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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, 2019

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)

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

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(Title of Class)

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

None

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(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: 35,433,333.

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

#### Selected Financial Data

Selected data set forth below have been derived from the ICTS Consolidated Financial Statements, which have been prepared in accordance with 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 proposed a number of Government Assistance programs and the Company has applied to those that are applicable to its business. The Company is evaluating the terms of additional programs and the Company’s eligibility for those programs. The Company’s business plan depends on the COVID-19 developments in the foreseen future and the recovery of the airline industry.

In July 2019, ABC Technologies B.V. and Subsidiaries (“ABC”), 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 ABC and 23.077% of the outstanding share capital of ABC on a fully diluted basis. ABC 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, ABC 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 ABC and 7.143% of the outstanding share capital of ABC on a fully diluted basis.

The following table summarizes certain balance sheet data for the Company at December 31, 2019, 2018, 2017, 2016, and 2015:

	(U.S. dollars in Thousands)				
	December 31,				
	2019	2018	2017	2016	2015
Cash and cash equivalents	\$ 52,352	\$ 12,801	\$ 9,073	\$ 3,892	\$ 7,912
Total current assets	103,136	67,219	61,982	43,908	40,002
Total assets from discontinued operations	-	-	306	853	-
Total assets	123,447	75,087	71,853	47,980	43,007
Total current liabilities	75,509	75,058	59,197	45,365	45,007
Total liabilities from discontinued operations	-	-	41	536	-
Total liabilities	84,832	109,943	98,595	81,457	85,215
Redeemable non-controlling interests	74,300	-	-	-	-
Shareholders' deficit	35,685	34,856	26,742	33,477	42,208

The following table summarizes certain statement of operations data for the Company for the years ended December 31, 2019, 2018, 2017, 2016, and 2015:

	U.S. dollars in Thousands				
	Year ended December 31,				
	2019	2018	2017	2016	2015
Revenue	\$ 333,307	\$ 345,221	\$ 297,682	\$ 255,576	\$ 187,022
Cost of revenue	290,461	311,994	254,728	223,486	167,959
<b>GROSS PROFIT</b>	<b>42,846</b>	<b>33,227</b>	<b>42,954</b>	<b>32,090</b>	<b>19,063</b>
Operating expenses:					
Research and development	5,060	3,657	2,683	2,660	2,565
Goodwill impairment	-	1,563	-	-	-
Selling, general and administrative	33,063	34,924	26,201	21,583	20,291
Total operating expenses	38,123	40,144	28,884	24,243	22,856
<b>OPERATING INCOME (LOSS)</b>	<b>4,723</b>	<b>(6,917)</b>	<b>14,070</b>	<b>7,847</b>	<b>(3,793)</b>
Equity Income from investment in affiliate	91	124	-	-	-
Other expenses, net	10,518	3,586	6,172	4,501	760
<b>INCOME (LOSS) BEFORE INCOME TAX EXPENSES</b>	<b>(5,704)</b>	<b>(10,379)</b>	<b>7,898</b>	<b>3,346</b>	<b>(4,553)</b>
Income tax expenses	1,549	685	2,033	1,004	149
<b>INCOME (LOSS) FROM CONTINUING OPERATIONS</b>	<b>(7,253)</b>	<b>(11,064)</b>	<b>5,865</b>	<b>2,342</b>	<b>(4,702)</b>
Loss from discontinued operations	-	289	95	-	-
<b>NET INCOME (LOSS)</b>	<b>\$ (7,253)</b>	<b>\$ (11,353)</b>	<b>\$ 5,770</b>	<b>\$ 2,342</b>	<b>\$ (4,702)</b>
Less: Net income (loss) attributable to non-controlling interests	789	(123)	(50)	-	-
<b>NET INCOME (LOSS) ATTRIBUTABLE TO ICTS INTERNATIONAL N.V.</b>	<b>\$ (8,042)</b>	<b>\$ (11,230)</b>	<b>\$ 5,820</b>	<b>\$ 2,342</b>	<b>\$ (4,702)</b>
<b>INCOME (LOSS) PER SHARE - BASIC AND DILUTED</b>					
Continuing operations	\$ 0.26	\$ (0.47)	\$ 0.28	\$ 0.20	\$ (0.58)
Discontinued operations	-	(0.01)	-	-	-
Net income (loss)	\$ 0.26	\$ (0.48)	\$ 0.28	\$ 0.20	\$ (0.58)
Weighted average number of shares outstanding	30,524,461	23,415,068	21,000,000	11,518,929	8,085,599

#### 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 or magnitude of the adverse results of the outbreak and its effects on the business or results of operations at this time. 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 have a significant impact on revenue volume during 2020; 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, 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 and, requests to increase existing and getting new loans for additional funding. Due to the unknown length of time of the pandemic, the Company cannot quantify its potential effect at this time.

### **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 canceled or not renewed**

Our revenues are primarily provided from services pursuant to contracts, which are cancelable on short notice at any time, with or without cause. We cannot assure you that existing clients will decide not to terminate 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 2020-2022. 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, rumors or threats of war, actual conflicts involving those countries or their allies, or military or trade disruptions affecting customers may materially adversely affect operations. Our facilities, and equipment could be direct targets or indirect casualties of terrorist attacks and acts of war. 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 \$(7.3) million, \$(11.1) million and \$5.9 million in 2019, 2018 and 2017, respectively. The Company has a shareholders' deficit of \$35.7 million and \$34.9 million as of December 31, 2019 and 2018, 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**

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

### **Currency risk**

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

### **Limitations in price share**

The market price of our common stock may from time to time be significantly affected by a large number of factors, including, among others, variations in our operating results, the depth and liquidity of the trading market for our shares, and differences between actual results of operations and the results anticipated by investors and securities analysts. Many of the factors which affect the market price of our common stock are outside of our control and may not even be directly related to us. The market price of our common stock may be volatile, which may make it more difficult for you to resell your shares when you want at prices you find attractive.

### **Main shareholders**

As of June 1<sup>st</sup>, 2020, the MacPherson Trust (including Ultimate Beneficial Owners) and Mr. M.J. Atzmon, own or control together approximately 75.3% 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 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 development and sale of authentication security software 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.

ABC, through AU10TIX Limited and its subsidiaries ("AU10TIX") develops technological systems and authentication solutions for financial and other institutions.

## Business Strategy

We are currently pursuing the following business strategy:

### Aviation Security Operations in Europe and the Far East

Through the I-SEC subsidiaries, we supply aviation security to airports, airlines and governments in Europe and the Far East. I-SEC is continuously looking for ways to extend its operations in new and existing locations.

### Other Aviation Related Services in the U.S.

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

### Developing Authentication Technology

We are focusing on selling and developing authentication technologies for financial and other markets all over the world through our subsidiary AU10TIX Limited ("AU10TIX"). AU10TIX is continuously looking for ways to extend the services it provide, 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 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 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 and local regulatory requirements, periodical aviation security audits are of vital importance. I-SEC experts possess vast international experience in the performance of such audits, and recommending steps that must be taken to ensure full compliance and suitability of the aviation security system at all times.

#### **Aviation Security Technology**

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

#### NAPS (New Advanced Passenger Screening)

NAPS is a sophisticated IT-system that enables pre-departure analysis of passenger information and is designed to help screen airline passengers in a faster and more efficient manner. It was developed based on the extensive experience and knowledge accumulated by the Company's professionals 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, 2019 Huntleigh provides limited aviation security services and other separate services at approximately 28 airports in 20 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

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

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

### Wheelchair attendants

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

### 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 is involved in the development and sales of the authentication technology listed below.

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

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

FDI solutions can be used with 3-illumination professional scanners for high security requirements or with regular TWAIN scanners and even mobile devices for standard security requirements. It is thus usable in a broad range of markets and for a broad range of security requirements.

Key Features: Hi-Resolution document imaging, auto image optimization, auto-classification of documents up to version level, extraction of readable + encoded content incl. MRZ lines and barcodes, cropping of face photograph, multi-factor identity authentication (according to scanner type), immediate detailed exception alerts, ability to integrate with chip readers and barcode readers, ability to integrate with biometric inputs, ability to query date against databases or watch-lists and ability to operate in stand-alone or networked modes.

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

#### Back Office ID Authentication and Onboarding Automation Service (BOS)

BOS automates all essential building 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).

Core service component is the handling of ID documents submitted typically via Customer Not Present (CNP) channels such as mobile devices, computers, etc.

BOS 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 increase strengths of risk detection and fraud deterrence, and offer replacement to manual video-conversations.

Proof-of-Address document processing is offered primarily with templated facilities such as utility bills, bank statements, or other collateral that is required in various markets as source of address information, and as an additional customer identification and screening measure.

Identity data verification and screening (eIDV / eIDVS) can be seamlessly integrated into the ID authentication and POA handling components, enabling automated submission of customer data to required person and address verification services, as well as screening services such as PEPs & Sanctions, watchlists, etc.

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

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

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

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

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

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

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

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

#### Marketing of Security Systems and Technology

We market our technologies by participating in Requests for Proposals, lead generation and approaching potential service providers such as airports, airlines, financial services providers including banks, lenders, payments providers, money transfer providers, cryptocurrency platforms, leasing and car financing companies, telecom, and other existing and potential customers.

#### Investments

##### Artemis Therapeutics, Inc.

As of December 31, 2019, the Company owns 198,311 shares or 3.8% of the outstanding common stock of Artemis Therapeutics, Inc. ("ATMS"). As of December 31, 2019, 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, 2019 and 2018, 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 at December 31, 2019 and 2018). The market value of the Company's investment in ATMS as of December 31, 2019 and 2018 is \$0 million and \$0.1 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.

#### White Line B.V.

In March 2017, the Company invested an amount of \$2 million in White Line B.V., a limited company incorporated in the Netherlands. White Line is a holding and finance company. Because White Line B.V. is a private, closely-held company, there is no active market for this investment. Therefore, the Company has elected to measure the investment at cost minus impairment. In October 2017, the Company invested additional amount of \$1.5 million in White Line. The total investment represented 10% of the issued and outstanding share capital of White Line.

The Company had an agreement with an entity related to its main shareholder, according to which, if the value of this investment decrease, the related party entity has guaranteed to repurchase this full investment at a minimum amount of \$3.5 million. The guaranty is effective after three years of the date of purchase and terminates after five years.

In December 2018, the Company reached into an agreement with the related party entity in order to preface the sale of the investment. The related party entity purchased the full investment from the Company in December 2018, for \$3.5 million in exchange for reduction in the convertible notes payable to a related party.

#### 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, 2019, the Company's investment is 381,332 KRW (\$0.3 million as of December 31, 2019 and 2018). For the years ended December 31, 2019 and 2018, the Company recognized a profit in its consolidated statements of operations of 105,092 KRW and 133,550 KRW, respectively (\$0.1 million and \$0.1 million, respectively) from its investment in the JVC. In addition, each one of the partners, provided in June 2018 to the JVC a loan of 200,000 KRW in order to fund the working capital of the JVC. The loan bears interest of 1.3% per year. As of December 31, 2019 and 2018, the outstanding balance of the loan was 0 and 200,000 KRW respectively (\$0 and \$0.2 million as of December 31, 2019 and 2018, respectively), shown in the consolidated balance sheets as other assets.

#### Mesh Technologies, Inc.

In January 2019, the Company invested an amount of \$0.1 million in Mesh Technologies, Inc. ("Mesh"), a company incorporated in Delaware, USA. As of December 31, 2019, the investment represented 0.6% 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 has elected to measure the investment at cost minus impairment.

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

In December 2019, the Company invested an amount of \$1.7 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. The Company uses the equity method for this investment. As the investment in Arrow was acquired at the end of December 2019, the Company did not recognise profit or loss regarding this investment for the year ended December 31, 2019.

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.

## **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 2019, 2018 and 2017 totaled \$137.2 million (41% of total revenue), \$134.6 million (39% of total revenue) and \$125.9 million (42% of total revenue), respectively.

### **Revenue in The Netherlands**

Our revenue in The Netherlands during the years 2019, 2018 and 2017 totaled \$97.7 million (29% of total revenue), 121.5 million (35% of total revenue) and \$103.9 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. Upon the expiration of the agreement Procheck will be closed. Procheck revenues during the years 2019, 2018 and 2017 totaled \$0 million (0% of total revenue), \$24.0 million (7% of total revenue) and \$18.5 million (6% of total revenue), respectively.

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

Our revenue in the United States of America during the years 2019, 2018 and 2017 totaled \$73.7 million (22% of total revenue), \$69.5 million (20% of total revenue) and \$54.9 million (18% of total revenue), respectively.

