

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, 2022

OR

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

For the transition period from to

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

Date of event requiring this shell company report

Commission file number: 0-21388

SENSTAR TECHNOLOGIES LTD.

(Exact Name of Registrant as specified in its charter
and translation of Registrant's name into English)

Israel

(Jurisdiction of incorporation or organization)

10th F. Gibor Sport Tower 7 Menachem Begin Road

Ramat Gan 5268102, Israel

(Address of principal executive offices)

Tomer Hay, Chief Financial Officer

Senstar Technologies Ltd.

10th F. Gibor Sport Tower 7 Menachem Begin Road

Ramat Gan 5268102, Israel

+972-74-794-5200 (phone),

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Ordinary Shares, NIS 1.0 Par Value	SNT	Nasdaq Global Market

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

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

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: 23,309,987 Ordinary shares, par value NIS 1.0 per share, as of December 31, 2022.

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

Yes No

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

Yes No

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

Yes No

Indicate by check mark whether the registrant has submitted electronically 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 such files).

Yes No

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

Large accelerated filer
Non-accelerated filer

Accelerated filer
Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

† The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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

U.S. GAAP

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

Other

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

Item 17 Item 18

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

Yes No

This Annual Report on Form 20-F is incorporated by reference into the Registrant's Registration Statements on Form S-8, File Nos. 333-164696, 333-174127 and 333-190469.

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INTRODUCTION

We are a leading international provider of comprehensive physical, video, and access control security products and solutions. We offer comprehensive solutions for critical sites, which leverage our broad portfolio of homegrown PIDS (Perimeter Intrusion Detection Systems), advanced VMS (Video Management Software) with native IVA (Intelligent Video Analytics) security solutions, as well as access control products and technologies.

Based on our multi-decade industry experience and interaction with customers, we have developed a comprehensive set of solutions and products, optimized for perimeter, outdoor, and general security applications. Our broad portfolio of critical infrastructure protection and site protection technologies includes a variety of smart barriers and fences, fence mounted sensors, virtual gates, buried and concealed detection systems, and sophisticated sensors for sub-surface intrusion such as to secure pipelines, as well as advanced video analytics software and video management systems. We have successfully installed customized solutions and products in more than 100 countries worldwide.

On June 30, 2021, we completed the sale of our Integration Solution Division to Aeronautics Ltd., a subsidiary of RAFAEL Advanced Defense Systems Ltd., in a share and asset purchase agreement for a total consideration of \$35 million in cash, on a cash-free, debt-free basis. As part of the acquisition, Aeronautics acquired our facility in Yehud, Israel.

Following the sale of the Integrated Solutions (Project) Division, we changed our name to Senstar Technologies Ltd. (formerly known as Magal Security Systems Ltd.) and focused our business on providing comprehensive physical, video and access control security products and solutions, with development and manufacturing facilities located in Canada and sales and support offices in the US, EMEA, China and APAC regions as well as in Canada.

Our ordinary shares are traded on the NASDAQ Global Market under the symbol "SNT." Our website is www.senstartechnologies.com. The information on our website is not incorporated by reference into this annual report. As used in this annual report, the terms "we," "us," "our," and "Senstar" mean Senstar Technologies Ltd. and its subsidiaries, unless otherwise indicated.

AIMETIS SYMPHONY, FIBERPATROL, FLARE, FLEXPI, FLEXZONE, OMNITRAX, PINPOINTER, SENNET, SENSTAR, SENTIENT, ULTRAWAVE and XFIELD are our registered trademarks.

ARMOURFLEX, ENTERPRISE MANAGER, INTELLI-FLEX, INTELLIFIBER, LM100, NETWORK MANAGER, STARLED, STARNET, SENSTAR CARE, SENSTAR logo, SENSTAR SYMPHONY, SENSTAR SAFE SPACES and SENSTAR SENSOR FUSION, and all other marks used to identify particular products and services associated with our businesses are trademarks. Any other trademarks and trade names appearing in this annual report are owned by their respective holders.

Our consolidated financial statements appearing in this annual report are prepared in U.S. dollars and in accordance with generally accepted accounting principles in the United States, or U.S. GAAP. All references in this annual report to "dollars" or "\$" are to U.S. dollars, all references to "NIS" are to New Israeli Shekels and all references to "CAD" are to Canadian dollars.

Statements made in this annual report concerning the contents of any contract, agreement or other document are summaries of such contracts, agreements or documents and are not complete descriptions of all of their terms. If we filed any of these documents as an exhibit to this annual report or to any registration statement or annual report that we previously filed, you may read the document itself for a complete description of its terms.

This Annual Report on Form 20-F contains various "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and within the Private Securities Litigation Reform Act of 1995, as amended. Such forward-looking statements reflect our current view with respect to future events and financial results. Forward-looking statements usually include the verbs, "anticipates," "believes," "estimates," "expects," "intends," "plans," "projects," "understands" and other verbs suggesting uncertainty. We remind readers that forward-looking statements are merely predictions and therefore inherently subject to uncertainties and other factors and involve known and unknown risks that could cause the actual results, performance, levels of activity, or our achievements, or industry results, to be materially different from any future results, performance, levels of activity, or our achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. We have attempted to identify additional significant uncertainties and other factors affecting forward-looking statements in the Risk Factors section which appears in Item 3.D "Key Information -- Risk Factors."

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

A. [Reserved]

B. Capitalization and Indebtedness.

Not applicable.

C. Reasons for the Offer and Use of Proceeds.

Not applicable.

D. Risk Factors.

Investing in our ordinary shares involves a high degree of risk and uncertainty. You should carefully consider the risks and uncertainties described below before investing in our ordinary shares. If any of the following risks actually occurs, our business, prospects, financial condition and results of operations could be harmed. In that case, the value of our ordinary shares could decline, and you could lose all or part of your investment. These risks include, but are not limited to, the following:

Risks Related to Macroeconomic Conditions

- Our operations have been negatively impacted by the global supply-chain challenges.
- Our business, financial condition, results of operations, and cash flow may in the future be negatively impacted by challenging global economic conditions.
- The continuing effects of the COVID-19 pandemic are highly unpredictable and could be significant, and the duration and extent to which this will impact our future results of operations and overall financial performance remains uncertain.

Risks Related to Our Business and Our Industry

- While we were profitable in 2022, we have incurred major losses in past years and may not operate profitably in the future.
- Our operating results may fluctuate from quarter to quarter and year to year.
- Our financial results may be significantly affected by currency fluctuations.
- We may make additional acquisitions in the future that could disrupt our operations and harm our operating results.
- Our revenues depend in great measure on government procurement procedures and practices. A substantial decrease in our end-user's budgets would adversely affect our results of operations.
- Because competition in our industry is intense, our business, operating results and financial condition may be adversely affected.
- Our business involves significant risks and uncertainties that may not be covered by indemnities or insurance.
- The markets for our products may be affected by changing technology, requirements, standards and products, and we may be adversely affected if we do not respond promptly and effectively to these changes.
- Increasing scrutiny and changing expectations with respect to our ESG policies may impose additional costs on us or expose us to additional risks.
- Our failure to retain and attract personnel could harm our business, operations and product development efforts.
- We face risks associated with doing business in international markets.
- Our failure to comply with anti-corruption laws and regulations could adversely affect our reputation, business, financial condition and results of operations.
- We may be vulnerable to physical and electronic security breaches and cyber-attacks which could disrupt our operations and have a material adverse effect on our financial performance and operating results.
- We may not be able to protect our proprietary technology and unauthorized use of our proprietary technology by third parties may impair our ability to compete effectively.
- Claims that our products infringe upon the intellectual property of third parties may require us to incur significant costs, enter into licensing agreements or license substitute technology.
- Undetected defects in our products may increase our costs and harm the market acceptance of our products.
- If suppliers terminate our arrangements with them, or amend them in a manner detrimental to us, we may experience delays in production and implementation of our products and our business may be adversely affected.
- We currently benefit from government programs and tax benefits that may be discontinued or reduced in the future, which would increase our future tax expenses.
- We may fail to maintain effective internal control over financial reporting, which could result in material misstatements in our financial statements.
- We may be adversely affected by regulations and market expectations related to sourcing and our supply chain, including conflict minerals.

Risks Relating to Our Ordinary Shares

- Volatility of the market price of our ordinary shares could adversely affect our shareholders and us.
- We may not pay additional dividends in the future.
- As a foreign private issuer whose shares are listed on the NASDAQ Global Market, we may follow certain home country corporate governance practices instead of certain NASDAQ requirements.
- We may in the future be classified as a passive foreign investment company, or PFIC, which would subject our U.S. investors to adverse tax rules.

Risks Relating to Our Location in Israel

- Political, economic and military instability in Israel may negatively affect our business condition, harm our results of operations and adversely affect our share price.
- The rights and responsibilities of the shareholders are governed by Israeli law and differ in some respects from the rights and responsibilities of shareholders under U.S. law.
- Provisions of Israeli law may delay, prevent or make difficult a change of control and therefore depress the price of our shares.
- Our shareholders generally may have difficulties enforcing a U.S. judgment against us, our executive officers and directors and some of the experts named in this annual report or asserting U.S. securities law claims in Israel.

Risks Related to Macroeconomic Conditions

Our operations have been negatively impacted by the global supply-chain challenges.

Our operations have been negatively affected by the worldwide shortage of various materials and sub-components required to produce certain of our products. This negative effect continue influence us in 2022. We are monitoring the impact of the supply chain shortage against our ongoing and forecasted manufacturing requirements, while implementing various procurement methodologies to meet current and forecasted demand for our products. Our ability to continue meeting the demand for our products is dependent among others, on our ability to maintain an effective procurement plan support from our suppliers, and when needed establish a contractual relationship with alternative suppliers. Our failure to do so, or continued increases in goods prices, could have a material adverse effect on our business.

Our business, financial condition, results of operations, and cash flow may in the future be negatively impacted by challenging global economic conditions.

Future disruptions and volatility in global financial markets and declining customer and business confidence could lead to decreased levels of spending. These macroeconomic developments could negatively impact our business, which depends on the general economic environment and levels of sales. As a result, we may not be able to maintain our existing customer relationships or attract new customers. We are unable to predict the likelihood of the occurrence, duration, or severity of such disruptions in the credit and financial markets and adverse global economic conditions. Any general or market-specific economic downturn could have a material adverse effect on our business, financial condition, results of operations, and cash flow.

Additionally, natural disasters, such as earthquakes, hurricanes, tornadoes, floods, and other adverse weather and climate conditions; public health crises, such as pandemics and epidemics; political crises, such as terrorist attacks, war, and other political instability, such as the invasion of Ukraine by Russia and the conflict in the region; or other catastrophic events, whether occurring in North America or globally, have and could continue to disrupt our operations or the operations of one or more of our suppliers and vendors. To the extent any of these events occur, our business and results of operations could be adversely affected.

The conflict between Russia and Ukraine could lead to disruption, instability and volatility in global markets and industries that could negatively impact our supply chain. The U.S. government and other governments have already imposed severe sanctions and export controls against Russia and Russian interests and may impose additional sanctions and controls. The impact of these measures, as well as potential responses to them by Russia, could adversely affect our supply chain, which, in turn, could affect our business and operating results.

If tariffs or other restrictions are placed by the United States or Canada on imports from China or other emerging markets, or any related countermeasures are taken, our business, financial condition, results of operations and growth prospects may be harmed. Tariffs may increase our cost of goods, which could result in lower gross margin on certain of our products. If we raise prices to account for any such increase in costs of goods, the competitiveness of the affected products could potentially be reduced. In either case, increased tariffs on imports from China or other countries could materially and adversely affect our business, financial condition and results of operations. Trade restrictions and sanctions implemented by the United States or other countries could materially and adversely affect our business, financial condition and results of operations.

Rising interest rates, higher inflation, fluctuations in currency values, supply chain disruptions and the conflict between Russia and Ukraine have resulted in significant economic disruption and adversely impacted the broader global economy, including our customers and suppliers. Given the dynamic and uncertain nature of the current environment, we cannot reasonably estimate the impact of such developments on our financial condition, results of operations or cash flows into the foreseeable future. The ultimate extent of the effects of these developments remain highly uncertain, and such effects could exist for an extended period of time.

The Inflation Reduction Act of 2022 (the "IRA") was signed into law in August 2022. The IRA is federal legislation designed to raise revenue from, among other things, the imposition of certain corporate tax measures, while authorizing spending on energy and climate change initiatives and subsidizing the Affordable Care Act. The IRA also introduced a 1% excise tax on certain corporate stock buybacks, which would impose a nondeductible 1% excise tax on the fair market value of certain stock that is "repurchased" during the taxable year by a publicly traded U.S. corporation or acquired by certain of its subsidiaries. Management continues to monitor any potential impact of the IRA on our results. No immediate or direct effect from the legislation has had a material impact on our results at this time.

The continuing effects of the COVID-19 pandemic are highly unpredictable and could be significant, and the duration and extent to which this will impact our future results of operations and overall financial performance remains uncertain.

During the years 2020 and 2021 the COVID-19 pandemic had an adverse effect on our industry and the markets in which we operate. During that time, the COVID-19 outbreak significantly impacted our sales. We also experienced postponed and delayed orders in certain areas of our businesses. Further, the guidance of social distancing, lockdowns, quarantines and the requirements to work from home in various key territories such as Canada, United States, APAC, EMEA and other countries, in addition to greatly reduced travel globally, resulted in a substantial curtailment of business activities, which affected our ability to deliver products and services in the areas where restrictions were implemented by the local governments. In addition, certain of our sales and support teams were unable to travel or meet with customers and the pandemic threat caused operating, manufacturing, supply chain and project development delays and disruptions, labor shortages, travel and shipping disruptions and shutdowns (including as a result of government regulation and prevention measures). As a result, we experienced a reduction in business in 2020. The regression of the pandemic during 2022, followed by lifting of travel restrictions and social distancing regulations, except in APAC, led to some recovery in our business. In the twelve months ended December 31, 2022, our revenue was \$35.6 million, compared to \$34.9 million in the comparable period of 2021, and \$33.4 million in the comparable period of 2020.

The potential long-term impact and duration of the COVID-19 pandemic on the global economy and our business continue to be difficult to assess or predict. Related public health and safety measures have resulted in significant social disruption and have had an adverse effect on economic conditions and spending, inflation, interest rates, and business investment, all of which have affected our business. Moreover, we may also experience business disruption if the operations of our contractors, vendors or business partners are adversely affected.

Risks Related to Our Business and Our Industry

While we were profitable in 2022, we have incurred major losses in past years and may not operate profitably in the future.

While we reported an operating profit from continuing operations of \$1.5 million and net income attributable to our shareholders of \$3.8 million in the year ended December 31, 2022, we have incurred losses in the past. We may not be able to sustain profitable operations in the future due to a number of factors, including global supply-chain challenges and other economic conditions. If we do not generate sufficient cash from operations, we will be required to obtain financing or reduce our level of expenditure or cash balance. Such financing may not be available in the future, or, if available, may not be on terms favorable to us. If adequate funds are not available to us, our business, results of operations and financial condition will be materially and adversely affected.

Our operating results may fluctuate from quarter to quarter and year to year.

Our sales and operating results may vary significantly from quarter to quarter and from year to year in the future. Our operating results are characterized by a seasonal pattern, with a higher volume of revenues towards the end of the year and lower revenues in the first part of the year. In addition, our operating results are affected by a number of factors, many of which are beyond our control. Factors contributing to these fluctuations include the following:

- changes in customers' or potential customers' budgets as a result of, among other things, government funding and procurement policies;
- changes in demand for our existing products and services;

- our long and variable sales cycle;
- our ability to maintain sales volumes at a level sufficient to cover fixed manufacturing and operating costs;
- the timing of the introduction and market acceptance of new products, product enhancements and new applications.

Our expense levels are based, in part, on expected future sales. If the level of sales in a particular quarter does not meet expectations, we may be unable to adjust operating expenses quickly enough to compensate for the shortfall of sales, and our results of operations may be adversely affected. Due to these and other factors, we believe that quarter to quarter and year to year comparisons of our past operating results may not be meaningful. You should not rely on our results for any quarter or year as an indication of our future performance. Our operating results in future quarters and years may be below expectations, which would likely cause the price of our ordinary shares to fall. Moreover, the presentation of our 2022 and 2021 and historical results in this report differs from previous annual reports, as it excludes the results of our previously owned Integrated Solutions (Projects) division, sold to Aeronautics Ltd.

Our financial results may be significantly affected by currency fluctuations.

Most of our sales are made in North America, APAC and Europe. Our revenues are primarily denominated in Dollars and Euros while a portion of our expenses, primarily labor expenses, is incurred in New Israeli Shekels and Canadian Dollars. As a result, fluctuations in rates of exchange between the dollar and non-dollar currencies may affect our operating results and financial condition. The dollar cost of our operations in Canada may be adversely affected by the appreciation of the CAD against the dollar. Further, the dollar cost of our operations in Israel may be adversely affected by the appreciation of the NIS against the dollar. In addition, the value of our non-dollar revenues could be adversely affected by the depreciation of the dollar against such currencies. Our financial expenses may also be adversely affected by the depreciation of a currency in which we maintain our monetary assets.

We recorded a foreign exchange gain, net of \$0.4 million in the year ended December 31, 2022 and foreign exchange losses, net of \$1 million and \$1 million in the years ended December 31, 2021 and 2020, respectively. This is due to the adjustment of monetary assets and liabilities, denominated in currencies, other than the functional currency of the operational entities in the group. At the end of each period, a change in currency valuation of monetary assets and liabilities is recorded as a non-cash financial expense or income. The Israeli Shekel appreciated by 13.2% against the U.S. dollar in 2022 and depreciated by 3.3% and 7.0% against the U.S. dollar in 2021 and 2020, respectively. We may incur exchange losses in the future which may materially affect our operating results.

We may make acquisitions in the future that could disrupt our operations and harm our operating results.

We have made a number of acquisitions in the past and may continue to do so in the future. Future acquisitions by us could result in potentially dilutive issuances of our equity securities, the incurrence of debt and contingent liabilities and amortization expenses related to identifiable intangible assets, any of which could materially adversely affect our operating results and financial position. Acquisitions also involve other risks, including risks inherent in entering markets in which we have limited or no prior experience.

Mergers and acquisitions of companies are inherently risky and subject to many factors outside of our control and no assurance can be given that our future acquisitions will be successful and will not adversely affect our business, operating results, or financial condition. In the future, we may seek to acquire or make strategic investments in complementary businesses, technologies, services or products, or enter into strategic partnerships or alliances with third parties in order to expand our business. Failure to manage and successfully integrate such acquisitions could materially harm our business and operating results. Prior acquisitions have resulted in a wide range of outcomes, from successful introduction of new products technologies and professional services to a failure to do so. Even when an acquired company has previously developed and marketed products, there can be no assurance that new product enhancements will be made in a timely manner or that pre-acquisition due diligence will have identified all possible issues that might arise with respect to such products. If we acquire other businesses, we may face difficulties, including:

- Difficulties in integrating the operations, systems, technologies, products, and personnel of the acquired businesses or enterprises;
- Diversion of management's attention from normal daily operations of the business and the challenges of managing larger and more widespread operations resulting from acquisitions;
- Integrating financial forecasting and controls, procedures and reporting cycles;
- Difficulties in entering markets in which we have no or limited direct prior experience and where competitors in such markets have stronger market positions;
- Insufficient revenue to offset increased expenses associated with acquisitions; and
- The potential loss of key employees, customers, distributors, vendors and other business partners of the companies we acquire following and continuing after announcement of acquisition plans.

Our revenues depend in great measure on government procurement procedures and practices. A substantial decrease in our end-users' budgets would adversely affect our results of operations.

Our products are primarily sold, mainly indirectly, to governmental agencies, governmental authorities and government-owned companies, many of which have complex and time-consuming procurement procedures. A substantial period of time often elapses from the time we begin marketing a product until we actually sell that product to a particular end-user. In addition, our sales to governmental agencies, authorities and companies are directly affected by these customers' budgetary constraints and the priority given in their budgets to the procurement of our products. A decrease in governmental funding for our end-users' budgets would adversely affect our results of operations. This risk is heightened during periods of global economic slowdown.

Accordingly, governmental purchases of our systems, products and services may decline in the future as the governmental purchasing agencies may terminate, reduce or modify contracts or subcontracts if:

- their requirements or budgetary constraints change;
- they cancel multi-year contracts and related orders if funds become unavailable;
- they shift spending priorities into other areas or for other products;

Any such event may have a material adverse effect on us.

Because competition in our industry is intense, our business, operating results and financial condition may be adversely affected.

The global market for security, safety, site management solutions and products are highly fragmented and intensely competitive. We compete principally in the market for perimeter intrusion detection systems, or PIDS, Video Management Software, or VMS, Intelligent Video Analytics, or IVA. Some of our competitors and potential competitors have greater research, development, financial and personnel resources, including governmental support, as well as established greater penetration into certain vertical markets or geographical market segments. We cannot assure you that we will be able to compete effectively relative to our competitors or continue to develop and market new products effectively. Continued competitive pressures could cause us to lose significant market share or erode profitability margins.

Our business involves significant risks and uncertainties that may not be covered by indemnity or insurance.

