets. In certain situations, it should still, however, be possible to value assets at lower going-concern value.

### Netherlands Tax Considerations of Holding Shares

The following summary outlines certain Netherlands tax consequences in connection with the acquisition, ownership and disposal of Shares. All references in this summary to the Netherlands and Dutch law are to the European part of the Netherlands and its law, respectively, only. The summary does not purport to present any comprehensive or complete picture of all Netherlands tax aspects that could be of relevance to the acquisition, ownership and disposal of Shares by a (prospective) holder of Shares who may be subject to special tax treatment under applicable law. The summary is based on the tax laws and practice of the Netherlands as in effect on the date of this Prospectus, which are subject to changes that could prospectively or retrospectively affect the Netherlands tax consequences.

For purposes of Netherlands income and corporate income tax, Shares legally owned by a third party such as a trustee, foundation or similar entity or arrangement (a Third Party), may under certain circumstances have to be allocated to the (deemed) settlor, grantor or similar originator (the Settlor) or, upon the death of the Settlor, his/her beneficiaries (the Beneficiaries) in proportion to their entitlement to the estate of the Settlor of such trust or similar arrangement (the Separated Private Assets).

The summary does not address the tax consequences of a holder of Shares who is an individual and who has a substantial interest in ICTS. Generally, a holder of Shares will have a substantial interest in ICTS if such holder of Shares, whether alone or together with his spouse or partner and/or certain other close relatives, holds directly or indirectly, or as Settlor or Beneficiary of Separated Private Assets (i) the ownership of, or certain other rights, such as usufruct, over, or rights to acquire (whether or not already issued), shares representing 5% or more of the total issued and outstanding capital (or the issued and outstanding capital of any class of shares) of ICTS or (ii) the ownership of, or certain other rights, such as usufruct over, profit participating certificates (winstbewijzen) that relate to 5% or more of the annual profit of ICTS or to 5% or more of the liquidation proceeds of ICTS.

In addition, a holder of Shares has a substantial interest in ICTS if he, whether alone or together with his spouse or partner and/or certain other close relatives, has the ownership of, or other rights over, shares in, or profit certificates issued by, ICTS that represent less than 5% of the relevant aggregate that either (a) qualified as part of a substantial interest as set forth above and where shares, profit certificates and/or rights there over have been, or are deemed to have been, partially disposed of, or (b) have been acquired as part of a transaction that qualified for non-recognition of gain treatment.

This summary does not address the tax consequences of a holder of Shares who:

(a) receives income or realises capital gains in connection with his or her employment activities or in his/her capacity as (former) Management Board member and/or (former) Supervisory Board member; or

(b) is a resident of any non-European part of the Netherlands.

Prospective holders of Shares should consult their own professional adviser with respect to the tax consequences of any acquisition, ownership or disposal of Shares in their individual circumstances.



## **Dividend Withholding Tax**

### General

ICTS is generally required to withhold dividend withholding tax imposed by the Netherlands at a rate of 15% on dividends distributed by ICTS in respect of Shares. The expression “dividends distributed by ICTS” as used herein includes, but is not limited to:

(a) distributions in cash or in kind, deemed and constructive distributions and repayments of paid-in capital (“gestort kapitaal”) not recognised for Netherlands dividend withholding tax purposes;

(b) liquidation proceeds, proceeds of redemption of Shares or, as a rule, consideration for the repurchase of Shares by ICTS in excess of the average paid-in capital recognised for Netherlands dividend withholding tax purposes;

(c) the par value of Shares issued to a holder of Shares or an increase of the par value of Shares, to the extent that it does not appear that a contribution, recognised for Netherlands dividend withholding tax purposes, has been made or will be made; and

(d) partial repayment of paid-in capital, recognised for Netherlands dividend withholding tax purposes, if and to the extent that there are net profits (zuivere winst), unless (i) the General Meeting has resolved in advance to make such repayment and (ii) the par value of the Shares concerned has been reduced by an equal amount by way of an amendment of the Articles of Association of ICTS.

### Holders of Shares Resident in the Netherlands

A holder of Shares that is resident or deemed to be resident in the Netherlands is generally entitled, subject to the anti-dividend stripping rules described below, to a full credit against its (corporate) income tax liability, or a full refund, of the Netherlands dividend withholding tax.

### Holders of Shares Resident Outside the Netherlands

A holder of Shares that is resident in a country with which the Netherlands has a double taxation convention in effect, may, depending on the terms of such double taxation convention and subject to the anti-dividend stripping rules described below, be eligible for a full or partial exemption from, or full or partial refund of, Netherlands dividend withholding tax on dividends received.

A holder of Shares that is a legal entity (a) resident in (i) a Member State of the European Union, (ii) Iceland, Norway or Liechtenstein, or (iii) a country with which the Netherlands has concluded a tax treaty that includes an article on dividends and (b) that is in its state of residence under the terms of a double taxation agreement concluded with a third state, not considered to be resident for tax purposes in a country with which the Netherlands has not concluded a tax treaty that includes an article on dividends (not being a Member State of the European Union, Iceland, Norway or Liechtenstein), is generally entitled, subject to the anti-abuse rules and the anti-dividend stripping rules described below, to a full exemption from Netherlands dividend withholding tax on dividends received if it holds an interest of at least 5% (in shares or, in certain cases, in voting rights) in ICTS or if it holds an interest of less than 5%, in either case where, had the holder of Shares been a Netherlands resident, it would have had the benefit of the participation exemption (this may include a situation where another related party holds an interest of 5% or more in the company).

The full exemption from Netherlands dividend withholding tax on dividends received by a holder of Shares that is a legal entity (a) resident in (i) a Member State of the European Union, (ii) Iceland, Norway or Liechtenstein, or (iii) a country with which the Netherlands has concluded a tax treaty that includes an article on dividends is not granted if the interest held by such holder (i) is held with the avoidance of Netherlands dividend withholding tax of another person as (one of) the main purpose(s) and (ii) forms part of an artificial structure or series of structures (such as structures which are not put into place for valid business reasons reflecting economic reality).

A holder of Shares that is an entity resident in (i) a Member State of the European Union, or (ii) Iceland, Norway or Liechtenstein, or (iii) in a jurisdiction which has an arrangement for the exchange of tax information with the Netherlands (and such holder as described under (iii) holds the Shares as a portfolio investment, i.e., such holding is not acquired with a view to the establishment or maintenance of lasting and direct economic links between the holder of Shares and ICTS and does not allow the holder of Shares to participate effectively in the management or control of ICTS), which is exempt from tax in its country of residence and does not have a similar function to a qualifying investment institution (fiscale beleggingsinstelling) or a qualifying exempt investment institution (vrijgestelde beleggingsinstelling), and that would have been exempt from Netherlands corporate income tax if it had been a resident of the Netherlands, is generally entitled, subject to the anti-dividend stripping rules described below, to a full refund of Netherlands dividend withholding tax on dividends received. This full refund will in general benefit certain foreign pension funds, government agencies and certain government controlled commercial entities.

According to the anti-dividend stripping rules, no exemption, reduction, credit or refund of Netherlands dividend withholding tax will be granted if the recipient of the dividend paid by the company is not considered the beneficial owner (uiteindelijk gerechtigde) of the dividend as defined in these rules. A recipient of a dividend is not considered the beneficial owner of the dividend if, as a consequence of a combination of transactions, (i) a person (other than the holder of the dividend coupon), directly or indirectly, partly or wholly benefits from the dividend, (ii) such person directly or indirectly retains or acquires a comparable interest in Shares, and (iii) such person is entitled to a less favourable exemption, refund or credit of dividend withholding tax than the recipient of the dividend distribution. The term "combination of transactions" includes transactions that have been entered into in the anonymity of a regulated stock market, the sole acquisition of one or more dividend coupons and the establishment of short-term rights or enjoyment on Shares (e.g., usufruct).

#### Holders of Shares Resident in the U.S.

Dividends paid to U.S. resident holders of Shares that are eligible for benefits under the Convention between the Netherlands and the United States of America for the avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes and Income, dated 18 December 1992 as amended by the protocol of 8 March 2004 (the U.S. Tax Treaty) are generally subject to a reduced dividend withholding tax rate of 5% in case of certain U.S. corporate shareholders owning at least 10% of ICTS' total voting power. Certain U.S. pension funds and tax-exempt organisations may qualify for a complete exemption from Netherlands dividend withholding tax.

Under the U.S. Tax Treaty such benefits are generally available to U.S. residents if such resident is the beneficial owner of the dividends, provided that such shareholder does not have an enterprise or an interest in an enterprise that is, in whole or in part, carried on through a permanent establishment or permanent representative in the Netherlands and to which enterprise or part of an enterprise Shares are attributable. A person may, however, not claim the benefits of the U.S. Tax Treaty if such person's entitlement to such benefits is limited by the provisions of Article 26 (the limitation on benefits provision) of the U.S. Tax Treaty. The reduced dividend withholding tax rate can generally be applied at source upon the distribution of the dividends, provided that the proper forms have been filed in advance of the distribution. In the case of certain tax-exempt organisations, as a general rule, the so-called refund method applies; only when certain administrative conditions have been fulfilled may such tax-exempt organisation use the exemption method.

Irrespective of meeting the conditions of the relevant provisions of U.S. Tax Treaty, dividends distributed by the company to a U.S. resident holder (i) who is a legal entity resident in the U.S. and (ii) that is in the U.S. under the terms of a double taxation agreement with a third state not considered to be resident for tax purposes in a country with which the Netherlands has not concluded a tax treaty that includes an article on dividends (not being a Member State of the European Union, Iceland, Norway or Liechtenstein), are generally, subject to the anti-abuse rules and the anti-dividend stripping rules described above, fully exempt from Netherlands dividend withholding tax if the U.S. resident holder of Shares holds an interest of at least 5% (in shares or, in certain cases, in voting rights) in ICTS or if it holds an interest of less than 5%, in either case where, had the holder of Shares been a Netherlands resident, it would have had the benefit of the participation exemption (this may include a situation where another related party holds an interest of 5% or more in ICTS).

#### **Taxes on Income and Capital Gains**

##### Holders of Shares Resident in the Netherlands: Individuals

A holder of Shares who is an individual resident or deemed to be resident in the Netherlands will be subject to regular Netherlands income tax on the income derived from Shares and the gains realised upon the acquisition, redemption and/or disposal of Shares by the holder thereof, if:

- (a) such holder of Shares has an enterprise or an interest in an enterprise, to which enterprise Shares are attributable; and / or
- (b) such income or capital gain forms "a benefit from miscellaneous activities" ("resultaat uit overige werkzaamheden") which, for instance, would be the case if the activities with respect to Shares exceed "normal active asset management" ("normaal, actief vermogensbeheer") or if income and gains are derived from the holding, whether directly or indirectly, of (a combination of) shares, debt claims or other rights (together, a *lucratief belang*) that the holder thereof has acquired under such circumstances that such income and gains are intended to be remuneration for work or services performed by such holder (or a related person), whether within or outside an employment relation, where such lucrative interest provides the holder thereof, economically speaking, with certain benefits that have a relation to the relevant work or services.

If either of the abovementioned conditions (a) or (b) applies, income derived from Shares and the gains realised upon the acquisition, redemption and/or disposal of Shares will in general be subject to Netherlands income tax at the progressive rates up to 51.75%.

If the abovementioned conditions (a) and (b) do not apply, a holder of Shares who is an individual, resident or deemed to be resident in the Netherlands will not be subject to taxes on actual income and capital gains in the Netherlands. Instead, such individual is generally taxed at a flat rate of 30% on deemed income from "savings and investments" ("sparen en beleggen"), which deemed income is determined on the basis of the amount included in the individual's "yield basis" ("rendementsgrondslag") at the beginning of the calendar year (minus a tax-free threshold). For 2020, the deemed income derived from savings and investments amount to 1.80% of the individual's yield basis up to EUR 72,797, 4.22% of the individual's yield basis exceeding EUR 72,797 up to and including EUR 1,005,572 and 5.33% of the individual's yield basis in excess of EUR 1,005,572. The percentages to determine the deemed income are reassessed every year. The tax-free threshold for 2020 is EUR 30,846.

#### Holders of Shares Resident in the Netherlands: Corporate Entities

A holder of Shares that is resident or deemed to be resident in the Netherlands for corporate income tax purposes, and that is:

- a corporation;
- another entity with a capital divided into shares;
- a cooperative (association); or
- another legal entity that has an enterprise or an interest in an enterprise to which the Shares are attributable,

but which is not:

- a qualifying pension fund;
- a qualifying investment fund (fiscale beleggingsinstelling) or a qualifying exempt investment institution (vrijgestelde beleggingsinstelling); or
- another entity exempt from corporate income tax,

will in general be subject to regular corporate income tax, levied at a rate of 25% (16.5% over profits up to EUR 200,000) over income derived from Shares and the gains realised upon the acquisition, redemption and/or disposal of Shares, unless, and to the extent that, the participation exemption (deelnemingsvrijstelling) applies.

#### Holders of Shares Resident Outside the Netherlands: Individuals

A holder of Shares who is an individual, not resident or deemed to be resident in the Netherlands will not be subject to any Netherlands taxes on income derived from Shares and the gains realised upon the acquisition, redemption and/or disposal of Shares (other than the dividend withholding tax described above), unless:

- (a) such holder has an enterprise or an interest in an enterprise that is, in whole or in part, carried on through a permanent establishment (vaste inrichting) or a permanent representative (vaste vertegenwoordiger) in the Netherlands and to which enterprise or part of an enterprise, as the case may be, Shares are attributable; or
- (b) such income or capital gain forms a "benefit from miscellaneous activities in the Netherlands" ("resultaat uit overige werkzaamheden in Nederland") which would for instance be the case if the activities in the Netherlands with respect to Shares exceed "normal active asset management" ("normaal, actief vermogensbeheer" or if such income and gains are derived from the holding, whether directly or indirectly, of (a combination of) shares, debt claims or other rights (together, a "lucrative interest" ("lucratief belang")) that the holder thereof has acquired under such circumstances that such income and gains are intended to be remuneration for work or services performed by such holder (or a related person), in whole or in part, in the Netherlands, whether within or outside an employment relation, where such lucrative interest provides the holder thereof, economically speaking, with certain benefits that have a relation to the relevant work or services.

If either of the above-mentioned conditions (a) or (b) applies, income or capital gains in respect of dividends distributed by ICTS or in respect of any gains realised upon the acquisition, redemption and/or disposal of Shares will in general be subject to Netherlands income tax at the progressive rates up to 51.75%.

#### Holders of Shares Resident Outside the Netherlands: Legal and Other Entities

A holder of Shares that is a legal entity, another entity with a capital divided into shares, an association, a foundation or a fund or trust, not resident or deemed to be resident in the Netherlands for corporate income tax purposes, will not be subject to any Netherlands taxes on income derived from Shares and the gains realised upon the acquisition, redemption and/or disposal of Shares (other than the dividend withholding tax described above), unless:

such holder has an enterprise or an interest in an enterprise that is, in whole or in part, carried on through a permanent establishment (vaste inrichting) or a permanent representative (vaste vertegenwoordiger) in the Netherlands and to which enterprise or part of an enterprise, as the case may be, Shares are attributable; or

such holder has a substantial interest in ICTS, that (i) is held with the avoidance of Netherlands income tax as (one of) the main purpose(s) and (ii) forms part of an artificial structure or series of structures (such as structures which are not put into place for valid business reasons reflecting economic reality).

If one of the above-mentioned conditions applies, income derived from Shares and the gains realised upon the acquisition, redemption and/or disposal of Shares will, in general, be subject to regular corporate income tax, levied at a rate of 25% (19% over profits up to EUR 200,000), unless, and to the extent that, with respect to a holder as described under (a), the participation exemption (deelnemingsvrijstelling) applies.

#### **Gift, Estate and Inheritance Taxes**

##### Holders of Shares Resident in the Netherlands

Gift tax may be due in the Netherlands with respect to an acquisition of Shares by way of a gift by a holder of Shares who is resident or deemed to be resident of the Netherlands.

Inheritance tax may be due in the Netherlands with respect to an acquisition or deemed acquisition of Shares by way of an inheritance or bequest on the death of a holder of Shares who is resident or deemed to be resident of the Netherlands, or by way of a gift within 180 days before his death by an individual who is resident or deemed to be resident in the Netherlands at the time of his death.

For purposes of Netherlands gift and inheritance tax, an individual with the Netherlands nationality will be deemed to be resident in the Netherlands if he has been resident in the Netherlands at any time during the ten years preceding the date of the gift or his death. For purposes of Netherlands gift tax, an individual not holding the Netherlands nationality will be deemed to be resident of the Netherlands if he has been resident in the Netherlands at any time during the twelve months preceding the date of the gift.

##### Holders of Shares Resident Outside the Netherlands

No gift, estate or inheritance taxes will arise in the Netherlands with respect to an acquisition of Shares by way of a gift by, or on the death of, a holder of Shares who is neither resident nor deemed to be resident of the Netherlands, unless, in the case of a gift of Shares by an individual who at the date of the gift was neither resident nor deemed to be resident in the Netherlands, such individual dies within 180 days after the date of the gift, while being resident or deemed to be resident in the Netherlands.

##### Certain Special Situations

For purposes of Netherlands gift, estate and inheritance tax, (i) a gift by a Third Party will be construed as a gift by the Settlor, and (ii) upon the death of the Settlor, as a rule his/her Beneficiaries will be deemed to have inherited directly from the Settlor. Subsequently, such Beneficiaries will be deemed the settlor, grantor or similar originator of the Separated Private Assets for purposes of Netherlands gift, estate and inheritance tax in case of subsequent gifts or inheritances.

For the purposes of Netherlands gift and inheritance tax, a gift that is made under a condition precedent is deemed to have been made at the moment such condition precedent is satisfied. If the condition precedent is fulfilled after the death of the donor, the gift is deemed to be made upon the death of the donor.

#### Value Added Tax

No Netherlands value added tax will arise in respect of or in connection with the subscription, issue, placement, allotment or delivery of the Shares.

#### Other Taxes and Duties

No Netherlands registration tax, capital tax, customs duty, transfer tax, stamp duty or any other similar documentary tax or duty, other than court fees, will be payable in the Netherlands in respect of or in connection with the subscription, issue, placement, allotment or delivery of the Shares.