### **Revenue in other locations**

Our revenue in other locations during the years 2019, 2018 and 2017 totaled \$24.7 million (8% of total revenue), \$19.6 million (6% of total revenue) and \$13.0 million (5% of total revenue), respectively. Increase in revenue was primarily a result of increase in services provided to new and existing customers as part of the expansion of the Company's authentication technology segment.

## **Major Customers**

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.

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

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.

### **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, 2019 and 2018, the Company had no assets or liabilities in its balance sheet, that relate to the discontinued operations. Loss from discontinued operations for the years ended December 31, 2019, 2018 and 2017, totaled \$0 million, \$0.3 million and \$0.1 million, respectively.

### **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 June 1, 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 India Security Services Private Limited (India - 67%)

I-SEC Denmark A/S (Denmark - 100%)

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

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

I-SEC Norway AS (Norway - 100%)

I-SEC German Holding 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 (New York, USA - 100%)

Aviation Mobility Solutions, Inc (Dallas USA - 100%)

Tech Marketing Services, Inc (Dallas USA - 100%)

ABC Technologies B.V. (The Netherlands - 100%) 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%)

\*I-SEC German Holding B.V. is a limited partner together with I-SEC Verwaltungs SE general partner of I-SEC Deutsche Luftsicherheit SE&Co.KG

## Property, Plant and Equipment

The Company leases certain premises under various operating leases. Maturities of operating lease liabilities as of December 31, 2019 were as follows (in millions):

Year ended December 31,	
2020	\$ 3.1
2021	2.1
2022	1.7
2023	1.6
2024	1.3
Thereafter	2.1
	<u>\$ 11.9</u>

Rent expense for the years ended December 31, 2019, 2018 and 2017 is \$4.4 million, \$5.0 million and \$4.7 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 listed below. Please refer to Note 2 of ICTS's consolidated financial statements included in this Annual Report for the year ended December 31, 2019 for a summary of ICTS's significant accounting policies.

## Discussion and Analysis of the Results of Operations

The following table summarizes our results of operations for the years ended December 31, 2019, 2018 and 2017, however our discussion of the results of operations excludes the comparison of the results for the years ended December 31, 2018 and 2017. 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, 2018 which was filed with the SEC on May 9, 2019.

	U.S. dollars in Thousands		
	Year ended December 31,		
	2019	2018	2017
Revenue	\$ 333,307	\$ 345,221	\$ 297,682
Cost of revenue	290,461	311,994	254,728
Gross profit	42,846	33,227	42,954
Operating expenses:			
Research and development	5,060	3,657	2,683
Goodwill impairment	-	1,563	-
Selling, general and administrative	33,063	34,924	26,201
Total operating expenses	38,123	40,144	28,884
OPERATING INCOME (LOSS)	4,723	(6,917)	14,070
Equity income from investment in affiliate	91	124	-
Other expenses, net	(10,518)	(3,586)	(6,172)
INCOME (LOSS) BEFORE INCOME TAX EXPENSES	(5,704)	(10,379)	7,898
Income tax expenses	1,549	685	2,033
INCOME (LOSS) FROM CONTINUING OPERATIONS	(7,253)	(11,064)	5,865
Loss from discontinued operations	-	(289)	(95)
NET INCOME (LOSS)	(7,253)	(11,353)	5,770
Less: Net income (loss) attributable to non-controlling interests	789	(123)	(50)
NET INCOME (LOSS) ATTRIBUTABLE TO ICTS INTERNATIONAL N.V.	\$ (8,042)	\$ (11,230)	\$ 5,820



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, 2019, 2018 and 2017:

	Year ended December 31,		
	2019	2018	2017
Revenue	100.0%	100.0%	100.0%
Cost of revenue	87.1%	90.4%	85.6%
Gross profit	12.9%	9.6%	14.4%
Research and development	1.5%	1.1%	0.9%
Goodwill impairment	-%	0.4%	-%
Selling, general and administrative	9.9%	10.1%	8.7%
Total operating expenses	11.4%	11.6%	9.6%
OPERATING INCOME (LOSS)	1.5%	(2.0)%	4.8%
Equity income from investment in affiliate	-%	-%	-%
Other expenses, net	(3.2)%	(1.0)%	(2.1)%
INCOME (LOSS) BEFORE INCOME TAX EXPENSES	(1.7)%	(3.0)%	2.7%
Income tax expenses	0.5%	0.2%	0.7%
INCOME (LOSS) FROM CONTINUING OPERATIONS	(2.2)%	(3.2)%	2.0%
Loss from discontinued operations	-%	(0.1)%	-%
NET INCOME (LOSS)	(2.2)%	(3.3)%	2.0%
Less: Net income (loss) attributable to non-controlling interests	0.2%	-%	-%
NET INCOME (LOSS) ATTRIBUTABLE TO ICTS INTERNATIONAL N.V.	(2.4)%	(3.3)%	2.0%

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,		
	2019	2018	2017
Germany	\$ 137,207	\$ 134,646	\$ 125,896
Netherlands	97,700	121,465	103,862
United States of America	73,719	69,548	54,891
Other	24,681	19,562	13,033
Total	\$ 333,307	\$ 345,221	\$ 297,682

#### Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

The year ended December 31, 2018 was materially affected by a one-time loss regarding the contract termination of Procheck. Procheck was advised by its only customer that its contract would not be renewed and will end on December 31, 2018, following a change in the governmental security concept in the Netherlands. The Company incurred in total during the year ended December 31, 2018 expenses of approximately €8.0 million (\$9.2 million as of December 31, 2018) regarding the contract termination and a goodwill impairment of \$0.3 million was recognized.

#### Revenue

Total revenue decreased from \$345.2 million in 2018 to \$333.3 million in 2019.

Revenue generated in Germany was \$137.2 million in 2019 compared to \$134.6 million in 2018. The increase in revenue generated in Germany was primarily a result of additional services provided to our local customers (Frankfurt, Hamburg and Hannover Airports). Revenue was affected also by exchange rates as revenue is being translated from Euro to USD. Revenue of 2018 according to the 2019 exchange rate would have been \$127.7 million, representing a decrease of 5.1% in exchange rate.

Revenue generated in the Netherlands was \$97.7 million in 2019 compared to \$121.5 million in 2018. The 2018 revenues include also the Procheck revenues of \$24.0 million, which its contract was terminated in December 31, 2018. Revenue was affected also by exchange rates as revenue is being translated from Euro to USD. Revenue of 2018 according to the 2019 exchange rate would have been \$115.2 million, representing a decrease of 5.1% in exchange rate.

Revenue generated in the United States of America was \$73.7 million in 2019, compared to \$69.5 million in 2018. The increase in revenue generated in the United States of America was a result of additional services provided to customers by our authentication technology segment by \$6.4 million due to new customers and expended services for current customers. Revenue from other aviation services decreased by \$2.2 million in 2019 compared to 2018, mostly due to termination of existing contracts.

Revenue outside Germany, the Netherlands and the United States of America totaled \$24.7 million in 2019 compared to \$19.6 million in 2018. Increase in revenue was primarily a result of increase of services provided to new and existing customers by our Aviation Security operations in Europe and the Far East, by \$3.8 million. Our authentication technology segment also had increased services for existing and new customers of approximately \$1.3 million.

#### Cost of revenue

Cost of revenue was \$290.5 million or 87.1% of revenue in 2019, compared to \$312.0 million or 90.4% of revenue in 2018. Cost of revenue decreased in the airport security and other aviation services segment, compared to previous year, mainly as 2018 figures include \$22.3 million cost of revenue of Procheck. As that company had no operations in 2019, its cost of sales in 2019 was \$0. The majority of cost of revenue relates to payroll and related costs. Cost of revenue increased in the authentication technology segment compared to previous year, however the cost of revenue as a percentage of revenue has decreased as a result of the authentication technology segment higher margin than the Airport Security and Other Aviation Services segment.

#### Research and Development expenses

Research and development costs were \$5.1 million or 1.5% of revenue, compared to \$3.7 million or 1.1% in 2018. As the authentication technology segment continues to increase its sales and activities, the Company increased the number of employees in its Research and Development department, resulting in increase of the R&D costs.

#### Goodwill impairment

During the year ended December 31, 2019, there was no goodwill impairment cost.

At December 2018, the Company elected to perform a qualitative assessment to determine if it was more likely than not that the fair value of the reporting units exceeded its carrying value, including goodwill. 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 included 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. After performing the quantitative testing, it was determined that the carrying amount exceeds the reporting unit's fair value, resulting in an impairment charge of \$1.6 million for the year ended December 31, 2018.

The facts and circumstances that led to the impairment of goodwill are as following:

Procheck 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 the expiration of the agreement, Procheck will be closed and the employment of its employees was terminated. The closing costs totaled €8.0 million (\$9.2 million as of December 31, 2018). A goodwill impairment loss of \$0.3 million was recognized.

In January 2018, the Company acquired 100% of the outstanding shares of Abydos Consultores de Sistemas S.L.U and recorded goodwill of €0.2 million (\$0.2 million 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 in 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 €0.2 million (\$0.2 million as of 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.

In July 2018, the Company acquired 100% of the outstanding shares of Detact Security Solution AB and recorded goodwill of 9.0 million SEK (\$1.0 million as of December 31, 2018). The purpose of the acquisition was to penetrate the Swedish market. 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 9.0 million SEK (\$1.0 million 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.

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

SG&A expenses were \$33.1 million or 9.9% of revenue in 2019, compared to \$34.9 million or 10.1% of revenue in 2018, which included \$3.0 million SG&A expenses of Procheck. On the other hand, the authentication technology segment, increased in total its SG&A costs by \$1.5 million in 2019 as part of its expansion and increase of sales in 2019, primarily for payroll and related expenses of \$0.8 million and marketing expenses of \$0.3 million.

#### Equity income 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. Equity income from investment in affiliate relates to this Joint Venture and totaled in 2019 \$0.1 million, as in previous year.

#### Other expenses, net

Other expenses, net, were \$10.5 million or 3.2% of revenues in 2019, compared to \$3.6 million or 1.0% of revenues in 2018. 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, which reduced the interest expense during the second half of the year. Interest expense to related parties totaled \$1.2 million in 2019 compared to \$2.7 million in 2018. Total foreign currency loss in 2019 was \$0.1 million compared to gain of \$0.4 million in 2018.

Other interest expenses and other bank charges were \$1.5 million in 2019 compared to \$1.3 million in 2018. Increase relates to the increase of usage of the line of credit in Europe, following the payment of €8.0 million (\$9.2 million) expenses in Procheck.

#### Income Tax Expenses

Income tax expenses were \$1.5 million or 0.5% of revenue in 2019 compared to \$0.7 million or 0.5% of revenue in 2018. Income tax expenses relating to the authentication technology segment were \$1.3 million in 2019 compared to \$0.6 million in 2018, an increase following the authentication technology segment increase of operations and profitability. Income tax expenses relating to the airport security and other aviation services were \$0.2 million in 2019 compared to \$0.1 million in 2018.

#### Loss from discontinued operations

Loss from discontinued operations was \$0 million in 2019, compared to \$0.3 million in 2018, which related to the operations in the Company's subsidiary in Cyprus.

### 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, 2017. 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, 2018, which was filed with the SEC on May 9, 2019.

	U.S. Dollars in thousands			
	Corporate	Airport Security and Other Aviation Services	Authentication Technology	Total
<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
<b>Year ended December 31, 2017:</b>				
Revenue	\$ -	\$ 292,393	\$ 5,289	\$ 297,682
Depreciation and amortization	46	1,333	37	1,416
Income (loss) from continuing operations	(9,569)	16,078	(644)	5,865
Goodwill	-	1,044	-	1,044
Total assets from continuing operations	4,089	63,742	3,536	71,367

### Corporate Segment

The Company's loss from continuing operations in the corporate segment increased from \$6.2 million in 2018 to \$11.7 million in 2019. In 2019, the Company had the one-time expense compensation of \$8.1 million for exchange rate and related losses as noted above. During 2018 the corporate segment had consultancy expenses of \$1.2 million as part of its examination of bringing new investors to the group.

### Airport Security and Other Aviation Services Segment

Decrease in revenue from airport security and other aviation services from \$329.2 million in 2018 to \$309.5 million in 2019 relates primarily to the termination of the Procheck contract as of December 31, 2018. Revenues of Procheck during the year ended December 1, 2018 were \$24.0 million.