A significant portion of our business relates to designing, developing, and manufacturing advanced security, systems and products. New technologies may be untested or unproven. Failure of some of these products and services could result in extensive loss of life or property damage. Accordingly, we also may incur liabilities that are unique to our products and services. In some, but not all circumstances, we may be entitled to certain legal protections or indemnifications from our customers, either through regulatory protections, contractual provisions or otherwise. The amount of insurance coverage that we maintain may not be adequate to cover all claims or liabilities, and it is not possible to obtain insurance to protect against all operational risks and liabilities.

Substantial claims resulting from an accident, failure of our products or services, or other incident, or liability arising from our products and services in excess of any indemnity and our insurance coverage (or for which indemnity or insurance is not available or not obtained) could adversely impact our financial condition, cash flows, or operating results. Any accident, even if fully indemnified or insured, could negatively affect our reputation among our customers and the public, and make it more difficult for us to compete effectively. It also could affect the cost and availability of adequate insurance in the future.

The markets for our products may be affected by changing technology, requirements, standards and products, and we may be adversely affected if we do not respond promptly and effectively to these changes.

The markets for our products may be affected by evolving technologies, changing industry standards, changing regulatory environments, new product introductions and changes in customer requirements. The introduction of products embodying new technologies and the emergence of new industry standards and practices can render existing products obsolete and unmarketable. Our future success will depend on our ability to enhance our existing products and to develop and introduce, on a timely and cost-effective basis, new products and product features that keep pace with technological developments and emerging industry standards. In the future:

- we may not be successful in developing and marketing new products or product features that respond to technological change or evolving industry standards;
- we may experience difficulties that could delay or prevent the successful development, introduction and marketing of these new products and features; or
- our new products and product features may not adequately meet the requirements of the marketplace and achieve market acceptance.

If we are unable to respond promptly and effectively to changing technologies and market requirements, we will be unable to compete effectively in the future.

Increasing scrutiny and changing expectations from investors, lenders, customers and other market participants with respect to our Environmental, Social and Governance, or ESG, policies may impose additional costs on us or expose us to additional risks.

Companies across all industries are facing increasing scrutiny relating to their ESG policies. Investors, lenders and other market participants are increasingly focused on ESG practices and in recent years have placed increasing importance on the implications and social cost of their investments. The increased focus and activism related to ESG may hinder our access to capital, as investors and lenders may reconsider their capital investment allocation as a result of their assessment of our ESG practices. If we do not adapt to or comply with investor, lender or other industry shareholder expectations and standards, which are evolving, or if we are perceived to have not responded appropriately to the growing concern for ESG issues, regardless of whether there is a legal requirement to do so, we may suffer from reputational damage and the business, financial condition and the price of our company's shares could be materially and adversely affected.

Our failure to retain and attract personnel could harm our business, operations and product development efforts.

Our products require sophisticated research and development, marketing and sales and technical customer support. Our success depends on our ability to attract, train and retain qualified research and development, marketing and sales and technical customer support personnel. Competition for personnel in all of these areas is intense and we may not be able to hire adequate personnel to achieve our goals or support the anticipated growth in our business. Competition may be amplified by evolving restrictions on immigration, travel, or availability of visas for skilled technology workers. If we fail to attract and retain qualified personnel, our business, operations and product development efforts would suffer.

We face risks associated with doing business in international markets.

A large portion of our sales is to markets outside of Israel and Canada. For the years ended December 31, 2022, 2021 and 2020 approximately 87.2%, 93.3% and 93.1% respectively, of our revenues were derived from sales to markets outside of Israel and Canada. A key component of our strategy is to continue to expand in such international markets. Our international sales efforts are affected by costs associated with the shipping of our products and risks inherent in doing business in international markets, including:

- different and changing regulatory requirements in the jurisdictions in which we currently operate or may operate in the future;
- fluctuations in foreign currency exchange rates;
- export restrictions, tariffs and other trade barriers;
- difficulties in staffing, managing and supporting foreign operations;
- longer payment cycles;
- difficulties in collecting accounts receivable;
- political and economic changes, hostilities and other disruptions in regions where we currently sell our products or may sell our products in the future; and
- seasonal changes in business activity.

Negative developments in any of these areas in one or more countries could result in a reduction in demand for our products, the cancellation or delay of orders already placed, difficulty in collecting receivables, and a higher cost of doing business, any of which could adversely affect our business, results of operations or financial condition.

Our international operations require us to comply with anti-corruption laws and regulations of various governments and different international jurisdictions, and our failure to comply with these laws and regulations could adversely affect our reputation, business, financial condition and results of operations.

Doing business on a worldwide basis requires us and our subsidiaries to comply with the laws and regulations of various governments and different international jurisdictions, and our failure to successfully comply with these rules and regulations may expose us to liabilities. These laws and regulations apply to companies, individual directors, officers, employees and agents, and may restrict our operations, trade practices, investment decisions and partnering activities. In particular, as a company registered with the Securities and Exchange Commission, or the SEC, we are subject to the regulations imposed by the Foreign Corrupt Practices Act, or FCPA. The FCPA prohibits us from providing anything of value to foreign officials for the purposes of influencing official decisions or obtaining or retaining business or otherwise obtaining favorable treatment and requires companies to maintain adequate record-keeping and internal accounting practices to accurately reflect the transactions of the company. As part of our business, we deal with state-owned business enterprises, the employees and representatives of which may be considered foreign officials for purposes of the FCPA. If our efforts to screen third-party agents and detect cases of potential misconduct fail, we could be held responsible for the noncompliance of these third parties under applicable laws and regulations, which may have a material adverse effect on our reputation and our business, financial condition and results of operations. In addition, some of the international locations in which we operate lack a developed legal system and have elevated levels of corruption. As a result of the above activities, we are exposed to the risk of violating anti-corruption laws. We have established policies and procedures designed to assist us and our personnel to comply with applicable U.S. and international laws and regulations. However, there can be no assurance that our policies and procedures will effectively prevent us from violating these regulations in every transaction in which we may engage, and such a violation could adversely affect our reputation, business, financial condition and results of operations.

We may be vulnerable to physical and electronic security breaches and cyber-attacks which could disrupt our operations and have a material adverse effect on our financial performance and operating results.

A party who is able to compromise the security measures on our networks or the security of our infrastructure could, among other things, misappropriate our proprietary information and the personal information of our customers and employees, cause interruptions or malfunctions in our or our customers' operations, cause delays or interruptions to our ability to meet customer needs, cause us to breach our legal, regulatory or contractual obligations, create an inability to access or rely upon critical business records or cause other disruptions in our operations. These breaches may result from human errors, equipment failure, or fraud or malice on the part of employees or third parties. Our exposure to cybersecurity threats and negative consequences of cybersecurity breaches will likely increase as we store increasing amounts of customer data. Additionally, as we increasingly market the security features in our data centers, our data centers may be targeted by computer hackers seeking to compromise data security.

We have experienced and defended against certain threats to our systems and security (such as phishing attempts), none have had a material adverse effect on our business or operations to date. However, we could incur significant costs in order to investigate and respond to future attacks, to respond to evolving regulatory oversight requirements, to upgrade our cybersecurity systems and controls, and to remediate security compromise or damage. In response to past threats and attacks, we have implemented further controls and planned for other preventative actions to further strengthen our systems against future attacks. However, we cannot assure you that such measures will provide absolute security, that we will be able to react in a timely manner, or that our remediation efforts following past or future attacks will be successful. Consequently, our financial performance and results of operations would be materially adversely affected.

In the event of a breach resulting in loss of data, such as personally identifiable information or other such data protected by data privacy or other laws, we may be liable for damages, fines and penalties for such losses under applicable regulatory frameworks despite not handling the data. Furthermore, if a high-profile security breach or cyber-attack occurs with respect to another provider of mission-critical data center facilities, our customers and potential customers may lose trust in the security of these business models generally, which could harm our reputation and brand image as well as our ability to retain existing customers or attract new ones. In addition, the regulatory framework around data custody, data privacy and breaches varies by jurisdiction and is an evolving area of law. We may not be able to limit our liability or damages in the event of such a loss.

We may not be able to protect our proprietary technology and unauthorized use of our proprietary technology by third parties may impair our ability to compete effectively.

Our success and ability to compete depend in large part upon protecting our proprietary technology. We have four patents and have one patent applications pending. We also rely on a combination of trade secret and copyright law and confidentiality, non-disclosure and assignment-of-inventions agreements to protect our proprietary technology. It is our policy to protect our proprietary rights in our products and operations through contractual obligations, including confidentiality and non-disclosure agreements with certain employees, distributors and agents, suppliers and subcontractors. These measures may not be adequate to protect our technology from third-party infringement, and our competitors may independently develop technologies that are substantially equivalent or superior to ours. Additionally, our products may be sold in foreign countries that provide less protection to intellectual property than that provided under U.S., Canadian or Israeli laws.

Claims that our products infringe upon the intellectual property of third parties may require us to incur significant costs, enter into licensing agreements or license substitute technology.

Third parties may in the future assert infringement claims against us or claims asserting that we have violated a patent or infringed upon a copyright, trademark or other proprietary right belonging to them. Any infringement claim, even one without merit, could result in the expenditure of significant financial and managerial resources to defend against the claim. In addition, we purchase components for our products from independent suppliers. Certain of these components contain proprietary intellectual property of these independent suppliers. Third parties may in the future assert claims against our suppliers that such suppliers have violated a patent or infringed upon a copyright, trademark or other proprietary right belonging to them. If such infringement by our suppliers or us were found to exist, a party could seek an injunction preventing the use of their intellectual property. Moreover, a successful claim of product infringement against us or a settlement could require us to pay substantial amounts or obtain a license to continue to use such technology or intellectual property. Infringement claims asserted against us could have a material adverse effect on our business, operating results and financial condition.

Undetected defects in our products may increase our costs and harm the market acceptance of our products.

Despite our regular quality assurance testing, the development, enhancement and implementation of our complex systems entail substantial risks of product defects or failures. Undetected errors or “bugs” may be found in existing or new products, resulting in delays, loss of revenues, warranty expense, loss of market share, failure to achieve market acceptance, adverse publicity, product returns, loss of competitive position or claims against us by customers. Any such problems could be costly to remedy and could cause interruptions, delays, or cessation of our product sales, which could cause us to lose existing or prospective customers and could negatively affect our results of operations. Moreover, the complexities involved in implementing our systems entail additional risks of performance failures. We may encounter substantial difficulties due to such complexities which could have a material adverse effect upon our business, financial condition and results of operations.

If suppliers terminate our arrangements with them, or amend them in a manner detrimental to us, we may experience delays in production and implementation of our products and our business may be adversely affected.

We acquire most of the components utilized in our products, from a limited number of suppliers. We may not be able to obtain such items from these suppliers in the future or we may not be able to obtain them on satisfactory terms. Temporary disruptions of our manufacturing operations would result if we were required to obtain materials from alternative sources, which may have an adverse effect on our financial results.

We currently benefit from government programs and tax benefits that may be discontinued or reduced in the future, which would increase our future tax expenses.

We benefit from tax credits pursuant to the Scientific Research and Experimental Development Tax Incentive Program in Canada, and from research grant programs such as the “Industrial Research Assistance Program” (IRAP).

If we fail to comply with the conditions imposed by the Canadian tax program in the future, the benefits we receive could be cancelled and we could be required to refund any payments previously received under these programs, including any accrued interest, or pay increased taxes or royalties. Canadian research grant programs are dependent on the Government’s continued commitment to support R&D, on availability of funding, and may be more difficult to realize or may not be available in the future. Such a result would adversely affect our results of operations and financial condition.

If the Canadian government resolves to end these programs and benefits, our business, financial condition, results of operations and net income could be materially adversely affected.

We may fail to maintain effective internal control over financial reporting, which could result in material misstatements in our financial statements.

The Sarbanes-Oxley Act of 2002 imposes certain duties on us and our executives and directors. Our efforts to comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 governing internal controls and procedures for financial reporting have resulted in increased general and administrative expense and a diversion of management time and attention, and we expect these efforts to require the continued commitment of significant resources. Section 404 of the Sarbanes-Oxley Act requires management’s annual review and evaluation of our internal control over financial reporting in connection with the filing of the annual report on Form 20-F for each fiscal year. We may identify material weaknesses or significant deficiencies in our internal control over financial reporting. Failure to maintain effective internal control over financial reporting could result in material misstatements in our financial statements. Any such failure could also adversely affect the results of our management’s evaluations and annual auditor reports regarding the effectiveness of our internal control over financial reporting. We have documented and tested our internal control systems and procedures in order for us to comply with the requirements of Section 404. While our assessment of our internal control over financial reporting resulted in our conclusion that as of December 31, 2022, our internal control over financial reporting was effective, we cannot predict the outcome of our testing in future periods. If we fail to maintain the adequacy of our internal controls, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting. Failure to maintain effective internal control over financial reporting could result in investigation or sanctions by regulatory authorities and could have a material adverse effect on our operating results, investor confidence in our reported financial information and the market price of our ordinary shares.

Regulations related to “conflict minerals” may force us to incur additional expenses, may make our supply chain more complex and may result in damage to our reputation with customers.

Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, the Securities and Exchange Commission, or the SEC, has adopted requirements for companies that use certain minerals and metals, known as conflict minerals, in their products, whether or not these products are manufactured by third parties. These requirements require companies to perform due diligence, disclose and report whether or not such minerals originate from the Democratic Republic of the Congo and adjoining countries. These requirements could adversely affect the sourcing, availability and pricing of minerals used in the manufacture of our products. While these requirements continue to be subject to administrative uncertainty, we have incurred, and may continue to incur, costs to comply with the disclosure requirements, including costs related to determining the source of any of the relevant minerals and metals used in our products. Since our supply chain is complex, we may not be able to sufficiently verify the origins for these minerals and metals used in our products through the due diligence procedures that we implement, which may harm our reputation. In such event, we may also face difficulties in satisfying customers who require that all of the components of our products are certified as conflict mineral free.

Risks Relating to Our Ordinary Shares

Volatility of the market price of our ordinary shares could adversely affect our shareholders and us.

The market price of our ordinary shares has been, and is likely to be, highly volatile and could be subject to wide fluctuations in response to numerous factors, including the following:

- actual or anticipated variations in our quarterly operating results or those of our competitors;
- announcements by us or our competitors of technological innovations or new and enhanced products;
- developments or disputes concerning proprietary rights;
- introduction and adoption of new industry standards;
- changes in financial estimates by securities analysts;
- market changes or trends in our industry;
- changes in the market valuations of our competitors;
- announcements by us or our competitors of significant acquisitions;
- entry into strategic partnerships or joint ventures by us or our competitors;
- additions or departures of key personnel;
- political and economic conditions, such as a recession or interest rate or currency rate fluctuations or political events;
- general economic conditions, including conditions related to the banking industry or caused by pandemics and high inflation, and slow or negative market growth; and
- other events or factors in any of the countries in which we do business, including those resulting from war, incidents of terrorism, natural disasters or responses to such events.

In addition, the stock market in general, and the market for Israeli companies and homeland security companies in particular, has been highly volatile. Many of these factors are beyond our control and may materially adversely affect the market price of our ordinary shares, regardless of our performance. In the past, following periods of market volatility, shareholders have often instituted securities class action litigation relating to the stock trading and price volatility of the company in question. If we were involved in any securities litigation, it could result in substantial cost to us to defend and divert resources and the attention of management from our business.

The FIMI partnerships owned approximately 42.3% of our outstanding ordinary shares as of April 17, 2023. For as long as FIMI has a controlling interest in our company, it will have the ability to exercise a controlling influence over our business and affairs, including any determinations with respect to potential mergers or other business combinations involving us, our acquisition or disposition of assets, our incurrence of indebtedness, our issuance of any additional ordinary shares or other equity securities, our repurchase or redemption of ordinary shares and our payment of dividends. Because the interests of FIMI may differ from the interests of our other shareholders, actions taken by FIMI with respect to us may not be favorable to our other shareholders.

We may not pay additional dividends in the future.

While we have historically retained our earnings to finance operations and expand our business, on December 7, 2020, we announced a cash distribution in the amount of US\$1.079 per share (approximately US\$ 25 million in the aggregate) which was paid on December 28, 2020, and, following the completion of the sale of our Integration Solutions Division and court approval, we announced on August 16, 2021 a cash distribution in the amount of \$1.725 per share (approximately \$40 million in the aggregate), which was paid on September 22, 2021. We have not determined whether we will continue to make distributions in the future or refrain from similar distributions, whether in a form of capital reduction or dividend distribution. According to the Israeli Companies Law, a company may distribute dividends out of its profits (as defined by the Israeli Companies Law), provided that there is no reasonable concern that such dividend distribution will prevent the company from paying all its current and foreseeable obligations, as they become due, or otherwise upon the permission of the court (as occurred in connection with the 2021 dividend). The declaration of dividends is subject to the discretion of our board of directors, requires a shareholders approval and would depend on various factors, including our operating results, financial condition, future prospects and any other factors deemed relevant by our board of directors. You should not rely on an investment in our company if you require dividend income from your investment.

As a foreign private issuer whose shares are listed on the NASDAQ Global Market, we may follow certain home country corporate governance practices instead of certain NASDAQ requirements. We follow Israeli law and practice instead of NASDAQ rules regarding the director nomination process, compensation of executive officers and the requirement that our independent directors have regularly scheduled meetings at which only independent directors are present.

As a foreign private issuer listed on the NASDAQ Global Market, we may also follow home country practice with regards to, among other things, the composition of the board of directors and quorum at shareholders' meetings. In addition, we may follow home country practice instead of the NASDAQ requirement to obtain shareholder approval for certain dilutive events (such as for the establishment or amendment of certain equity-based compensation plans, an issuance that will result in a change of control of the company, certain transactions other than a public offering involving issuances of a 20% or more interest in the company and certain acquisitions of the stock or assets of another company). A foreign private issuer that elects to follow a home country practice instead of NASDAQ requirements must submit to NASDAQ in advance a written statement from an independent counsel in such issuer's home country certifying that the issuer's practices are not prohibited by the home country's laws. In addition, a foreign private issuer must disclose in its annual reports filed with the SEC, each such requirement that it does not follow and describe the home country practice followed by the issuer instead of any such requirement. Accordingly, our shareholders may not be afforded the same protection as provided under NASDAQ's corporate governance rules.

We may be classified as a passive foreign investment company, or PFIC, which would subject our U.S. investors to adverse tax rules.

U.S. holders of our Ordinary Shares may face income tax risks. Based on the composition of our income, assets (including the value of our goodwill, going-concern value or any other unbooked intangibles, which may be determined based on the price of the ordinary shares), and operations, we believe we will not be classified as a “passive foreign investment company”, or PFIC, for the 2022 taxable year. However, because PFIC status is based on our income, assets and activities for the entire taxable year, it is not possible to determine whether we will be characterized as a PFIC for our current taxable year or future taxable years until after the close of the applicable taxable year. Moreover, we must determine our PFIC status annually based on tests that are factual in nature, and our status in the current year and future years will depend on our income, assets and activities in each of those years and, as a result, cannot be predicted with certainty as of the date hereof. Furthermore, fluctuations in the market price of our ordinary shares may cause our classification as a PFIC for the current or future taxable years to change because the aggregate value of our assets for purposes of the asset test, including the value of our goodwill and unbooked intangibles, generally will be determined by reference to the market price of our shares from time to time (which may be volatile). The IRS or a court may disagree with our determinations, including the manner in which we determine the value of our assets and the percentage of our assets that are passive assets under the PFIC rules. Therefore, there can be no assurance that we will not be a PFIC for the current taxable year or for any future taxable year. Our treatment as a PFIC could result in a reduction in the after-tax return to U.S. Holders (as defined below under Item 10E. “Additional Information – Taxation”) of our Ordinary Shares and would likely cause a reduction in the value of such shares. A foreign corporation will be treated as a PFIC for U.S. federal income tax purposes if either (1) at least 75% of its gross income for any taxable year consists of certain types of “passive income,” or (2) at least 50% of the average value of the corporation’s gross assets produce, or are held for the production of, such “passive income.” For purposes of these tests, “passive income” includes dividends, interest, gains from the sale or exchange of investment property and rents and royalties other than rents and royalties that are received from unrelated parties in connection with the active conduct of a trade or business. If we are treated as a PFIC, U.S. Holders of Ordinary Shares would be subject to a special adverse U.S. federal income tax regime with respect to the income derived by us, the distributions they receive from us, and the gain, if any, they derive from the sale or other disposition of their Ordinary Shares. U.S. Holders should carefully read Item 10E. “Additional Information – Taxation” for a more complete discussion of the U.S. federal income tax risks related to owning and disposing of our Ordinary Shares.

Risks Relating to Our Location in Israel

Political, economic and military instability in Israel may negatively affect our business condition, harm our results of operations and adversely affect our share price.

We are incorporated under the laws of Israel and our principal executive offices, are located in the State of Israel. As a result, political, economic and military conditions affecting Israel indirectly influence us.

Conflicts in North Africa and the Middle East, including in Lebanon and Syria which border Israel, have resulted in continued political uncertainty and violence in the region. Efforts to improve Israel’s relationship with the Palestinian Authority have failed to result in a permanent solution, and there have been numerous periods of hostility in recent years. In addition, relations between Israel and Iran continue to be seriously strained, especially with regard to Iran’s nuclear program. Such instability may affect the local and global economy, could negatively affect business conditions and, therefore, could adversely affect our operations. To date, these matters have not had any material effect on our business and results of operations; however, the regional security situation and worldwide perceptions of it are outside our control and there can be no assurance that these matters will not negatively affect us in the future.