#### Residency

A holder of Shares will not be treated as a resident, or a deemed resident, of the Netherlands by reason only of the acquisition, or the holding, of Shares or the performance by ICTS under the Shares.

#### **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](http://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 2020, approximately 18% of the Company's revenues were derived in the United States of America, 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 \$0.3 million in the year ended December 31, 2020.

#### **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 Directors 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 Directors and 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 Directors and 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, 2020. 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 Directors and 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, 2020 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 firm, Mayer Hoffman McCann CPAs ("MHM"), for services rendered to us during the years ended December 31, 2020 and 2019.

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).

	2020	2019
Audit fees	\$ 257	\$ 283
Audit related fees	-	-
Tax fees	-	-
Total fees	<u>\$ 257</u>	<u>\$ 283</u>

Substantially all of MHM's personnel, who work under the control of MHM shareholders, are employees of wholly-owned subsidiaries of CBIZ, Inc., which provides personnel and various services to MHM 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, 2020 and 2019 and for each of the three years in the period ended December 31, 2020, including the report of our independent registered public accounting firm thereon are set forth on pages F-1 to F-41.

**Item 19. Exhibits**

- [1. Articles of Association of the Company filed as Exhibit to Form 20-F for the year ended December 31, 1999.\\*](#)
- [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. Articles of Amendment of the Articles of Association filed as exhibit to Form 20-F for the year ended December 31, 2020.\\*\\*](#)
- [5. Specimen of the Company's Common Stock filed as Exhibit to Form 20-F for the year ended December 31, 1999.\\*](#)
- [6. Revised Code of Ethics for Principal Executive Officers and Senior Financial Officers. Filed as Exhibit to Form 20-F December 13, 2020.\\*\\*](#)
- [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 Chief 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 Chief 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 filings.

\*\* Filed herewith.



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/ Rom Shaked

Name: Rom Shaked

Title: Managing Director

Date: May 14, 2021

By: /s/ Alon Raich

Name: Alon Raich

Title: Managing Director and Chief Financial Officer

Date: May 14, 2021

ICTS INTERNATIONAL N.V. AND SUBSIDIARIES

2020 ANNUAL REPORT

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**Report of Independent Registered Public Accounting Firm**

To the Supervisory Board of Directors and Stockholders 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. and Subsidiaries (“Company”) as of December 31, 2020 and 2019 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, 2020, and the related notes and schedule (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

**Critical Audit Matters**

Critical audit matters are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. We determined that there were no critical audit matters.

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

We have served as the Company’s auditor since 2007.  
New York, New York  
May 14, 2021

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

	December 31,	
	2020	2019
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 51,602	\$ 52,352
Restricted cash	9,472	2,493
Accounts receivable, net	34,371	43,311
Receivable from a related party	2,200	-
Prepaid expenses and other current assets	18,909	4,980
Total current assets	<u>116,554</u>	<u>103,136</u>
Defered tax assets, net	1,169	476
Investments	1,482	2,130
Property and equipment, net	5,525	4,586
Operating lease right of use assets	12,938	10,367
Goodwill	746	681
Other assets	1,974	2,071
Total assets	<u>\$ 140,388</u>	<u>\$ 123,447</u>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES:</b>		
Bank overdrafts	\$ -	\$ 738
Notes payable-banks	8,104	19,908
Accounts payable	3,716	5,808
Accrued expenses and other current liabilities	32,887	35,195
Value added tax (VAT) payable	11,096	6,476
Operating lease liabilities, current	3,531	2,725
Loan payable	-	1,121
Loan payable to related parties	-	1,538
Convertible notes payable to a related party	-	2,000
Total current liabilities	<u>59,334</u>	<u>75,509</u>
Convertible notes payable to a related party	1,200	-
Operating lease liabilities, non current	9,333	7,562
Other liabilities	25,684	1,761
Total liabilities	<u>95,551</u>	<u>84,832</u>
<b>COMMITMENTS AND CONTINGENCIES (NOTE 20)</b>		
REDEEMABLE NON-CONTROLLING INTERESTS (NOTE 15)	75,322	74,300
<b>SHAREHOLDERS' DEFICIT:</b>		
Common stock, €0.45 par value; 150,000,000 shares authorized as of December 31, 2020 and 2019. 37,433,333 and 35,433,333 shares issued and outstanding as of December 31, 2020 and 2019, respectively	19,186	18,120
Additional paid-in capital	26,706	26,972
Accumulated deficit	(68,603)	(73,006)
Accumulated other comprehensive loss	(6,259)	(6,172)
Non-controlling interests in subsidiaries	(1,515)	(1,599)
Total shareholders' deficit	<u>(30,485)</u>	<u>(35,685)</u>
Total liabilities and shareholders' deficit	<u>\$ 140,388</u>	<u>\$ 123,447</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,		
	2020	2019	2018
Revenue	\$ 248,419	\$ 333,307	\$ 345,221
Cost of revenue	196,569	290,461	311,994
<b>GROSS PROFIT</b>	<b>51,850</b>	<b>42,846</b>	<b>33,227</b>
Operating expenses:			
Research and development	6,541	5,060	3,657
Goodwill impairment	-	-	1,563
Selling, general and administrative	37,239	33,063	34,924
Total operating expenses	43,780	38,123	40,144
<b>OPERATING INCOME (LOSS)</b>	<b>8,070</b>	<b>4,723</b>	<b>(6,917)</b>
Equity income (loss) from investment in affiliate	(790)	91	124
Other expenses, net	(1,288)	(10,518)	(3,586)
<b>INCOME (LOSS) BEFORE INCOME TAX EXPENSES</b>	<b>5,992</b>	<b>(5,704)</b>	<b>(10,379)</b>
Income tax expenses	590	1,549	685
<b>INCOME (LOSS) FROM CONTINUING OPERATIONS</b>	<b>5,402</b>	<b>(7,253)</b>	<b>(11,064)</b>
Loss from discontinued operations	-	-	(289)
<b>NET INCOME (LOSS)</b>	<b>5,402</b>	<b>(7,253)</b>	<b>(11,353)</b>
Net income (loss) attributable to non-controlling interests	999	789	(123)
<b>NET INCOME (LOSS) ATTRIBUTABLE TO ICTS INTERNATIONAL N.V.</b>	<b>\$ 4,403</b>	<b>\$ (8,042)</b>	<b>\$ (11,230)</b>
<b>BASIC NET INCOME (LOSS) ATTRIBUTABLE TO ICTS INTERNATIONAL N.V. PER SHARE</b>			
Income (loss) from continuing operations	\$ 0.12	\$ (0.26)	\$ (0.47)
Loss from discontinued operations	-	-	(0.01)
<b>Net income (loss)</b>	<b>\$ 0.12</b>	<b>\$ (0.26)</b>	<b>\$ (0.48)</b>
Basic weighted average number of shares	35,827,854	30,524,461	23,415,068
<b>DILUTED NET INCOME (LOSS) ATTRIBUTABLE TO ICTS INTERNATIONAL N.V. PER SHARE</b>			
Income (loss) from continuing operations	\$ 0.11	\$ (0.26)	\$ (0.47)
Loss from discontinued operations	-	-	(0.01)
<b>Net income (loss)</b>	<b>\$ 0.11</b>	<b>\$ (0.26)</b>	<b>\$ (0.48)</b>
Diluted weighted average number of shares	38,424,718	30,524,461	23,415,068
<b>COMPREHENSIVE INCOME (LOSS)</b>			
Net income (loss)	\$ 5,402	\$ (7,253)	\$ (11,353)
Other Comprehensive Income - Translation adjustments	20	79	669
<b>Comprehensive income (loss)</b>	<b>5,422</b>	<b>(7,174)</b>	<b>(10,684)</b>
Comprehensive income (loss) attributable to non-controlling interests	1,106	795	(123)
<b>COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO ICTS INTERNATIONAL N.V.</b>	<b>\$ 4,316</b>	<b>\$ (7,969)</b>	<b>\$ (10,561)</b>

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 Interests	Total Shareholders' Deficit
	Shares	Amount					
BALANCE AT DECEMBER 31, 2017	21,000,000	\$ 10,655	\$ 23,128	\$ (53,734)	\$ (6,914)	\$ 123	\$ (26,742)
Issuance of common stock	4,100,000	2,241	329	-	-	-	2,570
Net loss	-	-	-	(11,230)	-	(123)	(11,353)
Translation adjustment	-	-	-	-	669	-	669
BALANCE AT DECEMBER 31, 2018	25,100,000	12,896	23,457	(64,964)	(6,245)	-	(34,856)
Net income (loss)	-	-	-	(8,042)	-	15	(8,027)
Issuance of common stock	10,333,333	5,224	1,474	-	-	-	6,698
Sale of AU10TIX Technologies B.V. preferred shares, series A-1, net	-	-	2,041	-	-	(1,614)	427
Translation adjustment	-	-	-	-	73	-	73
BALANCE AT DECEMBER 31, 2019	35,433,333	18,120	26,972	(73,006)	(6,172)	(1,599)	(35,685)
Issuance of common stock	2,000,000	1,066	(266)	-	-	-	800
Net income	-	-	-	4,403	-	74	4,477
Translation adjustment	-	-	-	-	(87)	10	(77)
BALANCE AT DECEMBER 31, 2020	37,433,333	\$ 19,186	\$ 26,706	\$ (68,603)	\$ (6,259)	\$ (1,515)	\$ (30,485)

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,		
	2020	2019	2018
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>			
Income (loss) from continuing operations	\$ 5,402	\$ (7,253)	\$ (11,064)
Loss from discontinued operations	-	-	(289)
Net income (loss)	5,402	(7,253)	(11,353)
<b>Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:</b>			
Depreciation and amortization	2,090	1,688	1,897
Goodwill impairment	-	-	1,563
Accrued interest on convertible notes payable to a related party	-	-	2,687
Accrued interest on loan payable to a related party	-	-	59
Bad debt expense	272	260	303
Deferred income taxes	(651)	(35)	(103)
Loss on disposal of property and equipment	71	-	-
Equity loss (income) from investment in affiliate	790	(91)	(124)
Revaluation and related costs reimbursed to related party	-	8,139	-
<b>Changes in assets and liabilities:</b>			
Accounts receivable, net	11,395	669	(249)
Receivable from related party	(2,200)	-	-
Prepaid expenses and other current assets	(13,562)	1,366	(3,680)
Other assets	485	(89)	28
Accounts payable	(2,548)	(30)	592
Accrued expenses and other current liabilities	(5,116)	(8,854)	11,311
VAT payable	3,999	(4,734)	4,540
Operating lease accounts, net	19	(102)	-
Other liabilities	23,786	(26)	(308)
Net cash provided by discontinued operations	-	-	253
Net cash provided by (used in) operating activities	24,232	(9,092)	7,416
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of property and equipment	(2,197)	(1,884)	(2,917)
Capitalization of software costs	(603)	-	-
Proceeds from sale of property and equipment	67	-	-
Purchase of subsidiary in Sweden, net of acquired cash of \$74	-	-	(989)
Purchase of subsidiary in Spain, net of acquired cash of \$36	-	-	(184)
Investments	(150)	(1,800)	(131)
Deposits at (withdraws from) insurance companies	(226)	151	(295)
Repayments from (loan to) an affiliate	-	180	(180)
Net cash used in investing activities	\$ (3,109)	\$ (3,353)	\$ (4,696)

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

	Year Ended December 31,		
	2020	2019	2018
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>			
Borrowings (repayments) under lines of credit, net	\$ (13,091)	\$ 8,076	\$ 1,485
Repayments of convertible notes payable to a related party	-	(29,572)	(2,381)
Proceeds from a related party	-	1,000	-
Repayments of loan payable to a related party	(1,538)	(368)	(1,100)
Proceeds from loan payable	-	-	2,288
Repayment of loan payable	(1,121)	(1,120)	(1,198)
Proceeds from sale of a subsidiary's preferred shares	-	80,000	-
Transaction costs	-	(6,054)	-
Increase (decrease) in bank overdrafts	(738)	(107)	845
Net cash provided by (used in) financing activities	<u>(16,488)</u>	<u>51,855</u>	<u>(61)</u>
<b>EFFECT OF CHANGES IN FOREIGN CURRENCY EXCHANGE RATES ON CASH, CASH EQUIVALENTS AND RESTRICTED CASH</b>			
	1,594	(482)	(247)
<b>INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH</b>			
	6,229	38,928	2,412
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH BEGINNING OF YEAR</b>			
	<u>54,845</u>	<u>15,917</u>	<u>13,505</u>
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH END OF YEAR</b>			
	<u>\$ 61,074</u>	<u>\$ 54,845</u>	<u>\$ 15,917</u>
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES</b>			
Stock issuance as reduction against convertible notes payable to related party	<u>\$ 800</u>	<u>\$ 6,698</u>	<u>\$ 2,570</u>
Sale of investment in White Line as reduction against convertible notes payable to related party	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,500</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW ACTIVITIES</b>			
Cash paid during the year for:			
Interest	<u>\$ 613</u>	<u>\$ 1,963</u>	<u>\$ 836</u>
Income taxes	<u>\$ 1,329</u>	<u>\$ 3,129</u>	<u>\$ 1,322</u>

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. ("ICTS") 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) authentication 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 authentication technology segment provide authentication services to financial and other institutions, predominantly in the United States of America and Europe.

**Liquidity and Financial Condition**

Accounting Standard Update ("ASU") 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern requires a Company's management to assess an entity's ability to continue as a going concern, and to provide related footnote disclosure in certain circumstances, as following:

As of December 31, 2020 and 2019, the Company has a working capital of \$57,220 and \$27,627 and shareholders deficit of \$30,485 and \$35,685, respectively. During the years ended December 31, 2020, 2019 and 2018, the Company incurred income (loss) from continuing operations of \$5,402, \$(7,253) and \$(11,064), respectively, and cash flows provided by (used in) operating activities of \$24,232, \$(9,092) and \$7,416, respectively.

The Company had a line of credit in the Netherlands up to €12,000 (\$14,742 as of December 31, 2020), which expired in March 2021 and additional line of credit in the United States of America up to \$10,000, which will expire in October 2021 (see notes 10 and 22). Additionally, the Company has a note up to a maximum amount of \$3 million with a related party that matures on January 1, 2022. The Company anticipates that it will not need its lines of credit for 12 months from issuance of these financial statements.

The COVID-19 outbreak has developed rapidly in 2020, with a significant number of infections. The Company is dependent mostly in Europe and the United States of America for its business on the airline industry. In addition, the decisions taken by various governments have affected economic activity and the Company's business as following:

- Decrease of travel by flights, reducing the demand for services the Company provide as part of its Airport Security and other aviation services. As a result, our cumulative revenues of the airport security and other aviation services in the twelve months ended December 31, 2020 were \$86,894 lower than our revenues for the twelve months ended December 31, 2019. Many of the Company's employees were laid off and / or ordered to stay home.
- Governments in some of the countries in which we operate have announced the implementation of government assistance measures, which mitigated the impact of the COVID-19 outbreak on our results and liquidity. During 2020, in the United States of America, the government has approved a payroll support of \$13,680 to the American subsidiary of the Company, all of which has been received as of December 31, 2020. Out of this amount the American subsidiary recognized an amount of \$12,672 as reduction of labor expenses for the year ended December 31, 2020. In addition, during the first four months of 2021 additional support up to \$15,916 was approved to that subsidiary. In the Netherlands, the government has approved a support of €17,619 (\$21,645 as of December 31, 2020) for the year ended December 31, 2020. The Dutch government extended the support program until June 30, 2021 and might extend it beyond. For the months January through March 2021, the Company was granted additional assistance up to €4,556. In Germany, the employees are eligible for payroll support up to 60% of the employee's payroll (on individual basis) in case the employees meet the support plan requirements. The Company pays to its German employees their full salary and the Company is being reimbursed by the German government for the payroll support amount. The Company has already applied for this support starting from April 2020. These available governmental support plans might be extended and/or changed according to the future COVID-19 developments.

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

**NOTE 1 – ORGANIZATION (CONTINUED)**

**Liquidity and Financial Condition (Continued)**

- In the Netherlands wage tax, social security and VAT payments for the period March 2020 till May 2021 were postponed and will have to be paid in 36 installments, starting October 2021. As of December 31, 2020, the Company accumulated debt of €20,796 (\$25,548 as of December 31, 2020) to the Dutch tax authorities. In Germany, the government postponed the payment of the VAT for the period February through April, 2020. The Company accumulated €5,462 (\$6,710 as of December 31, 2020) which will be paid in the second half year of 2021.
- Depending on the duration of the COVID-19 crisis and continued negative impact on economic activity, the Company might experience further negative results and liquidity restraints. The exact impact on our activities in the remainder of 2021 and thereafter cannot be predicted.

The Company's business plan, together with the expected governmental support projects income from operations, compliance with all financial covenants, positive cash flows from operations and no external borrowings for operations. There can be no assurance that management will be successful in achieving its business plan.

**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 (d) valuation allowance of deferred income taxes, (e) determination of goodwill impairment (f) determination of future lease periods of existing lease contracts, and (g) determination of interest rates used in order to calculate the present value of the operating lease liabilities.

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

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**Restricted Cash**

Restricted cash as of December 31, 2020 consists of: (a) \$3,991 held in bank accounts that serve as cash collateral for outstanding letters of credit and (b) \$5,481 held in several bank accounts in the Netherlands, which is restricted for payments to local tax authorities (see note 5).

Restricted cash as of December 31, 2019 consists of: (a) \$733 held in bank accounts that serve as cash collateral for outstanding letters of credit and (b) \$1,760 held in several bank accounts in the Netherlands, which is restricted for payments to local tax authorities.

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,	
	2020	2019
Cash and cash equivalents	\$ 51,602	\$ 52,352
Restricted cash	9,472	2,493
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	\$ 61,074	\$ 54,845

**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 credit losses is based on historical collection experience, factors related to specific customers and current economic trends. The Company writes off accounts receivable when determined to be uncollectible and are recognized as a reduction to the allowance for credit losses. As of December 31, 2020, and 2019, the allowance for doubtful accounts is \$690 and \$418, respectively.

**Fair Value Measurements**

The Company follows Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") Topic 820, "Fair Value Measurement". 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.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fair Value Measurements (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.

**Investments**

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.

The Company records investments in the equity securities of privately held companies which represent an ownership interest of less than 20% at cost minus impairment.