The Company's losses from continuing operations related to airport security and other aviation services were \$2.4 million in 2019 compared to loss of \$9.2 million in 2018. The main reasons for the difference in losses between 2018 and 2019 are: (a) in 2018 the segment recognized expenses of \$9.2 million for closing and severance costs related to the closure of Procheck, (b) As Procheck used to be a profitable company, adding to the segment's profitability (excluding one-time expenses regarding the closing), in 2019, there have been no profits from Procheck which increased the segments losses in 2019, (c) in 2018 the segment incurred \$1.6 millions of goodwill impairment relating to Procheck, Abydos Consultores S.L.U. (currently named I-SEC Aviation Security S.L.) and Detact Security Solution A.B., all wholly owned subsidiaries of the Company, (d) during the year 2019, the segment's operational costs as training, increase in sick rate and overtime payments to employees continued to increase which reduced the profitability of the segment

### Authentication Technology Segment

Revenue in 2019 from the authentication technology segment was \$23.8 million compared to \$16.1 million in 2018. The segment continued to increase its revenue from existing customers in addition to new ones. The profit from continuing operations in this segment amounted to \$6.9 million in 2019 compared to \$4.3 million in 2018.

### 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, Israel and borrowings from a convertible note arrangement with a related party.

As of December 31, 2019 and 2018, the Company had cash, cash equivalents and restricted cash of \$54.8 million and \$15.9 million, respectively. As of December 31, 2019 and 2018 restricted cash were \$2.5 million and \$3.1 million which consist of collateral for our letters of credit in the United States of America and restricted bank accounts in the Netherlands, which are restricted for payments to local tax authorities.

As of December 31, 2019 and 2018, the Company had a working capital (deficit) of \$27.6 million and \$(7.8) million, respectively and shareholders' deficit of \$35.7 million and \$34.9 million, respectively. During the years ended December 31, 2019, 2018 and 2017, the Company incurred net income (loss) from continuing operations of \$(7.3) million, \$(11.1) million and \$5.9 million, respectively, and cash flows provided by (used in) operating activities of \$(9.1) million, \$7.4 million and \$9.1 million, respectively.

The Company has a line of credit in the Netherlands up to €12 million (\$13.2 million as of June 1, 2020), which will expire in March 2021 and additional line of credit in the United States of America up to \$10 million, which will expire in October 2021. As of May 31, 2020, the Company's borrowings under the line of credit in Netherlands were approximately €11.5 million (\$12.7 million) and had approximately €15.9 million (\$17.5 million) in cash, resulting in availability of €16.4 million (\$18.0 million), but the Company was in default of certain financial covenants. The Company is currently working with this lender in regards with this default. The Company anticipates that it will be able to extend its lines of credit.

In June 2020, the Company amended the agreement with the entity related to the main shareholder to extend the period of the notes until June 30, 2021. The maximum amount of the notes will be \$3.5 million, excluding interest.

The Company's business plan project losses from operations in 2020 following the COVID-19 outbreak. 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 cumulative revenues in the first four months at 2020 was approximately \$8.3 million lower than our 2019 revenues in the same period with the major negative impact identified in March and April, which has been continuing in May and June, so far. Many of the Company's employees were laid off and / or ordered to stay home. The Company's operating results have declined significantly in 2020 and our liquidity has been negatively impacted.
- Governments in some of the countries in which we operate have also announced the implementation of government assistance measures, which may mitigate the impact of the COVID-19 outbreak on our results and liquidity. In the United States of America, the government has approved a payroll support of \$13.7 million to the American subsidiary of the Company. In the Netherlands, the government has approved a support of €8.3 million (\$9.1 million as of June 1, 2020) for the period April 1, 2020 until June 30, 2020 under the NOW program. In addition, once the current support period will expire, the Company is entitled to request additional support for the period July 1, 2020 until October 31, 2020 and is expecting to get €6.9 million (\$7.6 million as of June 1, 2020). In Germany, the Company is 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 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. In addition the Dutch and the German governments are providing through local banks long term loans up to 10 years to companies that meet certain requirements. The Company is evaluating the terms of those loans and its eligibility to such loans.
- 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 2020 and thereafter cannot be predicted.

### Alternate Sources of Liquidity

In July 2019, ABC issued preferred shares to an investor for a subscription price of \$60 million in cash representing 24% of the outstanding share capital of ABC and 23.077% of the outstanding share capital of ABC and its subsidiary on a fully diluted basis. ABC 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, ABC 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 ABC and 7.143% of the outstanding share capital of ABC and its subsidiaries on a fully diluted basis.

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 discussed above. In the event that one of the lenders recall the loan, the Company has other current available liquidity to ensure the financing of its operations. If the impact of COVID-19 negatively impacts the Company beyond its current forecast, the Company could also receive additional funding in the Netherlands under the NOW program and from Germany. 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, 2017. 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, 2018, which was filed with the SEC on May 9, 2019.

#### 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 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 \$7.1 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.

Net cash provided by operating activities for the year ended December 31, 2018 was \$7.4 million. This provided cash resulted primarily from increase in accrued expenses and other current liabilities of \$12.4 million, including an accrual for severance pay of \$7.7 million to the Procheck employees, increase in VAT payable of \$4.5 million as a result of time difference between the actual dates of payment, increase of non-cash accrued interest convertible notes payable to related party of \$2.7 million, non-cash charge of \$1.9 million for depreciation and amortization and non-cash charge for goodwill impairment of \$1.6 million following impairment test done in December 31, 2018 by the Company. This was offset mainly by net loss of \$11.4 million, increase of prepaid expenses and other current assets of \$2.2 million and decrease of income taxes payable of \$1.0 million.

#### Cash Flows from Investing Activities

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.

Net cash used in investing activities for the year ended December 31, 2018 was \$4.7 million and consisted primarily of capital expenditures of \$2.9 million and purchase of two companies in Spain and Sweden for total of \$1.2 million.

#### Cash Flows from Financing Activities

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 ABC'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 ABC's preferred shares.

Net cash used in financing activities for the year ended December 31, 2018 was \$0.1 million which consisted of primarily repayment of \$2.4 million of the convertible notes to a related party and repayment of \$1.2 million loan payable to related party. This was offset by increase of borrowings under the lines of credit of \$1.5 million, and net proceeds from loans payable of \$1.2 million.

#### **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 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 an entity related to the main Shareholder.

In December 2019, the Company replaced the \$0.5 million stand by letter of credit which was provided to the lender by an entity related to the Company's main shareholder to a letter of credit, provided by the Company and with the same terms.

As of December 31, 2019 and 2018, the Company had approximately \$6.5 million and \$9.0 million, respectively, outstanding under line of credit arrangement. As of December 31, 2019 and 2018, the Company had \$3.5 million and \$1.0 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 (4.76% as of December 31, 2019).

The Company's weighted average interest rate in the United States of America during the years ended December 31, 2019, 2018 and 2017 is 6.51%, 6.0% and 5.64% respectively. The Company is required to maintain a minimum fixed charge coverage ratio. The credit facility expires in October 2021. During the year ended December 31, 2019, the Company was not in compliance of certain financial covenants and a waiver was obtained from the commercial lender.

#### Europe

The Company has a credit arrangement with a commercial bank, to provide it with up to €12.0 million (\$13.5 million as of December 31, 2019) in borrowings until further notice. Borrowings under the line of credit bear interest at one-month EURIBOR plus 3.5% with a minimum of 3.5% per annum (3.5% as of December 31, 2019). The Company is also subject to an unused line fee of 0.75% per annum, which is payable quarterly. The line of credit is secured by accounts receivable of five of the Company's European subsidiaries and tangible fixed assets of three of the Company's European subsidiaries. The line of credit cannot exceed 80% of the borrowing base. As of December 31, 2019 and 2018, the Company had €11.9 million and €2.2 million (\$13.3 million and \$2.5 million as of December 31, 2019 and 2018), respectively, in outstanding borrowings under the line of credit arrangement.

In April 2019, the Company amended the line of credit agreement with the commercial bank in order to temporarily increase the line of credit up to €16.0 million (\$17.9 million as of December 31, 2019) under the same terms and conditions through September 2019.

The Company's weighted average interest rate in Europe during the years ended December 31, 2019, 2018 and 2017, is 3.5%, 3.5% and 3.5% respectively.

In addition to the line of credit arrangement, a guarantee facility of €2.5 million (\$2.8 million as of December 31, 2019) is provided to the Company by the same commercial bank. As of December 31, 2019 and 2018, the Company had €2.3 million and €2.3 million (\$2.6 million and \$2.6 million as of December 31, 2019 and 2018), respectively, of outstanding guarantees under the guarantee facility.

As of December 31, 2019, the Company was not in compliance of the covenants of the agreement.

The line of credit agreement expired in December 31, 2019 and it was operating under the old terms and conditions until the renewal in May 2020.

In 2020, the Company renewed its line of credit facility agreement with the commercial bank. The new arrangement provides it with up to € 12.0 million (\$13.4 million as of June 1, 2020) in borrowings until 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 six of the Company's European subsidiaries, tangible fixed assets and a bank guarantee of €2.0 million provided by the parent company, ICTS International N.V. The line of credit cannot exceed 70% of the borrowing base. As part of the agreement, also the guarantee facility of €2.5 million was 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.

The Company has an additional credit arrangement in Sweden to provide it with up to 2.0 million SEK (\$0.2 million as of December 31, 2019) 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, 2019 and 2018, the Company had 1.1 million SEK and 3.0 million SEK (\$0.1 million and \$0.3 million as of December 31, 2019 and 2018) respectively in outstanding borrowings under the line of credit facility. The Sweden subsidiary had an over advance of 1.0 million SEK (\$0.1 million) at December 31, 2018 which was subsequently repaid.

## Related parties financing

### Convertible notes payable to a related party

In May 2014, the Company entered into an arrangement with an entity related to its main shareholder, which replaced all previous arrangements between the parties, to provide it with up to \$37.0 million in revolving loans through December 2016. The term of the arrangement can be automatically extended for four additional six-month periods at the option of the holder. All outstanding borrowings from previous arrangements were applied to the borrowing capacity of the new arrangement. Loans received under the arrangement bear interest, which is compounded semi-annually and payable at maturity, at the interest rate charged by the Company's European commercial bank (LIBOR plus 6% for U.S. dollar-denominated loans and the base rate plus 2% for Euro-denominated loans). The arrangement is secured by a 26% interest in one of the Company's European subsidiaries. In connection with the arrangement, the holder was granted an option to convert outstanding notes payable (including accrued interest) under the arrangement into the Company's common stock at a price of \$1.50 per share. The Company determined that the new arrangement did not represent a substantive modification and, therefore, it was not necessary to evaluate whether the conversion feature qualified as a free-standing derivative instrument or contained any intrinsic value which would be considered beneficial.

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

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

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

In October 2018, the loan period was extended until June 30, 2020. The terms of the arrangement can be automatically extended for four additional six months periods at the option of the holder.

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 million of the loan into the Company's shares at a price of \$0.4 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 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, ABC, 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 debt to the entity related to the main shareholder who provided the Company loans as convertible notes.

The Company's weighted average interest during the years ended December 31, 2019, 2018 and 2017 is 8.3%, 7.70% and 7.27%, respectively.



As of December 31, 2019 and 2018, convertible notes payable to this related party consist of \$0 million and \$22.1 million respectively, in principal and \$2.0 million and \$8.8 million, respectively, in accrued interest.

#### Note Payable to Related Party

As of December 31, 2019 and 2018, notes payable to this related party consist of \$1.0 million and \$0 million, respectively, in principal and \$0.5 million and \$0 million, respectively in accrued interest.

Total interest expense related to these notes is \$1.2 million, \$2.7 million and \$2.7 million for the years ended December 31, 2019, 2018 and 2017, respectively.

#### Loan from related party

In March 2017, the Company signed a loan agreement with a related party, to provide the Company a loan of \$2.0 million for up to one year bearing 7% interest per annum. At December 31, 2019 and 2018, the loan payable to the related party consist of \$0 and \$0.2 million, respectively, in principal and \$0 and \$0.1 million respectively in accrued interest. Interest expense related to this loan is \$8 thousands and \$59 thousands for the years ended December 31, 2019 and 2018, respectively.

#### **Sale of ABC Technologies Preferred Shares**

On July 3, 2019, ABC, entered into a Series A Preferred Subscription Agreement (the "Agreement") with TPG Lux 2018 SC I, S.a.r.l ("TPG"), according to which ABC 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 ABC and 23.077% of the fully-diluted share capital of ABC. Transaction costs totaled \$4.5 million and were deducted from the redeemable non-controlling interests balance.

On November 7, 2019, ABC entered into a Series A and Series A-1 Preferred Subscription Agreement with Oak HC/FT Partners II, L.P. ("Oak"), according to which ABC 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 ABC and 7.1% of the fully-diluted share capital of ABC. 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 ABC.