Over the past several years there have also been calls in Europe and elsewhere to reduce trade with Israel. Restrictive laws, policies or practices directed towards Israel or Israeli businesses may have an adverse impact on our operations, our financial results or the expansion of our business.

Furthermore, the Israeli government is currently pursuing extensive changes to Israel’s judicial system. In response to the foregoing developments, individuals, organizations and institutions, both within and outside of Israel, have voiced concerns that the proposed changes may negatively impact the business environment in Israel including due to reluctance of foreign investors to invest or conduct business in Israel, as well as to increased currency fluctuations, downgrades in credit rating, increased interest rates, increased volatility in securities markets, and other changes in macroeconomic conditions. Such proposed changes may also adversely affect the labor market in Israel or lead to political instability or civil unrest. To the extent that any of these negative developments do occur, they may have an adverse effect on our business, our results of operations and our ability to raise additional funds, if deemed necessary by our management and board of directors.

The rights and responsibilities of the shareholders are governed by Israeli law and differ in some respects from the rights and responsibilities of shareholders under U.S. law.

We are incorporated under Israeli law. The rights and responsibilities of holders of our ordinary shares are governed by our Memorandum of Association and Articles of Association and by Israeli law. These rights and responsibilities differ in some respects from the rights and responsibilities of shareholders in typical U.S. corporations. In particular, a shareholder of an Israeli company has a duty to act in good faith in exercising his or her rights and fulfilling his or her obligations toward the company and other shareholders and to refrain from abusing his power in the company, including, among other things, in voting at the general meeting of shareholders on certain matters. Israeli law provides that these duties are applicable in shareholder votes on, among other things, amendments to a company's articles of association, increases in a company's authorized share capital, mergers and interested party transactions requiring shareholder approval. In addition, a controlling shareholder of an Israeli company or a shareholder who knows that it possesses the power to determine the outcome of a shareholder vote or who has the power to appoint or prevent the appointment of a director or executive officer in the company has a duty of fairness toward the company. However, Israeli law does not define the substance of this duty of fairness. There is little case law available to assist in understanding the implications of these provisions that govern shareholder behavior.

Provisions of Israeli law may delay, prevent or make difficult a change of control and therefore depress the price of our shares.

Some of the provisions of Israeli law could discourage potential acquisition proposals, delay or prevent a change in control and limit the price that investors might be willing to pay in the future for our ordinary shares. Israeli Companies law regulates mergers and acquisitions of shares through tender offers, requires approvals for transactions involving significant shareholders and regulates other matters that may be relevant to these types of transactions. Furthermore, Israel tax law treats stock-for-stock acquisitions between an Israeli company and a foreign company less favorably than does U.S. tax law. For example, Israeli tax law may subject a shareholder who exchanges his ordinary shares for shares in a foreign corporation to immediate taxation or to taxation before his investment in the foreign corporation becomes liquid. These provisions may adversely affect the price of our shares.

Our shareholders generally may have difficulties enforcing a U.S. judgment against us, our executive officers and directors and some of the experts named in this annual report or asserting U.S. securities law claims in Israel.

We are incorporated in Israel and all of our executive officers and directors named in this annual report reside outside the United States. Service of process upon them may be difficult to effect within the United States. Furthermore, since substantially all of our assets and all of our directors and officers are located outside the United States, any judgment obtained in the United States against us or these individuals may not be collectible within the United States and may not be enforced by an Israeli court. It also may be difficult for you to assert U.S. securities law claims in original actions instituted in Israel.

There is doubt as to the enforceability of civil liabilities under the Securities Act and the Securities Exchange Act in original actions instituted in Israel. However, subject to certain time limitations and other conditions, Israeli courts may enforce final judgments of U.S. courts for liquidated amounts in civil matters, including judgments based upon the civil liability provisions of those and similar acts.

ITEM 4. Information on the Company

A. History and Development of the Company.

We were incorporated under the laws of the State of Israel on March 27, 1984 under the name Magal Security Systems Ltd. On September 30, 2021, we changed our name to Senstar Technologies Ltd. We are a public limited liability company under the Israeli Companies Law, 5759-1999, and operate under this law and associated legislation. Our principal executive offices are located near Tel Aviv, Israel, at Gibor Sport Tower, 7 Menachem Begin Road, Ramat Gan 5268102, Israel and our telephone number is +972-74-794-5200. Our agent for service of process in the United States is Senstar Inc., 13800 Coppermine Road, Second Floor, Herndon, Virginia 20171. Our website address is www.senstartechnologies.com. The information on our website is not incorporated by reference into this annual report.

On June 30, 2021, we completed the sale of our Integration Solutions Division to Aeronautics Ltd., a subsidiary of RAFAEL Advanced Defense Systems Ltd., in a share and asset purchase agreement. We received \$35 million in cash at closing on a cash-free, debt-free basis subject to post-closing working capital and other customary adjustments. As part of the acquisition, Aeronautics acquired our facility in Yehud, Israel.

Following the sale of the Integrated Solutions (Projects) division, we continue to operate our Senstar Products Division, with development and manufacturing facilities located in Canada and sales and support offices in the U.S., EMEA, APAC, and People's Republic of China regions.

We are a leading international provider of products and solutions for physical security. We commenced operations in 1969 as a department of Israel Aircraft Industries Ltd., specializing in perimeter security systems and have delivered products, tailor-made solutions and turnkey projects to thousands of satisfied customers in over 100 countries in some of the world's most demanding locations.

We offer broad portfolio of homegrown Perimeter Intrusion Detection Systems (PIDS), Video Management Software (VMS) combined with Electronic Access Control (EAC), and Intelligent Video Analytics (IVA).

Our strategy is to increase our revenues from our Products segment, which includes our PIDS, VMS and IVA products by (i) focusing our efforts on our strategic verticals; (ii) locating new channels to promote and market our products; (iii) investing in research and development thus maintaining technology leadership; (iv) entering into OEM agreements which will increase our offerings for the verticals on which we focus; and (v) acquiring new technologies relevant to our target verticals independently or through mergers and acquisitions.

In April 2018, we completed the acquisition of a 55% controlling interest in ESC BAZ Ltd. an Israeli-based company, focused on the development and manufacturing of military-grade smart security video observation and surveillance systems, and in December 2020, we acquired the remaining 45% interest. We sold ESC BAZ Ltd in connection with the sale of our Integrated Solutions (Projects) division in June 2021.

In April 2016, we acquired Aimetis, a Canadian-based company, which specializes in advanced video analytics software and intelligent IP video management software (VMS). In July 2017 we amalgamated our two Canadian subsidiaries. Following the amalgamation, the company maintained the name Senstar Corporation.

In April 2014, we acquired a U.S. based fiber-optic technology company which provides advanced solutions for sensing, security, and communication. In January 2013, we purchased CyberSeal Ltd., an Israeli cyber security company whose products and services complement our physical security products and services. We sold Cyberseal Ltd. in connection with the sale of our Integrated Solutions (Projects) division in June 2021.

Our continuing capital expenditures for property and equipment for the years ended December 31 2022, 2021 and 2020 were approximately \$0.2 million, \$0.6 million and 0.4 million, respectively.

B. Business Overview.

Overview and Strategy

We develop, manufacture, market and sell comprehensive lines of perimeter intrusion detection sensors, physical barriers, video analytics and video management systems, as well as security video observation and surveillance systems to high profile customers. Our systems are used in more than 100 countries to protect sensitive facilities, including national borders, military bases, power plants, airports, seaports, prisons, industrial sites, large retailer organizations, banks, oil and gas facilities, sporting events including athlete villages and stadiums, and municipalities from intrusion, terror, crime, sabotage or vandalism to infrastructure, assets and personnel. Our primary objective is to become a leading international provider of security products and solutions.

The sale of our Integrated Solutions (Projects) division, supports our strategy of prioritizing opportunities to provide technologically-rich products, solutions and related services in our key verticals of energy, logistics, critical infrastructure and correctional facilities. Operating as a pure product solutions company will increase visibility into our future performance and provide us with incremental opportunities to deliver additional value to our different stakeholders. As a standalone business, post-divestiture, we continued our growth agenda to leverage our Products division success and scale our business to capture a meaningful share of new market opportunities.

Based on our decades of experience and interaction with customers, we have developed a comprehensive set of solutions and products, optimized for perimeter, outdoor and general security applications. Our portfolio of mission critical infrastructure and site protection technologies includes a variety of smart fences and barriers, fence mounted sensors, fence mounted sensors with perimeter lighting, virtual (volumetric) fences and gates, buried and concealed detection systems and tunneling sensors to secure prisons, bank vaults and pipelines. We deliver comprehensive IP technology and traditional closed-circuit television, or CCTV, solutions, supported by our own advanced Video Management Software, or VMS solutions, which include Video Motion Detection, or VMD and Intelligent Video Analytics, or IVA.

Since the addition of Aimetis' products and expertise, we were able to address new markets and offer solutions incorporating advanced video analytics and VMS for physical indoor and outdoor security applications. In addition, we were able to expand our overall solutions, offer a wider range of products in addition to our PIDS solutions, and address new markets.

Post-divestiture of our Integrated Solutions (Project) Division, we anticipate that our business will grow organically. We plan to leverage Senstar's industry-leading position in the security sector as a technology platform to optimize future strategic acquisitions and achieve incremental growth in our global markets. To achieve this objective, we are implementing a business strategy incorporating the following key elements:

- *Leverage existing customer relationships.* We believe that we have the capability to offer certain of our customers a comprehensive security package. As part of our product development process, we seek to maintain close relationships with our customers to identify market needs and to define appropriate product specifications. We intend to expand the depth and breadth of our existing customer relationships while initiating similar new relationships. Our VMS offering is an excellent opportunity to revisit our existing customers.
- *Refine and broaden our product portfolio.* We have identified the security needs of our customers and intend to enhance our current products' capabilities, develop new products, acquire complementary technologies and products and enter into OEM agreements with third parties in order to meet those needs.
- *Develop and enhance our presence in verticals which we have identified as strategic.* We intend to enhance our presence in our target vertical markets: critical infrastructure, correctional facilities logistics and energy (among other, oil and gas terminals as well as oil and gas pipelines infrastructure). Many if not all of the verticals are highly regulated and require unique security solutions. As a solution provider with a wide selection of security technologies and products we believe that we can offer a comprehensive security solution that meets the standards required by the applicable regulations.
- *Enhance our presence in emerging markets.* We intend to enhance our presence in emerging markets such as China and eastern Europe in order to increase our exposure and sales.
- *Strengthen our presence in existing markets.* We intend to increase our marketing efforts in our existing markets mainly in North America, the European Union, and APAC region and to acquire or invest in complementary businesses and joint ventures.

Emerging Opportunities

We believe that the proliferation of digital communication and information technology into the security market provides us with the opportunity to consolidate safety and site management with security applications. Cities and municipalities, air and seaports, chemical factories, green energy plants and distribution facilities, oil and gas terminals and pipeline infrastructure, large logistics warehouses, and critical infrastructure sites are currently utilizing the benefits of this approach to security management. This integration allows users to share diverse sensors (such as cameras and intrusion detection sensors), IT systems, traffic management tools and other resources and feed them into a single command and control platform. Users from different departments within organizations can now share the same information, allowing for improved communication and coordination, whether it is a routine operation or crisis situation. We believe that we are well positioned and are in the forefront of this emerging market opportunity.

Products and Services

General

Our principal physical (PIDS), VMS and EAC products and solutions include:

- Perimeter Intrusion Detection Systems (PIDS), fence mounted, buried and free standing;
- PIDS fence sensor with intelligent perimeter LED based lighting;
- Common Operating Platform for VMS, including IVA applications, PIDS applications and EAC systems;
- EAC (Electronic Access Control) systems;
- Security Thermal Imaging Observation & Surveillance systems (OEM);
- Pipeline security, third party interference (TPI); and

Perimeter security products enable customers to monitor, limit and control access by unauthorized personnel to specific regions or areas. High-end perimeter products are sophisticated in nature and are used for correctional facilities, borders, nuclear and conventional power plants, air and seaports, military installations, logistics centers and other high-security installations.

Our line of perimeter security products utilizes sophisticated sensor devices to detect and locate intruders and identify the nature of intrusions. Our perimeter security products have been installed along tens of thousands of kilometers of borders and facility boundaries throughout the world, including hundreds of correctional institutions and prisons in the United States and several other countries.

Our line of outdoor perimeter security products consists of the following:

- Fence mounted detection systems – “microphonic” wire sensors, fiber optic sensors and electronic ranging sensors;
- Buried sensors – buried coaxial cable volumetric sensors and buried fiber sensors to secure pipelines, borders and critical assets against intrusion by targets on the surface and excavation;
- Electrical field disturbance sensors (volumetric);
- Microwave sensors; and
- Hybrid perimeter intrusion detection and intelligent lighting system.

Fence Mounted Detection Systems

We offer various types of detection systems. The adaptability of these systems to a wide range of pre-existing barrier structures makes these products viable and effective alternatives for cost-conscious customers. Our detection devices are most effective when installed on common metal fabric perimeter systems, such as chain link or welded mesh. Once attached to the fence, each sensor detects vibrations in the underlying structures. The sensor system's built-in electro-mechanical filtering combines with system input from a weather analysis component to minimize the rate of alarms from wind, hail or other sources of nuisance vibrations.

FlexZone, our latest coaxial cable based fence mounted ranging sensor can pinpoint intrusions to within ± 3 m (± 10 ft); it provides long physical cable lengths (up to 600 m (1,968 ft) per processor) configurable through software to many smaller virtual zones for site operations. Power and data between processors is supported through the sensor cable significantly reducing the requirement for supporting infrastructure. A novel wireless gate sensor module is available with FlexZone providing an accelerometer based gate sensor integrated via wireless communications into a FlexZone network eliminating the need to have sensor cables attached to sliding gates.

FiberPatrol, our advanced FP1150 product is a perimeter intrusion detection system that can be fence-mounted, buried, or deployed in a wall-top configuration. Featuring long distance ranging to 80 Km (50 mi) via a fence mounted fiber optic cable detects and locates fence cut and climb events with an accuracy of approximately 4m (13 ft). Released in 2019 our latest FP400 product zone-based fiber optic cable PIDS solution replaces the IntelliFiber product line. Its advanced features include the processing of 4 detection zones from a single remote processor with an alarm given for each zone independently with up to 300 m (984 ft) per zone.

Buried Sensors

Omnitrix is a fifth generation covert outdoor perimeter security intrusion detection sensor that generates an invisible radar detection field around buried sensor cables. The exact location of an intruder is identified within approximately one meter when an intruder disturbs the detection field. Targets are detected by their conductivity, size and movement and the digital processor is able to filter out nuisance alarms that could be caused by environmental conditions and small animals.

FiberPatrol, our advanced FP1150 product featuring long distance ranging fiber optic cable based detection technology in a single rack mount unit is also offered as a buried solution detecting surface intrusion and to protect pipelines, as well as providing Data Conduit protection against sabotage or accidental third party interference (TPI) for example by manual or machine excavation. FiberPatrol has the capability to protect distances of up to 80 Km (50 mi) or up to 100 Km (62 mi) for Pipeline TPI and Data Conduit protection with a single indoor processor.

Electro-static Field Disturbance Sensors

Terrain following volumetric sensors detect intrusions without requiring an intruder to touch the sensor. They can be installed on buildings, free-standing posts, existing fences, walls or rooftops, and will sense changes in the electrostatic field when events, such as intruders penetrating through the wires takes place. The system's tall, narrow, well contained detection zone allows the sensor to be installed in almost any application and minimizes nuisance alarms caused by nearby moving objects. Our flagship product is X-Field; it consists of a set of four to as many as eight parallel field generating and sensing wires that form a volumetric detection height as much as 6m (20 ft) in height for free standing and wall applications and up to 7.3m (24 ft) for fence installations.

Microwave Products

Ultrawave is our K-band all digital bi-static microwave beam perimeter intrusion detection system designed for reliable operation in extreme outdoor environments. Coverage distance range from 5 meters to 200 meters (16 to 656 ft). Older generations of X band microwaves are retired but still supported.

Hybrid Perimeter Intrusion Detection and Intelligent Lighting System

The Senstar LM100 is the world's first 2-in-1 perimeter intrusion detection and intelligent lighting system. Combining high performance LED lighting with accelerometer-based vibration sensors, the LM100 deters potential intruders by detecting and illuminating them at the fence line.

Video Products

VMS / IVA Solutions - Senstar Symphony Common Operating Platform

The Senstar Symphony Common Operating Platform with Sensor Fusion Engine or "Senstar Symphony", which is an evolution of our Senstar Symphony 7, is a modular solution for security management and data intelligence. In addition to being an open, highly scalable video management system with built-in video analytics, it includes full-featured access control and perimeter intrusion detection modules. We believe that what truly sets Senstar Symphony apart from other systems is its sensor fusion engine. By intelligently combining low-level sensor data with video analytics, the sensor fusion engine achieves the highest levels of performance, far beyond that of the individual devices. Senstar Symphony seamlessly incorporates sensor fusion, event algorithms, and rule-based actions to provide unmatched capabilities, flexibility, and performance.

Senstar Symphony's Sensor Fusion Engine synthesizes data from separate systems to generate actionable information. More than just a simple Boolean logic integration, the sensor fusion engine accesses low level data to intelligently characterize potential risks. Data synthesis enables the system to achieve levels of performance that exceed those of the individual sensors. For security applications, this has direct, practical benefits, namely the ability to maximize the strengths of individual sensor technologies while avoiding their shortcomings. When signal response data from outdoor sensors is synthesized with video analytic data, nuisance alarms generated by wind, debris, or background activity are virtually eliminated while maintaining the system's high probability of detection.

The Senstar Symphony Common Operating Platform includes a full-featured Windows®-based client, a HTML5-client web client, a thin client hardware appliance, and mobile apps (iOS and Android). With Senstar Symphony's camera-based licensing scheme, our customers and end-users can install and use as many clients as they need. The Windows® client includes on-screen camera hotlinks, a full-featured alarm console that integrates alarms with video feeds and sensor data, timeline view, and intuitive graphical maps with precise alarm location data. Senstar Symphony installs on standard commercial off-the-shelf hardware and supports thousands of network devices as well as ONVIF profiles S and T (H.265 and metadata). Senstar Symphony integrates with a wide variety of security and access control products, while its RESTful API and TCP/IP listener services enable it to interact with virtually any network-based device.

The Senstar Symphony Common Operating Platform is highly scalable, easy to set up and use, and can be used in both single server installations and multi-server deployments. Senstar Symphony can meet any business requirements, both today and in years to come. Functionality sets including video management, video analytics, security management, access control, and data intelligence can be used individually, added when needed, or combined together as a complete integrated solution. It is a highly cost-effective solution, licensed per security device (camera, door, or sensor), so that our customers only license what they need. All managed devices report to a shared rules and alarms management system, enabling operators to perform site security or operational functions from a 'single pane of glass'.

The Senstar Symphony solution offers web-based administrator capabilities, centralized cloud management, native analytics applications which include motion tracking, auto-PTZ (pan-tilt-zoom) tracking, people counting, and high security and server and storage failover reducing the need for costly Microsoft clustering and extra servers. We intend to expand the Symphony product line over time to address a broad new market of applications.

Our intelligent video analytics (IVA) transforms IP video into more than a passive monitoring tool with video analytics that are seamlessly incorporated into Senstar Symphony 7. Each video analytic is specially designed for physical security and business intelligence applications, providing value across many vertical markets.

Our intelligent video analytics (IVA) capabilities include:

- Face Recognition - Senstar Symphony-based video analytic identifies known and unknown individuals. Using a combination of patented 2D to 3D pose correction technology, this analytic is designed for fast, reliable identification under real-world challenges, including lighting, angles, facial hair, pose, glasses and other occlusions, motion, crowds, and expression.
- Automatic License Plate Recognition - Senstar Symphony-based video analytic reads license plates and other vehicle markings, and seamlessly integrates the data into the site's security and operational processes. The analytic can be used for automating vehicle access systems such as gates and other barriers, flag vehicle in/out times in surveillance footage, notifying customer management systems of client arrivals, and track vehicles crossing toll and border checkpoints.
- Outdoor People and Vehicle Tracking - a Senstar Symphony-based video analytic optimized for detecting and monitoring the movement of vehicles and people in outdoor environments. Typical applications include perimeter intrusion detection, parking lot monitoring, public safety, and wrong-way detection. The analytic retains its extremely high tracking and object classification accuracy even in the presence of challenging weather and lighting conditions. Organizations can use tracked events to trigger alarms and direct operators to specific concerns, making it the perfect addition to any video surveillance system.
- Left and Removed Item Detection - Monitor changes in an environment to detect when objects are added or removed from a scene. Set alarms to notify security staff when an item has been removed from an area or left unattended for a designated amount of time. This solution designed for use in airports, train stations, and other public spaces.
- Indoor People Tracking - Detect and track people moving within the frame of a camera. Alarms can be set when unauthorized entry into an area is detected and dwell times can be tracked and recorded for the detection of unwanted loitering. Heat maps can also be created in retail stores and public spaces to determine areas of highest traffic and interest.
- Crowd Detection - Real-time occupancy estimation for indoor and outdoor deployments, ideal for monitoring public spaces, event venues, and capacity restricted environments. Crowd Detection also offers numerous business intelligence applications.
- PTZ Auto-Tracking (Auto PTZ) - Auto PTZ can automatically control a PTZ camera, enabling it to zoom in and follow moving people and vehicles within the field of the camera. This is designed for use in outdoor perimeter monitoring and provides a closer look at people and vehicles for future forensic purposes.
- Hardware solutions supporting our VMS software products are an "R series" of preconfigured servers, "E series" of physical appliances for smaller applications and a novel POE powered "Thin Client device for convenient network access for monitors or other applications.
- The Senstar E5000 Physical Security Appliance (PSA) - is a complete security management system in a box. Available in two models, it combines compact, purpose-built hardware with Senstar Symphony Common Operating Platform and is ideal for sites where vibration and extreme temperatures are difficult to manage, including remote utility and energy infrastructure, as well as space-constrained environments.
- The Senstar Thin Client - is a simple and cost-effective device designed to display 1080p video from 30+ network video camera manufacturers via ONVIF Profile S, as well as from the Senstar Symphony VMS or any RTSP-compatible video source. The device is ideal for space-constrained environments due to its compact design while its web-based interface makes it easy to configure and manage.
- The R-Series Operator Station - complements the R-Series Network Video Recorders (NVR). Featuring Dell hardware, the Operator Station is ideal for customers looking for a preconfigured, validated video surveillance client. The R001 model is optimized for everyday video monitoring applications and supports up to three displays.