**Property and Equipment**

Equipment and furniture, internal-use software, leasehold improvements 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	4-7
Vehicles	3-7

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

**Capitalized Internal-Use Software Costs**

The Company capitalizes certain costs incurred in developing internal-use software when capitalization requirements have been met. Costs prior to meeting the capitalization requirements are expensed as incurred. Costs, such as maintenance and training are also expensed as incurred. Capitalized costs are included in property and equipment, and amortized on a straight-lined basis over the estimated useful life of the software. Amortization expense, which is included in depreciation expense, amounted to \$147, \$0 and \$0 during the years ended December 31, 2020, 2019 and 2018, respectively.

**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. During the years ended December 31, 2020, 2019 and 2018, the Company recognized a goodwill impairment of \$0, \$0 and \$1,563, respectively (see note 9).

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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, 2020, 2019, and 2018, the Company did not record any impairment charges on its long-lived assets.

**Employee Rights Upon Retirement**

The Company is required to make severance payments to its Israeli employees upon dismissal of an employee or upon a termination of employment in certain circumstances. The Israeli pension and severance pay liability to the employees is covered mainly by deposits made at insurance companies. For its employees who are employed under the Section 14 of the Israeli Severance Pay Law, 1963 ("Section 14"), the Company makes deposits with certain insurance companies for accounts controlled by each applicable employee in order to secure the employees' rights upon termination. In addition, the related obligation and amounts deposited on behalf of the applicable employees for such obligations are not presented on the Company's consolidated balance sheets, as the amounts funded are not under the control of management of the Company and the Company is legally released from the obligation to pay any severance payments to the employees once the required deposits amounts have been paid.

For employees not under Section 14, severance liabilities are recorded based on the length of service and their latest monthly salary. The Company's liabilities for the Israeli employees amounted to \$1,556 and \$1,493 as of December 31, 2020 and 2019, respectively and are included in other liabilities in the Company's consolidated balance sheets. The deposits made at insurance companies to cover these liabilities amounted to \$1,391 and \$1,264 as of December 31, 2020 and 2019, respectively and are included in other assets in the Company's consolidated balance sheets.

**Leases**

The Company adopted ASU 2016-02, Leases (Topic 842) as of January 1, 2019, using the modified retrospective approach.

The standard provides a number of optional practical expedients in transition. The Company chose to apply the following permitted practical expedients:

Not to reassess its prior conclusions regarding lease identification, lease classification and initial direct costs under the new standard.

Short-term lease recognition exemption for all leases with a term shorter than 12 months. This means, that for those leases, the Company does not recognize Rights of Use ("ROU") assets or lease liabilities.

Applying the practical expedient to not separate lease and non-lease components for all of the Company's leases as a lessee.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Leases (Continued)**

The Company as a lessee

Leases are classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement. A lease is a finance lease if it meets any one of the criteria below, otherwise the lease is an operating lease:

The lease transfers ownership of the underlying asset to the lessee by the end of the lease term.

The lease grants the lessee an option to purchase the underlying asset that the lessee is reasonably certain to exercise.

The lease term is for the major part of the remaining economic life of the underlying asset.

The present value of the sum of the lease payments and any residual value guaranteed by the lessee that is not already reflected in the lease payments equals or exceeds substantially all of the fair value of the underlying asset.

The underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of lease term.

Based on the criteria above, all of the Company's leases are classified as operating leases.

Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term, while the ROU assets are also adjusted for any prepaid or accrued lease payments. The Company uses its incremental borrowing rate based on the information available at the commencement date to determine the present value of the lease payments.

The lease term is the non-cancellable period of the lease plus periods covered by an extension or termination option if it is reasonably certain that the Company will exercise the option.

After lease commencement, the Company measures the lease liability at the present value of the remaining lease payments using the discount rate determined at lease commencement (as long as the discount rate hasn't been updated as a result of a reassessment event).

The Company subsequently measures the ROU asset at the present value of the remaining lease payments, adjusted for the remaining balance of any lease incentives received, any cumulative prepaid or accrued rent if relevant and any unamortized initial direct costs. Lease expenses are recognized on a straight-line basis over the lease term. Lease terms will include options to extend or terminate the lease when it is reasonably certain that the Company will exercise or not exercise the option to renew or terminate the lease.

Variable lease payments that depend on an index or a rate

On the commencement date, the lease payments shall include variable lease payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), initially measured using the index or rate at the commencement date.

The Company does not remeasure the lease liability for changes in future lease payments arising from changes in an index or rate unless the lease liability is remeasured for another reason. Therefore, after initial recognition, such variable lease payments are recognized in profit or loss as they are incurred.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**Comprehensive Income (Loss) and Accumulated Other Comprehensive Loss**

The Company's comprehensive income (loss) 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 translation 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 Interests**

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

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**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Redeemable Non-Controlling Interests**

Certain non-controlling interests in a subsidiary are entitled to predefined Exit Rights that, for accounting purposes, constitute a contingent redemption event that is outside of the Company's control. As such, these non-controlling interests are presented as temporary equity between liabilities and equity on the Company's consolidated balance sheets.

After initial recognition, at the fair value of the investment less directly attributable transaction costs, the carrying value of redeemable non-controlling interests is adjusted for the non-controlling interests share in the subsidiary's profits and Other Comprehensive Income (Loss). The Company does not adjust the carrying value of the redeemable non-controlling interests to the deemed liquidation values of such shares as long as the liquidation events triggering the Exit Rights is not considered probable of occurring.

**Revenue Recognition**

Revenue is recognized when the promised services are performed for our clients, and the amount that reflects the consideration we are entitled to receive in exchange for those services is determined. The Company's revenues are recorded net of any sales taxes.

In order to determine the revenue, we (1) identify the contract with the client, (2) identify the performance obligations, usually it's based on the hours spent, (3) determination of the transaction price, (4) allocation of the transaction price to the performance obligation and (5) we recognize revenue as performance obligation is satisfied.

A performance obligation is a promise in a contract to transfer a distinct service to the client, and it is the unit of account for revenue recognition. The majority of our contracts have a single performance obligation as the promise to transfer the individual services is not separately identifiable from other promises in our contracts and, therefore, is not distinct.

The following table presents the Company's revenues according to the Company's segments:

	Year ended December 31,		
	2020	2019	2018
Airport Security and Other Aviation Services	\$ 222,654	\$ 309,548	\$ 329,150
Authentication Technology	25,765	23,759	16,071
<b>Total revenue</b>	<b>\$ 248,419</b>	<b>\$ 333,307</b>	<b>\$ 345,221</b>

The following table presents the Company's revenues generated from customers by geographical area based on the geographical location of the customers invoicing address:

	Year ended December 31,					
	2020		2019		2018	
Germany	\$ 119,500	48%	\$ 137,207	41%	\$ 134,646	39%
The Netherlands	58,446	24%	97,700	29%	121,465	35%
United States	45,305	18%	73,719	22%	69,548	20%
Other countries	25,168	10%	24,681	8%	19,562	6%
<b>Total revenue</b>	<b>\$ 248,419</b>	<b>100%</b>	<b>\$ 333,307</b>	<b>100%</b>	<b>\$ 345,221</b>	<b>100%</b>



**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Revenue Recognition (Continued)**

**Airport Security and Other Aviation Services Segment**

In the airport security and other aviation services, for performance obligations that we satisfy over time, revenues are recognized by consistently applying a method of measuring hours spent on that performance obligation. We generally utilize an input measure of time (hours and attendance for specific time framed service like specific flights) of the service provided. Performance obligations are satisfied over the course of each month and continue to be performed until the contract has been terminated or cancelled.

**Pricing and Reduction to Revenues**

We generally determine standalone selling prices based upon the prices included in the client contracts, using expected costs plus margin, or other observable prices. The price as specified in our client contracts is generally considered the standalone selling price as it is an observable input that depicts the price as if sold to a similar client in similar circumstances. Certain client contracts have variable consideration, including quality thresholds or other similar items that could reduce the transaction price. These amounts may be constrained and revenue is recorded to the extent we do not expect a significant reversal or when the uncertainty associated with the variable consideration is resolved. Our variable consideration amounts, if any, are not material, and we do not expect significant changes to our estimates.

**Contracts**

Our client contracts generally include standard payment terms acceptable in each of the countries, states and territories in which we operate. The payment terms vary by the type and location of our clients and services offered. Client payments are typically due in 30 to 60 days after invoicing, but may be a shorter or longer term depending on the contract. Our contracts with main customers are generally long-term contracts, between two to five years. The timing between satisfaction of the performance obligation, invoicing and payment is not significant.

**Practical Expedients and Exemptions**

Because nearly all our contracts are based on input measure of time of service provided (as hours or attendance) no exemptions need to be made. We have no material contracts with material revenues expected to be recognized subsequent to December 31, 2020 related to remaining performance obligations.

**Revenue Service Types**

The following is a description of our revenue service types, including Airport Security, Airline Security, Cargo Security, Other Airport Services, General Security Services and Other.

**Airport Security**

Staffing or manning for specialized airport security are usually based on long term contract issued via a public tender procedure. We recognize revenue given the unit of measure (hours) provided in the given time period and the specific price for specific hours agreed upon in the contracts. Quality and criteria of staffing are described in the contracts and are measured in the given time period. Deviations, if any, are discussed with the customer before invoicing and will be reflected in the invoice showing the approved hours and other cost elements as agreed upon price.

Most contracts have an hourly rate that reflects an all-in tariff based on a full cost price calculation. In some of the contracts the hourly rates are split between a component based on hours and a component based on specific costs in a specific time period but always linked to the service provided in given time period. Revenue is recognized at the time period set in the contract.

**Airline Security**

Staffing or manning for airline security are usually based on long term contracts issued via a public tender procedure. We recognize revenue according to the unit of measure provided (usually attendance for specific time framed service like specific flights). The time framed specialized security services are in this case are the executed number of flights. When the manning for the security of these flights are delivered, the Company invoices the customer according to the agreed flight tariff.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Revenue Recognition (Continued)**

Cargo Security

Staffing or manning for specialized cargo security are usually based on long term contract, sometimes publicly tendered. Contracts are based on hourly planned and executed screening services. Revenue is recognized based on the realized screening hours and contractually agreed upon hourly rate.

Other Airport Services

Airport Services include wheelchair attendants, pre-departure skycaps, bag-runners, agents, guards, charter security screening, janitorial, and cabin cleaning to major U.S. and foreign carriers in airports throughout the United States of America. Our contracts may include either single or multiple performance obligations and vary by airport and airline. We recognize revenue given the unit of measure (usually hours) provided in the given time period and the specific price for specific hours or attendance for specific event, time framed service as agreed upon in the contracts.

General Security Services

Security Services include providing armed and un-armed guards to private schools and places of worship, video surveillance and patrol. Contracts for security services generally include only a single performance obligation. We recognize revenue for security guard services given the unit of measure (hours) provided in the given time period. Revenue from video surveillance and patrol is recognized based upon a fixed monthly rate.

Other Services

Other services include revenues from (incidental) specialized security manning services, training services and ad hoc work performed on and off airports. Revenue is recognized over time as services are being performed, using the input of service delivered during the time period, according to the contractual agreed price.

**Authentication Technology Segment**

In the authentication technology segment, the Company offers authentication services on a cost per click basis, with a minimum yearly commitment which means the customer pays the Company according to the higher of (a) number of times the customer used the system in order to authenticate IDs or (b) according to the yearly minimum commitment. According to the agreement with the customers, each chargeable click has an agreed price and revenue is being recognized accordingly.

**Pricing and Reduction to Revenues**

We generally determine standalone selling prices based upon the prices included in the client contracts, using expected costs plus margin, or other observable prices. The price as specified in our client contracts is generally considered the selling price as agreed with the customer. Certain client contracts have variable consideration which are based on quantity of usage. These amounts may be constrained and revenue is recorded to the extent we do not expect a significant reversal or when the uncertainty associated with the variable consideration is resolved. Our variable consideration, if any, amounts are not material, and we do not expect significant changes to our estimates.

**Contracts**

Our client contracts generally include standard payment terms acceptable in each of the countries, states and territories in which we operate. The payment terms vary by the type and location of our clients and services offered. The minimum commitment is usually being paid in advance. Client payments are typically due in 30 days after invoicing, but may be a shorter or longer term depending on the contract. Our client contracts are usually for a one-year period with a renewal option. The timing between satisfaction of the performance obligation, invoicing and payment is not significant.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Revenue Recognition (Continued)**

Deferred Revenues

We record deferred revenues when cash payments are received or due in advance of our performance. Deferred revenues at December 31, 2020 and 2019 were \$2,143 and \$1,652, respectively shown as part of the accrued expenses and other current liabilities and \$263 and \$268 shown as other liabilities. Revenue recognized for the years ended December 31, 2020, 2019 and 2018 that was included in the deferred revenue at the beginning of each year was \$1,879, \$2,001 and \$854, respectively.

Our payment terms vary by the type and location of our customer and the products or services offered. The term between invoicing and when payment is due is not significant.

Capitalized Contract Costs

As part of obtaining contracts with certain customers in the authentication technology segment, the Company incurs upfront costs such as sales commissions. The Company capitalizes these costs which are subsequently amortized on a straight-line basis over the estimated life of the relationship with the customer. The Company applies the practical expedient that allows it to determine this estimate for a portfolio of contracts that have similar characteristics in terms of type of service, contract term and pricing. This estimate is reviewed by management at the end of each reporting period as additional information becomes available.

**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.

**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, 2020, 2019 and 2018 are \$735, \$828 and \$528, 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.

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**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Income Taxes (Continued)**

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, 2020. Potentially dilutive securities were included in the computation of diluted income per share as the conversion rate of the convertible note payable to related party was lower than the weighted average computed price of the Company's stock for the year 2020.

The Company had a loss from continuing operations for the years ended December 31, 2019 and 2018. For periods of net loss, diluted loss per share is calculated similarly to basic loss per share because the impact of all dilutive potential common share is anti-dilutive due to the net losses in 2019 and 2018. Potentially dilutive securities were excluded from the computation of diluted loss per share as the conversion rate of the convertible note payable to related party was higher than the market price of the Company's common stock as of December 31, 2019 and 2018, 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:

	Year Ended December 31,		
	2020	2019	2018
Shares issuable upon conversion of convertible notes payable to related party at a price of \$0.40	3,000,000	5,000,000	-
Shares issuable upon conversion of convertible notes payable to related party at a price of \$1.50	-	-	14,731,267
Shares issuable upon conversion of accrued interest payable to related party at a price of \$0.75	-	-	11,779,776
<b>Total</b>	<b>3,000,000</b>	<b>5,000,000</b>	<b>26,511,043</b>

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**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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, VAT payable, notes payable-banks, long-term 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 of America, Europe, Japan and Israel. As of December 31, 2020, accounts at financial institutions located in the United States of America are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250 per institution. As of December 31, 2020, cash, cash equivalents and restricted cash of \$5,773 is being held in the United States of America, of which \$5,523 is uninsured. Bank accounts located in Europe, Japan and Israel, totaling \$55,301 as of December 31, 2020, 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.

Revenue from two customers represented 70% of total revenue during the year ended December 31, 2020, of which one customer accounted for 48% and the other customer accounted for 22% of total revenue. Accounts receivable from these two customers represented 47% of total accounts receivable as of December 31, 2020.

Revenue from two customers represented 69% of total revenue during the year ended December 31, 2019, of which one customer accounted for 41% and the other customer accounts for 28% of total revenue. Accounts receivable from these two customers represented 57% of total accounts receivable as of December 31, 2019.

Revenue from two customers represented 72% of total revenue during the year ended December 31, 2018, of which one customer accounted for 38% and the other customer accounts for 34% of total revenue. Accounts receivable from these two customers represented 55% of total accounts receivable as of December 31, 2018.

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 Central Banks Federal Reserve actions and general market conditions. The Company does not utilize derivative instruments to manage its exposure to interest rate risk.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Risks and Uncertainties (Continued)**

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 and statements of cash flows to conform with current period presentation.

**Adoption of New Accounting Standard**

On January 1, 2020, the Company adopted ASU 2016-13 Financial Instruments- Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, replacing the incurred loss impairment methodology under current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The measurement of expected credit losses under the Current Expected Credit Loss (CECL) methodology is applicable to trade and other receivables, financial assets measured at amortized cost including loans and other instruments.

The Company applies ASC 326 its accrual for doubtful accounts and for financial assets purchased with credit deterioration (PCD) related to its investment in Arrow (see note 6). ASC 326 requires credit losses to be presented as an allowance for credit losses. The remaining noncredit discount will be accreted into interest income at the effective interest rate. As allowed by ASC 326, the Company elected to maintain a pool of loans for the purpose of applying the standard, due to similar characteristics of the loans. Management assesses the extent to which fair value is less than amortized cost. The assessment indicates that the present value of cash flows expected to be collected is less than the amortized cost basis, thus a credit loss exists and an allowance for credit losses is recorded for credit loss. Changes in the allowance for credit losses are recorded as provision for credit loss expenses. Management estimates the allowance using relevant available information from internal and external sources, relating to past events current conditions and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses.

The adoption of ASC 326 did not have a material effect on the Company's consolidated financial statements.

**Recently Issued Accounting Pronouncements**

**Accounting Standards Update 2019-12**

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes which simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. The standard will become effective for interim and annual periods, beginning after December 15, 2020, with early adoption permitted. The adoption of this standard is not expected to have material effect on the Company's operating results or financial condition.

**Accounting Standards Update 2020-01**

In January 2020, the FASB issued an update for Investments-Equity Securities (Topic 321) and Investments-Equity method and Joint Ventures (Topic 323). This ASU, among other things, clarifies that a company should consider observable transactions that require a company to either apply or discontinue the equity method of accounting under Topic 323, for the purposes of applying the measurement alternative in accordance with topic 321 immediately before applying or upon discontinuing the equity method. The amendment is effective for public business entities for fiscal years beginning after December 15, 2020, including interim periods within that fiscal year. The adoption of this standard is not expected to have a material effect on the Company's operating results or financial condition.

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**NOTE 3 – BUSINESS COMBINATION**

Acquisition in Sweden

In July 2018, the Company acquired 100% of the outstanding shares of Detact Security Solution AB. The purpose of the acquisition was to penetrate the Swedish aviation and cargo markets. Consideration of the acquisition was 9,500 SEK (\$1,065 as of the purchase date), of which 6,500 SEK (\$729 as of the purchase date) was paid in cash upon the signing of the purchase contract and 3,000 SEK (\$336 as of the purchase date) was held in escrow for a period of three months or longer in case of disagreement between the parties. As of December 31, 2018, the funds in the escrow account were not released to the seller as a result of disagreement between the parties.