#### 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 ABC, 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 ABC: (a) on the written request by any Series A Shareholder; and (b) immediately prior to a qualifying IPO of ABC (being an IPO where the net aggregate gross proceeds to ABC 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 ABC 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 ABC 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 ABC has the right to participate in any new issuance of securities by the ABC, 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, ABC 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, ABC is required to facilitate a sale of ABC within six (6) months after such written request, and thereafter, TPG has the right to require ABC to facilitate a sale or IPO of ABC. 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 ABC'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 ABC'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 \$5.1 million, \$3.7 million and \$2.7 million during the years ended December 31, 2019, 2018 and 2017, 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, 2019:

Contractual Obligations	Payments due by Period (U.S. Dollars in Thousands)				
	Total	Less than 1 Year	1-3 years	4-5 years	more than 5 years
Line of credit in the U.S.	\$ 6,475	\$ -	\$ 6,475	\$ -	\$ -
Lines of credit in Europe	13,433	13,433	-	-	-
Loan payable	1,121	1,121	-	-	-
Consulting agreements	1,008	168	504	336	-
Convertible notes payable - related party (including accrued interest)	2,000	2,000	-	-	-
Future interest and fees on line of credit and convertible notes to a related party (1)	875	350	525	-	-
Loan payable to a related party	1,538	1,538	-	-	-
Operating lease obligations	11,883	3,100	5,333	2,658	792
	<u>\$ 38,333</u>	<u>\$ 21,710</u>	<u>\$ 12,837</u>	<u>\$ 2,994</u>	<u>\$ 792</u>

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

The following table summarizes the Company's other future commercial obligations as of December 31, 2019:

Contractual Obligations	Payments due by Period (U.S. Dollars in Thousands)				
	Total	Less than 1 Year	1-3 years	4-5 years	more than 5 years
Guarantees	\$ 2,593	\$ 202	\$ 2,391	\$ -	\$ -
Letters of credit	733	233	500	-	-
	<u>\$ 3,326</u>	<u>\$ 435</u>	<u>\$ 2,891</u>	<u>\$ -</u>	<u>\$ -</u>

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

## Item 6. Directors, Senior Management and Employees

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

	Age	Position
	---	-----
Menachem Atzmon	75	Chairman of the Supervisory Board
Ron Atzmon	44	Member of the Supervisory Board and Managing Director of AU10TIX
Gil Atzmon	46	Member of the Supervisory Board
Philip M. Getter	83	Member of the Supervisory Board, Chairman of the Audit Committee
David W. Sass	84	Member of the Supervisory Board
Gail F. Lieberman	76	Member of the Supervisory Board, Member of the Audit Committee and Chairman of the Compensation Committee
Gordon Hausmann	74	Member of the Supervisory Board, Member of the Compensation Committee and Member of the Audit Committee
Ran Langer	74	Joint Managing Director
Alon Raich	44	Joint Managing Director and Chief Financial Officer
Rom Shaked	37	Joint Managing Director and Internal Controller

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 since 2002 till 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 President/CEO of Generics Corporation of America, then one of the largest generic drug companies in the United States of America. As Chairman and CEO of Wolins Pharmacal (1977 to 1984) he led the reorganization and restructuring of this distributor of medical supplies. Mr. Getter was Chairman of Inksure Technologies, Inc. a manufacturer of security inks and a founder of KIDSRx an all-natural pharmaceutical company and chairman of TCI College of Technology. Mr. Getter has been a member of The Broadway League [League of American Theaters and Producers] Senior Executive Vice Chairman of The Kurt Weill Foundation for Music, and Trustee of the American Theatre Wing [TONY and OBIE Awards]. He has been involved in most aspects of the entertainment industry and has produced for Broadway, television and film. His productions have earned Pulitzer Prize, Tony and Grammy Awards including the 2019 Tony Award for Hedestown as best musical.

David W. Sass for the past 60 years has been a practicing attorney in New York City and is currently a Special Council in the law firm of McLaughlin & Stern, LLP. Mr. Sass has been a director of ICTS since 2002 and is also a director of several privately held corporations. Mr. Sass is an Honorary Trustee of Ithaca College.

Gail F. Lieberman is the founder and Managing Partner of Rudder Capital, LLC, which provides financial and strategic advisory services for middle-market companies in the services & technology sectors. Previously, she was the Chief Financial Officer for Thomson Corporation's Financial & Professional Publishing division, Moody's Investor Service, Inc. and Scali, McCabe, Sloves, Inc. (Ogilvy Group). Ms. Lieberman is a director of Thesys Group, a private financial technology company and a board member and Chairman of the Audit 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.

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

Alon Raich is a CPA (Isr). 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 the Company, 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 Director and the highest paid executives during the years 2017 through 2019 (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)	2019	476	-	20	-	-	-	-	496
	2018	481	295	21	-	-	-	-	797
	2017	423	-	32	-	-	-	-	455

Highest paid employee in 2019, 2018 and 2017.

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 of a subsidiary (b)	2019	185	616	-	-	-	-	-	801

Highest paid employee in 2019

Each member of the Supervisory Board who is not an employee of the Company receives an annual fee of \$20 (starting 2020: \$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.

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, 2019:

	Salaries, fees, commissions and bonuses	Pension, retirement and other similar benefits
	(in thousands)	
Supervisory Directors as a group ( 7 persons)	\$ 254	\$ -
Officers as a group ( 4 persons)	\$ 1,672	\$ 94

### 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. Our policy of compensating our executives with a cash salary has served us well.

#### **Board Practices**

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

The members of the Supervisory Board as of December 31, 2019 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, 2019, the Company has 7,472 employees, of which 5,208 employees are located in Europe, Far East and Israel and 2,264 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 subsidiary adopted a Stock Option Plan and reserved 500,000 shares of common stock for that subsidiary's future issuance. As of December 31, 2019, 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, 2019, 2018 and 2017, the subsidiary granted 0, 0 and 62,500 options, respectively, to certain employees of the Company, at an exercise price of €0.01 per share. The grant date fair value was determined to be immaterial.

As of December 31, 2019, there are 200,500 options outstanding, 156,625 options exercisable and 43,875 non-vested options.

**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 June 1, 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)	61.6%	21,818,861
Menachem J. Atzmon	13.7%	4,850,000
All officers and directors as a group (10 persons), the MacPherson Trust and its Ultimate Beneficial Owners	89.2%	31,604,907

(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 61.6% 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 June 1, 2020 the Company has notes payable to a related party in the total amount of \$0 million and accrued interest of \$2.7 million. Out of this amount \$2.0 million is convertible at a rate of \$0.40 per share. The calculation above does not take into consideration the conversion of the accrued interest.

**Related Party Transactions**

Entities related to two of the Company's Supervisory Board members provide legal services to the Company. Legal expense related to these services is \$46 thousands, \$35 thousands and \$47 thousands for the years ended December 31, 2019, 2018 and 2017, respectively. Included in accounts payable on the accompanying consolidated balance sheets is \$1 thousand and \$9 thousands due for these services as of December 31, 2019 and 2018, respectively.

The Company engages the services of a related party to provide certain selling and management services to its authentication technology segment. The Company incurred expenses of \$0.8 million, \$0.7 million and \$0.3 million for such services for the years ended December 31, 2019, 2018 and 2017, respectively. In addition, since 2018, the related party serves as a board member of the Company and was paid an amount of \$28 thousands and \$15 thousands as board fees, for the years ended December 31, 2019 and 2018, respectively.

An entity related to the Company's main shareholder provided a letter of credit of \$1.0 million to a commercial bank to guarantee a borrowing arrangement on behalf of one of the Company's subsidiaries. In December 2017, the Company agreed with the commercial bank to reduce the letter of credit to \$0.7 million. In April 2018, the letter of credit was reduced to \$0.5 million. 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, \$0.1 million and \$0.1 million for such services for each one of the years ended December 31, 2019, 2018 and 2017, respectively.



The Company engages the services of a related party to provide internal audit services. The Company incurred expenses of \$0.2 million, \$0.2 million and \$0.1 million for such services for the years ended December 31, 2019, 2018 and 2017, respectively.

The Chairman of the Board, a related party, receives annual compensation of \$50 thousands for his services as chairman.

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 \$39 thousands and \$103 thousands for such services for the years ended December 31, 2019 and 2018 respectively. In addition, the related party serves as a board member of the Company since 2018 and was paid an amount of \$30 thousands and \$15 thousands, as board fees, for the years ended December 31, 2019 and 2018, respectively.

In April 2018, the Company issued 3,350,000 shares to certain directors and officers of the Company for a purchase price of \$0.66 per share. In December 2018, additional 750,000 shares were issued to two related parties for a price of \$0.48.

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

In May 2019, the Company engaged the services of Arrow Ecology and Engineering Overseas (1999) to provide some administrative services. The Company incurred expenses of \$62 thousands for such services for the year ended December 31, 2019.

In June 2019, the Company issued 3.0 million shares to certain directors and officers of the Company for a purchase price of \$0.40 per share.

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

## **Item 8. Financial Information**

The Consolidated Financial Statements and Financial Statement Schedule are included herein on pages F-1 through F-43.

### **Legal Proceedings**

#### Claims by former employees

The Company is subject to wrongful termination claims made by certain former employees of one of its European subsidiaries. The aggregate amount of such claims is approximately \$0.6 million.

#### Minimum Wage Increase

In August 2015, the Company was informed about a court decision, which approved an increase to the minimum wage for the city of SeaTac, WA (location of SeaTac Airport). The increase to the minimum wage was originally approved by a vote in King County, WA in 2013 (to be effective January 1, 2014); however, a court ruled that SeaTac employees were excluded from this increase because the airport was under the jurisdiction of the Port of Seattle and not the city of SeaTac. In August 2015, this decision was overturned by the State Supreme Court and, accordingly, the Company is required to increase the minimum wage of its employees at SeaTac Airport according to the court decision, effective January 1, 2014. After the settlements of the legal disputes in 2017 related to the minimum wage increase, the Company was obligated to pay out approximately \$1.6 million. The accrued amount at December 31, 2018 is \$0.5 million (inclusive of interest amounting to approximately \$0.3 million) for the remainder of the settlement and is included in accrued expenses and other current liabilities. The Company paid this amount in 2019 and the resulting balance owed at December 31, 2019 is zero.

#### Termination of contract

Following the termination of the Procheck contract on December 31, 2018, the Company has been negotiating with the customer compensation for the losses accrued as a result of the termination. In December 2019 the Company started a legal procedure in order to settle the disagreement. The procedure have been completed without material effect to the Company's financials.

## 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 (\$3.4 million as of December 31, 2019).

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 (\$2.2 million as of December 31, 2019).

## **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	
2015	\$	0.85	\$	0.51
2016	\$	0.71	\$	0.40
2017	\$	1.30	\$	0.45
2018	\$	1.09	\$	0.40
2019	\$	3.00	\$	0.15

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

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
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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
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2017	High	Low
First quarter	\$ 0.57	\$ 0.45
Second quarter	\$ 0.62	\$ 0.45
Third quarter	\$ 0.80	\$ 0.55
Fourth quarter	\$ 1.30	\$ 0.51

## 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 February 19, 2013 (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 15,000,000.30 divided into 33,333,334 Shares, each Share with a nominal value of EUR 0.45.

Article 24 of the Articles of Association provide that, in the event the Management Board files a declaration with the trade register of the Netherlands Chamber of Commerce that at least ninety percent of the authorized share capital is issued, Article 3 of the Articles of Association will be changed as follows: "The authorized capital of the Company amounts to EUR 67,500,000 dividend into one hundred fifty million (150,000,000) shares, each share having a par value of EUR 0.45." Such declaration was filed in 2019 and the authorized share capital was adjusted accordingly.

As of December 31, 2019, 35,433,333 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.

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 favor 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 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 will not be eligible for the dividends received deduction generally allowed to U.S. corporations.

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

Distributions in excess of the earnings and profits of the Company will be treated, for U.S. federal income tax purposes, first as a 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 Euro will be equal to the U.S. dollar value of the Euro on the date of receipt regardless of whether the U.S. Holder converts the payment into U.S. dollars.

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

#### **Foreign Tax Credits**

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

See Netherlands Dividend Withholding Tax. U.S. Holders who are entitled to the benefits of a reduced rate of Netherlands dividend withholding tax under the tax treaty between the United States 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 (i.e. 15%).

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

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

#### **Taxation on Sale or Disposition of Shares**

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

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

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

#### **Gift and Estate Tax**

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

#### **Backup Withholding and Information Reporting**

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

#### **Passive Foreign Investment Company**

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

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

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

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

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

- The excess distribution or gain will be allocated ratably over the U.S. Holder's holding period for the shares,
- The amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which the Company was a PFIC, will be treated as ordinary income, and
- The amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

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

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

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

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

#### Taxes in the Netherlands

##### Corporate income tax – general

We are incorporated under the laws of the Netherlands and are therefore subject to Netherlands corporate income tax. As of 2019, the standard corporate income tax rate is 19% on profits up to €0.2 million and 25% on the excess. In 2020, the tax rate will be 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 21.7%, respectively.