Senstar Safe Spaces™ is an all-in-one video analytics solution [to help businesses operate safely amidst COVID-19]. Consisting of the Senstar Edge Platform, a simple plug-and-play, stand-alone device with embedded software, Senstar Safe Spaces uses network cameras to verify if health and safety protocols are being followed. Face Mask Detection, Physical Distancing, Sanitization Station Monitoring, and Occupancy Counting.

Command and Control Systems

The development of communication and IT technology has significantly affected the security market. Multiple security systems and technologies, sometimes supplied by different vendors, can now be integrated into a unified command and control system. We offer three types of command and control systems:

- Senstar Symphony Common Operating Platform - Video, Security and Data Intelligence Platform with Sensor Fusion Engine;
- StarNet 2 – feature-rich Security Management System (SMS) optimized for the management and operation of perimeter protection and intrusion detection systems. Organized around a visual, map-based interface, StarNet 2 provides a streamlined user experience for operators handling everything from daily routines to crisis situations, enabling organizations to reduce reaction times, improve efficiency and safeguard personnel, our security management system, or SMS, was launched in the latter part of 2015 and replaces the legacy StarNet 1000; and
- Network Manager - a middleware (software) package interfacing between our family of PIDS sensors and any command and control solution, be it our own system or an external third party application. It is provided to integrators with a full software development kit to enable fast integration of our PIDS into any other SMS and physical security information system. It offers an entry level operator display system called the Alarm Information Module (AIM), typically for management of a single PIDS sensor.

Marketing, Sales and Distribution

We believe that our reputation as a leading global vendor of sophisticated security products and our global presence provides us and our sales representatives with access to decision-makers in all of our main four verticals: energy, corrections, critical infrastructure and logistics.

Our sales efforts focus on:

- PIDS products are sold indirectly through system integrators and distribution channels. Due to the sophistication of our products, we often need to approach end-users directly and be in contact with system integrators; however, sales are directed through third parties. Our sales team is trained on cross-selling PIDS, VMS, IVA and EAC.
- VMS, EAC and IVA. Video management system software and Intelligent Video Applications licenses, the associated maintenance and support services, are sold primarily through locally based distributor partners. Some key accounts are managed directly with the end-users. Our sales team is trained on cross-selling PIDS, VMS, IVA and EAC.

In addition to our global corporate office in Israel and our principal facilities in Canada, the United States and Germany, we have sales and technical support offices in China, the Philippines and other countries.

Customers

The following table shows the geographical breakdown of our consolidated revenues with respect to our continuing operations for the three years ended December 31, 2022, 2021 and 2020:

	Year ended in December 31,		
	2022	2021	2020
	(in thousands)		
North America	\$ 16,042	\$ 15,902	\$ 17,520
Europe	10,396	8,913	9,052
APAC	6,571	8,387	5,267
South and Latin America	1,334	1,296	1,322
Israel	1,195	317	-
Others	20	101	190
Total	<u>\$ 35,558</u>	<u>\$ 34,916</u>	<u>\$ 33,351</u>

Installation, Support and Maintenance

Our systems are generally installed by an integrating partner or in some cases by the customer after appropriate training, depending on the size of the specific project and the location of the customer's facilities, as well as prior experience with our systems. We generally provide our customers with training on the use and maintenance of our systems, which we conduct either on-site or at our facilities. In addition, some of our local perimeter security products customers have signed maintenance contracts with us. The life expectancy of a high-security perimeter system is approximately ten years. Consequently, many miles of perimeter systems need to be replaced each year.

We also provide services, maintenance and support on an "as needed" basis, as well as on a subscription basis, through the *Senstar Care Program* - our multi-year maintenance and support program.

During the years ended December 31, 2022, 2021 and 2020, we derived approximately 17.7%, 17.9% and 14.0% of our total Products revenues, respectively, from maintenance and services.

Research and Development; Royalties

We place considerable emphasis on research and development to improve our existing products and technology and to develop new products and technology. We believe that our future success will depend upon our ability to enhance our existing products and technology and to introduce on a timely basis new commercially viable products and technology addressing the needs of our customers. We intend to continue to devote a significant portion of our personnel and financial resources to research and development. As part of our product development process, we seek to maintain close relationships with our customers to identify market needs and to define appropriate product specifications. Our development activities are a direct result of the input and guidance we receive from our marketing personnel during our annual meetings with such personnel. In addition, the heads of research and development for each of our development centers discussed below meet annually to identify market needs for new products.

We have centralized all our development centers in Canada, in Carp near Ottawa and Waterloo near Toronto, each of which develops products and technologies based on its area of expertise. Our development center in Israel was part of the assumed assets under the assets and shares purchase agreement of our Integrated Solutions (Projects) division sold to Aeronautics.

Our research and development expenses relating to our continuing Products' segment operations during 2022, 2021 and 2020 were \$4.0 million, \$3.9 million and \$4.0 million, respectively. In addition to our own research and development activities, we also acquire know-how from external sources. We cannot assure you that any of our research and development projects will yield profitable results in the future.

Manufacturing and Supply

Our manufacturing operations consist of engineering, fabricating, assembly, quality control, final testing and shipping of finished products. Substantially all of our manufacturing operations are currently performed at our facilities in Canada. In 2018 we launched a "Made in USA" version of our FlexZone product to better serve our US - based partners and customers. See Item 4D. "Information on the Company – Property, Plants and Equipment."

We acquire most of the components utilized in our products, and certain services from a limited number of suppliers and subcontractors. Supply chain disruptions were exacerbated in 2022 as major shipping ports and manufacturing facilities in Asia have been affected by outbreaks of the Covid-19 variants, either closing or reducing capacity. The disruption to global supply chains has led to longer supplier delivery times and an increase in material prices. Despite the supply chain said disruptions we were able to source the needed material and sub-components to continue manufacturing and deliveries to our customers, we cannot assure you that we will continue to be able to obtain such items from our suppliers on satisfactory terms. Alternative sources of supply may be difficult to obtain. Therefore, temporary disruptions of our manufacturing operations would result if we were required to obtain materials from alternative sources, which may have an adverse effect on our financial results. We also maintain an inventory of systems and spare parts in order to enable us to overcome potential temporary supply shortages until an alternate source of supply is available. Nevertheless, temporary disruptions of our manufacturing operations would result if we were required to obtain materials from alternative sources, which may have an adverse effect on our financial results.

Competition

PIDS Sensors. The principal factors affecting competition in the market for security systems are a system's high probability for detection and low probability of false and nuisance alarms. We believe that a manufacturer's reputation for reliable equipment is a major competitive advantage, and that such a reputation will usually be based on the performance of the manufacturer's installed systems. Additional competitive factors include quality of customer support, maintenance and price.

The PIDS market is very fragmented. Our most frequently encountered competitors include Southwest Microwave Inc., AVA (formerly named Future Fibre Technologies Pty. Ltd.), Fibersensys Inc. (an Optex Company), CIAS Elettronica Srl, Vitaprotech, in France and Gallagher (New Zealand).

We believe that our principal competitors for our pipeline security products (FiberPatrol) are: AVA, Optasense, a Luna Innovations company, Omnisens SA, and Fotech Solutions Ltd.

The video management software market is well developed internationally with several large manufacturers. Our most frequently encountered competitors are Genetec Inc., Avigilon Corp., Milestone Systems A/S, and SeeTec GmbH.

We also face indirect competition from competing technologies such as ground based radar and thermal cameras as PIDS sensors with principal competitors being, SpotterRF, Navtech, FLIR, SightLogix and PureTech.

Some of our competitors and potential competitors have greater research, development, financial and personnel resources, including governmental support, or more extensive business experience than we do. We cannot assure you that we will be able to maintain the quality of our products relative to those of our competitors or continue to develop and market new products effectively.

Intellectual Property Rights

We have four patents in the U.S. and have one patent application pending and have obtained licenses to use proprietary technologies developed by third parties. We cannot assure you:

- that patents will be issued from any pending applications, or that the claims allowed under any patents will be sufficiently broad to protect our technology;
- that any patents issued or licensed to us will not be challenged, invalidated or circumvented; or
- as to the degree or adequacy of protection any patents or patent applications may or will afford.

In addition, we claim proprietary rights in various technologies, know-how, trade secrets and trademarks relating to our principal products and operations. We cannot assure you as to the degree of protection these claims may or will afford. It is our policy to protect our proprietary rights in our products and operations through contractual obligations, including confidentiality and non-disclosure agreements with certain employees and distributors. We cannot assure you as to the degree of protection these contractual measures may or will afford. Although we are not aware that we are infringing upon the intellectual property rights of others, we cannot assure you that an infringement claim will not be asserted against us in the future. We believe that our success is less dependent on the legal protection that our patents and other proprietary rights may or will afford than on the knowledge, ability, experience and technological expertise of our employees. We cannot provide any assurance that we will be able to protect our proprietary technology. The unauthorized use of our proprietary technology by third parties may impair our ability to compete effectively. We could become subject to litigation regarding intellectual property rights, which could seriously harm our business.

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ARMOURFLEX, ENTERPRISE MANAGER, INTELLI-FLEX, INTELLIFIBER, LM100, NETWORK MANAGER, STARLED, STARNET, SENSTAR CARE, SENSTAR logo, SENSTAR SYMPHONY, SENSTAR SAFE SPACES and SENSTAR SENSOR FUSION and all other marks used to identify particular products and services associated with our businesses are trademarks (unregistered). Any other trademarks and trade names appearing in this annual report are owned by their respective holders.

Government Regulations

At present, none of our products require a permit or license for export. We cannot assure that we will receive all the required permits and licenses for which we may apply in the future. Furthermore, solicitations for procurements by governmental purchasing agencies are usually governed by laws, regulations and procedures relating to procurement integrity, including avoiding conflicts of interest and corruption in the procurement process.

In addition, antitrust laws and regulations in countries in which we operate may require governmental approvals for transactions that are considered to limit competition. Such transactions may include cooperative agreements for specific programs or areas, as well as mergers and acquisitions.

C. Organizational Structure.

We have wholly owned and majority-owned active subsidiaries that operate world-wide. Set forth below are our significant subsidiaries.

Subsidiary Name	Country of Incorporation/Organization	Ownership Percentage
Senstar Corporation	Canada	100%
Senstar Inc.	United States (Delaware)	100%
Senstar GmbH.	Germany	100%

D. Property, Plants and Equipment.

We own a 33,000 square foot facility in Carp, Ontario, Canada. Approximately 9,000 square feet are devoted to administrative, marketing and management functions, and approximately 8,000 square feet are used for engineering, system integration and customer service. We use the remaining area of approximately 16,000 square feet for production operations, including cable manufacturing, assembly, testing, warehousing, shipping and receiving. We own an additional 182,516 square feet of vacant land adjacent to this property, which is being held for future expansion. We also lease 358,560 square feet of land near this facility for use as an outdoor sensor test and demonstration site for our products including the Omnitrax buried cable intrusion detection system, the X-Field volumetric system, the FlexZone microphonic fence detection system, Flash and Flare, and various perimeter monitoring and control systems. The lease expense for this site is approximately \$3,500 per year plus taxes under a lease that expires in November 2024.

We lease office space in Waterloo, Canada, which houses our video management software operations. We also lease other sites world-wide. The aggregate annual rent for such offices was approximately \$260,000 in 2022.

We also lease office space in Ramat-Gan, Israel which houses our corporate operations. The annual rent for this space is approximately \$55,000 per year under a lease that expires in November 2023.

We believe that our facilities are suitable and adequate for our current operations and the foreseeable future.

ITEM 4A. Unresolved Staff Comments

Not applicable.

ITEM 5. Operating and Financial Review and Prospects

The following discussion of our results of operations and financial condition should be read in conjunction with our consolidated financial statements and the related notes thereto included elsewhere in this annual report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth in Item 3.D. "Key Information–Risk Factors."

A. Operating Results.

Overview

Historically, we had two operating segments, which also represented our reportable segments and reporting units. Magal Integrated Solutions ("Projects" segment) and Senstar Product division ("Products" segment). On June 30, 2021, the Projects segment was sold. Therefore, the results of the Projects segment were classified as discontinued operations in our consolidated statements of operations and thus excluded from both continuing operations and segment results for all periods presented. Accordingly, we have one reportable segment with the change reflected in all periods presented.

Our consolidated revenues for the years ended December 31, 2022, 2021 and 2020 for our continuing operations were approximately \$35.6 million, \$34.9 million and \$33.4 million, respectively.

Products (PIDS, VMS, IVA and EAC)

We sell our products worldwide. Our products include Video Management Software (VMS), Intelligent Video Analytics (IVA) and PIDS products. The PIDS, VMS and IVA activities offer an unmatched portfolio of PIDS technologies, as well as, integrated intelligent video management solutions for security surveillance and business intelligence applications worldwide.

Business Challenges/Areas of Focus

Our primary business challenges and areas of focus include:

- continuing the growth of revenues and profitability of our perimeter security systems and video management systems lines of products;
- enhancing the introduction and recognition of our new products;
- penetrating new markets and strengthening our presence in existing markets;
- strengthening our presence in our strategic verticals;
- succeeding in selling our comprehensive PIDS, VMS and EAC products as a combined solution.

Our business is subject to the effects of general global economic conditions. If general economic conditions or economic conditions in key markets will be uncertain or weaken further, demand for our products could be adversely affected.

Key Performance Indicators and Sources of Revenues

Our management believes that our revenues and operating income are the two key performance indicators for our business.

Key Factors Affecting Our Business

Our operations and the operating metrics discussed below have been, and will likely continue to be affected by certain key factors as well as certain historical events and actions. The key factors affecting our business and results of operations include among others, reliance on public sector projects, and competition. For further discussion of the factors affecting our results of operations, see "Risk Factors."

Growth Strategy

During 2022 and following the divestiture of our Integrated Solutions (Projects) division, we continued our recent strategic growth plan focusing on the sale of our Senstar products and solutions. Pursuant to the plan, we streamlined our product sales activity in our three main regions, the Americas (including LATAM), EMEA, and APAC. In 2022, we addressed the Chinese market with the establishment of Senstar China. We are continuing to focus on our strategic verticals: critical infrastructure, Energy (oil and gas), logistics and correctional facilities). We intend to continue to expand our sales to these verticals through allocation of resources and funds, including the acquisition of complementary technologies that will increase our offerings to these targeted verticals.

If we are successful in the implementation of our strategic plan, we may be required to hire additional employees in order to meet customer demands. If we are unable to attract or retain qualified employees, our business could be adversely affected.

We may not be able to implement our growth strategy plan and may not be able to successfully expand our business activity and increase our sales. Our failure to successfully integrate the operations of an acquired business or to retain key employees of acquired businesses and integrate and manage our growth may have a material adverse effect on our business, financial condition, results of operation or prospects. We may not be able to realize the anticipated benefits of any acquisition. Moreover, future acquisitions by us could result in potentially dilutive issuances of our equity securities, the incurrence of debt and contingent liabilities and amortization expenses related to identifiable intangible assets, any of which could materially adversely affect our operating results and financial position. Acquisitions also involve other risks, including risks inherent in entering markets in which we have no or limited prior experience.

Reliance on government contracts

Our products are primarily sold to end-users such as governmental agencies, governmental authorities, and government-owned companies, many of which have complex and time-consuming procurement procedures. A substantial period of time often elapses from the time we begin marketing a product until we actually sell that product to a particular customer. In addition, our sales to governmental agencies', authorities' and companies' projects are directly affected by these end-users budgetary constraints and the priority given in their budgets to the procurement of our products. A decrease in governmental funding for our end-users' budgets would adversely affect our results of operations. This risk is heightened during periods of global economic slowdown. Accordingly, governmental purchases of our systems, products and services may decline in the future if governmental purchasing agencies terminate, reduce or modify contracts.

Competition

The global market for safety, security, video management, site management solutions and products is highly fragmented and intensely competitive. It is characterized by changing technology, new product introductions and changing customer requirements. We compete principally in the market for perimeter intrusion detection systems, or PIDS and video management systems. Some of our competitors and potential competitors have greater research, development, financial and personnel resources, including governmental support. We cannot assure you that we will be able to maintain the quality of our products relative to those of our competitors or continue to develop and market new products effectively. Continued competitive pressures could cause us to lose significant market share.

Functional Currency and Financial Statements in U.S. Dollars

While our functional currency in Israel is the NIS, our reporting currency is the U.S. dollar. Translation adjustments resulting from translating our financial statements from NIS and other local operation currencies to the U.S. dollar are reported as a separate component in shareholders' equity.

The first step in the translation process is to identify the functional currency for each entity included in the financial statements. The accounts of each entity are then "re-measured" in its functional currency. All transaction gains and losses from the re-measurement of monetary balance sheet items are reflected in the statement of operations as financial income or expenses, as appropriate. Non-monetary assets and liabilities denominated in foreign currency and measured at cost are translated at the exchange rate at the date of the transaction.

After the re-measurement process is complete the financial statements are translated into our reporting currency, which is the U.S. dollar, using the current rate method. Equity accounts are translated using historical exchange rates. All other balance sheet accounts are translated using the exchange rates in effect at the balance sheet date. Statement of operations amounts have been translated using the average exchange rate for the year. The resulting translation adjustments are reported as a component of shareholders' equity. For the years ended December 31, 2022, 2021 and 2020, our foreign currency translation adjustments totaled \$9.7 million, \$9.7 million and \$9.1 million, respectively. We recorded foreign exchange gain, net of \$0.4 million in the years ended December 31, 2022 and foreign exchange losses, net of \$1 million and \$1 million in the years ended December 31, 2021 and 2020, respectively. This is due to the adjustment of monetary assets and liabilities, denominated in currencies, other than the functional currency of the operational entities in the group. At the end of each period, a change in currency valuation of monetary assets and liabilities is recorded as a non-cash financial expense or income. The Israeli Shekel appreciated by 13.2% against the U.S. dollar in 2022 and depreciated by 3.3% and 7.0% against the U.S. dollar in 2021 and 2020, respectively.

Concentrations of credit risk

Financial instruments that are potentially subject to concentrations of credit risk consist principally of cash and cash equivalents, short and long-term bank deposits, unbilled accounts receivable, trade receivables, long-term trade receivables and long-term loans.

As of December 31, 2022, \$8.8 million of our cash and cash equivalents and restricted cash and short-term deposits were invested in major Israeli and U.S. banks, and approximately \$6.2 million were invested in other banks, mainly with the Royal Bank of Canada, Deutsche Bank and Natwest Bank. Cash and cash equivalents deposited with U.S. banks or other banks may be in excess of insured limits and are not insured in other jurisdictions. Generally, these deposits may be redeemed upon demand and therefore bear low risk.

The trade receivables and the unbilled accounts receivable of our company and our subsidiaries are derived from sales to large and solid organizations located mainly the United States, Canada, and Europe. We perform ongoing credit evaluations of our customers and to date have generally not experienced any material losses. An allowance for credit losses is recognized with respect to those amounts that we have determined to be doubtful of collection. In certain circumstances, we may require letters of credit, other collateral or additional guarantees. During the years ended December 31, 2022, 2021 and 2020 we recorded less than \$0.1 million, \$0.1 million and \$0.1 million of expenses related to credit losses, respectively. As of December 31, 2022, our allowance for credit losses amounted to \$0.1 million.

We have no significant off-balance sheet concentration of credit risks, such as foreign exchange contracts or foreign hedging arrangements.

Recent Developments

During the years 2020 and 2021 the COVID-19 pandemic had an adverse effect on our industry and the markets in which we operate. During that time, the COVID-19 outbreak significantly impacted our sales. We also experienced postponed and delayed orders in certain areas of our businesses. Further, the guidance of social distancing, lockdowns, quarantines and the requirements to work from home in various key territories such as Canada, United States, APAC, EMEA and other countries, in addition to greatly reduced travel globally, resulted in a substantial curtailment of business activities, which affected our ability to deliver products and services in the areas where restrictions were implemented by the local governments. In addition, certain of our sales and support teams were unable to travel or meet with customers and the pandemic threat caused operating, manufacturing, supply chain and project development delays and disruptions, labor shortages, travel and shipping disruptions and shutdowns (including as a result of government regulation and prevention measures). As a result, we experienced a reduction in business in 2020. The regression of the pandemic during 2022, followed by lifting of travel restrictions and social distancing regulations, except in APAC, led to some recovery in our business. In the twelve months ended December 31, 2022, our revenue was \$35.6 million, compared to \$34.9 million in the comparable period of 2021, and \$33.4 million in the comparable period of 2020.