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 value.

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

	SEK	U.S. Dollars
Cash	663	74
Accounts receivable	8,902	999
Other current assets	445	50
Fixed assets	1,189	133
Goodwill	9,005	1,010
Other assets	1,039	116
<b>Total identifiable assets acquired</b>	<b>21,243</b>	<b>2,382</b>
Notes Payables-banks	4,734	531
Accounts Payable	182	20
Other current liabilities	5,788	649
Non current liabilities	1,039	117
<b>Total liabilities assumed</b>	<b>11,743</b>	<b>1,317</b>
	<b>9,500</b>	<b>1,065</b>

Goodwill associated with the new acquisition of Detact Security Solution AB was 9,005 SEK (\$1,007 as of December 31, 2018) and deductible for income tax purposes. The goodwill consists principally of the expectations of future earnings and profits from expanding this business. In December 2018, the Company evaluated the goodwill and concluded the goodwill should be fully impaired (see note 9).

Acquisition in Spain

In January 2018, the Company acquired 100% of the outstanding shares of Abydos Consultores de Sistemas S.L.U. The purpose of the acquisition was to increase the Company's activities in Spain. Consideration of the acquisition was €183 (\$226 as of the purchase date), in cash upon the signing of the purchase contract. The name of Abydos Consultores de Sistemas S.L.U. was changed into I-SEC Aviation Security S.L.

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)**

Acquisition in Spain (Continued)

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

Goodwill associated with the acquisition of Abydos Consultores de Sistemas S.L.U. was €188 (\$232 as of December 31, 2018) and is deductible for income tax purposes. The goodwill arising from this acquisition consist principally of the expectations of future earnings and profits from expending this business. In December 2018 the Company evaluated the goodwill and concluded that the goodwill should be fully impaired (see note 9).

**NOTE 4 – DISCONTINUED OPERATIONS**

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, 2020 and 2019 the Company had no assets or liabilities in its consolidated balance sheets that related to the discontinued operations.

A summary of the Company's consolidated statements of operations from the above discontinued operations for the years ended December 31, 2020, 2019 and 2018 are as follows:

	For the Years Ended December 31,		
	2020	2019	2018
Revenue	\$ -	\$ -	\$ -
Cost of revenue	-	-	-
GROSS PROFIT	-	-	-
Selling, general and administrative	-	-	289
Net loss	-	-	(289)
Less: Net loss attributable to non-controlling interests	-	-	123
LOSS FROM DISCONTINUED OPERATIONS ATTRIBUTABLE TO ICTS INTERNATIONAL N.V.	\$ -	\$ -	\$ (166)



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**NOTE 5 – PREPAID EXPENSES AND OTHER CURRENT ASSETS**

Prepaid expenses and other current assets are as following:

	December 31,	
	2020	2019
Receivable from the Dutch tax authorities (1)	\$ 12,285	\$ 1,682
Receivable from the German authorities - COVID 19 (2)	1,887	-
Dutch Governmental support - COVID 19 (3)	1,068	-
Other	3,669	3,298
<b>Total prepaid expenses and other current assets</b>	<b>\$ 18,909</b>	<b>\$ 4,980</b>

- (1) The Company is obligated to hold restricted cash in the Netherlands, which is restricted for payments to the tax authorities. From time to time the Company is allowed to make a request to release the money from the restricted account into the regular bank account. As part of the process the Company transfers the requested amount to the Dutch tax authorities, who pay it back after a few weeks into the Company's regular bank account.
- (2) In Germany, the employees are eligible for payroll support (see note 1). The Company pays to its German employees their full salary and the Company is being reimbursed by the German government for the payroll support amount.
- (3) In the Netherlands, the Company is eligible for payroll support (see note 1).

**NOTE 6 – INVESTMENTS**

**Artemis Therapeutics, Inc.**

As of December 31, 2020, the Company owns 198,311 shares or 3.8% of the outstanding common stock of Artemis Therapeutics, Inc. ("ATMS"). As of December 31, 2020, ATMS has no operating business.

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, 2020 and 2019, the Company's share of the underlying net assets of ATMS is equal to the Company's carrying value of its investment in ATMS (\$0 and \$0 at December 31, 2020 and 2019). The market value of the Company's investment in ATMS as of December 31, 2020 and 2019 is \$79 and \$10, respectively.

The Company evaluated the stock price of ATMS but as ATMS share price is low, the number 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.

**Freezone I-SEC Korea Inc.**

In April 2018, the Company signed a Joint Venture Agreement with a South Korean Company in order to establish a Joint Venture Company ("JVC") and to provide aviation security and non-security services in South Korea. Each one of the parties holds 50% (fifty percent) of the JVC's equity. The Company uses the equity method for this investment. As of December 31, 2020, the Company's investment is 332,715 KRW (\$307). For the years ended December 31, 2020, 2019 and 2018, the Company recognized a profit (loss) in its consolidated statements of operations of (17,742) KRW, 105,092 KRW and 133,550 KRW, respectively (\$ (15), \$91 and \$124 as of December 31, 2020, 2019 and 2018, respectively) from its investment in the JVC.

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**NOTE 6 – INVESTMENTS (CONTINUED)**

**Mesh Technologies, Inc.**

In January 2019, the Company invested an amount of \$50 in Mesh Technologies, Inc. (“Mesh”), a company incorporated in the USA. As of December 31, 2020, the investment represented 0.4% of the issued and outstanding share capital of Mesh. Mesh is a technology company providing cross border payments technology by innovating on the existing payment rails of established card networks available in the market. As Mesh is a private, closely held company, there is no active market for this investment. Therefore, the Company measures the investment at cost minus impairment.

**Arrow Ecology & Engineering Overseas (1999)**

In December 2019, the Company invested an amount of \$1,750 in Arrow Ecology & Engineering Overseas (1999) Ltd (“Arrow”), a limited company incorporated in Israel. Arrow develops and operates a sustainable green process to recycle mixed and sorted municipal solid waste. The Company purchased few types of shares representing 23.3% of Arrow’s equity for an amount of \$22 and shareholders loans were purchased for a price of \$1,728 (\$4,146 stated value less \$2,418 allowance for credit losses, which have not changed since the acquisition). The Company uses the equity method for this investment. During the years ended December 31, 2020 and 2019, the Company recognized its estimated share in Arrow loss in the amount of \$775 and \$0, respectively, from this investment.

The Company has an agreement with an entity related to its main shareholder, according to which, if the value of the investment decrease, the related party entity has guaranteed to repurchase this full investment at a minimum amount of \$1,750. The guarantee is effective immediately as of the date of purchase and terminates after three years. Some Directors and managers of Arrow are related parties of the Company.

**GreenFox Logistics LLC.**

In March 2020, the Company invested an amount of \$100 in GreenFox Logistics, LLC. (“GreenFox”), a company incorporated in the USA. The investment was done as SAFE investment (Simple Agreement for Future Equity). GreenFox is an on-demand delivery/moving/transportation company. As GreenFox is a private, closely held company, there is no active market for this investment. Therefore, the Company measures the investment at cost minus impairment.

**SardineAI Corp.**

In August 2020, the Company invested an amount of \$50 in SardineAI Corp (“SardineAI”), a company incorporated in the USA. In return the Company received preferred shares representing less than 1% of SardineAI equity. SardineAI is a Fraud Prevention-as-a-Service (FaaS) platform for Digital businesses to detect frauds and financial crimes. As SardineAI is a private, closely held company, there is no active market for this investment. Therefore, the Company measures the investment at cost minus impairment.

**NOTE 7 - PROPERTY AND EQUIPMENT**

Property and equipment is as follows:

	December 31,	
	2020	2019
Office, equipment and facilities	\$ 10,796	\$ 8,866
Internal-use software	1,449	595
Vehicles	1,958	1,870
Leasehold improvements	2,972	2,352
	<u>17,175</u>	<u>13,683</u>
Less: accumulated depreciation and amortization	11,650	9,097
<b>Total property and equipment, net</b>	<b>\$ 5,525</b>	<b>\$ 4,586</b>

Depreciation and amortization expenses are \$2,090, \$1,688 and \$1,897 for the years ended December 31, 2020, 2019 and 2018 respectively.

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**NOTE 8 - LEASES**

Lessee Arrangements

The Company enters into leases in the normal course of business primarily as part of its operations in the different airports, back office operations, research and development offices and headquarters offices.

The table below presents the effects on the amounts relating to the Company's total lease cost:

	Year ended December 31,	
	2020	2019
Operating lease cost	\$ 3,914	\$ 3,421
Short-term lease cost	1,580	994
<b>Total lease cost</b>	<b>\$ 5,494</b>	<b>\$ 4,415</b>
<b>Other information:</b>		
Cash paid for amounts included in the measurement of Lease liabilities:		
Operating cash flows from operating leases	\$ 3,962	\$ 2,901
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 4,941	\$ 541
Weighted-average remaining lease term - operating leases	4.5 years	4.1 years
Weighted-average discount rate - operating leases	4.8%	5.0%

Supplemental balance sheet information related to operating leases was as follows:

	Year ended December 31,	
	2020	2019
Operating lease ROU assets	\$ 12,938	\$ 10,367
Other current liabilities	\$ 3,531	\$ 2,725
Operating lease liabilities	9,333	7,562
<b>Total operating lease liabilities</b>	<b>\$ 12,864</b>	<b>\$ 10,287</b>

Future undiscounted lease payments for operation leases with initial terms of more than one year as of December 31, 2020 are as follows:

<b>Year ending December 31,</b>	
2021	4,048
2022	3,122
2023	2,747
2024	2,194
2025	906
Thereafter	1,400
<b>Total future minimum lease payments</b>	<b>14,417</b>
Less: imputed interest	1,553
<b>Total</b>	<b>\$ 12,864</b>

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**NOTE 9 – GOODWILL**

All the Company's goodwill relates to its airport security and other aviation services segment. The change in goodwill during the year is as follows:

	2020	2019
Balance as of the beginning of the year:		
Goodwill	\$ 2,182	\$ 2,220
Accumulated impairment losses	(1,501)	(1,525)
	<u>681</u>	<u>695</u>
Goodwill acquired during the year	-	-
Impairment losses	-	-
Exchange rate effect	65	(14)
	<u>746</u>	<u>681</u>
Balance as of the end of the year:		
Goodwill	2,361	2,182
Accumulated impairment losses	(1,615)	(1,501)
	<u>\$ 746</u>	<u>\$ 681</u>

At December 31, 2020 and 2019, the Company performed qualitative assessments to determine if it was more likely than not that the fair value of the reporting units exceeded its carrying values, including goodwill. The qualitative assessments indicated that it was more likely than not that the fair value exceeded the carrying value of the reporting unit. At December 31, 2018, the qualitative assessment indicated that it was more likely than not that the carrying value of the reporting unit exceeded fair value.

The quantitative impairment test includes comparing the carrying value of the reporting unit, including the existing goodwill and intangible assets, to the fair value of the reporting unit. If the carrying amount of the reporting unit exceeds its fair value, a goodwill impairment charge is recorded for the amounts in which the carrying value of the reporting unit exceeds the fair value of the reporting unit, up to the amount of goodwill attributed to the reporting unit.

During the years ended on December 31, 2020, 2019 and 2018, the Company recognized impairment charges of \$0, \$0 and \$1,563, respectively.

The facts and circumstances that led to the impairment of goodwill during the year ended December 31, 2018 are as follows:

Procheck, a wholly-owned subsidiary of the Company since 1998 was advised by its only customer, that its services are not required, its contract would not be renewed and will end on December 31, 2018, following a change in the governmental security concept in the Netherlands. Upon expiration of the agreement, the employment of its employees was terminated. A goodwill impairment loss of \$314 was recognized.

In January 2018, the Company acquired 100% of the outstanding shares of Abydos Consultores de Sistemas S.L.U (see note 3) and recorded goodwill of €188 (\$215 as of December 31, 2018). The purpose of the acquisition was to increase the Company's activities in Spain. As the Company did not win any of the main bids on which it participated during 2018, revenue, operating profits and cash flows were lower than expected in 2018. The earnings forecast for the next four years was revised and an impairment loss of €188 (\$222 for the year ended December 31, 2018) was recognized. The fair value of Abydos Consultores de Sistemas S.L.U. was estimated using the expected present value of future cash flows.

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**NOTE 9 – GOODWILL (CONTINUED)**

In July 2018, the Company acquired 100% of the outstanding shares of Detact Security Solution AB (see note 3) and recorded goodwill of 9,005 SEK (\$1,027 for the year ended December 31, 2018). The purpose of the acquisition was to penetrate the Swedish aviation and cargo markets. After the acquisition, a major customer has terminated the contract with the Company. As a result, the revenue, operating profits and cash flows will be lower than expected. The earnings forecast for the next four years was revised and an impairment loss of 9,005 SEK (\$1,007 as of December 31, 2018) was recognized. The fair value of Detact Security Solution AB was estimated using the expected present value of future cash flows.

As the Company maintains a valuation allowance for the carrying value of its net deferred tax assets for the locations affected by the goodwill impairment, there is no effect on the Company's deferred tax assets in the consolidated balance sheets (see note 18).

**NOTE 10 – NOTES PAYABLE – BANKS**

**United States of America**

The Company's U.S. subsidiary is a party to a credit facility with a commercial lender, which provides a maximum borrowing capacity up to \$10,000, subject to a borrowing base limitation. The borrowing base limitation was equivalent to: (i) 85% of eligible accounts receivable, as defined, plus (ii) 80% of eligible unbilled receivables, as defined, plus (iii) 95% of a \$500 standby letter of credit that was provided to the lender by an entity related to the main Shareholder. Borrowings under the credit facility are secured by the U.S. subsidiary's accounts receivable, unbilled receivables, equipment, cash and the \$500 letter of credit that was provided to the lender by the Company.

As of December 31, 2020, and 2019, the Company had approximately \$0 and \$6,475, respectively, outstanding under the line of credit arrangement. As of December 31, 2020 and 2019, the Company had \$4,144 and \$3,525, respectively, in unused borrowing capacity under the line of credit facility.

Borrowings made under the credit facility bear interest, which is payable monthly, at LIBOR plus 3% per annum (3.14% as of December 31, 2020).

The Company's weighted average interest rate in the United States of America during the years ended December 31, 2020, 2019 and 2018 is 4.42%, 5.44% and 6.0% respectively. The Company is required to maintain a minimum fixed charge coverage ratio. The credit facility expires in October 2021.

**Europe**

The Company has a credit arrangement with a commercial bank, to provide it with up to €12,000 (\$14,742 as of December 31, 2020) in borrowings which was renewed in May 2020 through March 2021. Borrowings under the line of credit bear interest at one-month EURIBOR plus 4.8% with a minimum of 4.8% per annum. The Company is also subject to unused line fee of 0.75% per annum, which is payable quarterly. The line of credit is secured by accounts receivable of ten of the Company's European subsidiaries, tangible fixed assets and a bank guarantee of €2,000 (\$2,457 as of December 31, 2020) provided by the parent company, ICTS International N.V. The line of credit cannot exceed 70% of the borrowing base. The line of credit includes certain financial covenants.

As of December 31, 2020 and 2019, the Company had €6,432 and €1,872 (\$7,902 and \$13,313 as of December 31, 2020 and 2019), respectively, in outstanding borrowings under the line of credit arrangement.

In addition to the line of credit arrangement, a guarantee facility of €2,500 (\$3,071 as of December 31, 2020) is provided to the Company by the same commercial bank, which was also renewed until March 2021, with an interest of 2.5% per annum and an unused line fee of 0.75% per annum which is payable quarterly. As of December 31, 2020 and 2019, the Company had €973 and €2,316 (\$1,195 and \$2,596 as of December 31, 2020 and 2019), respectively, of outstanding guarantees under the guarantee facility, which related to leases and performance guarantees for contracts.

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**NOTE 10 – NOTES PAYABLE – BANKS (CONTINUED)**

**Europe (Continued)**

The line of credit was not renewed and management expects to renew the guarantee facility which will be extended for one year under the same conditions. The guarantee facility is secured by the accounts receivables of ten of the Company's European subsidiaries.

The Company's weighted average interest rate in Europe during the years ended December 31, 2020, 2019 and 2018, is 4.4%, 3.5% and 3.5% respectively.

The Company has an additional credit arrangement in Sweden to provide it with up to 4,000 SEK (\$490 as of December 31, 2020) in borrowings. Borrowings under the line of credit bear annual interest of 2.8% and subject to annual extension by the financial institution. The line of credit is secured by accounts receivable of the Swedish subsidiary. As of December 31, 2020 and 2019, the Company had 1,648 SEK and 1,115 SEK (\$202 and \$120 as of December 31, 2020 and 2019) respectively in outstanding borrowings under the line of credit facility.

**NOTE 11 - ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

Accrued expenses and other current liabilities are as follows:

	December 31,	
	2020	2019
Accrued payroll and related costs	\$ 18,938	\$ 20,662
Accrued vacation	5,582	6,639
Labor union contribution	1,440	2,089
Deferred revenue	2,143	1,652
Payroll support program funding	1,019	-
Other	3,765	4,153
<b>Total accrued expenses and other current liabilities</b>	<b>\$ 32,887</b>	<b>\$ 35,195</b>

**NOTE 12 – LOAN PAYABLE**

In December 2018, the Company entered into an agreement with a financing company to provide it €2,000 (\$2,457 as of December 31, 2020) as a loan until December 2020. The loan can be repaid earlier but not before December 2019. The loan bears interest of ten percent per annum. Interest is being paid quarterly. In November 2019, the Company repaid €1,000 (\$1,229 as of December 31, 2020) of the payable loan plus accrued interest and in November 2020, the additional outstanding balance of €1,000 (\$1,229 as of December 31, 2020) plus the accrued interest was repaid.

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**NOTE 13 – DEBT TO RELATED PARTIES**

Convertible Notes Payable to a Related Party

The Company has an agreement with an entity related to its main shareholder, to provide it with up to \$37,000 in revolving loans through June 30, 2020. The term of the arrangement can be automatically extended for four additional six-month periods at the option of the holder. Loans received under the arrangement bear interest, which is compounded semi-annually and payable at maturity, at the interest rate of LIBOR plus 7% for U.S. dollar-denominated loans and the Company's European commercial bank interest base rate plus 3% 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 the outstanding principal notes payable under the arrangement into the Company's common stock at a price of \$1.50 per share and the unpaid accrued interest at a price of \$0.75 per share.