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 analyzed 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% (19% 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 2019, approximately 22% of the Company's revenues were derived in the United States of America, and approximately 78% 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, 2019.

#### **Item 12. Description of Securities Other than Equity Securities**

Not applicable.

### **PART II**

#### **Item 13. Defaults, Dividend Arrearages and Delinquencies**

Not applicable.

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

Not applicable

**Item 15. Controls and Procedures**

**Management's report on internal control over financial reporting**

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

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

(b) Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Our management, including our Managing Director and our Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework and criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as of the end of the period covered by this report. Based on that evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2019. Notwithstanding the foregoing, there can be no assurance that our internal control over financial reporting will detect or uncover all failures of persons within the Company to comply with our internal procedures, as all internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective may not prevent or detect misstatements.

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

(c) On the evaluation conducted by our Managing Director and our Chief Financial Officer pursuant to Rules 13a-15(d) and 15d-15(d) under the Exchange Act, our management has concluded that there was no change in our internal control over financial reporting that occurred during the year ended December 31, 2019 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 16A Audit Committee Financial Experts**

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

**Item 16B Code of Ethics**

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

**Item 16C Principal Accountant Fees and Services**

The following table sets forth the aggregate fees billed by our independent registered public accounting firms, Mayer Hoffman McCann CPAs ("MHM"), for services rendered to us during the years ended December 31, 2019 and 2018.

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).

	2019	2018
Audit fees	\$ 245	\$ 230
Audit related fees	-	-
Tax fees	-	-
Total fees	<u>\$ 245</u>	<u>\$ 230</u>

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

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

Not applicable.

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

Not applicable.

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

Not applicable.

**Item 16G. Corporate Governance.**

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

**PART III**

**Item 17. Financial Statements**

See Item 18.

**Item 18. Financial Statements**

The Consolidated Financial Statements and Financial Statement Schedule of the Company as of December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, including the report of our independent registered public accounting firm thereon are set forth on pages F-1 to F-43.

**Item 19. Exhibits**

- [1. Articles of Association of the Company.\\*](#)
- [2. Articles of Amendment of the Articles of Association filed as Exhibit to Form 6K dated April 22, 2009.\\*](#)
- [3. Articles of Amendment of the Articles of Association filed as exhibit to Form 20-F for the year ended December 31, 2012.\\*](#)
- [4. Specimen of the Company's Common Stock.\\*](#)
- [5. Code of Ethics for Principal Executive Officers and Senior Financial Officers.\\*\\*](#)
- [12.1 Certification by the registrant's Managing Director and Principal Executive Officer pursuant to Rule 13a-14\(a\)](#)
- [12.2 Certification by the registrant's 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 1999 annual report filed with the Commission on Form 20-F.

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

SIGNATURES

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

ICTS INTERNATIONAL N.V. AND SUBSIDIARIES

By: /s/ Rom Shaked

Name: Rom Shaked

Title: Managing Director and Principal Executive Officer

Date: June 15, 2020

ICTS INTERNATIONAL N.V. AND SUBSIDIARIES

2019 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. ("Company") as of December 31, 2019 and 2018, 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, 2019 and the related notes and schedule (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter – Impact of COVID-19**

We draw your attention to Note 1, which describes the subsequent event resulting in additional risks and uncertainties impacting the Company. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

### **Adoption of New Accounting Standard**

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for leases as a result of the adoption of Accounting Standard Codification Topic 842, leases effective January 1, 2019 under the modified retrospective method.

### **Basis for Opinion**

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

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

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

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

We have served as the Company's auditor since 2007.

New York, New York  
June 15, 2020

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

	December 31,	
	2019	2018
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 52,352	\$ 12,801
Restricted cash	2,493	3,116
Accounts receivable, net	43,311	44,826
Income tax receivable	197	1,511
Prepaid expenses and other current assets	4,783	4,965
Total current assets	<u>103,136</u>	<u>67,219</u>
Defered tax assets, net	476	436
Investments	2,130	255
Property and equipment, net	4,586	4,263
Operating lease right of use assets	10,367	-
Goodwill	681	695
Other assets	2,071	2,219
Total assets	<u>\$ 123,447</u>	<u>\$ 75,087</u>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES:</b>		
Bank overdrafts	\$ 738	\$ 845
Notes payable-banks	19,908	11,889
Accounts payable	5,808	5,886
Accrued expenses and other current liabilities	35,033	42,673
Income tax payable	162	1,958
Value added tax (VAT) payable	6,476	11,439
Operating lease liabilities, current	2,725	-
Loan payable	1,121	-
Loan payable to related parties	1,538	368
Convertible notes payable to a related party	2,000	-
Total current liabilities	<u>75,509</u>	<u>75,058</u>
Convertible notes payable to a related party	-	30,932
Loan payable	-	2,288
Operating lease liabilities, non current	7,562	-
Other liabilities	1,761	1,665
Total liabilities	<u>84,832</u>	<u>109,943</u>
<b>COMMITMENTS AND CONTINGENCIES (NOTE 18)</b>		
REDEEMABLE NON-CONTROLLING INTERESTS (NOTE 13)	74,300	-
<b>SHAREHOLDERS' DEFICIT:</b>		
Common stock, €0.45 par value; 150,000,000 and 33,333,334 shares authorized as of December 31, 2019 and 2018, respectively. 35,433,333 and 25,100,000 shares issued and outstanding as of December 31, 2019 and 2018, respectively	18,120	12,896
Additional paid-in capital	26,972	23,457
Accumulated deficit	(73,006)	(64,964)
Accumulated other comprehensive loss	(6,172)	(6,245)
Non-controlling interests in subsidiaries	(1,599)	-
Total shareholders' deficit	<u>(35,685)</u>	<u>(34,856)</u>
Total liabilities and shareholders' deficit	<u>\$ 123,447</u>	<u>\$ 75,087</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,		
	2019	2018	2017
Revenue	\$ 333,307	\$ 345,221	\$ 297,682
Cost of revenue	290,461	311,994	254,728
<b>GROSS PROFIT</b>	<b>42,846</b>	<b>33,227</b>	<b>42,954</b>
Operating expenses:			
Research and development	5,060	3,657	2,683
Goodwill impairment	-	1,563	-
Selling, general and administrative	33,063	34,924	26,201
Total operating expenses	38,123	40,144	28,884
<b>OPERATING INCOME (LOSS)</b>	<b>4,723</b>	<b>(6,917)</b>	<b>14,070</b>
Equity income from investment in affiliate	91	124	-
Other expenses, net	(10,518)	(3,586)	(6,172)
<b>INCOME (LOSS) BEFORE INCOME TAX EXPENSES</b>	<b>(5,704)</b>	<b>(10,379)</b>	<b>7,898</b>
Income tax expenses	1,549	685	2,033
<b>INCOME (LOSS) FROM CONTINUING OPERATIONS</b>	<b>(7,253)</b>	<b>(11,064)</b>	<b>5,865</b>
Loss from discontinued operations	-	(289)	(95)
<b>NET INCOME (LOSS)</b>	<b>\$ (7,253)</b>	<b>\$ (11,353)</b>	<b>\$ 5,770</b>
Net income (loss) attributable to non-controlling interests	789	(123)	(50)
<b>NET INCOME (LOSS) ATTRIBUTABLE TO ICTS INTERNATIONAL N.V.</b>	<b>\$ (8,042)</b>	<b>\$ (11,230)</b>	<b>\$ 5,820</b>
<b>INCOME (LOSS) PER SHARE - BASIC AND DILUTED</b>			
Continuing operations	\$ (0.26)	\$ (0.47)	\$ 0.28
Discontinued operations	-	(0.01)	-
Net income (loss)	\$ (0.26)	\$ (0.48)	\$ 0.28
Weighted average number of shares outstanding	30,524,461	23,415,068	21,000,000
<b>COMPREHENSIVE INCOME (LOSS)</b>			
Net income (loss)	\$ (7,253)	\$ (11,353)	\$ 5,770
Other Comprehensive Income - Translation adjustments	79	669	965
<b>Comprehensive income (loss)</b>	<b>(7,174)</b>	<b>(10,684)</b>	<b>6,735</b>
Comprehensive income (loss) attributable to non-controlling and redeemable non-controlling interests	795	(123)	(30)
<b>COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO ICTS INTERNATIONAL N.V.</b>	<b>\$ (7,969)</b>	<b>\$ (10,561)</b>	<b>\$ 6,765</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, 2016	21,000,000	\$ 10,655	\$ 23,128	\$ (59,554)	\$ (7,859)	\$ 153	\$ (33,477)
Net income (loss)	-	-	-	5,820	-	(50)	5,770
Translation adjustment	-	-	-	-	945	20	965
BALANCE AT DECEMBER 31, 2017	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 ABC Technologies B.V. preferred shares, series A-1, net	-	-	2,041	-	-	(1,614)	427
Translation adjustment	-	-	-	-	73	-	73
BALANCE AT DECEMBER 31, 2019	<u>35,433,333</u>	<u>\$ 18,120</u>	<u>\$ 26,972</u>	<u>\$ (73,006)</u>	<u>\$ (6,172)</u>	<u>\$ (1,599)</u>	<u>\$ (35,685)</u>

See accompanying notes to the consolidated financial statements.

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

	Year Ended December 31,		
	2019	2018	2017
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>			
Income (loss) from continuing operations	\$ (7,253)	\$ (11,064)	\$ 5,865
Loss from discontinued operations	-	(289)	(95)
Net income (loss) from continuing operations	(7,253)	(11,353)	5,770
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	1,688	1,897	1,416
Goodwill impairment	-	1,563	-
Accrued interest on convertible notes payable to a related party	-	2,687	2,706
Accrued interest on loan payable to a related party	-	59	109
Bad debt expense	260	303	97
Deferred income taxes	(35)	(103)	33
Equity income from investment in affiliate	(91)	(124)	-
Revaluation and related costs reimbursed to related party	8,139	-	-
Changes in assets and liabilities:			
Accounts receivable, net	669	(249)	(7,591)
Income tax receivable	1,284	(1,496)	60
Prepaid expenses and other current assets	82	(2,184)	(645)
Other assets	(89)	28	(359)
Accounts payable	(30)	592	1,667
Accrued expenses and other current liabilities	(7,055)	12,358	3,144
Income taxes payable	(1,799)	(1,047)	1,866
VAT payable	(4,734)	4,540	232
Operating lease accounts, net	(102)	-	-
Other liabilities	(26)	(308)	476
Net cash provided by discontinued operations	-	253	95
Net cash provided by (used in) operating activities	(9,092)	7,416	9,076
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of property and equipment	(1,884)	(2,917)	(2,529)
Purchase of subsidiary in Denmark, net of acquired cash of \$499	-	-	(1,066)
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	(1,800)	(131)	(3,500)
Deposits at (withdraws from) insurance companies	151	(295)	(245)
Repayments from (loan to) an affiliate	180	(180)	-
Net cash used in investing activities	\$ (3,353)	\$ (4,696)	\$ (7,340)

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

	Year Ended December 31,		
	2019	2018	2017
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>			
Borrowings under lines of credit, net	\$ 8,076	\$ 1,485	\$ 1,387
Proceeds from convertible notes payable to a related party	-	-	382
Repayments of convertible notes payable to a related party	(29,572)	(2,381)	(2,808)
Proceeds from a related party	1,000	-	-
Proceeds from (repayments of) loan payable to a related party	(368)	(1,100)	1,300
Proceeds from loan payable	-	2,288	1,198
Repayment of loan payable	(1,120)	(1,198)	-
Proceeds from sale of a subsidiary's preferred shares	80,000	-	-
Transaction costs related to the sale of a subsidiary's preferred shares	(6,054)	-	-
Increase (decrease) in bank overdrafts	(107)	845	(1,109)
Net cash provided by (used in) financing activities	<u>51,855</u>	<u>(61)</u>	<u>350</u>
<b>EFFECT OF CHANGES IN FOREIGN CURRENCY EXCHANGE RATES ON CASH, CASH EQUIVALENTS AND RESTRICTED CASH</b>			
	(482)	(247)	3,740
<b>INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH</b>	<b>38,928</b>	<b>2,412</b>	<b>5,826</b>
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH BEGINNING OF YEAR</b>	<u>15,917</u>	<u>13,505</u>	<u>7,679</u>
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH END OF YEAR</b>	<u>\$ 54,845</u>	<u>\$ 15,917</u>	<u>\$ 13,505</u>
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES</b>			
Stock issuance as reduction against convertible notes payable to related party	<u>\$ 6,698</u>	<u>\$ 2,570</u>	<u>\$ -</u>
Sale of investment in White Line as reduction against convertible notes payable to related party	<u>\$ -</u>	<u>\$ 3,500</u>	<u>\$ -</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW ACTIVITIES</b>			
Cash paid during the year for:			
Interest	<u>\$ 1,963</u>	<u>\$ 836</u>	<u>\$ 634</u>
Income taxes	<u>\$ 3,129</u>	<u>\$ 1,322</u>	<u>\$ 120</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 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.