COVID was still a major factor in APAC during 2022 which caused delays in sales and marketing activities.

Most of our administrative functions can be performed remotely. Our ability to collect money, pay bills, handle customer communications, schedule production, and order raw materials necessary for our production has not been materially impacted. To date we have not experienced a significant change in the timeliness of payments of our invoices and our cash position remains stable.

We had to occasionally adjust our manufacturing routine due to restrictions resulting from the Covid-19 pandemic, such as lack of material. We had managed to continue manufacturing and deliveries of our products to our customers throughout 2022.

Supply chain disruptions have been exacerbated in 2022 as major shipping ports and manufacturing facilities in Asia have been affected by Covid-19 variants. The disruption to global supply chains has led to longer supplier delivery times and an increase in material prices.

The following table presents certain financial data expressed as a percentage of revenues for the periods indicated for the continuing operations:

	Year Ended December 31		
	2022	2021	2020
Revenues	100%	100%	100%
Cost of revenues	40%	37%	34%
Gross profit	60%	63%	66%
Operating expenses:			
Research and development, net	11%	11%	12%
Selling and marketing, net	25%	29%	26%
General and administrative	20%	20%	19%
Operating income	4%	3%	9%
Financial income (expenses), net	-	(3)%	(3)%
Income before income taxes	5%	-	6%
Taxes on income (tax benefit)	(7)%	6%	5%
Income (loss) from continuing operations	11%	(6)%	1%

Year Ended December 31, 2022 Compared with Year Ended December 31, 2021 (for continuing operations)

Revenues. Revenues from continuing operations increased by 1.8% to \$35.6 million for the year ended December 31, 2022 from \$34.9 million for the year ended December 31, 2021. The increase relates to some recovery in our business which was impacted by the COVID-19 pandemic.

Cost of revenues. Cost of revenues increased by 8.7% to \$14.1 million for the year ended December 31, 2022 from \$12.9 million for the year ended December 31, 2021. Cost of revenues as a percentage of revenues increased to 40% in 2022 from 37.0% in 2021, primarily due to our revenue mix, some increases in the material costs and due to subsidies granted to our Canadian subsidiary under the Canada Emergency Wage Subsidy program in 2021.

Research and development expenses, net. Research and development expenses, net slightly increased by 2.5% to \$4.0 million for the year ended December 31, 2022 from \$3.9 million for the year ended December 31, 2021.

Selling and marketing expenses. Selling and marketing expenses decreased by 9.9% to \$9.0 million for the year ended December 31, 2022 from \$10.0 million for the year ended December 31, 2021, primarily due to reduction costs is sales employees. Selling and marketing expenses as a percentage of revenues decreased to 25.3% in 2022 from 28.6% in 2021.

General and administrative expenses. General and administrative expenses slightly increased by 0.1% to \$7 million for the year ended December 31, 2022 from \$7.0 million for the year ended December 31, 2021. General and administrative expenses amounted to 19.6% and 20% of revenues in 2022 and 2021, respectively.

Operating income. We had operating income of \$1.5 million for the year ended December 31, 2022 compared to operating income of \$1.1 million for the year ended December 31, 2021. The increase in operating income was primarily attributable to an increase in revenues and operating expenses savings.

Financial income (expenses), net. Our financial income, net, for the year ended December 31, 2022 was \$0.1 million compared to financial expenses, net of \$1 million for the year ended December 31, 2021. The financial income in 2022 were primarily attributable to foreign exchange gain, net, offset by interest expenses during the year.

Income taxes. We recorded tax benefits, net \$2.4 million in the year ended December 31, 2022 compared to tax expenses of \$2.3 million in the year ended December 31, 2021, primarily due to a different geographical mix of pre-tax profitability as well as recovery of provisions for uncertain tax positions and deferred tax asset.

Year Ended December 31, 2021 Compared with Year Ended December 31, 2020 (for continuing operations)

Please see Item 5 in the Form 20-F for the Year ended December 31, 2021 filed on April 27, 2022 for this comparison

Seasonality

Our operating results are characterized by a seasonal pattern, with a higher volume of revenues towards the end of the year and lower revenues in the first part of the year. This pattern, which is expected to continue, is mainly due to two factors:

- our customers are mainly budget-oriented organizations with lengthy decision processes, which tend to mature late in the year; and
- due to harsh weather conditions in certain areas in which we operate during the first quarter of the calendar year, certain projects and services are put on hold and consequently revenues are delayed.

Our revenues are partly dependent on government procurement procedures and practices therefore our revenues and operating results are subject to substantial periodic variations.

Impact of Currency Fluctuations on Results of Operations, Liabilities and Assets

We sell most of our products in North America, Europe and APAC. Our financial results, which are reported in U.S. dollars, are affected by changes in foreign currency. Our revenues are primarily denominated in U.S. dollars and Euros, while a portion of our expenses, primarily labor expenses, is incurred in NIS and CAD. Additionally, certain assets, especially cash, trade receivables and other accounts receivables, as well as part of our liabilities are denominated in NIS and CAD. As a result, fluctuations in rates of exchange between the U.S. dollar and non-U.S. dollar currencies may affect our operating results and financial condition. The dollar cost of our operations in Israel may be adversely affected by the appreciation of the NIS against the U.S. dollar. The dollar cost of our operations in Canada may be adversely affected by the appreciation of the CAD against the U.S. dollar. In addition, the value of our non-U.S. dollar revenues could be adversely affected by the depreciation of the U.S. dollar against such currencies.

The appreciation of the NIS, the CAD and the Euro in relation to the U.S. dollar has the effect of increasing the U.S. dollar value of any unlinked assets and the U.S. dollar amounts of any unlinked liabilities and increasing the U.S. dollar value of revenues and expenses denominated in other currencies. Conversely, the depreciation of the NIS, the CAD and the Euro in relation to the U.S. dollar has the effect of reducing the U.S. dollar value of any of our liabilities which are payable in New Israeli Shekel, Canadian dollars and Euro (unless such costs or payables are linked to the U.S. dollar). Such depreciation also has the effect of decreasing the U.S. dollar value of any asset that is denominated in NISs, CADs and Euros or receivables payable in NIS, CAD and Euro (unless such receivables are linked to the U.S. dollar). In addition, the U.S. dollar value of revenues and expenses denominated in NIS, CAD or Euro would increase. Because foreign currency exchange rates fluctuate continuously, exchange rate fluctuations may have an impact on our profitability and period-to-period comparisons of our results. The effects of foreign currency re-measurements are reported in our consolidated financial statements in current operations.

The following table presents the rate of devaluation or appreciation of the NIS against the dollar. These metrics provide insight on the impact of currency fluctuations on our financial results.

Year ended December 31,	NIS devaluation (appreciation) rate %
2018	8.1
2019	(9.8)
2020	(7.0)
2021	(3.3)
2022	13.2

The U.S. dollar cost of our operations in Canada is influenced by the exchange rate between the U.S. dollar and the CAD. In 2022, the CAD depreciated against the U.S. dollar by 6.4%. In 2021 and 2020 the CAD appreciated against the U.S. dollar by 0.1% and 2.1%, respectively.

In 2022 foreign currency fluctuations had a positive impact on our results of operations as we recorded foreign exchange gain, net of \$0.4 million. In 2021 and 2020, foreign currency fluctuations had a negative impact on our results of operations as we recorded foreign exchange loss, net of \$1 million and \$1 million, respectively.

We expect that our results of operations will continue to be affected by currency fluctuations in the future.

Conditions in Israel

We are incorporated under the laws of State of Israel. See Item 3D “Key Information – Risk Factors – Risks Relating to Our Location in Israel” for a description of governmental, economic, fiscal, monetary and political policies or factors that have materially affected or could materially affect our operations.

Effective Corporate Tax Rate

The Israeli corporate tax rate has been 23% since 2018.

Our effective corporate tax rate may substantially exceed the Israeli tax rate since our U.S.-based subsidiaries will generally be subject to applicable federal, state, local and foreign taxation, and we may also be subject to taxation in the other foreign jurisdictions in which we own assets, have employees or conduct activities. Because of the complexity of these local tax provisions, it is not possible to anticipate the actual combined effective corporate tax rate, which will apply to us.

As of December 31, 2022, we had a net deferred tax assets of \$1.1 million, of which \$0.7 million in domestic deferred tax liability offset by \$1.8 million in foreign deferred tax asset. We had total estimated available operating tax loss carryforwards of \$9.4 million with respect to our operations in Israel to offset against future taxable income. We have recorded a full valuation allowance for such carryforward tax losses due to the uncertainty of their future realization. As of December 31, 2022, our subsidiaries outside of Israel had estimated total available carryforward operating tax losses of \$5.6 million, of which \$5.3 million was attributable to our U.S. subsidiaries (federal only), which may be used as an offset against future taxable income for periods ranging between 1 and 20 years. Utilization of U.S. net operating losses may be subject to a substantial annual limitation due to the “change in ownership” provisions of the Internal Revenue Code of 1986 and similar state tax law provisions. The annual limitation may result in the expiration of net operating losses before utilization.

Trade Relations

Israel is a member of the United Nations, the International Monetary Fund, the International Bank for Reconstruction and Development and the International Finance Corporation. Israel is a member of the World Trade Organization and is a signatory to the General Agreement on Tariffs and Trade. Israel is also a member of the Organization for Economic Co-operation and Development, or the OECD, an international organization whose members are governments of mostly developed economies. The OECD’s main goal is to promote policies that will improve the economic and social well-being of people around the world. In addition, Israel has been granted preferences under the Generalized System of Preferences from the United States, Australia, Canada and Japan. These preferences allow Israel to export products covered under such programs either duty-free or at reduced tariffs.

B. Liquidity and Capital Resources

Cash and cash equivalents and short-term deposits amounted to \$15.0 million at December 31, 2022 compared to \$26.4 million at December 31, 2021. The decrease in cash and cash equivalents is primarily due to net cash used in operating activities as well as investing activities which was slightly offset by net cash used in financing activities. Our cash and cash equivalents, short and long-term bank deposits are held in various banks, mainly in U.S. dollars, Euros, NIS and CAD.

From our inception until our initial public offering in March 1993, we financed our activities mainly through cash flow from operations. In March 1993, we received proceeds of \$9.8 million from our initial public offering of 1,380,000 ordinary shares. Subsequently, we made follow-on public offerings, in February 1997 (of 2,085,000 ordinary shares) and in April 2005 (of 1,700,000 ordinary shares), in which we raised \$9.4 million and \$14.9 million, respectively. To allow us to begin to implement a new strategic plan, on September 8, 2010, a company affiliated with our former principal shareholder, provided us with a bridge loan of \$10.0 million. To repay the loan and to raise permanent capital for general working capital purposes including facilitating the implementation of our new business strategy, in July and August 2011 we raised \$16.2 million from rights offering of 5,273,274 ordinary shares and a private placement of 150,000 of our ordinary shares.

In October 2016, we completed a rights offering in which we received gross proceeds of approximately \$23.8 million from the sale of 6,170,386 ordinary shares. Our controlling shareholders, FIMI V Funds purchased 3,392,869 ordinary shares including through an exercise of over-subscription rights.

In 2016, we paid approximately \$12.1 million, (including \$0.8 million placed in escrow to secure potential indemnity obligations and net of cash acquired) in consideration of our acquisition of Aimetis in 2016, and approximately \$0.4 million (net of \$2.4 million of acquired cash) in consideration of our acquisition of a majority interest in ESC BAZ Ltd. in 2018.

In connection with our acquisition of CyberSeal, we issued warrants to purchase 898,203 of our ordinary shares at an exercise price of \$4.16 per share to CyberSeal's former owners. Of such warrants, 60,000 warrants were exercised in 2017. In October 2018, we agreed to purchase the remaining 838,203 warrants from the warrant holders for an aggregate consideration of \$375,000. Under Israeli law, the consummation of such transaction was subject to court approval, which was granted on January 16, 2019. The closing of the purchase of the warrants occurred in March 2019.

On December 7, 2020, following receipt of the required court approval under Israeli law, we announced a cash distribution in the amount of US\$1.079 per share (approximately US\$ 25 million in the aggregate) which was paid on December 28, 2020. On December 31, 2020 we paid approximately \$1.9 million in consideration for the remaining 45% interest in ESC BAZ.

On August 16, 2021, following the completion of the sale of our Integration Solution Division and the receipt of the required court approval under Israeli law, we announced a cash distribution in the amount of US\$1.725 per share (approximately US\$40 million in the aggregate) which was paid on September 22, 2021.

We expect that our total research and development expenses in 2023 will be approximately \$4.6 million. Our research and development plan for 2023 covers development of new and innovative products, as well as the improvement of existing technologies.

We believe that our cash and cash equivalents, bank facilities, bank deposits and our expected cash flows from operations will be sufficient to meet our ongoing cash requirements through 2023. However, our liquidity could be negatively affected by a decrease in demand for our products, including the impact of potential reductions in customer purchases that may result from the current general economic climate.

Cash Flows

The following table summarizes our cash flows for the periods presented:

	Year ended December 31,		
	2022	2021	2020
	(in thousands)		
Net cash provided by (used in) operating activities	(9,515)	6,029	2,317
Net cash provided by (used in) investing activities	(237)	31,725	16,220
Net cash provided by (used in) financing activities	19	(39,683)	(28,785)
Effect of exchange rate changes on cash and cash equivalents	(1,727)	981	2,828
Increase (decrease) in cash, cash equivalents and restricted cash	(11,460)	(948)	(7,420)
Cash, cash equivalents and restricted cash at the beginning of the year, including cash attributable to discontinued operations	26,397	27,345	34,765
Cash, cash equivalents and restricted cash at the end of the year, including cash attributable to discontinued operations	14,937	26,397	27,345
Less: Cash, cash equivalents, and restricted cash attributable to discontinued operations	-	-	2,814
Cash, cash equivalents, and restricted cash from continuing operations	14,937	26,397	24,531

Net cash used in operating activities in the year ended December 31, 2022 was approximately \$9.5 million, compared to net cash provided by operating activities of approximately \$6.0 million and \$2.3 million in the year ended December 31, 2021 and 2020, respectively.

Net cash used in operating activities in the year ended December 31, 2022 was primarily attributable to a decrease of \$7.4 million in other accounts payable and accrued expenses and deferred revenues, an increase of \$3.2 million in inventories, an increase of \$2.5 million in trade receivables, an increase of \$1.4 million in deferred income taxes and an increase of \$0.3 million in unbilled receivables. This was offset in part by our profit in 2022, as well as \$1.4 million of depreciation and amortization expenses and a decrease of \$0.5 million in other accounts receivable and prepaid expenses.

Net cash provided by operating activities in the year ended December 31, 2021 was primarily attributable to our profit in 2021, as well as \$1.9 million of depreciation and amortization expenses, a decrease of \$11.1 million in trade receivables, a decrease of \$2.6 million in unbilled receivables and a decrease of \$1.4 million in deferred income taxes. This was offset in part by the gain on divestiture of the Integrated Solutions Division of \$14.9 million, a decrease of \$0.8 million in trade payables, an increase of \$0.7 million in inventories, a decrease of \$0.5 million in customer advances, changes in accrued severance pay, net of \$0.3 million and a decrease of \$0.2 million in other accounts payable and accrued expenses and deferred revenues.

Net cash provided by operating activities in the year ended December 31, 2020 was primarily attributable to our profit in 2020, as well as \$2.0 million of depreciation and amortization expenses, an increase of \$1.9 million in trade payables, an increase of \$1.8 million in other accounts payable and accrued expenses and deferred revenues, a decrease of \$0.9 million in deferred income taxes and a decrease of \$0.8 million in inventories. This was offset in part by an increase of \$2.1 million in unbilled receivables, an increase of \$1.6 million in trade receivables, a decrease of \$1.5 million in customer advances and an increase of \$0.5 million in other accounts receivables and prepaid expenses.

Net cash used in investing activities of approximately \$0.2 million in the year ended December 31, 2022, compared to net cash provided by investing activities of approximately \$31.7 million and \$16.2 million in the years ended December 31, 2021 and 2020, respectively.

In the year ended December 31, 2022, our net cash used in investing activities was primarily attributable to purchase of property and equipment for \$0.2 million.

In the year ended December 31, 2021, our net cash provided by investing activities was primarily attributable to the divestiture of the Integrated Solutions Division for \$32.6 million. This was offset in part by purchase of property and equipment for \$0.8 million.

In the year ended December 31, 2020, our net cash provided by investing activities was primarily attributable to sale of short-term bank deposits of \$17.0 million. This was offset in part by purchase of property and equipment for \$0.8 million.

Net cash provided by financing activities of approximately \$19 thousands in the year ended December 31, 2022, compared to net cash used in financing activities of approximately \$39.7 million and \$28.8 million in the years ended December 31, 2021 and 2020, respectively.

In the year ended December 31, 2022, our net cash provided by financing activities was attributable to the proceeds from the issuance of shares upon exercise of options of \$19 thousands.

In the year ended December 31, 2021, our net cash used in financing activities was attributable to cash distribution to Company's shareholders of \$40.1 million. This was offset in part by the proceeds from the issuance of shares upon exercise of options of \$0.4 million.

In the year ended December 31, 2020, our net cash used in financing activities was attributable to the cash distribution to our company's shareholders of \$25 million, a dividend to redeemable non-controlling interests of \$1.9 million and the purchase of redeemable non-controlling interests of \$1.9 million.

For our continuing operations, we had capital expenditures for property and equipment of approximately \$0.2 million, \$0.6 million and \$0.4 million, in the years ended December 31, 2022 and 2021 and 2020, respectively. We estimate that our capital expenditures for 2023 will total approximately \$0.4 million. We expect to finance these expenditures primarily from our cash and cash equivalents and our operating cash flows. However, the actual amount of our capital expenditures will depend on a variety of factors, including general economic conditions and changes in the demand for our products.

Credit Lines and Other Debt

As of December 31, 2022, we had credit lines with Bank Leumi Le-Israel B.M., or Bank Leumi, and Mizrahi-Tefahot Bank., or UMTB, totaling \$1.6 million in the aggregate, out of which \$0.1 million was available as of December 31, 2022. Our credit lines at Bank Leumi and UMTB have no restrictions as to our use of the credit. We are not under any obligation to maintain financial ratios or other terms in respect of our credit lines. In addition, as of December 31, 2022, our foreign subsidiary had credit lines with the Royal Bank of Canada of \$0.6 million in the aggregate, of which \$0.5 million was available at December 31, 2022.

As of December 31, 2022, our outstanding balances under our credit lines in Israel consisted of several bank performance, advance payment and bid guarantees totaling approximately \$1.5 million, at an annual cost of 0.65%-1%. As of December 31, 2022, the outstanding balances under the credit lines of our subsidiary consisted of several bank performance, advance payment and bid guarantees totaling approximately \$0.1 million, at an annual cost of approximately 1.7%.

We have no significant off-balance sheet concentration of credit risks, such as foreign exchange contracts or foreign hedging arrangements.

C. Research and Development, Patents and Licenses.

Government Grants

We participate in programs sponsored by the Industrial Research Assistance Program (IRAP) in Canada. During 2022 our Canadian subsidiary recognized IRAP funding in the amount of \$89,000. During 2021 and 2020 our Canadian subsidiary did not receive any grants with respect to such programs.

Investment Tax Credit

Our Canadian subsidiary is eligible for investment tax credits for its research and development activities and for certain current expenditures. For the years ended December 31, 2022, 2021 and 2020, our Canadian subsidiary recognized \$140,000, \$152,000 and \$151,000, respectively, of investment tax credits.

In addition, as of December 31, 2022, our U.S. subsidiary had available investment tax credits of approximately \$165,000 to reduce future federal and state income taxes payable. These credits will expire in 2023 through 2025 in the U.S. As of December 31, 2022, our subsidiaries made a full valuation allowance in respect of such investment tax credits.

D. Trend Information.

Our operations were negatively affected by the worldwide shortage of various materials and sub-components required to produce certain of our PIDS products. We are monitoring the supply chain shortage, vs our ongoing and forecasted manufacturing requirements, while implementing various procurement methodologies to meet current and forecasted demand for our products. However, our ability to continue meeting the demand for our products is dependent among others, on our ability to maintain an effective procurement plan support from our suppliers, and when needed establish a contractual relationship with alternative suppliers.

E. Critical Accounting Estimates

The preparation of financial statements in conformity with U.S. GAAP requires us 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 revenues and expenses during the reporting period. Actual results could differ from those estimates and the use of different assumptions would likely result in materially different results of operations. Critical accounting policies are those that are both most important to the portrayal of our financial position and results of operations and require management's most difficult, subjective or complex judgments. Although not all of our significant accounting policies require management to make difficult, subjective or complex judgments or estimates, the following policies and estimates are those that we deem most critical

Explanation of Key Income Statement Items

Cost of revenues. Our cost of revenues for perimeter products consists of component and material costs, direct labor costs, subcontractor costs, shipping expenses, overhead related to manufacturing and depreciation. Our cost of revenues for Video Security sales consists primarily of direct labor costs, some component, material and subcontractor costs and overhead related to those sales.