In January 2019, the entity related to the main shareholder converted \$2,889 accrued interest into 3,852,364 shares at a price of \$0.75 per share.

In May 2019, the Company granted this entity, the option to convert up to \$2,000 of the loan into the Company's shares at a price of \$0.40 per share, and all other conversion rights for the balance of the debt except \$2,611, which is convertible at a price of \$0.75 per share, would eliminate. In December 2019, this entity converted the \$2,611 accrued interest into 3,480,968 shares at a price of \$0.75 per share. In October 2020, the entity converted \$800 into 2,000,000 shares.

In June 2019, the Board of Directors approved a one-time compensation of \$8,139 to this entity for exchange rate and related losses suffered in connection with its convertible notes to the Company during the years. Compensation was approved subject to closing of investment transaction in the Company's subsidiary, AU10TIX Technologies B.V. ("AU10TIX", formerly ABC Technologies B.V.), which happened in July 2019 (see note 15). As a result, the Company recorded \$8,139 in connection with this payment which is included in other expenses in the consolidated statement of operation and comprehensive income (loss).

In July 2019, the Company repaid \$30,000 of the convertible notes.

In October 2020, the loan was extended until January 2022, the loan amount was reduced to \$3,000 and the pledge of 26% interest in one of the Company's European subsidiaries was terminated.

The Company's weighted average interest during the years ended December 31, 2020, 2019 and 2018 is 7.60%, 8.30% and 7.70%, respectively.

As of December 31, 2020 and 2019, convertible notes payable to this related party consist of \$1,200 and \$2,000, respectively.

Note Payable to Related Party

As of December 31, 2020 and 2019, notes payable to this related party consist of \$0 and \$1,538, respectively.

Total interest expense related to these notes is \$171, \$1,218 and \$2,687 for the years ended December 31, 2020, 2019 and 2018, respectively.

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**NOTE 14 – OTHER LIABILITIES**

Other liabilities are as follows:

	December 31,	
	2020	2019
Severance pay liability	\$ 1,556	\$ 1,493
Deferred revenue	263	268
Deferred VAT	10,319	-
Deferred wage tax and social security	13,100	-
Other	446	-
Total other liabilities	\$ 25,684	\$ 1,761

Deferred VAT and deferred wage tax relates to measurements taken by the Dutch government, on which they postponed all VAT payable for the year 2020 and all wage tax and social security payable for the months March – December 2020 to be paid in 36 installments starting October 2021.

**NOTE 15 – REDEEMABLE NON-CONTROLLING INTERESTS**

On July 3, 2019, AU10TIX entered into a Series A Preferred Subscription Agreement (the "Agreement") with TPG Lux 2018 SC I, S.a.r.l ("TPG"), according to which AU10TIX issued 3,000,000 Series A Preferred Shares ("Series A Shares") to TPG for a subscription price of US\$60,000 in cash representing approximately 24% of the outstanding share capital of AU10TIX and 23.077% of the fully-diluted share capital of AU10TIX (see note 16). Transaction costs totaled \$4,540 and were deducted from the redeemable non-controlling interests balance.

On November 7, 2019, AU10TIX entered into a Series A and Series A-1 Preferred Subscription Agreement with Oak HC/FT Partners II, L.P. ("Oak"), according to which AU10TIX issued 1,000,000 Series A Preferred Shares and 23,622 Series A-1 Preferred Shares ("Series A-1 Shares" and together with Series A Shares – "the Preferred Shares") to Oak for a subscription price of US\$20,000 in cash representing approximately 7.401% of the outstanding share capital of AU10TIX and 7.143% of the fully-diluted share capital of AU10TIX. For accounting purposes, the investment was allocated to the Series A and Series A-1 Preferred Shares on a relative fair value basis: \$19,537 and \$461, respectively. Transaction costs totaled \$1,513 and were deducted from the respective investment amounts.

Following the Oak investment, on November 7, 2019, TPG subscribed for 307,087 Series A-1 Shares at nominal value (US\$0.001 per share) ("Bonus Issue Series A-1 Shares") in order to preserve its 23.077% ownership interest in the fully diluted share capital of AU10TIX.

**The Preferred Shares Rights**

**Liquidation Preference:** The holders of Series A Shares ("Series A Holders") are entitled to a liquidation preference upon the occurrence of a sale, initial public offering ("IPO"), merger, consolidation, reorganization, winding-up, dissolution or liquidation of AU10TIX, pursuant to which the Series A Holders are entitled, on the occurrence of such event and in priority to the ordinary shares, to receive the greater of: (a) an amount equal to the initial subscription price for the Series A Shares, plus all accrued but unpaid dividends in respect of the Series A Shares, less all dividends previously paid on the Series A Shares, and (b) the proceeds distributable in respect of the Series A Shares had they been converted into ordinary shares. The initial subscription price for the Series A Shares (and calculations derived therefrom) are subject to customary adjustments as set forth in the agreements executed in connection with the Sale.

**Conversion Rights:** The Series A Shares are subject to conversion into ordinary shares of AU10TIX: (a) on the written request by any Series A Shareholder; and (b) immediately prior to a qualifying IPO of AU10TIX (being an IPO where the net aggregate gross proceeds to AU10TIX exceed US\$75 million and where the subscription price per share paid by the public is not less than 150% of the initial subscription price paid for the Series A Shares). Pursuant to these conversion arrangements, the Series A Shares will convert into ordinary shares on a 1:1 basis (subject to certain agreed upon adjustments).



**NOTE 15 – REDEEMABLE NON-CONTROLLING INTERESTS (CONTINUED)**

**The Preferred Shares Rights (Continued)**

**Anti-Dilution Protection:** The Shareholders Agreements contain customary broad-based weighted average anti-dilution protection whereby, if further shares are issued by AU10TIX at a price per new security that is less than the initial subscription price paid for the Series A Shares, then the Series A Holders shall be entitled to receive additional Series A Shares (at no further cost) on a weighted-average basis, reflecting the value of equity in AU10TIX as determined based on the subscription price paid in the new issue of securities.

**Pre-emption Rights:** The Shareholders Agreements contain a restriction on issuing any securities ranking senior to or on par with the Series A Shares for as long as TPG and/or any subsequent investor holds at least one third of the overall number of Series A Shares in issue as at the date of completion of the Sale. In addition, each shareholder holding in excess of 3% of the shares of AU10TIX has the right to participate in any new issuance of securities by the AU10TIX, subject to customary exceptions.

**Exit Rights:** At any time from and after the fifth (5th) anniversary of completion of the issuance, upon written request by TPG, AU10TIX is required to use reasonable endeavors to facilitate the sale by TPG of the Preferred Shares (or, following conversion, ordinary shares) to a third party at a price in excess of 150% of the initial subscription price paid for the Series A Shares and subject to a right of first refusal in favor of the Company. In the event that, three (3) months thereafter, a sale of the Preferred Shares held by TPG has not been consummated, upon written request by TPG, AU10TIX is required to facilitate a sale of AU10TIX within six (6) months after such written request, and thereafter, TPG has the right to require AU10TIX to facilitate a sale or IPO of AU10TIX. On the exercise of such rights, each other shareholder (including the Company) is required to cooperate with TPG regarding such sale or IPO and TPG has the right to exercise drag rights over the shares held by other shareholders in order to facilitate such exit event.

The Exit Right is part of the issuance of the Series A Shares, and was not entered into separately from the transaction that created the non-controlling interests. The Exit Right is not legally detachable from the non-controlling interests because it is non-transferrable (i.e., the instrument cannot be transferred without the underlying preferred shares). Thus, the Exit Right would not be separately exercisable from the non-controlling interests shares because the non-controlling interests shares will be settled when the Exit Right is exercised. As a result, the Exit Right would be considered embedded in the Series A Shares held by TPG.

Shares of redeemable convertible preferred stock are not mandatorily or currently redeemable. However, the Exit Right would constitute a contingent redemption event that is outside of the Company's control. As such, Series A Shares have been presented outside of permanent equity as redeemable non-controlling interests. The Company has adjusted the carrying value of the redeemable non-controlling interests to adjust for the non-controlling interests share in AU10TIX's profits and Other Comprehensive Income (Loss). The Company has not adjusted the carrying values of the redeemable non-controlling interests to the deemed liquidation values of such shares since a liquidation event was not probable at any of the balance sheet dates. Subsequent adjustments to increase or decrease the carrying values to the ultimate liquidation values will be made only if and when it becomes probable that such a liquidation event will occur.

The Series A-1 Preferred Shares do not entitle their holders to any liquidation or exit rights as the Series A Preferred Shares, and therefore are classified within permanent equity, as non-controlling interests.

The anti-dilution provisions cited above have not been bifurcated from the host contract since they are to be settled into AU10TIX's non-traded shares, thus the "net settlement" criteria is not met.

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**NOTE 15 – REDEEMABLE NON-CONTROLLING INTERESTS (CONTINUED)**

**The Preferred Shares Rights (Continued)**

The following table sets forth for the movement in the redeemable non-controlling interests:

	Year Ended December 31,	
	2020	2019
Balance as of the beginning of the year	\$ 74,300	\$ -
Sale of AU10TIX Technologies B.V. series A Shares, net	-	73,520
Net Income	925	774
Other Comprehensive Income - Translation adjustment	97	6
Balance as of the end of the year	<u>\$ 75,322</u>	<u>\$ 74,300</u>

**NOTE 16 – STOCK-BASED COMPENSATION**

AU10TIX's subsidiary has a Stock Option Plan which has reserved 500,000 shares of its common stock for its future issuance. As of December 31, 2020, the subsidiary has 13,000,000 authorized shares of which 12,500,000 shares are issued and outstanding. Under the stock option plan, stock options may be granted to employees, officers, directors, consultants and service providers of the subsidiary at an exercise price as determined by the subsidiary's board of directors with expiration terms of not more than ten years after the date such option is granted. Options granted under the plan generally vest over a period of four years.

The following is a summary of the Company's subsidiary stock options issued and outstanding:

	Number of options	Weighted average exercise price	Weighted average remaining contractual term
Options outstanding as of December 31, 2019	200,500	\$ 0.01	
Options granted	-	-	
Options exercised	-	-	
Forfeited	-	-	
Options outstanding, end of the year	<u>200,500</u>	<u>\$ 0.01</u>	6.5 years
Options exercisable, as of December 31, 2020	<u>200,500</u>	<u>\$ 0.01</u>	6.5 years

Non-vested options consist of the following

	Number of options	Weighted average exercise price
Non-vested options, as of December 31, 2019	43,875	\$ 0.01
Granted	-	-
Vested	43,875	0.01
Forfeited	-	-
Non-vested options, as of December 31, 2020	<u>-</u>	<u>\$ -</u>

During the years ended December 31, 2020, 2019 and 2018, there were no compensation expenses related to the issuance of stock option plan.

As of December 31, 2020, the Company does not have any unrecognized compensation cost related to stock options granted under the stock option plans.

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**NOTE 17 – OTHER EXPENSES, NET**

Other expense is summarized as follows:

	Year ended December 31,		
	2020	2019	2018
Interest expense to related parties (see Note 13)	\$ (171)	\$ (1,218)	\$ (2,746)
Interest expense and other bank charges	(901)	(1,479)	(1,261)
Interest income	178	151	-
Revaluation and related costs reimbursed to related party	-	(8,139)	-
Foreign currency gain (loss)	(254)	148	417
Other income (expense)	(140)	19	4
<b>Total other expense, net</b>	<b>\$ (1,288)</b>	<b>\$ (10,518)</b>	<b>\$ (3,586)</b>

**NOTE 18 – INCOME TAXES**

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

	Year Ended December 31,		
	2020	2019	2018
The Netherlands	\$ 469	\$ (11,508)	\$ (13,107)
Subsidiaries outside of the Netherlands	5,523	5,804	2,728
<b>Income (loss) before income tax expenses</b>	<b>\$ 5,992</b>	<b>\$ (5,704)</b>	<b>\$ (10,379)</b>

The current income tax expense from subsidiaries outside of the Netherlands is \$1,345, \$1,492 and \$548 for the years ended December 31, 2020, 2019 and 2018, respectively. There was no current income tax expense or benefit for the Netherlands for the years ended December 31, 2020, 2019 and 2018.

The deferred income tax benefit from subsidiaries outside of the Netherlands is \$676, \$29 and \$87 for the years ended December 31, 2020, 2019 and 2018, respectively. There was no deferred income tax expense for the Netherlands for the years ended December 31, 2020, 2019 and 2018.

Additionally, tax expenses (benefits) from subsidiaries in the Netherlands include \$(79), \$86 and \$0, for the years ended December 31, 2020, 2019 and 2018, respectively, of tax related to previous years. Tax expenses from subsidiaries outside the Netherlands include \$0, \$0 and \$224 for the years ended December 31, 2020, 2019 and 2018, respectively, of tax related to previous years.

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**NOTE 18 – INCOME TAXES (CONTINUED)**

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

	December 31,	
	2020	2019
<b>Deferred tax assets:</b>		
Operating loss carryforwards	\$ 16,694	\$ 20,171
Capital loss carryforwards	159	148
Allowance for doubtful accounts	110	14
Tax credit carryforwards	560	560
Accrued expenses and other	774	691
Research and development expenses	432	-
Total deferred tax assets	18,729	21,584
<b>Deferred tax liabilities:</b>		
Depreciation of property and equipment	(115)	(62)
	18,614	21,522
<b>Valuation allowance</b>	<b>(17,445)</b>	<b>(21,046)</b>
Deferred tax assets, net	<b>\$ 1,169</b>	<b>\$ 476</b>

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, or positive expected core earnings 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 few 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.

As of December 31, 2020, the Company has net operating losses carry forwards of \$32,308 in the Netherlands, which expire in 2021 through 2027. As of December 31, 2020, the Company has net operating loss carry forwards of \$19,726 in the United States of America, which will expire in 2026 through 2037. During the year 2021 the Company is expected to get additional amounts as taxable governmental assistance from the United States government which will have an effect on the Company's profitability and the utilization of the net operating loss carry forwards. In Israel, the Company has net carry forward losses of \$6,660 which do not expire. The ultimate utilization of such net operating loss carry forwards is limited in certain situations.

As of December 31, 2020, the Company has capital loss carry forwards of \$692 in Israel. Such capital loss carry forwards do not expire and can be offset against future capital gains generated in Israel.

As of December 31, 2020, the Company has \$560 in tax credits for the welfare to work and work opportunity programs in the United States of America that expire in 2024 through 2029.

During the years ended December 31, 2020 and 2019 the valuation allowance increased (decreased) by \$(3,601) and \$2,568, respectively.

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**NOTE 18 – INCOME TAXES (CONTINUED)**

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

	Year Ended December 31,		
	2020	2019	2018
Effective loss (income) tax benefit from continuing operations at statutory rate	\$ (1,498)	\$ 1,426	\$ 2,595
Rate differential	610	1,024	682
Non-deductible expense	(857)	(584)	(565)
Adjustments to prior year tax losses	(3,604)	(429)	(408)
Changes in valuation allowance	3,601	(2,568)	(2,577)
Other	1,158	(418)	(412)
<b>Income tax expense from continuing operations</b>	<b>\$ (590)</b>	<b>\$ (1,549)</b>	<b>\$ (685)</b>

As of December 31, 2020 and 2019 there are no unrecognized tax benefits. As of December 31, 2020 and 2019, the Company has income tax payable of \$351 and \$162, respectively, included in accrued expenses and other current liabilities.

The Company files income tax returns in the Netherlands and other foreign jurisdictions. Income tax returns for the years since 2014 are subject to examination in the Netherlands. In the United States of America, income tax returns for the years since 2017 are subject to examination. Income tax returns for the tax years since 2015 are subject to examination in foreign jurisdictions.

**NOTE 19 - RELATED PARTY TRANSACTIONS**

An entity related to one of the Company's Supervisory Board members provide legal services to the Company. Legal expense related to these services is \$46, \$46 and \$35 for the years ended December 31, 2020, 2019 and 2018, respectively.

The Company engages the services of a related party to provide certain selling and management services to the authentication technology segment. The Company incurred expenses of \$741, \$801 and \$715 for such services for the years ended December 31, 2020, 2019 and 2018, respectively. As of December 31, 2020, and 2019 the outstanding balances due for these services were \$114 and \$191, respectively, included in accrued expenses and other current liabilities. In addition, since April 2018, the related party serves as a board member of the Company and was paid an amount of \$38, \$28 and \$15 as board fees, for the years ended December 31, 2020, 2019 and 2018, respectively.

An entity related to the Company's main shareholder provided a letter of credit of \$500 to a commercial bank to guarantee a borrowing arrangement on behalf of one of the Company's subsidiaries. In December 2019, the Company replaced the letter of credit by its own letter of credit.

The Company engages the services of a related party to provide certain selling services to its authentication technology segment. The Company incurred expenses of \$87, \$106 and \$110 for such services for the years ended December 31, 2020, 2019 and 2018, respectively.

The Company engages the services of a related party to provide internal audit services. As of February 2020, the related party acts as a Managing Director of the Company. The Company incurred expenses of \$182, \$170 and \$155 for such services for the years ended December 31, 2020, 2019 and 2018, respectively.

The chairman of the board, a related party, receives annual compensation of \$50 for his services as chairman. In addition, in 2020, the Company incurred salary expenses of \$125 for the services he provides to AU10TIX.

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**NOTE 19 - RELATED PARTY TRANSACTIONS (CONTINUED)**

In August 2017, the Company engaged the services of a related party to provide certain selling and administrative services to its authentication technology segment. The Company incurred expenses of \$0, \$39 and \$103 for such services for the years ended December 31, 2020, 2019 and 2018, respectively. In addition, the related party serves as a board member of the Company, and was paid an amount of \$38, \$30 and \$15 as board fees, for the years ended December 31, 2020, 2019 and 2018, respectively.

In May 2018, the Company engaged the services of a related party to provide certain administration services. The Company incurred expenses of \$118, \$98 and \$53 for such services for the years ended December 31, 2020, 2019 and 2018, respectively.

In May 2019, the Company engaged the services of Arrow (see note 6) to provide some administrative services. The Company incurred expenses of \$115 and \$62 for such services for the years ended December 31, 2020 and 2019, respectively.