**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, 2019 and 2018, the Company has a working capital (deficit) of \$27,627 and \$(7,839) and shareholders deficit of \$35,685 and \$34,856, respectively. During the years ended December 31, 2019, 2018 and 2017, the Company incurred income (loss) from continuing operations of \$(7,253), \$(11,064), and \$5,865, respectively, and cash flows provided by (used in) operating activities of \$(9,092), \$7,416 and \$9,076, respectively.

The Company has a line of credit in the Netherlands up to €12,000 (\$13,200 as of June 1, 2020), which will expire 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 9 and 20). As of May 31, 2020, the Company’s borrowings under the line of credit in Netherlands were approximately €11,504 (\$12,654) and had approximately €15,865 (\$17,452) in cash, resulting in availability of €16,361 (\$17,997), but the Company was in default of certain financial covenants. The Company is currently working with this lender in regards with this default. The Company anticipates that it will be able to extend its lines of credit.

In June 2020, the Company amended the agreement with the entity related to the main shareholder to extend the period of the notes until June 30, 2021. The maximum amount of the notes will be \$3,500, excluding interest (see note 12).

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 in the first four months at 2020 was approximately \$8,255 lower than our 2019 revenues in the same period with the major negative impact identified in March and April, which has been continuing in May and June so far and many of the Company’s employees were laid off and / or ordered to stay home. The Company’s operating results have declined significantly in 2020 and our liquidity has been negatively impacted.
- Governments in some of the countries in which we operate have also announced the implementation of government assistance measures, which may mitigate the impact of the COVID-19 outbreak on our results and liquidity. In the United States of America, the Government has approved a payroll support of \$13,680 to the American subsidiary of the Company. In the Netherlands, the government has approved a support of €8,250 (\$9,075 as of June 1, 2020) for the period April 1, 2020 until June 30, 2020, under the NOW program. In addition, once the current support period will expire, the Company is entitled to request additional support for the period July 1, 2020 until October 31, 2020 and is expecting to get €6,900 (\$7,590 as of June 1, 2020). In Germany, the Company is 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 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. In addition the Dutch and the German governments are providing through local banks long term loans up to 10 years to companies that meet certain requirements. The Company is evaluating the terms of those loans and its eligibility to such loans.
- 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 2020 and thereafter cannot be predicted.

**Alternate Sources of Liquidity**

In July 2019, ABC Technologies B.V. (“ABC”), 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 ABC and 23.077% of the outstanding share capital of ABC and its subsidiary on a fully diluted basis. ABC 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. (see note 13).

In July 2019, the Company repaid \$30 million to the entity related to the main shareholder who provided the Company loans as convertible notes (see note 12).

In November 2019, ABC 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 ABC and 7.143% of the outstanding share capital of ABC and its subsidiaries on a fully diluted basis (see note 13).

The Company’s business plan for twelve months from the issuance of these consolidated financial statements projects income from operations, positive cash flows and includes the receipt of government funding from the United States of America and the Netherlands discussed above. In the event that one of the lenders recall the loan, the Company has other current available liquidity to ensure the financing of its operations. If the impact of COVID-19 negatively impacts the Company beyond its current forecast, the Company could also receive additional funding in the Netherlands under the NOW program and from Germany. 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.

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

**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.

**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, 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.



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

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

**Restricted Cash (Continued)**

Restricted cash as of December 31, 2018 consists of: (a) \$233 held in a bank account that serves as cash collateral for outstanding letters of credit and (b) \$2,883 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,	
	2019	2018
Cash and cash equivalents	\$ 52,352	\$ 12,801
Restricted cash	2,493	3,116
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	<u>\$ 54,845</u>	<u>\$ 15,917</u>

**Accounts Receivable**

Accounts receivable represent amounts due to the Company for services rendered and are recorded net of an allowance for doubtful accounts. The allowance for doubtful accounts is based on historical collection experience, factors related to a specific customers and current economic trends. The Company writes off accounts receivable against the allowance for doubtful accounts when the balance is determined to be uncollectible. As of December 31, 2019 and 2018, the allowance for doubtful accounts is \$418 and \$240, respectively.

**Investments**

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.

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.

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

**Investments (Continued)**

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

**Property and Equipment**

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

**Goodwill**

Goodwill represents the excess purchase price over the fair value of the net tangible and intangible assets of an acquired business. Goodwill is assessed for impairment by reporting unit on an annual basis or when events or changes in circumstances indicate that the carrying value may not be recoverable. The Company would record a goodwill impairment charge for the difference between the carrying value and the fair value of the goodwill, not to exceed the carrying amount of the goodwill. During the years ended December 31, 2019, 2018 and 2017, the Company recognized a goodwill impairment of \$0, \$1,563 and \$0, respectively (see note 8).

**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, 2019, 2018, and 2017, the Company did not record any impairment charges on its long-lived assets.

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

**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 \$1,493 and \$1,498 as of December 31, 2019 and 2018, 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 \$1,264 and \$1,305 as of December 31, 2019 and 2018, respectively and are included in other assets in the Company's consolidated balance sheets.

**Leases**

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This new standard introduced a number of changes and simplified previous guidance, primarily the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases. The new standard retained the distinction between finance leases and operating leases and the classification criteria between the two types remains substantially similar. Also, lessor accounting remained largely unchanged from previous guidance. However, key aspects of the new standard were aligned with the revenue recognition guidance in Topic 606.

The Company applied the modified retrospective approach without adjusting comparative periods, as of January 1, 2019.

The Company has performed a comprehensive assessment of the impact of the adoption of new lease accounting guidance including reviewing its existing lease contracts, scoping the relevant contracts that include a lease as well as assessing the impact to business processes and related disclosure requirements.

The new 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 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.

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

**Leases (Continued)**

Impact of the new standard

The most significant impact is reflected in: (i) the recognition of approximately \$12,632 ROU assets and \$12,606 lease liabilities on the Company's balance sheet for its operating leases of offices, vehicles and equipment (see table below) and (ii) the requirement to provide significant new disclosures regarding leasing activities and to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. However, the adoption of this standard does not have a material impact on consolidated statements of income and consolidated statements of cash flows (see note 7).

The table below presents the effects on the consolidated statement of financial position as at January 1, 2019, in respect of leases existing as of that date:

	According to the previous accounting policy	The change Dollars in thousands	As presented according to Topic 842
<b>As of January 1, 2019:</b>			
<b>Assets:</b>			
Prepaid expenses	26	(26)	-
Operating leases ROU	-	12,632	12,632
	<u>26</u>	<u>12,606</u>	<u>12,632</u>
<b>Current liabilities:</b>			
Current maturity of lease liabilities	-	2,859	2,859
<b>Non-current liabilities:</b>			
Lease liabilities	-	9,747	9,747

**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.

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

**Contingent Liabilities**

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

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

The Company's comprehensive income (loss) 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 statement of operations.

**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.

As of January 1, 2018, the Company adopted Topic 606 and all subsequent amendments to the ASU, using the modified retrospective approach.

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

**Revenue Recognition (Continued)**

Based on the Company's evaluation process and review of our contracts with customers, the timing and amount of revenue recognized under the new guidance is consistent with our revenue recognition policy under previous guidance. The new guidance has not had a material impact on our results of operations, cash flows or financial condition.

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 in the new accounting guidance 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,		
	2019	2018	2017
Airport Security and Other Aviation Services	\$ 309,548	\$ 329,150	\$ 292,393
Authentication Technology	23,759	16,071	5,289
<b>Total revenues</b>	<b>\$ 333,307</b>	<b>\$ 345,221</b>	<b>\$ 297,682</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,					
	2019		2018		2017	
Germany	\$ 137,207	41%	\$ 134,646	39%	\$ 125,896	42%
The Netherlands	97,700	29%	121,465	35%	103,862	35%
United States	73,719	22%	69,548	20%	54,891	18%
Other countries	24,681	8%	19,562	6%	13,033	5%
<b>Total revenues</b>	<b>\$ 333,307</b>	<b>100%</b>	<b>\$ 345,221</b>	<b>100%</b>	<b>\$ 297,682</b>	<b>100%</b>

**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.

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

**Revenue Recognition (Continued)**

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 client contracts in the material countries are generally long term between three 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, 2019 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 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.



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**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 (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 generally recognize revenue for security guard services. We recognize revenue for security guard 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.

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

**Revenue Recognition (Continued)**

**Practical Expedients and Exemptions**

We generally expense sales commissions when incurred because the amortization period would have been one year or less. These costs are recorded within sales and marketing expenses.

**Deferred Revenues**

We record deferred revenues when cash payments are received or due in advance of our performance. Deferred revenues at December 31, 2019 and 2018 were \$1,652 and \$2,001, respectively shown as part of the accrued expenses and other current liabilities and \$268 and \$111 shown as other liabilities. Revenue recognized for the years ended December 31, 2019, 2018 and 2017 that was included in the deferred revenue at the beginning of each year was \$2,001, \$854 and \$360, 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.

**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, 2019, 2018 and 2017 are \$828, \$528 and \$316, 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 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 income (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, as the effect of including them is anti-dilutive.

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

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

	Year Ended December 31,		
	2019	2018	2017
Shares issuable upon conversion of convertible notes payable to related party at a price of \$0.40	5,000,000	-	-
Shares issuable upon conversion of convertible notes payable to related party at a price of \$1.50	-	14,731,267	16,652,333
Shares issuable upon conversion of accrued interest payable to related party at a price of \$0.75	-	11,779,776	16,815,677
<b>Total</b>	<b>5,000,000</b>	<b>26,511,043</b>	<b>33,468,010</b>

**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.

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

**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, 2019, 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, 2019, cash, cash equivalents and restricted cash of \$249 is being held in the United States of America, of which \$16 is uninsured. Bank accounts located in Europe, Japan and Israel, totaling \$54,596 as of December 31, 2019, 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 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.

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

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.

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

**Risks and Uncertainties (Continued)**

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.

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

**Reclassification**

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

**Recently Issued Accounting Pronouncements**

**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.

**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.

**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.

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**NOTE 3 – BUSINESS COMBINATION (CONTINUED)**

Acquisition in Sweden (Continued)

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	5,787	649
Non current liabilities	1,039	117
<b>Total liabilities assumed</b>	<b>11,742</b>	<b>1,317</b>
	<b>9,501</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 8).

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 8).

Acquisition in Denmark

On July 19, 2017, the Company acquired 100% of the outstanding shares of Harsec A/S (“Harsec”) in Denmark. Harsec provides cargo security services in the Danish airports and is serving international parcel companies. Consideration of the acquisition for the shares was 10,000 Danish Krone (“DKK”) (\$1,579 as of the purchase date) in cash of which 90% was paid upon the signing of the purchase contract and 10% paid three months after that. The acquisition was done in order to expand our services to the Danish market.

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

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

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

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**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, 2019 and 2018 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, 2019, 2018 and 2017 are as follows:

	For the Years Ended December 31,		
	2019	2018	2017
Revenue	\$ -	\$ -	\$ 609
Cost of revenue	-	-	588
<b>GROSS PROFIT</b>	<b>-</b>	<b>-</b>	<b>21</b>
Selling, general and administrative	-	289	116
Net loss	-	(289)	(95)
Less: Net loss attributable to non-controlling interests	-	123	47
<b>LOSS FROM DISCONTINUED OPERATIONS ATTRIBUTABLE TO ICTS INTERNATIONAL N.V.</b>	<b>\$ -</b>	<b>\$ (166)</b>	<b>\$ (48)</b>

**NOTE 5 – INVESTMENTS**

**Artemis Therapeutics, Inc.**

As of December 31, 2019, the Company owns 198,311 shares or 3.8% of the outstanding common stock of Artemis Therapeutics, Inc. (“ATMS”). As of December 31, 2019, 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, 2019 and 2018, 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 at December 31, 2019 and 2018). The market value of the Company’s investment in ATMS as of December 31, 2019 and 2018 is \$10 and \$119, 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.

**White Line B.V.**

In March 2017, the Company invested an amount of \$2,000 in White Line B.V., a limited company incorporated in the Netherlands. White Line is a holding and finance company. Because White Line B.V. is a private, closely-held company, there is no active market for this investment. Therefore, the Company measures the investment at cost minus impairment. In October 2017, the Company invested additional amount of \$1,500 in White Line. The total investment represented 10% of the issued and outstanding share capital of White Line.

The Company had an agreement with an entity related to its main shareholder, according to which, if the value of this investment decrease, the related party entity has guaranteed to repurchase this full investment at a minimum amount of \$3,500. The guaranty is effective after three years of the date of purchase and terminates after five years.