In the past, our gross margin was affected by the proportion of our revenues generated from our Products and Projects segments. Historically, our revenues from Products generally had higher gross margins than our Projects revenues.

Research and development expenses, net. Research and development expenses, net consists primarily of expenses for on-going research and development activities and other related costs.

Selling and marketing expenses. Selling and marketing expenses consist primarily of commission payments, compensation and related expenses of our sales teams, attendance at trade shows and advertising expenses and related costs for facilities and equipment.

General and administrative expenses. Our general and administrative expenses consist primarily of salary and related costs associated with our executive and administrative functions, public company related expenses, legal and accounting expenses, allowances for credit losses and bad debts and other miscellaneous expenses. Staff costs include direct salary costs and related costs, such as severance pay, social security and retirement fund contributions, vacation and other pay.

Depreciation and Amortization and impairment of goodwill. The amount of depreciation and amortization attributable to our Products segment for the years ended December 31, 2022, 2021 and 2020 were approximately \$1.4 million, \$1.5 million and \$1.2 million, respectively.

Financial Expenses, Net. Financial expenses, net include exchange rate differences arising from changes in the value of monetary assets and monetary liabilities stated in currencies other than the functional currency of each entity, currency transactions as well as interest income on our cash and cash equivalents and short term investments.

Revenue Recognition

We recognize revenues from continuing operations in accordance with ASC No. 606, "Revenue from Contracts with Customers" ("ASC No. 606"). As such, we identify a contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to each performance obligation in the contract and recognize revenues when (or as) we satisfy a performance obligation.

Following the sale of the Integrated Solution Division, we generate our revenues mainly from: (1) sales of security products; (2) services and maintenance, which are performed either on a fixed-price basis or as time-and-materials based contracts; (3) software license fees and related services; and (4) force protection systems project for which revenues are generated from long-term fixed price contracts.

We enter into contracts that can include combinations of products and services, which are generally capable of being distinct and accounted for as separate performance obligations. The perpetual license is distinct as the customer can derive the economic benefit of the software without any professional services, updates or technical support.

The transaction price is determined based on the consideration to which we will be entitled in exchange for transferring goods or services to the customer. We usually do not grant a right of return to our customers.

In instances of contracts where revenue recognition differs from the timing of invoicing, we generally determined that those contracts do not include a significant financing component. We use the practical expedient and do not assess the existence of a significant financing component when the difference between payment and revenue recognition is a year or less.

Maintenance and support agreements provide customers with rights to unspecified software product updates, if and when available. These services grant the customers online and telephone access to technical support personnel during the term of the service. We recognize maintenance and support services revenues ratably over the term of the agreement, usually one year.

We generate revenues from the sales of its software products user licenses as well as from maintenance, support, consulting and training services.

As required by ASC 606, following the determination of the performance obligations in the contract, we allocate the total transaction price to each performance obligation in an amount based on the estimated relative standalone selling prices of the promised license fees or services underlying each performance obligation. Standalone selling price is the price at which we would sell a promised license or service separately to a customer.

Revenues for performance obligations that are not recognized over time are recognized at the point in time when control is transferred to the customer (which is generally upon delivery) and included mainly revenues from the sales of security products without significant installation work. We generally do not provide a right of return to our customers. For performance obligations that are satisfied at a point in time, we evaluated the point in time when the customer can direct the use of, and obtain the benefits from, the products. Shipping and handling costs are not considered performance obligations and are included in cost of sales as incurred.

Services and maintenance are performed under either fixed-price or time-and-materials based contracts. Under fixed-price contracts, we agreed to perform certain work for a fixed price. Under time-and-materials contracts, we are reimbursed for labor hours at negotiated hourly billing rates and for materials. Our service contracts included contracts in which the customer simultaneously receives and consumes the benefits provided as the performance obligations are satisfied, accordingly, related revenues are recognized, as those services are performed or over the term of the related agreements.

For our force protection systems contract, where our performance does not create an asset with an alternative use, we recognized revenue over performance time because of continuous transfer of control to the customer. For these performance obligations that are satisfied over time, we recognize revenue using an input method with revenue amounts being recognized proportionately as costs are incurred relative to the total expected costs to satisfy the performance obligation.

Inventories

Inventories are stated at the lower of cost or market value. We periodically evaluate the quantities on hand relative to historical and projected sales volumes, current and historical selling prices and contractual obligations to maintain certain levels of parts. Based on these evaluations, inventory write-offs are provided to cover risks arising from slow-moving items, discontinued products, excess inventories, market prices lower than cost and adjusted revenue forecasts. Cost is determined as follows:

- Raw materials, parts and supplies – using the “first-in, first-out” method.
- Work-in-progress and finished products – on the basis of direct manufacturing costs with the addition of allocable indirect manufacturing costs.

During the years ended December 31, 2022, 2021 and 2020 we recorded inventory write-offs from continuing operations in the amounts of \$21,000, \$0.1 million and \$29,000, respectively. Such write-offs were included in cost of revenues.

Income taxes

We account for income taxes in accordance with ASC 740 “Income Taxes.” This statement prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. We provide a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and we must establish a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. Increases in the valuation allowance result in additional expense to be reflected within the tax provision in the consolidated statement of income.

As of December 31, 2022, we had a net deferred tax assets of \$1.1 million, of which \$0.7 million in domestic deferred tax liability offset by \$1.8 million in foreign deferred tax asset. We had total estimated available operating tax loss carryforwards of \$9.4 million with respect to our operations in Israel. Our non-Israeli subsidiaries had estimated total available operating tax loss carryforwards of \$5.6 million, of which \$5.3 million was attributable to our U.S. subsidiaries (federal only), which may be used as an offset against future taxable income for periods ranging between 1 and 20 years. As of December 31, 2022, we recorded a partial valuation allowance on these carryforward tax losses and other temporary differences that management believes are not expected to be realized in the foreseeable future and other temporary differences that management believes are not expected to be realized in the foreseeable future. Utilization of U.S. net operating losses may be subject to a substantial annual limitation due to the “change in ownership” provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of net operating losses before utilization.

Goodwill

Goodwill and certain other purchased intangible assets have been recorded as a result of acquisitions. Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and intangible assets acquired. Goodwill is not amortized, but rather is subject to an impairment test.

ASC No. 350, "Intangible-Goodwill and other" requires goodwill to be tested for impairment at least annually and, in certain circumstances, between annual tests. The accounting guidance gives the option to perform a qualitative assessment to determine whether further impairment testing is necessary. The qualitative assessment considers events and circumstances that might indicate that a reporting unit's fair value is less than its carrying amount. If it is determined, as a result of the qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, a quantitative test is performed. Alternatively, ASC No. 350 permits an entity to bypass the qualitative assessment for any reporting unit and proceed directly to performing the quantitative goodwill impairment test

If the carrying value of a reporting unit exceeds its fair value, we should recognize an impairment of goodwill for the amount of this excess. We perform an annual impairment test during the fourth quarter of each fiscal year, or more frequently if impairment indicators are present.

As of June 30, 2021, as a result of the sale of the Projects segment, we began operating as one operating segment with a single reporting unit.

In 2020, we operated as two operating segments, each comprised of one reporting unit. For the purposes of impairment testing of goodwill, we identified two reporting units to which goodwill relates: (1) Products reporting unit which comprises the Products segment and; (2) ESC BAZ reporting unit within the Projects segment.

For the years ended December 31, 2022, 2021 and 2020, no impairment losses were recorded.

Intangible assets

Our intangible assets are comprised of patents, acquired technology, customer relations and backlog. Intangible assets are amortized over their useful lives using a method of amortization that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise used up, in accordance with ASC 350, "Intangibles – Goodwill and Other."

For the years ended December 31, 2022, 2021 and 2020, no impairment losses were recorded.

Impairment of long-lived assets

Our long-lived assets (assets group) to be held or used, including right of use assets and intangible assets that are subject to amortization, are reviewed for impairment in accordance with ASC 360, "Property, Plant, and Equipment" whenever events or changes in circumstances indicate that the carrying amount of a group of assets may not be recoverable. Recoverability of a group of assets to be held and used is measured by a comparison of the carrying amount of the group to the future undiscounted cash flows expected to be generated by the group. If such group of assets is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value. For the years ended December 2022, 2021 and 2020, we did not record any impairment charges attributable to long-lived assets.

ITEM 6. Directors, Senior Management and Employees

A. Directors and Senior Management.

Set forth below are the name, age, principal position and a biographical description of each of our directors and executive officers:

Name	Age	Position
Gillon Beck	61	Chairman of the Board of Directors
Jacob Berman	74	Director
Avraham Bigger (1)(2)	77	Director
Limor Stekllov (1)(2)	52	External Director
Moshe Tsabari (1)(2)	69	External Director
Dror Sharon*	57	Chief Executive Officer
Tomer Hay	46	Chief Financial Officer
Fabien Haubert	48	Vice President & Managing Director of Senstar - Head of the Product Division

(1) Member of our Audit Committees.

(2) Member of our Compensation Committee

* In January 2023, Mr. Sharon notified the Company of his intention to retire from the position as Chief Executive Officer in the near future.

Gillon Beck has served as a director and Executive Chairman of our board of directors since September 2014. Since 2003, Mr. Beck has been a Senior Partner at FIMI Opportunity Funds, the controlling shareholder of Senstar, as well as a Director of the FIMI Opportunity Funds' General Partners and SPV companies. In addition, Mr. Beck currently serves as Chairman of the Board of ImageSat NV, Emet Computing Ltd. (TASE), Gal-Shvav Ltd, Bet Shemesh Engines Ltd. (TASE: BSEN), Inrom Industries Ltd., Bird Aerosystems Ltd, and is a director of Rafa Laboratories Ltd., Simplivia Ltd., Orbit Technologies Ltd (TASE: ORBI), Carmel Forge Ltd., AITECH Ltd, Stern Engineering Ltd., Utron Ltd. (TASE) and Unitronics (1989) (RG) Ltd (TASE: UNIT). During the past five years, Mr. Beck had served as a member of the Board of Directors of the following public companies: Overseas Commerce Ltd (TASE: OVRS), Ham-Let Ltd., Inrom Construction Ltd. From 1999 to 2003, Mr. Beck served as Chief Executive Officer and President of Arad Ltd. (TASE) Mr. Beck received a Bachelor of Science degree (Cum Laude) in Industrial Engineering in 1990 from the Technion – Israel Institute of Technology, and a Master of Business Administration in Finance in 1992 from Bar-Ilan University.

Jacob Berman has served as a director since November 2013. Since November 2014 until March 2019, Mr. Berman had served as the chairman of the board of directors of Israel Discount Bank of New York and acted as a member of our audit committee and compensation committee between September 2014 and December 2014. Mr. Berman is the President and founder of JB Advisors, Inc., a New York based financial advisory firm with extensive experience in international private banking, real estate investment counseling, and commercial/retail banking since 2002. Mr. Berman was the founder, President and CEO of the Commercial Bank of New York.

Avraham Bigger has served as a director since September 2014. Mr. Bigger has been, since 2010, the owner and a member of the Board of Directors of Bigger Investments Ltd. Mr. Bigger currently serves as the chairman of the board of PCB Technologies Ltd. and of the board at Recha, board member at MCA (car import and distributor), international board member of the Weitzman Science Institute and a board member of the Israel Nature and Heritage Foundation. He formerly served as the Chief Executive Officer and Chairman of the Board of Directors of Adama Ltd. (formerly) Makhteshim Agam Industries Ltd.), Chairman of the Boards of Directors of Supersol Ltd. (TASE:SAE), Caniel Beverages & Caniel Packaging Industries Ltd., the Edmond Benjamin de Rothschild Caesarea Foundation and as managing director of Paz Oil Company Ltd. (TASE:PZOL) and Israel General Bank (U Bank). Mr. Bigger also served as a member of the Boards of Directors of Bank Leumi Le-Israel Ltd. (TASE:LUMI), First International Bank of Israel Ltd. (TASE:FIBI), Strauss Group Ltd. (formerly known as Strauss-Elite Ltd.) (TASE:STRS), Partner Communications Company Ltd. (TASE, NASDAQ:PTNR), Cellcom Israel Ltd. (TASE, NYSE:CEL), El-Al Israel Airlines Ltd., Migdal Insurance and various private companies. Mr. Bigger received a Bachelor of Economics degree and an M.B.A. degree, both from the Hebrew University of Jerusalem.

Limor Steklov has served as an external director since August 2019. Ms. Steklov serves as the CFO of TNT Express Worldwide (Israel) Ltd. Ms. Steklov has extensive experience in business partnering, combining business and financial visions, leading economic and business analytics, leading worldwide/local projects, creating effective and efficient processes, and leading, coaching, motivating and mentoring large finance teams. Ms. Steklov currently serves as a board member of the parent company of FEDEX Israel. Ms. Steklov holds a B.A. degree in economics and accountancy from College of Management – Academic Studies (COMAS) in Rishon LeZion and a M.A. degree in law from Bar-Ilan University.

Moshe Tsabari has served as an external director since December 2014. Since 2018 Mr. Tsabari has served as EVP for innovation at ICTS Europe S.A. which is part of Groupe Sofinord S.A. Until 2018 Mr. Tsabari was the owner and had served as the joint CEO of GME Trust, a company that advises on crisis management and improvement of work processes, in Israel and worldwide. Since 2005, Mr. Tsabari has served as the owner and director of Osher – Training & Consulting Ltd. From 2006 to 2011 Mr. Tsabari served as a senior partner in the International Company for Defense and Rescue Ltd. and in QG Company, two companies that are engaged in the provision of consultancy and training projects in the security field in Israel. In addition, Mr. Tsabari is the founder of the International Institute for Researching the Arab World, is a former director in Links Aviation and is the former CEO of SYS-TRY, an electronic equipment development company. Prior to that, Mr. Tsabari served for 15 years, until 2004, in the Israeli Security Agency (ISA) in a number of positions, including Director of Personal in the Human Resources Division, Director of Security Assistance Division (rank in both positions equivalent to Major General) and Head of the Operations Division (rank equivalent to Brigadier). Mr. Tsabari holds a B.Sc. degree in Geodetic Engineering, a M.A. degree in Industrial and Management Engineering and a PhD degree in Science, all from the Technion – The Israeli Institute of Technology. In addition, Mr. Tsabari is an A.M.P. graduate from the Wharton School of the University of Pennsylvania.

Dror Sharon has served as our Chief Executive Officer since June 24, 2018, following a six years career as President and CEO of Controp Precision Technology Ltd., a company specializing in developing, manufacturing and selling electro optical and precision motion control systems for the global defense and homeland security (HLS) markets. Prior to that, Mr. Sharon served in various positions at Opgal Optronics Ltd., the last four years as its President and CEO. Mr. Sharon holds an MBA degree from Derby University, United Kingdom and a B.Sc. degree in Mechanical Engineering (Dean's award of excellence) from the Technion -Israel Institute of Technology, Haifa, Israel. In January 2023, Mr. Sharon notified the Company of his intention to retire from the position as Chief Executive Officer in the next few months.

Tomer Hay has served as Chief Financial Officer since July 2021. Mr. Hay joined the Company in 2012 as Corporate Controller and progressed to the position of VP Finance before his appointment as CFO. As VP Finance, Mr. Hay was responsible for the Company's financial reporting, analysis, controls and tax matters. In addition, he was actively involved in strategic processes, including M&A and restructuring. Prior to joining the Company, Mr. Hay had a successful career within the high-tech sector at Ernst and Young Israel, ending as Senior Audit Manager. Mr. Hay brings over 18 years of professional experience and knowledge of financial management of NASDAQ-listed companies engaged in the tech sector. Mr. Hay is a certified public accountant in Israel and holds a B.A. degree in Accounting and Economics from Tel-Aviv University.

Fabien Haubert joined our company in February 2018 as Vice President Sales – EMEA Region, based in Paris, France. Mr. Haubert's most recent experience (February 2014 – February 2018) was with UK based CCTV solution provider Indigo Vision located in Edinburgh where he was Regional Director – EMEA South. Previous to his four years at Indigo he worked with several companies in the VMS, IP CCTV, intrusion, access control and integration areas since 2002. He has extensive experience in sales management with past responsibility for the EMEA region. Mr. Haubert has a technical background with a Master of Science degree in Electronics Engineering (Ecole Supérieure d'Ingénieurs en Electrotechnique et Electronique) as well as a Master of Strategy and Engineering of International business (Ecole Supérieure des Sciences Economiques et Commerciales). He speaks French, English, Spanish, and Italian and has a working knowledge of Dutch.

The terms of office of Messrs. Beck, Berman and Bigger will expire at our 2023 annual general meeting of shareholders. The terms of our external directors, Mr. Tsabari and Ms. Steklov, expire at our 2023 and 2025 annual general meetings, respectively.

B. Compensation

Compensation of Directors and Executive Officers

The aggregate compensation costs on behalf of our directors and executive officers as a group during 2022 (including executive officer which does not longer serves as executive officer) consisted of approximately \$1.6 million in salary, fees, bonus, equity based compensation, commissions and directors' fees, but excluding dues for professional and business associations, business travel and other expenses commonly reimbursed or paid by companies. As of December 31, 2022, the aggregate amount set aside or accrued for pension, retirement and vacation or similar benefits for our directors and executive officers was approximately \$0.1 million. In addition, we provide automobiles to our executive officers at our expense.

We pay our directors an annual fee of NIS 90,000 (approximately \$25,600) and a fee of NIS 4,000 (approximately \$1,150) for each board or committee meeting that they attend. Such amounts are linked to the Israeli consumer price index, or CPI, and are updated on a semi-annual basis and accordingly, are adjusted to reflect changes in the CPI in February and August, each year. In addition, we pay to our Executive Chairman a monthly payment of NIS 15,000 (approximately \$4,250). Our executive Chairman is also entitled to a director fees paid to all of our directors as described above. In addition, Mr. Beck is entitled to annual cash bonus of \$30,000 payable in the event our net profit pursuant to our annual audited and consolidated financial statement exceeds \$5,000,000.

As of December 31, 2022, our directors and executive officers as a group, then consisting of 9 persons, held options to purchase an aggregate of 510,000 ordinary shares, having exercise prices ranging from \$1.9 to \$3.28 and expiration dates ranging from 2023 to 2028. Generally, the options vest over a two to four year period. See this Item 6E. "Directors, Senior Management and Employees – Share Ownership – Stock Option Plans."

Compensation of Senior Office Holders – Israel Companies Law Disclosure

The table below sets forth the compensation paid to our five most highly compensated senior office holders (as defined in the Israeli Companies Law) during the year ended December 31, 2022 (which include one former senior officer), in the disclosure format of Regulation 21 of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970. We refer to the five individuals for whom disclosure is provided herein as our “Covered Executives.”

Information Regarding the Covered Executive(1) (dollars in thousands)					
Name and Principal Position(2)	Base Salary	Benefits and Perquisites(3)	Variable Compensation(4)	Equity-Based Compensation(5)	Total
Dror Sharon – Chief Executive Officer	333	155	43	31	562
Fabien Haubert –Vice President & Managing Director of Senstar - Head of the Product Division	194	43	25	25	287
Tomer Hay – Chief Financial Officer	144	62	18	19	243
Doron Kerbel – Former Vice President General Counsel and Company Secretary	147	66	-	14	227
Jeremy Weese –Vice President & Managing Director of Senstar - Head of the Product Division	172	21	22	3	218
(1)	All amounts reported in the table are in terms of cost to our company, as recorded in our financial statements.				
(2)	All current Covered Executives listed in the table are full-time employees. Cash compensation amounts denominated in currencies other than the U.S. dollar were converted into U.S. dollars at the average conversion rate for the year ended December 31, 2022.				
(3)	Amounts reported in this column include benefits and perquisites or on account of such benefits and perquisites, including those mandated by applicable law. Such benefits and perquisites may include, to the extent applicable to each executive, payments, contributions and/or allocations for savings funds, pension, severance, vacation, car or car allowance, medical insurances and benefits, risk insurances (e.g., life, disability, accident), convalescence pay, payments for social security, tax gross-up payments and other benefits and perquisites consistent with our guidelines.				
(4)	Amounts reported in this column refer to Variable Compensation such as commission, incentive and bonus payments as recorded in our financial statements for the year ended December 31, 2022.				
(5)	Amounts reported in this column represent the expense recorded in our financial statements for the year ended December 31, 2022.				

Pursuant to the Israeli Companies Law, we have adopted a compensation policy and are required to follow certain approval requirements with respect to the compensation of our directors and executive officers. See below “Board of Directors – Compensation Committee” and Item 10. Additional Information — Office Holders.

We follow Israeli law and practice instead of the requirements of the NASDAQ Stock Market Rules regarding the compensation of our chief executive office and other executive officers. See Item 16G. “Corporate Governance.”

C. Board Practices Introduction

According to the Israeli Companies Law and our articles of association, the management of our business is vested in our board of directors. The board of directors may exercise all powers and may take all actions that are not specifically granted to our shareholders. Our executive officers are responsible for our day-to-day management. The executive officers have individual responsibilities established by our chief executive officer and board of directors. Executive officers are appointed by and serve at the discretion of the board of directors, subject to any applicable agreements.