In June 2019, the Company issued 3,000,000 shares to certain directors and officers of the Company for a purchase price of \$0.40 per share. The Compensation Committee determines the composition and amount of director and key employee compensation. When the annual award consists of equity purchases, it is only permitted at a price equal or above market.

In December 2019, the Company purchased shares and shareholders debt of Arrow for \$1,750 (see note 6).

In May 2020, an entity related to the Company's main shareholder provided a letter of credit of €2,000 (\$2,475 as of December 31, 2020) to a commercial bank to guarantee a borrowing arrangement on behalf of one of the Company's subsidiaries. The Company provided to the related party a deposit of \$2,200 against the letter of credit which will be paid back to the Company once the letter of credit will be cancelled.

The Company has debt to related parties (see note 13).

**NOTE 20 - COMMITMENTS AND CONTINGENCIES**

**Letters of Credit and Guarantees**

As of December 31, 2020, the Company has \$3,991 in outstanding letters of credit. Such letters of credit are being secured by the same amounts in restricted cash with commercial banks (see note 2).

As of December 31, 2020, the Company has €973 (\$1,195 as of December 31, 2020) in outstanding guarantees on its lines of credit arrangement in Europe (see note 10), which relate to leases and performance guarantee for contracts.

**Legal Proceedings**

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.

**NOTE 20 - COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**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 in that country are sold in the future, the third-party agent is entitled to a payment of €3,000 (\$3,686 as of December 31, 2020).

In March 2016, the Company entered into an agreement with a third party to assist the Company with the possible sale of one of the Company's subsidiaries (see note 15). The fees depend on the outcome of the assignment and are between 2% - 5% of the sale consideration but not less than \$4,000. In February 2019 the agreement was amended. According to the amendment, in case that less than 50% of the voting stock or majority of the subsidiary assets are being sold the transaction fee will be 5% of the sale consideration but not lower than \$3,000.

In August 2017, the Company entered into an agreement with a third party to assist the Company with a possible sale of one of the Company's subsidiaries. The fees depend on the outcome of the assignment and are between 2% - 10% of the sale consideration but not less than €2,000 (\$2,457 as of December 31, 2020).

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**NOTE 21 – SEGMENT AND GEOGRAPHICAL INFORMATION**

The Company operates in three reportable segments: (a) corporate (b) airport security and other aviation services and (c) authentication 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 authentication technology segment provides authentication services 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	Authentication Technology	Total
<b>Year ended December 31, 2020:</b>				
Revenue	\$ -	\$ 222,654	\$ 25,765	\$ 248,419
Depreciation and amortization	72	1,302	716	2,090
Income (loss) from continuing operations	(3,853)	6,056	3,199	5,402
Goodwill	-	746	-	746
Total assets from continuing operations	12,488	86,550	41,350	140,388
<b>Year ended December 31, 2019:</b>				
Revenue	\$ -	\$ 309,548	\$ 23,759	\$ 333,307
Depreciation and amortization	46	1,328	314	1,688
Income (loss) from continuing operations	(11,740)	(2,406)	6,893	(7,253)
Goodwill	-	681	-	681
Total assets from continuing operations	23,381	64,647	35,419	123,447
<b>Year ended December 31, 2018:</b>				
Revenue	\$ -	\$ 329,150	\$ 16,071	\$ 345,221
Depreciation and amortization	45	1,756	96	1,897
Income (loss) from continuing operations	(6,205)	(9,163)	4,304	(11,064)
Goodwill	-	695	-	695
Total assets from continuing operations	329	66,373	8,385	75,087



ICTS INTERNATIONAL N.V. AND SUBSIDIARIES  
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**NOTE 21 – SEGMENT AND GEOGRAPHICAL INFORMATION (CONTINUED)**

The following table sets forth, for the periods indicated, revenue generated from customers by geographical area based on the geographical location of the customer's invoicing address:

	Year Ended December 31,		
	2020	2019	2018
Germany	\$ 119,500	\$ 137,207	\$ 134,646
The Netherlands	58,446	97,700	121,465
United States	45,305	73,719	69,548
Other countries	25,168	24,681	19,562
<b>Total revenue</b>	<b>\$ 248,419</b>	<b>\$ 333,307</b>	<b>\$ 345,221</b>

The following table sets forth, for the periods indicated, property and equipment, net of accumulated depreciation and amortization, by country:

	December 31,	
	2020	2019
Germany	\$ 449	\$ 516
The Netherlands	598	862
United States	305	354
Other countries	4,173	2,854
<b>Total property and equipmat, net</b>	<b>\$ 5,525</b>	<b>\$ 4,586</b>

Property and equipment, net, in other countries include \$3,179 and \$2,212 property and equipment in Israel, as of December 31, 2020 and 2019, respectively.

ICTS INTERNATIONAL N.V. AND SUBSIDIARIES  
 FINANCIAL STATEMENTS SCHEDULE  
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Valuation and Qualifying Accounts  
 (US \$ in thousands)

	<u>Beginning of year</u>	<u>Charges to Costs and Expenses</u>	<u>Charges to other accounts</u>	<u>Deductions</u>	<u>End of Year</u>
<b>Allowance for doubtful accounts (1):</b>					
Year ended December 31, 2018	\$ 103	303	(166)	-	\$ 240
Year ended December 31, 2019	\$ 240	261	(83)	-	\$ 418
Year ended December 31, 2020	\$ 418	710	(438)	-	\$ 690
<b>Allowance for net deferred tax assets:</b>					
Year ended December 31, 2018	\$ 15,901	-	2,577	-	\$ 18,478
Year ended December 31, 2019	\$ 18,478	-	2,568	-	\$ 21,046
Year ended December 31, 2020	\$ 21,046	-	-	(3,601)	\$ 17,445

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

Continuous text of the articles of association of ICTS International N.V. as per January 4<sup>th</sup>, 2021 (unofficial translation)

Name and registered office.

Article 1.

1. The name of the Company limited by shares is: ICTS INTERNATIONAL N.V. and has its registered office in Amstelveen, The Netherlands.
2. The Company has been established for an indefinite period of time.

Objects.

Article 2.

1. The objects for which the Company has been established are:
  - a. to advise and render other services regarding the security of persons and goods and to arrange for (cause others to arrange for) such security by order of companies, government bodies and private persons; in particular but not exclusively: to (have others) install, manage and check security systems for the prevention and control of crime and terrorism in and around grounds, buildings, installations, vessels and aircraft;
  - b. to acquire and dispose of participations or other interests in companies and enterprises, - whether or not together with others -, to cooperate with companies and enterprises and to manage the same;
  - c. to acquire, manage, commercially exploit, encumber, dispose of property - including intellectual and industrial property rights -, and to invest capital;
  - d. to grant loans or cause the granting of loans, in particular - but not exclusively - to legal persons and companies which are subsidiaries and or group companies of the Company or in which the Company has a participation - all with due observance of the statutory provisions - and to draw loans or to cause the drawing of loans;
  - e. to enter into agreements by which the Company commits itself as guarantor or joint and several debtor, warrants performance by a third party or commits itself besides or on behalf of others, in particular - but not exclusively - for the benefit of legal persons and companies as referred to under d, all with due observance to the provisions of paragraph 2 of this article;
  - f. to perform any and all acts which are related or maybe conducive to the foregoing;
  - g. to engage in any other lawful act or activity for which companies may be organized under the Netherlands Civil Code, as amended from time to time.
2. Unless the provisions of section 98c of Book 2 of the Netherlands Civil Code apply, the Company may not stand surety, give price guarantees, enter into agreements by which the Company commits itself as guarantor or joint and several debtor, warrants performance by a third party or commits itself besides or on behalf of others, with an eye to the taking or acquiring by others of shares in its capital or depositary receipts thereof.

Capital.

Article 3.

The authorised capital of the Company amounts fifteen million euro and thirty eurocents (EUR 15,000,000.30), divided into thirty three million and three hundred thirty-three thousand and three hundred thirty four (33,333,334) shares, each share having a par value of fort-five euro cents (EUR 0.45).

Article 4.

1. In these Articles of Association the following terms shall have the following meaning:
  - a. Management Board/Managing Director(s): the management/managing officer(s) within the meaning of Book 2 of the Netherlands Civil Code;
  - b. Supervisory Board/Members of the Supervisory Board: the supervisory board/members of the supervisory board within the meaning of Book 2 of the Netherlands Civil Code;
  - c. shares: shares in the capital of the Company;
  - d. the General Meeting: the body of the Company formed by shareholders and other persons entitled to vote;
  - e. the General Meeting of Shareholders: the meeting of shareholders and other persons entitled to attend the General Meeting;
  - f. the Annual Meeting: The General Meeting of Shareholders held for the purpose of discussion and adoption of the annual accounts;
  - g. annual accounts: the balance sheet and the profit and loss account with the explanatory notes thereon, both in drafted and adopted form, unless the context shows differently;
  - h. the law: the law of The Netherlands.
2. In these Articles of Association the term "in writing" shall also mean: by telegram, by telex or by telecopier.

Shares: share certificates.

Article 5.

1. The shares may not be divided into sub-shares.
2. The shares shall be registered shares.
3. Registered shares shall be available:
  - in the form of an entry in the share register without issue of a share certificate ("uncertificated shares"); or
  - at the option of the shareholder, in the form of an entry in the share register with issue of a certificate ("certificated shares").
4. Upon request of a shareholder collective share certificates for any number of shares may be issued to that shareholder. Where these Articles of Association refer to share certificates this term shall include collective share certificates.
5. Share certificates shall be signed by or on behalf of the Management Board either by original signature or by printed facsimile.
6. Subject to the approval of the Supervisory Board the Management Board can determine that for the trade at foreign Exchanges share certificates shall be issued complying with the requirements set by said foreign Exchange(s) and not provided with any dividend sheet.
7. The shareholder may, upon his request, have issued to him one or more share certificates for his shares.
8. Damaged, but in the opinion of the Management Board still identifiable share certificates, may be exchanged by the Management Board for duplicates; the Management Board shall in that case ensure that the damaged documents are destroyed. For the destroyed or lost share certificates, the Management Board may issue duplicates, while complying with such requirements as the Management Board shall determine.

Each document newly to be issued shall be clearly provided with the word: "duplicate" and shall bear the same specification as the document which it is to replace. The issue of the duplicate shall render the document which it replaces null and void. All costs of implementation of the provisions of this paragraph shall be for the applicants account, unless determined otherwise by the Management Board.

Usufruct and pledge on shares. Delivery of title to shares.

Article 6.

1. Shares may be encumbered with usufruct.
2. Shares may be pledged as security. A pledge may also be created without acknowledgment by or service on the Company.
3. A shareholder without the right to vote as a result of a qualified right created on his shares and a usufructuary and pledgee with the right to vote shall have the rights granted to holders of depositary receipts issued with the cooperation of the Company under the law. Usufructuaries and pledgees of shares without the right to vote shall not have such rights.

Notification of place of residence and address. Notices and communications. Register of shareholders.

Article 7.

1. With due regard to the provisions of the law in respect of registered shares a register shall be kept by or on behalf of the Company, which register shall be regularly updated and, at the discretion of the Management Board, may, in whole or in part, be kept in more than one copy and at more than one place. As long as shares in the Company are quoted on the NASDAQ National Market, a part of the share register may be kept in New York.
2. Each shareholder's name, his address and such further data as the Management Board deems desirable, whether at the request of a shareholder or not, shall be entered in the register.
3. The form and the contents of the share register shall be determined by the Management Board with due regard to the provisions of paragraphs 1 and 2 of this Article.
4. Upon request a shareholder shall be given free of charge a declaration of what is stated in the register with regard to the shares registered in his name, which declaration may be signed by a specially authorized person to be appointed by the Management Board for this purpose.
5. The provisions of the preceding four paragraphs shall equally apply to those who hold a right of usufruct or lien on one or more shares, with the proviso that the other data required by law must be entered in the register.

Transfer of shares

Article 8.

1. The transfer of shares and the creation and the transfer of a limited right thereon shall take place in accordance with the applicable provisions of the law.
2. The allotment of shares on the partitioning of any joint property shall take place in accordance with the applicable formalities for transfer of shares in such situations.

Issue of shares. Payment.

Article 9.

1. The General Meeting - or, as the case may be, the Supervisory Board if and to the extent that it has been designated thereto by the General Meeting - shall decide in respect of the issue of shares; if the Supervisory Board has been designated thereto, the General Meeting may not decide in respect of the issue as long as the designation is in effect.
2. The General Meeting or, as the case may be, the Supervisory Board shall determine the price of issue as well as the other conditions of issue, the payment in foreign currencies on shares included.
3. If the Supervisory Board is designated as authorized to decide on the issue of shares, such designation shall specify the number of shares which may be issued. Such designation shall also determine the duration of the designation which may not exceed five years. The designation can be renewed each time for a period not exceeding five years. Unless stipulated otherwise upon designation, it may not be withdrawn.
4. The provisions of paragraphs 1 through 3 of this Article shall apply mutatis mutandis to the granting of rights to take shares, but shall not apply to the issue of shares to a person who exercises a previously acquired right to take shares.
5. The Company may not subscribe for its own shares.
6. Shares shall never be issued below nominal value, without prejudice to the provisions of Section 80, Subsection 2 of Book 2 of the Netherlands Civil Code.
7. Payment shall be made in cash insofar as another form of payment has not been agreed upon, with due observance of the relevant provisions of the law. Payment may only be made in foreign currencies with the permission of the Company and, furthermore, with due observance of the relevant provisions of the law.

Preemptive right upon issue.

Article 10.

1. On the issuance of common shares, each holder of common shares shall have a right of pre-emption in proportion to the aggregate nominal value of his common shares, with due observance of the relevant limitations set by law. Holders of common shares shall have a similar right of pre-emption if options are granted to subscribe for common shares.
2. The right of pre-emption may, subject to due observance of the relevant provisions of the law, be limited or excluded by the General Meeting or by the Supervisory Board designated in this respect by resolution of the General Meeting for a fixed period of time not exceeding five years. Such a designation may only be made if the Supervisory Board is also or simultaneously designated as the body authorized to issue shares.

Acquisition by the Company of its own shares. Reduction of capital.

Article 11.

1. Any acquisition by the Company of partly paid shares in its own capital shall be null and void.
2. The Company may acquire fully paid up shares for no consideration or if:
  - a. its shareholders equity, reduced by the acquisition price is not less than the paid and called up part of the capital increased by the reserves which must be maintained by law or these Articles of Association;
  - b. the nominal amount of the shares in its capital to be acquired and already jointly held by the Company and its subsidiaries does not exceed two tenth of the issued capital;
3. The factor deciding whether the acquisition is valid shall be the amount of the shareholders equity as shown in the most recently adopted balance sheet, reduced by the acquisition price of shares in the capital of the Company and any payments from profit or reserves from third parties, which became due by the Company and its subsidiaries after the balance sheet date. In the event that more than six months of a financial year have passed without the annual accounts having been adopted, acquisition in accordance with paragraph 2 other than for no consideration, shall not be permitted.
4. The Company may acquire shares in its own capital other than for no consideration only after the General Meeting has authorized the Management Board thereto. This authorization shall be valid for a period not exceeding eighteen months. In the authorization the General Meeting shall determine how many shares may be acquired, how they may be acquired and between which limits the price should be. No authorization shall be required, insofar as the Articles of Association permit the Company to acquire its own shares for the purpose of transferring the same to employees of the Company or of a group Company under a scheme applicable to such employees. Such shares must be officially listed on an exchange.
5. The preceding paragraphs shall not apply in respect of shares acquired by the Company by universal succession.
6. The term shares where used in the preceding paragraphs of this Article shall include depositary receipts of shares.
7. Acquisition of shares in violation of the provisions of this Article shall be null and void. The Managing Directors shall be jointly and severally liable vis-à-vis the transferor in good faith who suffers a loss as a result of such nullity.
8. On proposal of the Supervisory Board, the General Meeting may decide to reduce the issued capital by withdrawing shares or by reducing the amount of shares by alteration of the Articles of Association. In such resolution the shares to which the resolution relates shall be designated and the implementation of the resolution shall be arranged. The paid up and called part of the capital may not be reduced below the minimum capital prescribed at the time of the resolution.
9. A resolution to withdraw may only relate to shares held by the Company itself or the depositary receipts whereof are held by the Company.

10. Partial repayment in respect of shares or dispensation of the obligation to pay up shall be possible only in the implementation of a resolution to reduce the amount of the shares. Repayment or dispensation shall be effected proportionally in respect of all shares. The requirement of proportionally may be deviated from with the approval of all shareholders concerned.
11. The notice convening a meeting at which a resolution referred to in paragraph 8 or 10 of this Article shall be passed, shall state the object of the reduction of capital and the manner of implementation. The provisions of Article 21 of these Articles of Association shall apply mutatis mutandis.
12. The Company shall deposit the resolutions referred to in paragraphs 8 or 10 of this Article at the office of the commercial register and shall announce the deposit in a national daily newspaper.

Joint owners of a share.

Article 12.

If more than one person jointly possess rights in respect of a share, such joint owners may exercise such rights only by having themselves represented vis-à-vis the Company by one person.

Management and supervision.

Article 13.

1. The Company shall be managed by a Management Board consisting of one or more Directors. The Management Board shall be under the supervision of a Supervisory Board consisting of one or more Members. Only natural persons are capable of being Members of the Supervisory Board.
2. The number of Managing Directors and Members of the Supervisory Board shall be determined by the General Meeting.
3. The remuneration and the further terms of employment of each of the Managing Directors shall be determined by the Supervisory Board. The Supervisory Board may determine the aggregate remuneration of its Members in amounts up to two million United States dollars (USD 2,000,000.--) or the equivalent thereof in other currency per annum. Any aggregate remuneration of the Members of the Supervisory Board in amounts in excess of the abovementioned amount can only be granted by the General Meeting.
4. The Managing Directors and Members of the Supervisory Board shall be appointed by the General Meeting. The Members of the Supervisory Board shall be appointed for an indefinite period of time. The Supervisory Board can make recommendations for new Managing Directors or Members of the Supervisory Board.
5. Managing Directors and Members of the Supervisory Board may be suspended or removed from office by the General Meeting at all times. Besides, Managing Directors can at all times be suspended by the Supervisory Board, the reasons for such suspension being stated.
6. If in the event of suspension of a Managing Director or a Member of the Supervisory Board the General Meeting has not within three months after the effective date of suspension resolved to remove him from office, the suspension shall end. The suspended Managing Director or Member of the Supervisory Board shall be given the opportunity to account for his actions to the General Meeting and may have himself assisted for that purpose by a legal adviser.