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**NOTE 5 – INVESTMENTS (CONTINUED)**

**White Line B.V. (Continued)**

In December 2018, the Company reached into an agreement with the related party entity in order to preface the sale of the investment. The related party entity purchased the full investment from the Company in December 2018, for \$3,500 in exchange for reduction in the convertible notes payable to a related party.

**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, 2019, the Company’s investment is 381,332 KRW (\$330). For the years ended December 31, 2019 and 2018, the Company recognized a profit in its consolidated statements of operations of 105,092 KRW and 133,550 KRW, respectively (\$91 and \$124 as of December 31, 2019 and 2018, respectively) from its investment in the JVC. In addition, each one of the partners, provided in June 2018 to the JVC a loan of 200,000 KRW in order to fund the working capital of the JVC. The loan bears interest of 1.3% per year. As of December 31, 2019 and 2018, the outstanding balance of the loan was 0 and 200,000 KRW respectively (\$0 and \$180 as of December 31, 2019 and 2018, respectively), shown in the consolidated balance sheets as other assets.

**Mesh Technologies, Inc.**

In January 2019, the Company invested an amount of \$50 in Mesh Technologies, Inc. (“Mesh”), a company incorporated in Delaware, USA. As of December 31, 2019, the investment represented 0.6% 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. The Company uses the equity method for this investment. As the investment in Arrow was acquired at the end of December 2019, the Company did not recognise profit or loss regarding this investment for the year ended December 31, 2019.

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.

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**NOTE 6 - PROPERTY AND EQUIPMENT**

Property and equipment is as follows:

	December 31,	
	2019	2018
Offices, equipment and facilities	\$ 8,866	\$ 7,489
Internal-use software	595	587
Vehicles	1,870	1,912
Leasehold improvements	2,352	1,957
	<u>13,683</u>	<u>11,945</u>
Less: accumulated depreciation and amortization	9,097	7,682
Total property and equipment, net	<u>\$ 4,586</u>	<u>\$ 4,263</u>

Depreciation and amortization expense are \$1,688, \$1,897 and \$1,416 for the years ended December 31, 2019, 2018 and 2017 respectively.

**NOTE 7 - LEASES**

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

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

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**NOTE 7 – LEASES (CONTINUED)**

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

	December 31, 2019
Operating lease ROU assets	\$ <u>10,367</u>
Other current liabilities	\$ 2,725
Operating lease liabilities	7,562
Total operating lease liabilities	\$ <u>10,287</u>

Maturities of operating lease liabilities as of December 31, 2019 were as follows:

Year ending December 31,	
2020	\$ 3,100
2021	2,063
2022	1,660
2023	1,610
2024	1,329
Thereafter	2,121
Total future minimum lease payments	<u>11,883</u>
Less: imputed interest	1,596
Total	\$ <u>10,287</u>

**NOTE 8 – 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:

	2019	2018
Balance as of the beginning of the year:		
Goodwill	\$ 2,220	\$ 1,044
Accumulated impairment losses	(1,525)	-
	<u>695</u>	<u>1,044</u>
Goodwill acquired during the year	-	1,242
Impairment losses	-	(1,563)
Exchange rate effect	(14)	(28)
	681	695
Balance as of the end of the year:		
Goodwill	2,182	2,220
Accumulated impairment losses	(1,501)	(1,525)
	<u>\$ 681</u>	<u>\$ 695</u>

**NOTE 8 – GOODWILL (CONTINUED)**

At December 31, 2019, the Company performed a qualitative assessment to determine if it was more likely than not that the fair value of the reporting units exceeded its carrying value, including goodwill. The qualitative assessment 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. At December 31, 2018, the qualitative assessment indicated that it was more likely than not that the carrying value of the reporting unit exceeded the 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, 2019, 2018 and 2017, the Company recognized impairment charges of \$0, \$1,563 and \$0, 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, Procheck will be closed and the employment of its employees was terminated. The closing costs totaled €8,059 (\$9,219 as of December 31, 2018). 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 (\$215 as of 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.

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 (\$1,007 as of 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 16).

**NOTE 9 – 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 an entity related to the main Shareholder.

In December 2019, the Company replaced the \$500 stand by letter of credit which was provided to the lender by an entity related to the Company's main shareholder to a letter of credit, provided by the Company and with the same terms.

As of December 31, 2019 and 2018, the Company had approximately \$6,475 and \$9,033, respectively, outstanding under line of credit arrangement. As of December 31, 2019 and 2018, the Company had \$3,525 and \$967, 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 (4.76% as of December 31, 2019).

The Company's weighted average interest rate in the United States of America during the years ended December 31, 2019, 2018 and 2017 is 6.51%, 6.0% and 5.64% respectively. The Company is required to maintain a minimum fixed charge coverage ratio. The credit facility expires in October 2021. During the year ended December 31, 2019, the Company was not in compliance of certain financial covenants, and a waiver was obtained from the commercial lender.

**Europe**

The Company has a credit arrangement with a commercial bank, to provide it with up to €12,000 (\$13,453 as of December 31, 2019) in borrowings until further notice. Borrowings under the line of credit bear interest at one-month EURIBOR plus 3.5% with a minimum of 3.5% per annum (3.5% as of December 31, 2019). The Company is also subject to an unused line fee of 0.75% per annum, which is payable quarterly. The line of credit is secured by accounts receivable of five of the Company's European subsidiaries and tangible fixed assets of three of the Company's European subsidiaries. The line of credit cannot exceed 80% of the borrowing base.

In April 2019, the Company amended the line of credit agreement with the commercial bank in order to temporarily increase the line of credit up to €16,000 (\$17,936 as of December 31, 2019) under the same terms and conditions through September 2019.

As of December 31, 2019 and 2018, the Company had €11,872 and €2,207 (\$13,313 and \$2,525 as of December 31, 2019 and 2018), respectively, in outstanding borrowings under the line of credit arrangement.

The Company's weighted average interest rate in Europe during the years ended December 31, 2019, 2018 and 2017, is 3.5%, 3.5% and 3.5% respectively.

In addition to the line of credit arrangement, a guarantee facility of €2,500 (\$2,803 as of December 31, 2019) is provided to the Company by the same commercial bank. As of December 31, 2019 and 2018, the Company had €2,316 and €2,275 (\$2,596 and \$2,603 as of December 31, 2019 and 2018), respectively, of outstanding guarantees under the guarantee facility, which related to leases and performance guarantees for contracts.

As of December 31, 2019, the Company was not in compliance of the covenants of the agreement.

The line of credit agreement expired on December 31, 2019 and it was operating under the old terms and conditions until the renewal in May 2020 (see note 20).

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**NOTE 9 – NOTES PAYABLE – BANKS (CONTINUED)**

**Europe (Continued)**

The Company has an additional credit arrangement in Sweden to provide it with up to 2,000 SEK (\$215 as of December 31, 2019) 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, 2019 and 2018, the Company had 1,115 SEK and 2,955 SEK (\$120 and \$331 as of December 31, 2019 and 2018) respectively in outstanding borrowings under the line of credit facility. The Sweden subsidiary had an over advance of 955 SEK (\$107) at December 31, 2018 which was subsequently repaid.

**NOTE 10 - ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

Accrued expenses and other current liabilities are as follows:

	December 31,	
	2019	2018
Accrued payroll and related costs	\$ 20,662	\$ 21,082
Accrued vacation	6,639	6,647
Accrual for minimum wage increase	-	508
Labor union contribution	2,089	2,197
Severance accrual for Procheck termination	-	7,728
Deferred revenue	1,652	2,001
Other	3,991	2,510
Total accrued expenses and other current liabilities	\$ 35,033	\$ 42,673

**NOTE 11 – LOAN PAYABLE**

In December 2018, the Company entered into an agreement with a financing company to provide it €2,000 (\$2,242 as of December 31, 2019) as a loan until December 2020. The loan can be repaid earlier but not before December 2019. In November 2019, the Company repaid €1,000 (\$1,121 as of December 31, 2019) of the payable loan plus interest calculated through December 2019. The loan bears interest of ten percent per annum. Interest is being paid quarterly.

**NOTE 12 – DEBT TO RELATED PARTIES**

Loan from Related Party

In March 2017, the Company signed a loan agreement with a related party, to provide the Company a loan of \$2,000 for up to one year bearing 7% interest per annum. At December 31, 2019 and 2018, the loan payable to the related party consist of \$0 and \$200, respectively, in principal and \$0 and \$168 respectively in accrued interest. Interest expense related to this loan is \$8 and \$59 for the years ended December 31, 2019 and 2018, respectively.

**NOTE 12 – DEBT TO RELATED PARTIES (CONTINUED)**

Convertible Notes Payable to a Related Party

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

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

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

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

In October 2018, the loan period was extended until June 30, 2020. The terms of the arrangement can be automatically extended for four additional six months periods at the option of the holder.

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 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, ABC Technologies B.V., which happened in July 2019 (see note 13). 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.

The Company's weighted average interest during the years ended December 31, 2019, 2018 and 2017 is 8.30%, 7.70% and 7.27%, respectively.

**NOTE 12 – DEBT TO RELATED PARTIES (CONTINUED)**

Convertible Notes Payable to a Related Party (Continued)

As of December 31, 2019 and 2018, convertible notes payable to this related party consist of \$0 and \$22,097 respectively, in principal and \$2,000 and \$8,835, respectively, in accrued interest.

Note Payable to Related Party

As of December 31, 2019 and 2018, notes payable to this related party consist of \$1,033 and \$0, respectively, in principal and \$505 and \$0, respectively in accrued interest. The principal was repaid in February 2020.

Total interest expense related to these notes is \$1,218, \$2,687 and \$2,706 for the years ended December 31, 2019, 2018 and 2017, respectively.

In June 2020, the Company amended the agreement with the entity related to the main shareholder to extend the period of the notes until June 30, 2021. The maximum amount of the notes will be \$3,500, excluding interest.

**NOTE 13 – REDEEMABLE NON-CONTROLLING INTERESTS**

On July 3, 2019, ABC entered into a Series A Preferred Subscription Agreement (the "Agreement") with TPG Lux 2018 SC I, S.a.r.l ("TPG"), according to which ABC issued 3,000,000 Series A Preferred Shares ("Series A Shares") to TPG for a subscription price of US\$60 million in cash representing approximately 24% of the outstanding share capital of ABC and 23.077% of the fully-diluted share capital of ABC (see note 14). Transaction costs totaled \$4,540 and were deducted from the redeemable non-controlling interests balance.

On November 7, 2019, ABC entered into a Series A and Series A-1 Preferred Subscription Agreement with Oak HC/FT Partners II, L.P. ("Oak"), according to which ABC 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 million in cash representing approximately 7.401% of the outstanding share capital of ABC and 7.143% of the fully-diluted share capital of ABC. 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 ABC.

**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 ABC, 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 ABC: (a) on the written request by any Series A Shareholder; and (b) immediately prior to a qualifying IPO of ABC (being an IPO where the net aggregate gross proceeds to ABC 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).



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

**NOTE 13 – 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 ABC 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 ABC 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 ABC has the right to participate in any new issuance of securities by the ABC, 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, ABC 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, ABC is required to facilitate a sale of ABC within six (6) months after such written request, and thereafter, TPG has the right to require ABC to facilitate a sale or IPO of ABC. 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 ABC'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 ABC's non-traded shares, thus the "net settlement" criteria is not met.

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**NOTE 13 – REDEEMABLE NON-CONTROLLING INTERESTS (CONTINUED)**

**The Preferred Shares Rights (Continued)**

The following table sets forth for the year ended December 31, 2019 the movement in the Redeemable non-controlling interests:

	2019
Balance as of the beginning of the year	\$ -
Sale of ABC Technologies B.V. series A Shares, net	73,520
Net Income	774
Other Comprehensive Income - Translation adjustment	6
Balance as of the end of the year	<u>\$ 74,300</u>

**NOTE 14 – STOCK-BASED COMPENSATION**

ABC'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, 2019, 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.

During the year ended December 31, 2017, the subsidiary granted 62,500 options to certain of its employees at an exercise price of €0.01 per share. The grant date fair value was determined to be immaterial.

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, 2018	290,500	\$ 0.01	
Options granted	-	-	
Options exercised	-	-	
Forfeited	90,000	-	
Options outstanding, end of the year	<u>200,500</u>	\$ 0.01	7.5 years
Options exercisable, as of December 31, 2019	<u>156,625</u>	\$ 0.01	7.5 years

Non-vested options consist of the following:

	Number of options	Weighted average exercise price
Non-vested options, as of December 31, 2018	160,250	\$ 0.01
Granted	-	-
Vested	(61,375)	-
Forfeited	(55,000)	-
Non-vested options, as of December 31, 2019	<u>43,875</u>	\$ 0.01

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**NOTE 14 – STOCK-BASED COMPENSATION (CONTINUED)**

During the years ended December 31, 2019, 2018 and 2017, there were no compensation expenses related to the issuance of stock option plan.