Election of Directors

Our articles of association provide for a board of directors of not less than three and not more than 11 members, as may be determined from time to time at our annual general meeting. Our board of directors is currently composed of five (5) directors.

Our directors (except the external directors, as detailed below), are elected by our shareholders at our annual general meeting and hold office until the next annual general meeting. All the members of our board of directors (except the external directors), may be reelected upon completion of their term of office. Our annual general meetings of shareholders are held at least once every calendar year, but not more than 15 months after the last preceding annual general meeting. In the intervals between our annual general meetings of shareholders, the board of directors may from time to time appoint a new director to fill a casual vacancy or to add to their number, and any director so appointed will remain in office until our next annual general meeting of shareholders and may be re-elected.

Under the Israeli Companies Law, our board of directors is required to determine the minimum number of directors who must have "accounting and financial expertise," as such term is defined in regulations promulgated under the Israeli Companies Law. Our board of directors has determined that at least one director must have "accounting and financial expertise." Our board of directors has further determined that Ms. Limor Steklov has the requisite "accounting and financial expertise."

We do not follow the requirements of the NASDAQ Stock Market Rules regarding the nomination process of directors, and instead, we follow Israeli law and practice, in accordance with which our directors are recommended by our board of directors for election by our shareholders. See Item 16G. "Corporate Governance."

External and Independent Directors

External directors. The Israeli Companies Law requires Israeli companies with shares that have been offered to the public in or outside of Israel to appoint at least two external directors. The Israeli Companies Law provides that a person may not be appointed as an external director if the person, or the person's relative, partner, employer or an entity under that person's control, has or had during the two years preceding the date of appointment any affiliation with the company, or any entity controlling, controlled by or under common control with the company. The term "relative" means a spouse, sibling, parent, grandparent, child or child of spouse or spouse of any of the above as well as a sibling, brother, sister or parent of the foregoing relatives. In general, the term "affiliation" includes an employment relationship, a business or professional relationship maintained on a regular basis, control and service as an office holder. Furthermore, if the company does not have a controlling shareholder or a shareholder holding at least 25% of the voting rights, "affiliation" also includes a relationship, at the time of the appointment, with the chairman of the board, the chief executive officer, a substantial shareholder or the most senior financial officer of such company. Regulations promulgated under the Israeli Companies Law include certain additional relationships that would not be deemed an "affiliation" with a company for the purpose of service as an external director. In addition, no person may serve as an external director if the person's position or other activities create or may create a conflict of interest with the person's responsibilities as director or may otherwise interfere with the person's ability to serve as director or if such person is an employee of the Israel Securities Authority or of an Israeli stock exchange. If, at the time an external director is appointed, all current members of the board of directors are of the same gender, then that external director must be of the other gender. A director of one company may not be appointed as an external director of another company if a director of the other company is acting as an external director of the first company at such time.

At least one of the elected external directors must have "accounting and financial expertise" and any other external director must have "accounting and financial expertise" or "professional qualification," as such terms are defined by regulations promulgated under the Israeli Companies Law.

The external directors are elected by shareholders at a general meeting. The shareholders voting in favor of their election must include at least a majority of the shares voted by shareholders other than controlling shareholders or shareholders who have a personal interest in the election of the external director (unless such personal interest is not related to such persons relationship with the controlling shareholder) present and voting at such meeting (excluding abstentions). This majority requirement will not be required if the total number of shares of such non-controlling shareholders and disinterested shareholders who vote against the election of the external director represent 2% or less of the voting rights in the company.

In general, under the Israeli Companies Law, external directors serve for a three-year term and may be reelected to two (2) additional three-year terms. However, Israeli companies listed on certain stock exchanges outside Israel, including The NASDAQ Global Market, such as our company, may appoint an external director for additional terms of not more than three years subject to certain conditions. Such conditions include the determination by the audit committee and board of directors, that in view of the director's professional expertise and special contribution to the company's board of directors and its committees, the appointment of the external director for an additional term is in the best interest of the company. External directors can be removed from office only by the same special percentage of shareholders that can elect them, or by a court order, and then only if the external directors cease to meet the statutory qualifications with respect to their appointment or if they violate their fiduciary duty to the company.

Pursuant to the Israeli Companies Law, external directors up for re-election are nominated either by the board of directors or by any shareholder(s) holding at least 1% of the voting rights in the company. If the board of directors proposed the nominee, the reelection must be approved by the shareholders in the same manner required to appoint external directors for an initial term, as described above. If such reelection is proposed by shareholders, such reelection requires the approval of the majority of the shareholders voting on the matter, and satisfaction of all of the following requirements: (i) In calculating the majority votes, the votes of the controlling shareholders and other shareholders that have personal interest in such reelection (unless such personal interest is not related to such persons relationship with the controlling shareholder) as well as abstentions are not included; (ii) the votes of the non-controlling shareholders in favor of the reelection and of the shareholders who do not have personal interest in the reelection (unless such personal interest is not related to such person's relationship with the controlling shareholder) is greater than 2% of the voting rights in the company; and (iii) the external director is not, at the time of such reelection, a related shareholder or competitor or a relative thereof and does not have any affiliation to any related shareholder, competitor or any relative thereof during the two years prior to such re-election. A related shareholder or a competitor are defined as the shareholder proposing the reelection, any substantial shareholder (within the meaning of the Israeli Companies Law) if at the time of reelection either such shareholder, its controlling shareholder or any company controlled by either of them has business relations with the company or that either such shareholder, its controlling shareholder or a company controlled by either of them is a competitor of the company.

Each committee of the board of directors that is authorized to exercise powers vested in the board of directors must include at least one external director and the audit committee must include all the external directors. An external director is entitled to compensation as provided in regulations adopted under the Israeli Companies Law and is otherwise prohibited from receiving any other compensation, directly or indirectly, in connection with such service.

Ms. Steklov and Mr. Tsabari serve as our external directors under the Israeli Companies Law. Ms. Steklov's first term will expire in 2025 and Mr. Tsabari's third term will expire in 2023.

Independent Directors. Pursuant to the Israeli Companies Law, a director may be qualified as an independent director if such director is either (i) an external director; or (ii) a director who is appointed or classified as such, and who meets the qualifications of an external director (other than the professional qualifications/accounting and financial expertise requirement), who the audit committee has confirmed meets the external director qualifications, and who has not served as a director for more than nine consecutive years (with any period of up to two years during which such person does not serve as a director not being viewed as interrupting a nine-year period).

In general, NASDAQ Stock Market Rules require that the board of directors of a NASDAQ-listed company has a majority of independent directors and that its audit committee has at least three members and be comprised only of independent directors, each of whom satisfies the "independence" requirements of NASDAQ and the SEC. However, foreign private issuers, such as our company, may follow certain home country corporate governance practices instead of certain requirements of the NASDAQ Stock Market Rules. On June 30, 2006, we provided NASDAQ with a notice that instead of maintaining a majority of independent directors, we follow Israeli law, under which we are required to appoint at least two external directors, within the meaning of the Israeli Companies Law, to our board of directors. In addition, in accordance with the rules of the SEC and NASDAQ, our audit committee is composed of three independent directors, as defined in the rules of the SEC and NASDAQ. At present the majority of our directors satisfy the independence requirements of NASDAQ and the SEC.

Our board of directors has determined that our external directors, Ms. Steklov and Mr. Tsabari, qualify as independent directors under the requirements of the SEC and NASDAQ. Our board of directors has further determined that Messrs. Bigger and Berman also qualify as independent directors under the requirements of the SEC and NASDAQ.

Audit Committee under Israeli Law

Under the Israeli Companies Law, the board of directors of any public company must establish an audit committee, or the Israeli Audit Committee. The Israeli Audit Committee must consist of at least three directors and must include all of the external directors, the majority of which must be independent directors. The Israeli Audit Committee may not include the chairman of the board of directors; any director employed by the company or providing services to the company on an ongoing basis (other than as a director); a controlling shareholder or any of the controlling shareholder's relatives; and any director who is employed by, or rendered services to, the controlling shareholder or an entity controlled by the controlling shareholder, or a director whose main livelihood is from the controlling shareholder. Any person who is not permitted to be a member of the Israeli Audit Committee may not be present in the meetings of the Israeli Audit Committee unless the chairman of the Israeli Audit Committee determines that such person's presence is necessary in order to present a specific matter. However, an employee who is not a controlling shareholder or relative of a controlling shareholder may participate in the audit committee's discussions but not in any vote, and at the request of the Israeli Audit Committee, the secretary of the company and its legal counsel may be present during the meeting. The chairman of the Israeli Audit Committee must be an external director.

The role of the Israeli Audit Committee, pursuant to the Israeli Companies Law, includes:

- monitoring deficiencies in the management of the company, including in consultation with the independent auditors or the internal auditor, and to advise the board of directors on how to correct such deficiencies. If the audit committee finds a material deficiency, it will hold at least one meeting regarding such material deficiency, with the presence of the internal auditor or the independent auditors but without the presence of the senior management of the company. However, a member of the company's senior management can participate in the meeting in order to present an issue which is under his or her responsibility;
- determining, on the basis of detailed arguments, whether to classify certain engagements or transactions as material or extraordinary, as applicable, and therefore as requiring special approval under the Israeli Companies Law. The audit committee may make such determination according to principles and guidelines predetermined on an annual basis;
- determining if transactions (excluding extraordinary transactions) with a controlling shareholder, or in which a controlling shareholder has a personal interest, are required to be rendered pursuant to a competitive procedure;
- deciding whether to approve engagements or transactions that require the Israeli Audit Committee approval under the Israeli Companies Law;
- determining the approval procedure of non-extraordinary transactions, following classification as such by the Israeli Audit Committee, including whether such specific non-extraordinary transactions require the approval of the Israeli Audit Committee;
- examining and approving the annual and periodical working plan of the internal auditor;
- overseeing the company's internal auditing and the performance of the internal auditor; confirm that the internal auditor has sufficient tools and resources at his disposal, considering, among other matters, the special requirements of the company and its size;
- examining the scope of work of the independent auditor and its pay, and bringing such recommendations on these issue before the Board;
- determining the procedure of addressing complaints of employees regarding shortcomings in the management of the company and ensure the protection of employees who have filed such complaints;
- determining with respect to transactions with the controlling shareholder or in which such controlling shareholder has personal interest, whether such transactions are extraordinary or not, an obligation to conduct competitive process under supervisions of the audit committee or determination that prior to entering into such transactions the company shall conduct other process as the audit committee may deem fit, all taking into account the type of the company; and
- determining the manner of approval of transactions with the controlling shareholder or in which it has personal interest which (i) are not negligible transactions (pursuant to the committee's determination) and (ii) are not qualified by the Israeli Audit Committee as extraordinary transactions.

Our Israeli Audit Committee is currently composed of Ms. Steklov and Messrs. Bigger and Tsabari. Both Ms. Steklov and Mr. Tsabari satisfy the "independence" requirements of the Israeli Companies Law. Our board of directors has determined that Ms. Steklov has the requisite accounting and financial expertise to serve as our audit committee financial expert. Ms. Steklov also serves as the chairperson of our Israeli Audit Committee. The Israeli Audit Committee meets at least once each quarter.

Audit Committee under U.S. Laws and Regulations

The NASDAQ Stock Market Rules require us to establish an audit committee consisting of at least three members, each of whom must be financially literate and satisfy the respective “independence” requirements of the SEC and NASDAQ and one of whom has accounting or related financial management expertise. Such audit committee is established for the primary purpose of assisting the Board in overseeing the:

- integrity of the Company’s financial statements;
- independent auditor’s qualifications, independence and performance;
- Company’s financial reporting processes and accounting policies; performance of the Company’s internal audit function; and
- Company’s compliance with legal and regulatory requirements.

Ms. Steklov and Messrs. Bigger and Tsabari satisfy the respective “independence” requirements of the SEC and NASDAQ. Our board of directors has determined that Ms. Steklov has the requisite accounting and financial expertise to serve as our Audit Committee financial expert and that both Mr. Bigger and Mr. Tsabari are financially literate, having a basic understanding of financial controls and reporting. The U.S. Audit Committee meets at least once each quarter. Mr. Bigger serves as chairperson of our U.S. Audit Committee for purposes of compliance with U.S. law and regulations.

Compensation Committee

Pursuant to the Israeli Companies Law, each publicly traded company is required to establish a compensation committee which must be comprised of at least three directors, including all of the external directors. The additional members of the compensation committee must be directors that receive compensation in accordance with the provisions and limitations set forth in the regulations promulgated under the Israeli Companies Law with respect to external directors. An external director shall serve as the chairman of the compensation committee. Under the Israeli Companies Law, the external directors shall constitute a majority of the compensation committee. Similar to the rules that apply to the audit committee, the compensation committee may not include the chairman of the board, or any director employed by us, by a controlling shareholder or by any entity controlled by a controlling shareholder, or any director providing services to us, to a controlling shareholder or to any entity controlled by a controlling shareholder on a regular basis, or any director whose primary income is dependent on a controlling shareholder, and may not include a controlling shareholder or any of its relatives. Individuals who are not permitted to be compensation committee members may not participate in the committee’s meetings other than to present a particular issue; provided, however, that an employee that is not a controlling shareholder or relative may participate in the committee’s discussions but not in any vote, and the company’s legal counsel and corporate secretary may participate in the committee’s discussions and votes if requested by the committee.

The compensation committee is responsible for (i) recommending the compensation policy to the board of directors for its approval (and subsequent approval by shareholders) and (ii) duties related to the compensation policy and to the approval of the terms of engagement of office holders, including: recommending whether a compensation policy should continue in effect, if the then-current policy has a term of greater than three (3) years (approval of either a new compensation policy or the continuation of an existing compensation policy must in any case occur every three years), recommending to the board of directors periodic updates to the compensation policy, assessing implementation of the compensation policy; determining whether the compensation terms of a proposed new Chief Executive Officer of the company need not be brought to approval of the shareholders; and determining whether to approve transactions concerning the terms of engagement and employment of the company’s officers and directors that require compensation committee approval under the Israeli Companies Law or the company’s compensation plans and policies.

Our compensation committee is currently composed of Ms. Steklov and Messrs. Bigger and Tsabari. Mr. Tsabari serves as the chairperson of our Compensation Committee. The composition and function of the Compensation Committee comply with the requirements of the Israeli Companies Law and NASDAQ Stock Market Rules.

Israeli Regulations

In March 2016, the Israeli Companies Law Regulations were amended to reduce certain duplicative regulatory burden to which Israeli companies publicly traded on NASDAQ are subject to.

Generally, pursuant to the new regulations, an Israeli company traded on NASDAQ that does not have a “controlling shareholder” (as defined in the Israeli Companies Law) will be able to elect not to appoint External Directors to its Board of Directors and not to comply with the Audit Committee and Compensation Committee composition and chairman requirements of the Israeli Companies Law (as described above under); provided, the company complies with the applicable NASDAQ independent director requirements and the NASDAQ Audit Committee and Compensation Committee composition requirements.

Since our largest shareholder, the limited partnerships managed by FIMI FIVE 2012 Ltd., are deemed to be a “controlling shareholder” under the Israeli Companies Law, we are not currently eligible to benefit from the relief provided by these new amended Israeli regulations.

Internal Auditor

Under the Israeli Companies Law, the board of directors of a publicly traded company must appoint an internal auditor nominated by the audit committee. The role of the internal auditor is to examine whether the company’s actions comply with the law, integrity and orderly business practice. Under the Israeli Companies Law, the internal auditor may not be an interested party, an office holder, or an affiliate, or a relative of an interested party, office holder or affiliate, nor may the internal auditor be the company’s independent accountant or its representative. KPMG serves as our Internal Auditor.

Directors’ Service Contracts

There are no arrangements or understandings between us and any of our subsidiaries, on the one hand, and any of our directors, on the other hand, providing for benefits upon termination of their employment or service as directors of our company or any of our subsidiaries.

Chairman of the Board

Under the Israeli Companies Law, the general manager of a company (or a relative of the general manager) may not serve as the chairman of the board of directors, and the chairman of the board of directors (or a relative of the chairman of the board of directors) may not serve as the general manager, unless approved by the shareholders by a special majority vote prescribed by the Israeli Companies Law. The shareholder vote cannot authorize the appointment for a period of longer than three years, which period may be extended from time to time by the shareholders with a similar special majority vote. The chairman of the board of directors shall not hold any other position with the company (except as general manager if approved in accordance with the above procedure) or in any entity controlled by the company, other than as chairman of the board of directors of a controlled entity, and the company shall not delegate to the chairman duties that, directly or indirectly, make him or her subordinate to the general manager.

Approval of Related Party Transactions under Israeli Law

Fiduciary Duties of Office Holders

The Israeli Companies Law codifies the fiduciary duties that “office holders,” including directors and executive officers, owe to a company. An “office holder” is defined in the Israeli Companies Law as a director, general manager, chief business manager, deputy general manager, vice general manager, other manager directly subordinate to the general manager or any other person assuming the responsibilities of any of the foregoing positions without regard to such person’s title. An office holder’s fiduciary duties consist of a duty of care and a fiduciary duty. The duty of care requires an office holder to act at a level of care that a reasonable office holder in the same position would employ under the same circumstances. This includes the duty to utilize reasonable means to obtain (i) information regarding the appropriateness of a given action brought for his approval or performed by him by virtue of his position and (ii) all other information of importance pertaining to the foregoing actions. The fiduciary duty includes (i) avoiding any conflict of interest between the office holder’s position in the company and any other position he holds or his personal affairs, (ii) avoiding any competition with the company’s business, (iii) avoiding exploiting any business opportunity of the company in order to receive personal gain for the office holder or others, and (iv) disclosing to the company any information or documents relating to the company’s affairs that the office holder has received due to his position as an office holder.

Disclosure of Personal Interests of an Office Holder; Approval of Transactions with Office Holders

The Israeli Companies Law requires that an office holder promptly, and no later than the first board meeting at which such transaction is considered, disclose any personal interest that he or she may have and all related material information known to him or her and any documents in their position, in connection with any existing or proposed transaction by us. In addition, if the transaction is an extraordinary transaction, that is, a transaction other than in the ordinary course of business, other than on market terms, or likely to have a material impact on the company’s profitability, assets or liabilities, the office holder must also disclose any personal interest held by the office holder’s spouse, siblings, parents, grandparents, descendants, spouse’s descendants and the spouses of any of the foregoing, or by any corporation in which the office holder or a relative is a 5% or greater shareholder, director or general manager or in which he or she has the right to appoint at least one director or the general manager.

Some transactions, actions and arrangements involving an office holder (or a third party in which an office holder has an interest) must be approved by the board of directors or as otherwise provided for in a company’s articles of association, however, a transaction that is adverse to the company’s interest may not be approved. In some cases, such a transaction must be approved by the audit committee and by the board of directors itself, and under certain circumstances shareholder approval may also be required. A director who has a personal interest in a transaction that is considered at a meeting of the board of directors or the audit committee may not be present during the board of directors or audit committee discussions and may not vote on the transaction, unless the transaction is not an extraordinary transaction or the majority of the members of the board or the audit committee have a personal interest, as the case may be. In the event the majority of the members of the board of directors or the audit committee have a personal interest, then the approval of the general meeting of shareholders is also required.

Approval of a Compensation Policy for Office Holders

The Israeli Companies Law and the regulations adopted thereunder require the compensation committee to adopt a policy for director and office holders. In adopting the compensation policy, the compensation committee must consider factors such as the office holder’s education, experience, past compensation arrangements with the company, and the proportional difference between the person’s cost of compensation and the average cost of compensation of the company’s employees.

The compensation policy must be approved at least once every three years at the company’s general meeting of shareholders, and is subject to the approval of a majority vote of the votes of the shareholders present and voting at a shareholders’ meeting, provided that either: (i) such majority includes at least a majority of the votes of all shareholders who are not controlling shareholders and do not have a personal interest in the approval of the compensation policy, present and voting at such meeting (excluding abstentions); or (ii) the total number of ordinary shares of non-controlling shareholders and shareholders who do not have a personal interest in the approval of the compensation policy, voting against the resolution does not exceed 2% of the aggregate voting rights in the company. Our compensation policy was last approved by the shareholders in November 2020.

The Board may approve the compensation policy even if such policy was not approved by the shareholders, provided that the compensation committee and the board of directors resolve, based on detailed consideration of the compensation policy that approval of the policy, is in the best interest of the company, despite the fact that it was not approved at the shareholders' meeting.

The compensation policy serves as the basis for decisions concerning the financial terms of employment or engagement of officer holders, including exculpation, insurance, indemnification or any monetary payment or obligation of payment in respect of employment or engagement. The compensation policy must relate to certain factors, including advancement of the company's objectives, the company's business and its long-term strategy, and creation of appropriate incentives for executives. It must also consider, among other things, the company's risk management, size and the nature of its operations. The compensation committee must also consider among others, the ratio between the cost of terms offered to the relevant director or office holder and the average and median cost of compensation of the other employees of the company, including those employed through manpower companies, the effect of disparities in salary upon work relationships in the company, the possibility of reducing variable compensation at the discretion of the board of directors; the possibility of setting a limit on the exercise value of non-cash variable compensation; and as to severance compensation (in excess of those promulgated by applicable labor law), the period of service of the director or office holder, the terms of his or her compensation during such service period, the company's performance during that period of service, the person's contribution towards the company's achievement of its goals and the maximization of its profits, and the circumstances under which the person is leaving the company.