Management Board.

Article 14.

1. Subject to these articles and the relevant provisions of the law, the Management Board is entrusted with the management of the Company. The Management Board represents the Company. Moreover, the Company can be represented by two Managing Directors acting jointly. If a member of the Management Board has a conflict of interest with the Company, such member of the Management Board will immediately notify the Supervisory Board of any such conflict and the Company will not be represented by a Managing Director in such matter. In such situations, the Supervisory Board shall be authorized to appoint a disinterested person, either from within or outside of the Supervisory Board, to represent the Company.
2. If there is more than one member of the Management Board, such members may divide their activities between or among themselves in such fashion as they shall mutually agree, subject to review and modification, if appropriate, by the Supervisory Board.
3. The Management Board is authorized to appoint persons who may represent the Company and to grant such persons any title and power as it deems appropriate.
4. Members of the Management Board serve until their resignation, death or removal.
5. If one or more Managing Directors are absent or unable to act, the other Managing Directors or the sole remaining Managing Director shall be temporarily entrusted with the entire management. In the event that all Managing Directors are absent or unable to act, a person appointed to this end for an indefinite period of time by the Supervisory Board from among or not from among its members shall temporarily be charged with the entire management.

Supervisory Board.

Article 15.

1. It shall be the duty of the Supervisory Board to supervise the conduct of affairs by the Management Board and the general course of business in the Company and in the business connected with it. It shall assist the Management Board by advice. In the accomplishment of their task the Members of the Supervisory Board shall be guided by the interests of the Company and of the business connected with it.
2. The Management Board shall furnish the Supervisory Board in due time with the particulars which the latter needs for the performance of its task and shall, besides, furnish each Member of the Supervisory Board with all the information about the Company's affairs which he may desire. The Supervisory Board shall be authorized to inspect and to cause to be inspected all the books, records and correspondence of the Company; each Member of the Supervisory Board shall at all times have access to all the buildings and grounds used by the Company.
3. In the accomplishment of its task the Supervisory Board may call in the assistance of experts at the Company's expense.
4. The Supervisory Board shall appoint one of its members to be chairman.
5. Each Member of the Supervisory Board as well as the Management Board shall be entitled to convene a meeting of the Supervisory Board. At a meeting of the Supervisory Board a Member of the Supervisory Board may have himself represented by another Member of this Board, appointed by an instrument in writing.
6. The Supervisory Board shall pass resolutions by an absolute majority of votes. In case of an equality of votes the proposal shall be regarded as rejected.
7. The Supervisory Board can also pass resolutions without holding a meeting, provided this is done in writing, each of the Members of the Supervisory Board has cast his vote and none of them has opposed this manner of passing resolutions. A resolution shall then have been passed if more than half of the number of Members of the Supervisory Board have pronounced in favor of the proposal.
8. If there is only one Member of the Supervisory Board, he shall have all the powers and obligations conferred or imposed respectively upon the Supervisory Board and its chairman by these Articles of Association.

General Meeting of Shareholders.

Article 16.

1. General Meetings of Shareholders shall be held in the place where the Company has its registered office or in Amsterdam, Rotterdam or The Hague. Lawful resolutions may be passed at a General Meeting of Shareholders held elsewhere than in the preceding sentence, only if the entire issued capital is represented.
2. At least one General Meeting of Shareholders shall be held each year, not later than six months after the end of the financial year.
3. The Managing Board and the Supervisory Board shall be equally entitled to convene a General Meeting of Shareholders. The Managing Board and the Supervisory Board shall be required to call a General Meeting of Shareholders if one or more shareholders jointly representing at least one tenth of the issued capital shall so request in writing, thereby stating the subjects to be considered in detail. If in such case neither the Managing Board nor the Supervisory Board have taken such measures that the General Meeting of Shareholders can be held within six weeks of the request, each of the shareholders concerned shall be authorized to call a General Meeting of Shareholders themselves - with due observance of the relevant provisions of these Articles of Association.
4. All convocations of General Meetings of Shareholders and all notifications to shareholders and beneficiaries of a usufruct and pledgees to whom voting rights have been granted shall be made by letter mailed to their addresses as shown in the register of shareholders.
5. Communications which by law or the Articles of Association must be addressed to the General Meeting may be made by inclusion either in the notice calling the meeting or in the document deposited for inspection at the office of the Company and in a place in Amsterdam, provided that this is stated in the notice calling the meeting. The notice shall be sent no later than on the fifteenth day prior to the day of the meeting.
6. If the entire issued capital is represented at the meeting as well as all other persons who by virtue of the law or these Articles of Association must be called to the meeting legally valid resolutions may be passed by the General Meeting of Shareholders about all subjects put forward for the vote, provided that they are passed unanimously even if the requirements set by law or these Articles of Association in respect of the notice of the General Meeting of Shareholders were not observed.
7. Each shareholder and each person to whom the law grants this right shall be authorized, in person or by a proxy appointed in writing, to attend and address the General Meeting of Shareholders. Before he is granted access to a meeting a shareholder, a person as referred to in the previous sentence or their proxy shall sign an attendance list and state his name and, insofar as applicable, the number of votes which he may cast. A proxy shall also state the name of the person he represents.
8. Members of the Supervisory Board, Members of the Management Board and any other persons who have the right of access pursuant to law shall have access to the General Meeting of Shareholders. In addition, the General Meeting may decide on the admittance of persons other than the persons referred to in the previous sentence. Members of the Supervisory Board and Members of the Management Board shall have an advisory voice at the General Meeting of Shareholders.

Article 17.

1. The General Meeting of Shareholders shall be presided over by the Chairman of the Supervisory Board or, in his absence, by a member of the Supervisory Board selected by the Supervisory Board acting as a body. The Supervisory Board has the authority to designate a person who is not a member of the Supervisory Board as chairman of the General Meeting of Shareholders. If no members of the Supervisory Board are present, the General Meeting of shareholders shall be presided over by the person appointed for that purpose by the General Meeting itself.
2. Unless a notarial record is drawn up, minutes of the meeting shall be kept by a person designated thereto by the Chairman - who can also appoint himself as such -, which minutes shall be confirmed at that or the next meeting by the General Meeting and which shall be signed in evidence thereof by the Chairman and the person keeping the minutes of that meeting. Each Managing Director, as well as one or more holders of shares representing at least one tenth of the issued capital may determine that a notarial record be drawn up. The cost of a notarial record shall be for the account of the Company.

Voting at General Meeting of Shareholders.

Article 18.

1. Each share carries the right to cast one vote.
2. Resolutions may be adopted only when a quorum of at least fifty percent (50%) of the outstanding shares entitled to vote are represented and require an absolute majority of the votes cast. Section 120 subsection 3 of Book 2 of the Netherlands Civil Code is hereby deemed to be inapplicable. Resolutions of the General Meeting of Shareholders with respect to an amendment of the Articles of Association, dissolution of the Company, acquisition of its own shares by the Company or pertaining to a merger may be adopted only when a quorum of at least fifty percent of the outstanding shares entitled to vote are represented and require a vote of at least two-thirds of the votes cast, representing more than fifty percent (50 %) of the outstanding capital.
3. If there is a tie in the vote for the election of the Members of the Supervisory Board, the chairman of the Supervisory Board shall select which nominee shall be elected. For all other shareholders' resolutions, if there is a tie in the vote, the proposal shall be rejected.
4. Abstentions on a particular matter shall be counted toward the quorum, but shall not be counted as affirmative votes.

Financial year, annual account and distribution of profit.

Article 19.

1. The financial year of the Company shall coincide with the calendar year.
2. Each year within five months after the end of the financial year of the Company, save where this period is extended by a maximum of six months by the General Meeting on account of special circumstances, the Management Board shall draw up the annual accounts and deposit the same at the office of the Company open to the inspection of the shareholders. Within this period the Management Board - unless section 403 of Book 2 of the Netherlands Civil Code applies to the Company - shall furthermore draw up the annual report and deposit it for inspection as stated above. The particulars as referred to in section 392, subsection 1 of Book 2 of the Netherlands Civil Code shall be added to these documents and furthermore, if the Supervisory Board gave an opinion, that opinion shall be added to these documents. The annual accounts shall be signed by all Managing Directors and Members of the Supervisory Board; if the signature of one or more of them is missing, this and the reason for such absence shall be stated.

3. Without prejudice to the provisions of the preceding paragraph, the Company shall ensure that the documents referred to in said paragraph shall be available at its office for inspection as stated above from the date of convening of the General Meeting of Shareholders at which said documents are to be considered. The persons entitled to inspect said documents may obtain a copy thereof at no cost.
4. The annual accounts shall be adopted by the General Meeting. Adoption of the annual accounts without reservation shall constitute a discharge from liability of the Managing Directors and the Members of the Supervisory Board, without prejudice to the provisions of sections 139 and 150 Volume 2 of the Netherlands Civil Code.

Article 20.

1. The profit shall be determined in accordance with generally accepted accounting principals.
2. Of the profit appearing from the annual accounts adopted by the General Meeting such a sum can be reserved as shall be fixed by the Supervisory Board.
3. The remaining profits after the application of paragraph 2 of this Article shall be available to the General Meeting.
4. The Company may make distributions of profit to the shareholders only to the extent that the shareholders equity exceeds the paid and called up part of the capital increased by the amount of the reserves which it is required to maintain by law or by these Articles of Association.
5. Distribution of profit shall be made only after adoption of the annual accounts which shows that such distribution is possible.
6. In calculating the distribution of profit shares or the depositary receipts thereof, the full ownership of which is vested in the Company or in respect of which the Company has usufruct shall not be counted.
7. The Company may pay interim dividends with due observance of the provisions of paragraph 4. The resolution to distribute an interim dividend shall be passed by the Management Board after the approval of the Supervisory Board has been obtained.
8. The date on which dividends and other distributions become payable, no later than three months from the date such dividends have been declared shall be determined by the Supervisory Board and announced in accordance with the provisions of Article 16, Section 4.
9. Dividends which have not been claimed within five years after the date on which they were made payable shall be forfeited to the benefit of the Company.

Alteration of the Articles of Association and winding up.

Article 21.

When a proposal to amend these Articles of Association or dissolve the Company is made to the General Meeting, this must be stated in the convocation to the General Meeting of Shareholders. With respect to an amendment to the Articles of Association, a copy of the proposal in which the proposed modification is stated in full must be filed at the office of the Company for inspection by every shareholder and must be kept on file and available for inspection until the end of the meeting. The provisions of Article 123 of the Netherlands Civil Code shall apply accordingly. In addition, no amendment to the Articles of Association will become effective until the Dutch Ministry of Justice has reviewed and approved such amendment and the notarial deed of alteration of the Articles of Association has been executed.

Liquidation.

Article 22.

1. If the Company is wound up, its liquidation shall be carried out by the Management Board under the supervision of the Supervisory Board. The provisions of Article 13 and Article 14, paragraphs 1 and 2, shall apply mutatis mutandis.
2. The General Meeting shall determine the remuneration of the liquidators.
3. During the liquidation these Articles of Association shall remain in force to the extent possible.
4. The surplus assets remaining after satisfaction of all liabilities of the Company, shall be paid to the shareholders pro rata to the amount paid up on each one's shares.

Indemnification.

Article 23.

1. The Company shall, to the fullest extent permitted by the law indemnify, and advance expenses to, each of its now acting and former members of the Supervisory Board, members of the Management Board, officers, employees and agents, whenever any such person is made a party, or threatened to be made a party, in any action, suit or proceeding by reason of his or her service with the Company.
2. The Company is authorized, to the fullest extent permitted by the law, as amended from time to time, to produce liability insurance on behalf of its now acting and former members of the Supervisory Board, members of the Management Board, officers, employees and agents.

Transitory provision authorized share capital.

Article 24.

As per the moment the management board of the company files a declaration with the Dutch Chamber of Commerce that at least ninety percent (90%) of the authorized share capital is issued, then article 3 of the articles of association will provide as follows:

"The authorised capital of the Company amounts sixty-seven and five hundred thousand (EUR 67,500,000), divided into hundred fifty million (150,000,000) shares, each share having a par value of fort-five euro cents (EUR 0.45)."

ICTS INTERNATIONAL N.V.

And All Subsidiaries

(collectively "ICTS")

ICTS INTERNATIONAL N.V.

CODE OF BUSINESS CONDUCT AND ETHICS

## INTRODUCTION

We are committed to maintaining the highest standards of business conduct and ethics. This ICTS International N.V and subsidiaries ("ICTS") Code of Business Conduct and Ethics (the "Code") reflects the business practices and principles of behavior that support this commitment. This Code is intended to comply with the provisions of the U.S. Sarbanes-Oxley Act of 2002 (the "Act"). We expect every executive and manager, employee officer, Managing Director and Supervisory Director of ICTS and each of its subsidiaries to read and understand the Code and its application to the performance of his or her business responsibilities. References in the Code to employees are intended to cover officers and, as applicable, Management Directors Supervisory Directors as well as chief financial officer ("Principal Financial Officer") (the management directors, principal executive officers and principal financial officer collectively, the "406 Officers" as referred to in the Act) are bound by these Business Conduct Guidelines, including those provisions that relate to ethical conduct, conflicts of interest and compliance with applicable laws. The 406 Officers hold an important and elevated role in corporate governance in that they are uniquely capable and empowered to ensure that all shareholders' interests are appropriately balanced, protected and preserved. Therefore, in addition to the broad and comprehensive codes of ethical conduct set forth in the ICTS Business Conduct Guidelines, the 406 Officers shall be subject to the additional conduct guidelines continued on Section 18 hereof.

Officers, managers and other supervisors are expected to develop in employees a sense of commitment to the spirit, as well as the letter, of the Code. Supervisors are also expected to ensure that all agents and contractors conform to Code standards when working for or on behalf of ICTS. Nothing in the Code alters the terms of employment between an individual employee and ICTS.

The Code cannot possibly describe every practice or principle related to honest and ethical conduct. The Code addresses conduct that is particularly important to proper dealings with the people and entities with whom we interact, but reflects only a part of our commitment.

Action by members of your immediate family, significant others or other persons who live in your household also may potentially result in ethical issues to the extent that they involve ICTS business. For example, acceptance of inappropriate gifts by a family member from one of our suppliers could create a conflict of interest and result in a Code violation attributable to you. Consequently, in complying with the Code, you should consider not only your own conduct, but also that of your immediate family members, significant others and other persons who live in your household.

The integrity and reputation of ICTS depends on the honesty, fairness and integrity brought to the job by each person associated with us. It is the responsibility of each employee to apply common sense, together with his or her own highest personal ethical standards, in making business decisions where there is no stated guideline in the Code. Unyielding personal integrity is the foundation of corporate integrity.

**YOU SHOULD NOT HESITATE TO ASK QUESTIONS ABOUT WHETHER ANY CONDUCT MAY VIOLATE THE CODE, VOICE CONCERNS OR CLARIFY GRAY AREAS. SECTION 17 BELOW DETAILS THE COMPLIANCE RESOURCES AVAILABLE TO YOU. IN ADDITION, YOU SHOULD BE ALERT TO POSSIBLE VIOLATIONS OF THE CODE BY OTHERS AND REPORT SUSPECTED VIOLATIONS, WITHOUT FEAR OF ANY FORM OF RETALIATION, AS FURTHER DESCRIBED IN SECTION 17.**

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Violations of the Code will not be tolerated. Any employee who violates the standards in the Code may be subject to disciplinary action, up to and including termination of employment or summary dismissal ("ontslag op staande voet") and, in appropriate cases, civil legal action or referral for criminal prosecution.

## **LEGAL COMPLIANCE**

Obedying the law, both in letter and in spirit, is the foundation of this Code. Our success depends upon each employee's operating within legal guidelines and cooperating with local, national and international authorities. It is therefore essential that you understand the legal and regulatory requirements applicable to your business unit and area of responsibility. While we do not expect you to memorize every detail of these laws, rules and regulations, we want you to be able to determine when to seek advice from others. If you do have a question in the area of legal compliance, it is important that you not hesitate to seek answers from your supervisor, a Principal Financial Officer, the General Counsel or the Chairperson of the Audit Committee of the Supervisory Board (the "Audit Committee", as further described in Section 18).

Disregard of the law will not be tolerated. Violation of domestic or foreign laws, rules and regulations may subject an individual, as well as ICTS, to civil and/or criminal penalties. You should be aware that conduct and records, including emails, are subject to internal and external audits, and to inspection by third parties in the event of a government investigation or civil litigation. It is in everyone's best interests to know and comply with our legal and ethical obligations.

### **1. INSIDER TRADING**

Employees who have access to confidential (or "inside") information are not permitted to use or share that information for stock trading purposes or for any other purpose except to conduct our business. All non-public information about ICTS or about companies with which we do business is considered confidential information. To use material non-public information in connection with buying or selling securities, including "tipping" others who might make an investment decision on the basis of this information, is not only unethical, it is illegal. Employees must exercise the utmost care when handling material inside information. We have adopted a separate Insider Trading Policy which you should consult for more specific information on the definition of "material inside information" and on buying and selling our securities or securities of companies with which we do business.

### **2. DISCRIMINATION AND HARASSMENT**

The diversity of ICTS's employees is a tremendous asset. We are firmly committed to providing equal opportunity in all aspects of employment and will not tolerate any illegal discrimination or harassment of any kind. In addition, retaliation against individuals for raising claims of discrimination or harassment is prohibited.

### **3. CONFLICTS OF INTEREST**

A "conflict of interest" occurs when an individual's personal interest may interfere in any way with the performance of his or her duties or the best interests of ICTS. A conflicting personal interest could result from an expectation of personal gain now or in the future or from a need to satisfy a prior or concurrent personal obligation. We expect our employees to be free from influences that conflict with the best interests of ICTS. Even the appearance of a conflict of interest where none actually exists can be damaging and should be avoided. Whether or not a conflict of interest exists or will exist can be unclear. Conflicts of interest are prohibited unless specifically authorized as described below.