As of December 31, 2019, the Company does not have any unrecognized compensation cost related to stock options granted under the stock option plans.

**NOTE 15 – OTHER EXPENSES, NET**

	Year ended December 31,		
	2019	2018	2017
Interest expense to related parties (see Note 12)	\$ (1,218)	\$ (2,746)	\$ (2,875)
Interest expense and other bank charges	(1,479)	(1,261)	(1,073)
Interest income	151	-	170
Revaluation and related costs reimbursed to related party	(8,139)	-	-
Foreign currency gain (loss)	148	417	(2,450)
Other income	19	4	56
Total other expense, net	<u>\$ (10,518)</u>	<u>\$ (3,586)</u>	<u>\$ (6,172)</u>

**NOTE 16 – INCOME TAXES**

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

	Year Ended December 31,		
	2019	2018	2017
The Netherlands	\$ (11,508)	\$ (13,107)	\$ 1,602
Subsidiaries outside of the Netherlands	5,804	2,728	6,296
Income (loss) before income tax expenses	<u>\$ (5,704)</u>	<u>\$ (10,379)</u>	<u>\$ 7,898</u>

The current income tax expense from subsidiaries outside of the Netherlands is \$1,492, \$548 and \$2,045 for the years ended December 31, 2019, 2018 and 2017, respectively. There was no current income tax expense or benefit for the Netherlands for the years ended December 31, 2019, 2018 and 2017.

The deferred income tax benefit from subsidiaries outside of the Netherlands is \$29, \$87 and \$12 for the years ended December 31, 2019, 2018 and 2017, respectively. There was no deferred income tax expense for the Netherlands for the years ended December 31, 2019, 2018 and 2017.

Tax expenses from subsidiaries in the Netherlands include \$86, \$0 and \$0, for the years ended December 31, 2019, 2018 and 2017, respectively, of tax related to previous years. Tax expenses from subsidiaries outside the Netherlands include \$0, \$224 and \$0 for the years ended December 31, 2019, 2018 and 2017, respectively, of tax related to previous years.

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**NOTE 16 – INCOME TAXES (CONTINUED)**

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

	December 31,	
	2019	2018
<b>Deferred tax assets:</b>		
Operating loss carryforwards	\$ 20,171	\$ 17,627
Capital loss carryforwards	148	143
Allowance for doubtful accounts	14	13
Tax credit carryforwards	560	560
Accrued expenses and other	691	682
<b>Total deferred tax assets</b>	<b>21,584</b>	<b>19,025</b>
<b>Deferred tax liabilities:</b>		
Depreciation of property and equipment	(62)	(111)
	21,522	18,914
Valuation allowance	(21,046)	(18,478)
<b>Deferred tax assets, net</b>	<b>\$ 476</b>	<b>\$ 436</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 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.

In the United States of America, the Tax Cuts and Jobs act of 2017 was signed into law on December 2017. The law includes significant changes to the U.S. corporate income tax system, including a Federal corporate rate reduction from 35% to 21%, limitations on the deductibility of interest expense and limitation on net operating losses generated after December 31, 2017. The re-measurement of deferred tax assets and liabilities due to the corporate rate deduction yielded a reduction in net deferred tax assets of \$4,419 at December 31, 2017, which was offset by a full valuation allowance. The Company does not expect the legislation to have a near term impact on the Company's current taxes because of the expectation of net losses utilization in future years.

As of December 31, 2019, the Company has net operating losses carry forwards of \$43,351 in the Netherlands, which expire in 2020 through 2027. As of December 31, 2019, the Company has net operating loss carry forwards of \$29,415 in the United States of America, which will expire in 2025 through 2037 and \$5,862 in Israel, which do not expire. The ultimate utilization of such net operating loss carry forwards is limited in certain situations.

As of December 31, 2019, the Company has capital loss carry forwards of \$643 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, 2019, 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, 2019 and 2018 the valuation allowance increased by \$2,568 and \$2,577, respectively.

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**NOTE 16 – INCOME TAXES (CONTINUED)**

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

	Year Ended December 31,		
	2019	2018	2017
Effective loss (income) tax benefit from continuing operations at statutory rate	\$ 1,426	\$ 2,595	\$ (1,975)
Rate differential	1,024	682	(545)
Non-deductible expense	(584)	(565)	(131)
Adjustments to prior year tax losses	(429)	(408)	-
Tax rate change-impact on prior years	-	-	(4,472)
Changes in valuation allowance	(2,568)	(2,577)	5,368
Other	(418)	(412)	(278)
Income tax expense from continuing operations	<u>\$ (1,549)</u>	<u>\$ (685)</u>	<u>\$ (2,033)</u>

As of December 31, 2019 and 2018 there are no unrecognized tax benefits. As of December 31, 2019 and 2018, the Company has income tax payable of \$162 and \$1,958, respectively.

The Company files income tax returns in the Netherlands and other foreign jurisdictions. Income tax returns for the tax years 2013 to 2019 are subject to examination in the Netherlands. In the United States of America, Income tax returns for the years 2016 to 2018 are subject to examination. Income tax returns for the tax years 2014 to 2019 are subject to examination in foreign jurisdictions.

**NOTE 17 - RELATED PARTY TRANSACTIONS**

Entities related to two of the Company's Supervisory Board members provide legal services to the Company. Legal expense related to these services is \$46, \$35 and \$47 for the years ended December 31, 2019, 2018 and 2017, respectively. Included in accounts payable on the accompanying consolidated balance sheets is \$1 and \$9 due for these services as of December 31, 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 \$801, \$715 and \$254 for such services for the years ended December 31, 2019, 2018 and 2017, respectively. In addition, since April 2018, the related party serves as a board member of the Company and was paid an amount of \$28 and \$15 as board fees, for the years ended December 31, 2019 and 2018, respectively.

An entity related to the Company's main shareholder provided a letter of credit of \$1,000 to a commercial bank to guarantee a borrowing arrangement on behalf of one of the Company's subsidiaries. In December 2017, the Company agreed with the commercial bank to reduce the letter of credit to \$700. In April 2018, the letter of credit was reduced to \$500. 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 \$106, \$110 and \$95 for such services for the years ended December 31, 2019, 2018 and 2017, respectively.

The Company engages the services of a related party to provide internal audit services. The Company incurred expenses of \$170, \$155 and \$114 for such services for the years ended December 31, 2019, 2018 and 2017, respectively.

**NOTE 17 - RELATED PARTY TRANSACTIONS (CONTINUED)**

The chairman of the board, a related party, receives annual compensation of \$50 for his services as chairman.

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 \$39 and \$103 for such services for the years ended December 31, 2019 and 2018, respectively. In addition, the related party serves as a board member of the Company, and was paid an amount of \$30 and \$15 as board fees, for the years ended December 31, 2019 and 2018, respectively.

In April 2018, the Company issued 3,350,000 shares to certain directors and officers of the Company for a purchase price of \$0.66 per share. In December 2018, additional 750,000 shares were issued to two related parties for a price of \$0.48 per share.

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

In May 2019, the Company engaged the services of Arrow (see note 5) to provide some administrative services. The Company incurred expenses of \$62 for such services for the year ended December 31, 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.

In December 2019, the Company purchased shares and shareholders debt of Arrow for \$1,750 (see note 5).

**NOTE 18 - COMMITMENTS AND CONTINGENCIES**

**Letters of Credit and Guarantees**

As of December 31, 2019 and 2018, the Company has approximately \$733 and \$233, respectively, 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, 2019 and 2018 the Company has €2,316 and €2,275 (\$2,596 and \$2,603 as of December 31, 2019 and 2018, respectively) in outstanding guarantees on its lines of credit arrangement in Europe (see note 9), which relate to leases and performance guarantee for contracts.

**Legal Proceedings**

Claims by former employees

The Company is subject to wrongful termination claims made by certain former employees of one of its European subsidiaries. The aggregate amount of such claims is approximately \$637.

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**NOTE 18 - COMMITMENTS AND CONTINGENCIES (CONTINUED)**

Minimum Wage Increase

In August 2015, the Company was informed about a court decision, which approved an increase to the minimum wage for the city of SeaTac, WA (location of SeaTac Airport). The increase to the minimum wage was originally approved by a vote in King County, WA in 2013 (to be effective January 1, 2014); however, a court ruled that SeaTac employees were excluded from this increase because the airport was under the jurisdiction of the Port of Seattle and not the city of SeaTac. In August 2015, this decision was overturned by the State Supreme Court and, accordingly, the Company is required to increase the minimum wage of its employees at SeaTac Airport according to the court decision, effective January 1, 2014. After the settlements of the legal disputes in 2017 related to the minimum wage increase, the Company was obligated to pay out approximately \$1,628. The accrued amount at December 31, 2018 is \$508 (inclusive of interest amounting to approximately \$263) for the remainder of the settlement and is included in accrued expenses and other current liabilities (see note 10). The Company paid this amount in 2019 and the resulting balance owed at December 31, 2019 is zero.

Termination of contract

Following the termination of the Procheck contract in December 31, 2018, the Company has been negotiating with the customer compensation for the losses accrued as a result of the termination. In December 2019 the Company started a legal procedure in order to settle the disagreement. The proceedings have been completed without material effect to the Company's financials.

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 €3,000 (\$3,363 as of December 31, 2019).

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 \$4,000. 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 (see note 13).

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 (\$2,242 as of December 31, 2019).

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**NOTE 19 – 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 is predominantly involved in the development and sale of authentication security software to financial and other institutions, predominantly in Europe and the United States of America. All inter-segment transactions are eliminated in consolidation. The accounting policies of the segments are the same as the accounting policies of the Company as a whole.

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

	Corporate	Airport Security and Other Aviation Services	Authentication Technology	Total
<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
<b>Year ended December 31, 2017:</b>				
Revenue	\$ -	\$ 292,393	\$ 5,289	\$ 297,682
Depreciation and amortization	46	1,333	37	1,416
Income (loss) from continuing operations	(9,569)	16,078	(644)	5,865
Goodwill	-	1,044	-	1,044
Total assets from continuing operations	4,089	63,742	3,536	71,367



ICTS INTERNATIONAL N.V. AND SUBSIDIARIES  
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**NOTE 19 – 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,		
	2019	2018	2017
Germany	\$ 137,207	\$ 134,646	\$ 125,896
The Netherlands	97,700	121,465	103,862
United States	73,719	69,548	54,891
Other countries	24,681	19,562	13,033
<b>Total</b>	<b>\$ 333,307</b>	<b>\$ 345,221</b>	<b>\$ 297,682</b>

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

	December 31,	
	2019	2018
Germany	\$ 516	\$ 225
The Netherlands	862	1,118
United States	354	624
Other countries	2,854	2,296
<b>Total</b>	<b>\$ 4,586</b>	<b>\$ 4,263</b>

Property and equipment, net, in other countries include \$2,212 and \$1,838 property and equipment in Israel, as of December 31, 2019 and 2018, respectively.

**NOTE 20 - SUBSEQUENT EVENTS**

In 2020, the Company renewed its line of credit facility agreement with the commercial bank. The new arrangement provides it with up to € 12,000 (\$13,355 as of June 1, 2020) in borrowings until 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 six of the Company's European subsidiaries, tangible fixed assets and a bank guarantee of €2,000 provided by the parent company, ICTS International N.V. The line of credit cannot exceed 70% of the borrowing base. As part of the agreement, also the guarantee facility of €2,500 was 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.

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

Valuation and Qualifying Accounts  
 (US \$ in thousands)

	<u>Beginning of year</u>	<u>Charges (credit) 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, 2017	\$ 84	\$ 97	\$ (78)	\$ -	\$ 103
Year ended December 31, 2018	103	303	(166)	-	240
Year ended December 31, 2019	240	261	(83)	-	418
<b>Allowance for net deferred tax assets:</b>					
Year ended December 31, 2017	\$ 21,269	\$ -	\$ -	\$ (5,368)	\$ 15,901
Year ended December 31, 2018	15,901	-	2,577	-	18,478
Year ended December 31, 2019	18,478	-	2,568	-	21,046

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

**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, 2019;
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: June 15, 2020

By: /s/ Rom Shaked

Rom Shaked, Managing Director and Principal Executive Officer

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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, 2019;

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: June 15, 2020

By: /s/ Alon Raich

Alon Raich, 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, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Rom Shaked, Managing Director and Principal Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

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

By: /s/ Rom Shaked

Rom Shaked, Managing Director and Principal Executive Officer

Dated: June 15, 2020

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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, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Alon Raich, 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, Chief Financial Officer

Dated: June 15, 2020

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