If you have any questions about a potential conflict or appearance of conflict or if you become aware of an actual or potential conflict or appearance of a conflict, and you are not an officer or director of ICTS, you should discuss the matter with your supervisor, a Principal Financial Officer, the General Counsel or the Chairperson of the Audit Committee. Supervisors may not authorize conflict of interest matters without first seeking the approval of a Principal Financial Officer, the General Counsel or the Chairperson of the Audit Committee and filing with a Principal Financial Officer, the General Counsel or the Chairperson of the Audit Committee a written description of the authorized activity. If the supervisor is involved in the potential or actual conflict, you should discuss the matter directly with a Principal Financial Officer, the General Counsel or the Chairperson of the Audit Committee.

No loans to, or guarantees of obligations of, employees or their Family Members by ICTS are permitted.

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#### **4. HEALTH AND SAFETY**

ICTS strives to provide a safe and healthy work environment. Each of us shares the responsibility for maintaining a safe and healthy workplace by following safety and health rules and practices and reporting accidents, injuries, unsafe equipment and any other unsafe practices or conditions to his/her supervisor or the Principal Financial Officer. Further, misusing controlled substances or selling, manufacturing, distributing, possessing, using or misusing controlled substances, or being under the influence of illegal drugs on the job is absolutely prohibited.

#### **5. INTERNATIONAL BUSINESS LAWS**

Our employees are expected to comply with the applicable laws in all countries to which they travel, in which they operate and where we otherwise do business, including laws prohibiting bribery, corruption or the conduct of business with specified individuals, companies or countries.

The fact that in some countries certain laws are not enforced or that violation of those laws is not subject to public criticism will not be accepted as an excuse for noncompliance. In addition, we expect employees to comply with certain U.S. and applicable foreign laws, rules and regulations governing the conduct of business by its citizens and corporations outside the U.S.

These U.S. laws, rules and regulations, which extend to all our activities outside the U.S., include but are not limited to:

The Foreign Corrupt Practices Act, which prohibits directly or indirectly giving anything of value to a government official to obtain or retain business or favorable treatment, and requires the maintenance of accurate books of account, with all company transactions being properly recorded;

U.S. Embargoes or Sanctions Programs, which restrict or, in some cases, prohibit companies, their subsidiaries and certain employees from trading with, investing in or traveling to certain countries identified on a list that changes periodically (including, for example, Angola (partial), Burma (partial), Cuba, Iran, Liberia, North Korea, Sudan, Syria and Zimbabwe), specific companies or individuals, or being involved in specific activities such as certain diamond trading and proliferation activities;

Export Controls, which prohibit or restrict the export of goods, services and technology to designated countries, denied persons or denied entities from the U.S., the re-export of U.S. origin goods from the country of original destination to such designated countries, and the export of foreign origin goods made with U.S. technology; and

Antiboycott Compliance, which prohibits U.S. companies from taking any action that has the effect of furthering or supporting a restrictive trade practice or boycott that is fostered or imposed by a foreign country against a country friendly to the U.S. or against any U.S. person, and requires the reporting of any boycott receipts.

If you have a question as to whether an activity is restricted or prohibited, seek assistance before taking any action, including giving any verbal assurances that might be regulated by international laws.

#### **6. CORPORATE OPPORTUNITIES**

You may not take personal advantage of opportunities that are presented to you or discovered by you as a result of your position with us or through your use of corporate property or information, unless authorized by your supervisor, a Principal Financial Officer, the General Counsel or the Chairperson of the Audit Committee. Even opportunities that are acquired privately by you may be questionable if they are related to our existing or proposed lines of business. Participation in an investment or outside business opportunity that is related to our existing or proposed lines of business must be pre-approved. You cannot use your position with us or corporate property or information for improper personal gain, nor can you compete with us in any way.

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## **7. MISUSE OF COMPANY COMPUTER EQUIPMENT**

You may not, while acting on behalf of ICTS or while using our computing or communications equipment or facilities, either:

access the internal computer system (also known as "hacking") or other resource of another entity without express written authorization from the entity responsible for operating that resource; or

commit any unlawful or illegal act, including harassment, libel, fraud, sending of unsolicited bulk email (also known as "spam") in violation of applicable law, trafficking in contraband of any kind, or espionage.

If you receive authorization to access another entity's internal computer system or other resource, you must make a permanent record of that authorization so that it may be retrieved for future reference, and you may not exceed the scope of that authorization.

Unsolicited bulk email is regulated by law in a number of jurisdictions. If you intend to send unsolicited bulk email to persons outside of ICTS, either while acting on our behalf or using our computing or communications equipment or facilities, you should obtain prior approval from your supervisor, a Principal Financial Officer, the General Counsel or the Chairperson of the Audit Committee.

All data residing on or transmitted through our computing and communications facilities, including email and word processing documents, is the property of ICTS and subject to inspection, retention and review by ICTS in accordance with applicable law.

## **8. ENVIRONMENT COMPLIANCE**

The laws of the various jurisdictions where we do business can impose criminal liability on any person or company that contaminates the environment with any hazardous substance that could cause injury to the community or environment. Violation of environmental laws can be a criminal offense and can involve monetary fines and imprisonment. We expect employees to comply with all applicable environmental laws.

It is our policy to conduct our business in an environmentally responsible way that environmental impacts. We are committed to minimizing and, if possible, eliminating the use of any substance or material that may cause environmental damage, reducing waste generation and disposing of all waste through safe and responsible methods, minimizing environmental risks by employing safe technologies and operating procedures, and being prepared to respond appropriately to accidents and emergencies.

## **9. MAINTENANCE OF CORPORATE BOOKS, RECORDS, DOCUMENTS AND ACCOUNTS; FINANCIAL INTEGRITY; PUBLIC REPORTING**

ICTS is committed to producing full, fair, accurate, timely and understandable disclosure in reports and documents that it files with, or submits to, the United States Securities and Exchange Commission (the "SEC") and other regulators. Accordingly, ICTS requires honest and accurate recording and reporting of information. All of ICTS's books, records, accounts and financial statements must be maintained in reasonable detail, must appropriately reflect ICTS's transactions and must conform both to applicable legal requirements and to ICTS's system of internal controls. By way of example, unrecorded or "off the books" funds or assets should not be maintained, only the true and actual number of hours should be reported, and business expense accounts must be documented and recorded accurately.

Business records and communications sometimes become public. Accordingly, we should avoid exaggeration, derogatory remarks, guesswork, or inappropriate characterizations of people and companies that may be misunderstood. This applies equally to e-mail, internal memos, and formal reports. Records should always be retained or destroyed according to ICTS's record retention policies. Inappropriate access or modifications to, or unauthorized destruction of, accounting or other business records is prohibited. These prohibitions apply to all business records and data, regardless of whether such data and records are in written form or electronically stored.

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## 10. FAIR DEALING

We seek to outperform our competition fairly and honestly. We seek competitive advantages through superior performance and never through unethical or illegal business practices. Stealing proprietary information, possessing trade secret information that was obtained without the owner's consent, or inducing such disclosures by past or present employees of other companies is prohibited. Each director, officer and employee should endeavor to respect the rights of and deal fairly with ICTS's customers, suppliers, competitors and employees. No unfair advantage should be taken of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other unfair dealing practice.

## 11. GIFTS AND ENTERTAINMENT

Business entertainment and gifts are meant to create goodwill and sound working relationships and not to gain improper advantage with customers or facilitate approvals from government officials. Unless express permission is received from a supervisor, a Principal Financial Officer, the General Counsel or the Chairperson of the Audit Committee, entertainment and gifts cannot be offered, provided or accepted by any employee unless consistent with customary business practices and not (a) excessive in value, (b) in cash, (c) susceptible of being construed as a bribe or kickback or (d) in violation of any laws. This principle applies to our transactions everywhere in the world, even where the practice is widely considered "a way of doing business." Under some statutes, such as the U.S. Foreign Corrupt Practices Act (further described in Section 5), giving anything of value to a government official to obtain or retain business or favorable treatment is a criminal act subject to prosecution and conviction. Discuss with your supervisor, a Principal Financial Officer, the General Counsel or the Chairperson of the Audit Committee any proposed entertainment or gifts if you are uncertain about their appropriateness.

## 12. COMPETITION LAW

The European competition rules are supplemented in The Netherlands by national rules set out in the Competition Act ("Mededingingswet"). This Act is applicable in parallel with the European competition rules.

The Competition Act prohibits all agreements between undertakings, decisions by associations of undertakings and concerted practices of undertakings which have as their object or effect the prevention, restriction or distortion of competition within the Dutch market, or a part of such market. Such agreements may for instance directly or indirectly fix purchase or selling prices or any other trading conditions; limit or control production, markets, technical development, or investment; share markets or sources of supply. This list is not limitative.

Undertakings are also prohibited from abusing a dominant position through exclusionary, discriminatory or exploitative practices.

Antitrust laws in the United States are designed to protect the competitive process. These laws generally prohibit:

agreements, formal or informal, with competitors that harm competition or customers, including price fixing and allocations of customers, territories or contracts;

agreements, formal or informal, that establish or fix the price at which a customer may resell a product; and

the acquisition or maintenance of a monopoly or attempted monopoly through anti-competitive conduct.

Certain kinds of information, such as pricing, production and inventory, should not be exchanged with competitors, regardless of how innocent or casual the exchange may be and regardless of the setting, whether business or social.

Certain transactions require prior approval from the Dutch (or European) competition authority. They include transactions whereby two or more undertakings merge, or set up a joint venture, or an undertaking acquires control over another, subject to a number of minimum turnover criteria.

Undertakings and their (de facto) managers can be fined for infringing the competition rules. Undertakings can be fined up to 10% of the annual group worldwide turnover and (de facto) managers can be fined up to €450,000. Fines can also be imposed when undertakings do not cooperate with the Dutch competition authority.

The above is merely a general outline of the competition rules, for more information and specific guidelines regarding competition law, please ask a supervisor, a Principal Financial Officer, the General Counsel or the Chairperson of the Audit Committee of the Supervisory Board.

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### **13. PROTECTION AND PROPER USE OF COMPANY ASSETS**

All employees are expected to protect our assets and ensure their efficient use. Theft, carelessness and waste have a direct impact on our profitability. Our property, such as office supplies, computer equipment, buildings, and products, are expected to be used only for legitimate business purposes, although incidental personal use may be permitted. Employees should be mindful of the fact that we can retain the right to access, review, monitor and disclose any information transmitted, received or stored using our electronic equipment, with or without an employee's or third party's knowledge, consent or approval. Any misuse or suspected misuse of our assets must be immediately reported to your supervisor, a Principal Financial Officer, the General Counsel or the Chairperson of the Audit Committee.

### **14. CONFIDENTIALITY**

One of our most important assets is our confidential information. Employees who have received or have access to confidential information should take care to keep this information confidential. Confidential information may include business, technical, marketing, and service plans, financial information, product specifications or architecture, source codes, engineering, and manufacturing ideas, designs, databases, customer lists, pricing strategies, personnel data, personally identifiable information pertaining to our employees, customers or other individuals (including, for example, names, addresses, telephone numbers and social security numbers), and similar types of information provided to us by our customers, suppliers and partners. This information may be protected by privacy, patent, trademark, copyright and trade secret laws.

You should also take care not to inadvertently disclose confidential information. Materials that contain confidential information, such as memos, notebooks, computer disks and laptop computers, should be stored securely. Unauthorized posting or discussion of any information concerning our business, information or prospects on the Internet is prohibited. You may not discuss our business, information or prospects in any "chat room," regardless of whether you use your own name or a pseudonym. Be cautious when discussing sensitive information in public places like elevators, airports, restaurants and "quasi-public" areas within ICTS, such as cafeterias. All ICTS emails, voicemails and other communications are presumed confidential and should not be forwarded or otherwise disseminated outside of ICTS, except where required for legitimate business purposes.

During the employment as well as after its termination the employee shall treat as strictly confidential and not disclose to third parties, whether directly or indirectly, in any form or manner whatsoever, any information which has come to his/her knowledge regarding the business and interests of ICTS and/or affiliated companies and businesses and/or its customers and other business relations, all this in the broadest sense, unless the discharge of his/her duties under the employment requires the disclosure of such information to third parties on a need-to-know basis.

In the event that the employee is suspended and upon termination of his/her employment the employee shall at ICTS's first request to that effect surrender to ICTS all property of ICTS in his/her possession as well as all documents which in any way whatever relate to ICTS and/or affiliated companies and/or its customers and other business relations, all this in the broadest sense, as well as all copies of such documents (whether or not recorded on data carriers) and property.

In addition to the above responsibilities, if you are handling information protected by any privacy policy published by us, such as our website privacy policy, then you must handle that information solely in accordance with the applicable policy.

### **15. MEDIA/PUBLIC DISCUSSIONS**

It is our policy to disclose material information concerning ICTS to the public only through specific limited channels to avoid inappropriate publicity and to ensure that all those with an interest in the company will have equal access to information. All inquiries or calls from the press and financial analysts should be referred to a Principal Financial Officer.

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## 16. WAIVERS

There will be no waivers of this Code unless an exception is made in accordance with Section 18 of this Code.

## 17. COMPLIANCE STANDARDS AND PROCEDURES

### *Compliance Resources*

Your most immediate resource for any matter related to the Code is your supervisor. He or she may have the information you need, or may be able to refer the question to another appropriate source. There may, however, be times when you prefer not to go to your supervisor. In these instances, you should feel free to discuss your concern with a Principal Financial Officer, the General Counsel or the Chairperson of the Audit Committee.

### *Clarifying Questions and Concerns; Reporting Possible Violations*

If you encounter a situation or are considering a course of action and its appropriateness is unclear, discuss the matter promptly with your supervisor, a Principal Financial Officer, the General Counsel or the Chairperson of the Audit Committee; even the appearance of impropriety can be very damaging and should be avoided.

If you are aware of a suspected or actual violation of Code standards by others, you have a responsibility to report it. You are expected to promptly provide a compliance resource with a specific description of the violation that you believe has occurred, including any information you have about the persons involved and the time of the violation. Whether you choose to speak with your supervisor, a Principal Financial Officer, the General Counsel or the Chairperson of the Audit Committee, you should do so without fear of any form of retaliation. We will take prompt disciplinary action against any employee who retaliates against you, up to and including termination of employment.

Supervisors must promptly report any complaints or observations of Code violations to a Principal Financial Officer, the General Counsel or the Chairperson of the Audit Committee. A Principal Financial Officer, the General Counsel or the Chairperson of the Audit Committee will investigate all reported possible Code violations promptly and with the highest degree of confidentiality that is possible under the specific circumstances. Your cooperation in the investigation will be expected.

**IF THE INVESTIGATION INDICATES THAT A VIOLATION OF THE CODE HAS PROBABLY OCCURRED, WE WILL TAKE SUCH ACTION AS WE BELIEVE TO BE APPROPRIATE UNDER THE CIRCUMSTANCES. IF WE DETERMINE THAT AN EMPLOYEE IS RESPONSIBLE FOR A CODE VIOLATION, HE OR SHE WILL BE SUBJECT TO DISCIPLINARY ACTION UP TO, AND INCLUDING, TERMINATION OF EMPLOYMENT OR SUMMARY DISMISSAL (“ONTSLAG OP STAANDE VOET”) AND, IN APPROPRIATE CASES, CIVIL ACTION OR REFERRAL FOR CRIMINAL PROSECUTION. APPROPRIATE ACTION MAY ALSO BE TAKEN TO DETER ANY FUTURE CODE VIOLATIONS.**

## 18. SECTION 406 OFFICERS

- a) The Section 406 Officers shall supervise the implementation of measures that are designed to ensure that information disclosed in reports and documents filed with or submitted to the Securities and Exchange Commission, or contained in other public communications made by ICTS, is full, fair, accurate, complete, timely and understandable.
- b) The Section 406 Officers shall promptly bring to the attention of the Audit Committee of the ICTS's Supervisory Board any material information of which he or she may become aware that could affect the disclosures made by ICTS in its public filings.
- c) The Section 406 Officers shall promptly bring to the attention of the Audit Committee any information he or she may have concerning (i) significant deficiencies in the design or operation of internal controls which could adversely affect ICTS ability to record, process, summarize and report financial data or (ii) any fraud, whether or not material, that involves management or other employees who have a significant role in ICTS's financial reporting, disclosures or internal controls.
- d) The Section 406 Officers shall promptly bring to the attention of ICTS's Corporate Compliance Officer and to the Audit Committee any information he or she may have concerning any violation of this Code of Ethics or ICTS's Business Conduct Guidelines by any director, officer or other employee of the Company.
- e) The Section 406 Officers shall promptly bring to the attention of the Corporate Compliance Officer and to the Audit Committee any material transaction or relationship that arises and of which he or she becomes aware that reasonably could be expected to give rise to an actual or apparent conflict of interest between a director or senior officer of ICTS, on the one hand, and ICTS, on the other. Any failure of a Section 406 Officer to observe the terms of this Code of Ethics or the Business Conduct Guidelines may result in appropriate disciplinary action that shall be designed to deter wrongdoing and to promote accountability to this Code of Ethics and the Business Conduct Guidelines.

The Audit Committee shall be responsible for recommending to the ICTS's Supervisory Board whether and on what terms to grant to any Section 406 Officer a waiver of this Code of Ethics or the Business Conduct Guidelines. The decision to grant to any Section 406 Officer a waiver of this Code of Ethics or the Business Conduct Guidelines shall be made by the Supervisory Board and shall be promptly disclosed to the public and ICTS's shareholders in accordance with applicable law and listing standards.

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**CERTIFICATIONS\***

I, Rom Shaked, 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, 2020;
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 14, 2021

By: /s/ Rom Shaked  
Rom Shaked, Managing Director

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**CERTIFICATIONS\***

I, Alon Raich, certify that:

I have reviewed this annual report on Form 20-F of ICTS International, N.V. (the "Company") for the year ended December 31, 2020;

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 14, 2021

By: /s/ Alon Raich

Alon Raich, Managing Director and Chief Financial Officer

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**CERTIFICATION**

In connection with the annual report of ICTS International, N.V. (the "Company") on Form 20-F for the period ending December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Rom Shaked, Managing Director 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/ Rom Shaked  
Rom Shaked, Managing Director

Dated: May 14, 2021

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**CERTIFICATION**

In connection with the annual report of ICTS International, N.V. (the "Company") on Form 20-F for the period ending December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Alon Raich, Managing Director and Chief 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, Managing Director and Chief Financial Officer

Dated: May 14, 2021

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