The compensation policy must also include the link between variable compensation and long-term performance and measurable criteria, the relationship between variable and fixed compensation, and the upper limit for the value of variable compensation, the conditions under which a director or an office holder would be required to repay compensation paid to him or her if it was later shown that the data upon which such compensation was based was inaccurate and was required to be restated in the company's financial statements, the minimum holding or vesting period for variable, equity-based compensation whilst referring to appropriate a long-term perspective based incentives; and maximum limits for severance compensation.

Once a compensation policy is properly adopted, the Israeli Companies Law requires the compensation policy to be approved by the company's compensation committee, with subsequent approval of the board of directors. In addition, compensation of the directors and the chief executive officer is also subject to the approval of the shareholders at a general meeting. The approval of the compensation of the chief executive officer that complies with the compensation policy is subject to the same majority requirements as the approval of a transaction between a company and its controlling shareholder. Where the director is also a controlling shareholder, the requirements for approval of transactions with controlling shareholders apply. The terms of employment of the company's directors and executive officers must satisfy the requirements of the compensation policy in respect of matters relating to compensation. Any deviations from the compensation policy in respect of the compensation of the office holders require the approval of the compensation committee, the board of directors and the shareholders. If the deviation is with respect to the compensation of the chief executive officer then such approval must be made by the majority of the shareholders provided that such majority includes the majority of the votes of the non-controlling shareholder and other shareholders who have personal interest in the proposal (unless such personal interest is not related to the controlling shareholder) present and voting (excluding abstention). Such special majority is not required if the number of votes of the non-controlling shareholders and shareholder who do not have personal interest in the proposal as previously mentioned is lower than 2% of the aggregate voting rights in the company.

Under the Israeli Companies Law, all arrangements as to compensation of office holders who are not directors require the approval of the compensation committee prior, and in addition, to the approval of the board of directors. However, if the Company duly adopts a compensation plan for its office holders, the approval of the board of directors is not required if the new arrangement only modifies an existing arrangement and the compensation committee determines that such modification is not material. Generally, the compensation of the CEO must be approved by the compensation committee, the board of directors and by the majority of the shareholders provided that either: (i) such majority includes a majority of the total votes of shareholders who are not controlling shareholders and do not have a Personal Interest in the approval of the compensation policy and who participate in the voting, in person, by proxy or by written ballot, at the meeting (abstentions not taken into account); or (ii) the total number of votes of shareholders mentioned in (i) above that are voted against the approval of the compensation policy do not represent more than 2% of the total voting rights in the company. The compensation of office holders who are directors must be approved by the compensation committee, board of directors and simple majority vote of the shareholders.

External directors of the company are prohibited from receiving, directly or indirectly, any compensation from the company, other than for their services as external directors pursuant to the provisions and limitations set forth in regulations promulgated under the Israeli Companies Law, which compensation is determined prior to their appointment and may not be changed throughout the term of their service as external directors (except for certain exceptions set forth in such regulations).

Disclosure of Personal Interests of a Controlling Shareholder; Approval of Transactions with Controlling Shareholders

Pursuant to the Israeli Companies Law, the disclosure requirements regarding personal interests that apply to directors and executive officers also apply to a controlling shareholder of a public company. A controlling shareholder is a shareholder who has the ability to direct the activities of a company, but excludes a shareholder whose power derives solely from its position on the board of directors or any other position at the company. A person is presumed to be a "controlling shareholder" if it holds or controls, by itself or together with others, one half or more of any one of the "Means of Control" of the company. "Means of Control" is defined as any one of the following: (i) the right to vote at a General Meeting of the company, or (ii) the right to appoint directors of the company or its chief executive officer. For the purpose of related party transactions, under the Israeli Companies Law, a controlling shareholder is also a shareholder who holds 25% or more of the voting rights if no other shareholder who holds more than 50% of the voting rights. For this purpose, the holdings of all shareholders who have a personal interest in the same transaction will be aggregated. Certain shareholders also have a duty of fairness toward the company. These shareholders include any controlling shareholder, together with any shareholder who knows that it has the power to determine the outcome of a shareholder vote and any shareholder who has the power to appoint or to prevent the appointment of an office holder of the company or exercise any other rights available to it under the company's articles of association with respect to the company. The Israeli Companies Law does not define the substance of this duty of fairness, except to state that the remedies generally available upon a breach of contract will also apply in the event of a breach of the duty of fairness.

An extraordinary transaction between a public company and a controlling shareholder, or in which a controlling shareholder has a personal interest, including a private placement in which the controlling shareholder has a personal interest, and the terms of engagement of the company, directly or indirectly, with a controlling shareholder or a controlling shareholder's relative (including through a corporation controlled by a controlling shareholder), regarding the company's receipt of services from the controlling shareholder, and if such controlling shareholder is also an office holder of the company, regarding his or her terms of employment, require the approval of a company's audit committee (or compensation committee with respect to compensation arrangements), board of directors and shareholders, in that order. Such transaction must be elected by a majority vote of the Ordinary Shares present and voting at a shareholders' meeting, provided that either: (i) such majority includes at least a majority of votes held by all shareholders who do not have a personal interest in such transaction, present and voting at such meeting (excluding abstentions); or (ii) the total number of votes of shareholders who do not have a personal interest in such transaction voting against the approval of the transaction, does not exceed 2% of the aggregate voting rights in the company.

Pursuant to the Israeli Companies Law, the audit committee of the company should determine in connection with such transaction if it requires rendering pursuant to a competitive procedure or pursuant to other proceedings. See "*Audit Committee*" above.

To the extent that any such transaction with a controlling shareholder or his relative is for a period extending beyond three years, shareholder approval is required once every three years, unless, in respect to certain transactions, the audit committee determines that the longer duration of the transaction is reasonable under the circumstances.

Pursuant to regulations promulgated pursuant to the Israeli Companies Law, a transaction with a controlling shareholder that would otherwise require approval of the shareholders is exempt from shareholders' approval if each of the audit committee and the board of directors determine that the transaction meets certain criteria that are set out in specific regulations promulgated under the Israeli Companies Law. Under these regulations, a shareholder holding at least 1% of the issued share capital of the company may require, within 14 days of the publication of such determination, that despite such determination by the audit committee and the board of directors, such transaction will require shareholder approval under the same majority requirements that otherwise apply to such transactions.

The Israeli Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 25% or greater shareholder of the company. This rule does not apply if there is already another 25% or greater shareholder of the company. Similarly, the Israeli Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would hold greater than a 45% interest in the company, unless there is another shareholder holding more than a 45% interest in the company. These requirements do not apply if, in general, (i) the acquisition was made in a private placement that received shareholder approval, (ii) was from a 25% or greater shareholder of the company which resulted in the acquirer becoming a 25% or greater shareholder of the company, if there is not already a 25% or greater shareholder of the company, or (iii) was from a shareholder holding a 45% interest in the company which resulted in the acquirer becoming a holder of a 45% interest in the company if there is not already a 45% or greater shareholder of the company.

If, as a result of an acquisition of shares, the acquirer will hold more than 90% of a public company's outstanding shares or a class of shares, the acquisition must be made by means of a tender offer for all of the outstanding shares or a class of shares. If less than 5% of the outstanding shares are not tendered in the tender offer, all the shares that the acquirer offered to purchase will be transferred to the acquirer. If more than 5% of the outstanding shares are not tendered in the tender offer, then the acquirer may not acquire shares in the tender offer that will cause his shareholding to exceed 90% of the outstanding shares. The Israeli Companies Law provides for appraisal rights if any shareholder files a request in court within six months following the consummation of a full tender offer. However, in the event of a full tender offer, the offeror may determine that any shareholder who accepts the offer will not be entitled to appraisal rights. Such determination will be effective only if the offeror or the company has timely published all the information that is required to be published in connection with such full tender offer pursuant to all applicable laws.

Exculpation, Indemnification and Insurance of Directors and Officers

Exculpation of Office Holders. The Israeli Companies Law provides that an Israeli company cannot exculpate an office holder from liability with respect to a breach of his or her fiduciary duty. If permitted by its articles of association, a company may exculpate in advance an office holder from his or her liability to the company, in whole or in part, with respect to a breach of his or her duty of care. However, a company may not exculpate in advance a director from his or her liability to the company with respect to a breach of his duty of care in the event of distributions.

Office Holders' Insurance. Israeli law provides that a company may, if permitted by its articles of association, enter into a contract to insure its office holders for liabilities incurred by the office holder with a respect to an act performed in his or her capacity as an office holder, as a result of: (i) a breach of the office holder's duty of care to the company or another person; (ii) a breach of the office holder's fiduciary duty to the company, provided that the office holder acted in good faith and had reasonable cause to assume that the act would not prejudice the company's interests; and (iii) a financial liability imposed upon the office holder in favor of another person.

Indemnification of Office Holders. Under Israeli law a company may, if permitted by its articles of association, indemnify an office holder for acts performed by the office holder in such capacity for (i) a monetary liability imposed upon the office holder in favor of another person by any court judgment, including a settlement or an arbitration award approved by a court; (ii) reasonable litigation expenses, including attorney's fees, actually incurred by the office holder as a result of an investigation or proceeding instituted against him by a competent authority, provided that such investigation or proceeding concluded without the filing of an indictment against the office holder or the imposition of any monetary liability in lieu of criminal proceedings, or concluded without the filing of an indictment against the office holder and a monetary liability was imposed on him or her in lieu of criminal proceedings with respect to a criminal offense that does not require proof of criminal intent; and (iii) reasonable litigation expenses, including attorneys' fees, actually incurred by the office holder or imposed upon the office holder by a court: in an action, suit or proceeding brought against the office holder by or on behalf of the company or another person, or in connection with a criminal action in which the office holder was acquitted, or in connection with a criminal action in which the office holder was convicted of a criminal offense that does not require proof of criminal intent.

Israeli law provides that a company's articles of association may permit the company to (a) indemnify an office holder retroactively, following a determination to this effect made by the company after the occurrence of the event in respect of which the office holder will be indemnified; and (b) undertake in advance to indemnify an office holder, except that with respect to a monetary liability imposed on the office holder by any judgment, settlement or court-approved arbitration award, the undertaking must be limited to types of occurrences, which, in the opinion of the company's board of directors, are, at the time of the undertaking, foreseeable due to the company's activities and to an amount or standard that the board of directors has determined is reasonable under the circumstances.

Limitations on Exculpation, Insurance and Indemnification. The Israeli Companies Law provides that neither a provision of the articles of association permitting the company to enter into a contract to insure the liability of an office holder, nor a provision in the articles of association or a resolution of the board of directors permitting the indemnification of an office holder, nor a provision in the articles of association exculpating an office holder from duty to the company shall be valid, where such insurance, indemnification or exculpation relates to any of the following: (i) a breach by the office holder of his fiduciary duty unless, with respect to insurance coverage or indemnification, the office holder acted in good faith and had a reasonable basis to believe that the act would not prejudice the company; (ii) a breach by the office holder of his duty of care if such breach was committed intentionally or recklessly, unless the breach was committed only negligently; (iii) any act or omission done with the intent to unlawfully yield a personal benefit; or (iv) any fine or forfeiture imposed on the office holder.

Pursuant to the Israeli Companies Law, exculpation of, procurement of insurance coverage for, and an undertaking to indemnify or indemnification of, our office holders must be approved by our audit committee and board of directors and, if the office holder is a director, also by our shareholders.

Our articles of association allow us to insure, indemnify and exempt our office holders to the fullest extent permitted by Israeli law. We maintain a directors' and officers' liability insurance policy with a per claim and aggregate coverage limit of \$20 million, including legal costs incurred in Israel. In addition, our audit committee, board of directors and shareholders resolved to indemnify our office holders, pursuant to a standard indemnification agreement that provides for indemnification of office holders up to an aggregate amount of 25% the company's equity, according to our latest consolidated financial statements prior to the date that the indemnity was given. To date, we have provided letters of indemnification to all of our officers and directors.

Board Diversity

While we do not have a formal policy on diversity, our Board considers diversity to include the skill set, background, reputation, type and length of business experience of our board members, as well as a particular nominee's contribution to that mix. Although there are many other factors, the Board seeks individuals with experience in the defense industry, sales and marketing, legal and accounting skills and board experience. In accordance with Nasdaq's Board Diversity Rules, our board-level diversity statistics are published on our website at <https://senstartechnologies.com/about/>

D. Employees

We consider our employees the most valuable asset of our company. We offer competitive compensation and comprehensive benefits to attract and retain our employees. The remuneration and rewards include retention through share-based compensation and performance-based bonuses.

We believe that an engaged workforce is key to maintaining our ability to innovate. We have steadily increased our workforce and have been successful in integrating our new employees and keeping our employees engaged. Investing in our employees' career growth and development is an important focus for us. We offer learning opportunities and training programs including workshops, guest speakers and various conferences to enable our employees to advance in their chosen professional paths.

We are committed to providing a safe work environment for our employees in compliance with applicable regulations.

As of December 31, 2022, we employed 158 full-time employees, of whom 23 were employed in general management and administration, 49 were employed in selling and marketing, 50 were employed in production, customers' support and maintenance and 36 were employed in engineering and research and development. Of such full-time employees, 99 were located in Canada, 20 were in the United States and 39 were in various other countries.

As of December 31, 2021, following the divestiture of our Integrated Solutions (Projects) division, we employed 160 full-time employees, of whom 24 were employed in general management and administration, 55 were employed in selling and marketing, 46 were employed in production, customers' support and maintenance, and 35 were employed in engineering and research and development. Of such full-time employees, 107 were located in Canada, 22 were in the United States and 31 were in various other countries.

As of December 31, 2020, prior to the divestiture of our Integrated Solutions (Projects) division, we employed 394 full-time employees, of whom 57 were employed in general management and administration, 77 were employed in selling and marketing, 17 were employed in projects management, 181 were employed in production, installation and maintenance, and 62 were employed in engineering and research and development. Of such full-time employees, 157 were located in Israel, 116 were in Canada, 24 were in the United States and 97 were in various other countries.

We generally provide our employees with benefits and working conditions beyond the required minimums. Each of our subsidiaries provides a benefits package and working conditions which we believe are competitive with other companies in their field of operations.

E. Share Ownership.

The following table sets forth certain information regarding the ownership of our ordinary shares by our directors and executive officers as of April 17, 2023.

Name	Number of Ordinary Shares Owned (1)	Percentage of Outstanding Ordinary Shares (2)
Gillon Beck (3)	-	-
Jacob Berman	13,750	*
Avraham Bigger	-	-
Limor Steklov	-	-
Moshe Tsabari	-	-
Dror Sharon (4)	360,000	1.5%
Tomer Hay	-	-
Fabien Haubert (5)	16,000	*
All directors and executive officers as a group (8 persons) (6)	389,750	1.7%

* Less than 1%

(1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Ordinary shares relating to options or convertible debenture notes currently exercisable or exercisable within 60 days of the date of this table are deemed outstanding for computing the percentage of the person holding such securities but are not deemed outstanding for computing the percentage of any other person. Except as indicated by footnote, the persons named in the table above have sole voting and investment power with respect to all shares shown as beneficially owned by them.

- (2) The percentages shown are based on 23,309,987 ordinary shares issued and outstanding as of April 17, 2023.
- (3) Does not include any ordinary shares held by the FIMI Funds.
- (4) Includes 360,000 ordinary shares issuable upon the exercise of currently exercisable options.
- (5) Includes 16,000 ordinary shares issuable upon the exercise of currently exercisable options.
- (6) Includes 376,000 ordinary shares issuable upon the exercise of currently exercisable options.

Share Option Plans

2010 Israeli Share Option Plan

In June 2010, we adopted our 2010 Israeli Share Option Plan, or the 2010 Plan. Under the 2010 Plan, stock options to purchase 510,575 ordinary shares may be granted to our employees, officers, directors and consultants of our company and subsidiaries. In addition, an aggregate 498,384 ordinary shares that remained available for future option grants under the 2003 Plan and any ordinary shares that become available in the future under the 2003 Plan as a result of expiration, cancellation or relinquishment of any option were rolled over to the 2010 Plan. In June 2013, our shareholders approved an increase to the number of ordinary shares available for issuance under the 2010 Plan by additional 500,000 shares. The 2010 Plan had an original term of ten years, which was extended in August 2020 for an additional 5 years, on which date our board of directors had also increased and set the number of ordinary shares available for issuance under the 2010 Plan to 1,200,000.

The 2010 Plan is designed to allow the grantees to benefit from the tax benefits under Section 102 of the Israeli Income Tax Ordinance [New Version], 1961. Our Board of Directors has resolved that all options that will be granted to Israeli residents under the 2010 Plan will be taxable under the "capital gains route." Pursuant to this route, the profit realized by an employee is taxed as a capital gain (25%) if the options or underlying shares are held by a trustee for at least 24 months from their date of the grant or issuance. Any difference between the exercise price of the options and the average price of the company's shares during the 30 trading days before the date of grant of the options will be treated as ordinary income and will be taxed according to the employee's marginal tax rates plus social contribution. If the underlying shares are sold before the elapse of such period, the profit is re-characterized as ordinary income. As of December 31, 2022, options to purchase 552,332 ordinary shares were outstanding under the 2010 Plan, exercisable at an average exercise price of \$2.826 per share. During 2022, no options were awarded under the 2010 Plan. Options to purchase 8,334 ordinary shares were exercised during 2022.

F. Disclosure Of A Registrant's Action To Recover Erroneously Awarded Compensation

Not applicable

ITEM 7. Major Shareholders and Related Party Transactions**A. Major Shareholders**

The following table sets forth certain information as of April 17, 2023 regarding the beneficial ownership of our ordinary shares, by each person or entity known to us to own beneficially 5% or more of our ordinary shares.

Name	Number of Ordinary Shares Beneficially Owned (1)	Percentage of Outstanding Ordinary Shares (2)
FIMI Opportunity Five (Delaware), Limited Partnership (3)	4,646,924	19.9%
FIMI Israel Opportunity Five, Limited Partnership (3)	5,207,235	22.4%

- (1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Ordinary shares relating to options or convertible notes currently exercisable or exercisable within 60 days of the date of this table are deemed outstanding for computing the percentage of the person holding such securities but are not deemed outstanding for computing the percentage of any other person. Except as indicated by footnote, the persons named in the table above have sole voting and investment power with respect to all shares shown as beneficially owned by them.
- (2) The percentages shown are based on 23,309,987 ordinary shares issued and outstanding as of April 17, 2023.
- (3) Based on Schedule 13D/A filed with the SEC on October 11, 2016 and other information available to us. The address of FIMI Opportunity Five (Delaware), Limited Partnership and FIMI Israel Opportunity Five, Limited Partnership is c/o FIMI FIVE 2012 Ltd., Electra Tower, 98 Yigal Alon St., Tel-Aviv 6789141, Israel.

Major Shareholders Voting Rights

The voting rights of our major shareholders do not differ from the voting rights of other holders of our ordinary shares.

Record Holders

Based on a review of the information provided to us by our transfer agent, as of April 19, 2023, there were 27 holders of record of our ordinary shares, of which 23 record holders holding approximately 91.29% of our ordinary shares had registered addresses in the United States. These numbers are not representative of the number of beneficial holders of our shares nor is it representative of where such beneficial holders reside since many of these ordinary shares were held of record by brokers or other nominees, including CEDE & Co., the nominee for the Depository Trust Company (the central depository for the U.S. brokerage community), which held approximately 91.27% of our outstanding ordinary shares as of such date.

B. Related Party Transactions.

None

C. Interests of Experts and Counsel.

Not applicable.

ITEM 8. Financial Information

A. Consolidated Statements and Other Financial Information.

Consolidated Financial Statements

See the consolidated financial statements included under Item 18, "Financial Statements."

Legal Proceedings

We are subject to legal proceedings arising in the normal course of business. Based on the advice of our legal counsel, management believes that these proceedings will not have a material adverse effect on our financial position or results of operations.

In February 2019, Magal Mexico (our former subsidiary whose shares were sold as part of the Integrated Solutions Division sale) initiated a dispute procedure with the Mexican tax authorities requesting the recognition of deduction of certain expenses as claimed by the former Mexican subsidiary in its annual tax filings. In July 2019, the tax authorities denied the former Mexican subsidiary position. On September 11, 2019, Magal Mexico filed a nullity claim (administrative trial) against the resolution of the Mexican Internal Revenue Service (Servicio de Administración Tributaria) that had requested the former subsidiary to correct its tax situation on virtue that certain invoices did not produce any legal effect. The claim was admitted and resolved in favor of the former subsidiary, on August 5, 2020. This resolution was then challenged by the tax authority, through a motion of review before the Collegiate Courts of Circuit; which resolved the appeal by the tax authority unfavorably to the former Mexican subsidiary, on June 4, 2021. The Collegiate Court had confirmed the legality of the tax resolution and had directed the lower court to issue a similar resolution which was issued on July 2, 2021, whereby the lower court had ruled in favor of the Tax Authority.

On September 21, 2021, the former Mexican subsidiary appealed the resolution by the lower court before the Collegiate Courts of Circuit, in October 2021, the Collegiate Court admitted the appeal, however, on March 14, 2022, the Court notified the resolution whereby it ruled in favor of the Tax Authority, deciding to confirm the challenged resolution. On March 25, 2022, the former Mexican subsidiary appealed the Collegiate Court's decision before the Mexican Supreme Court of Justice. On May 17, 2022, the Mexican Court rejected the former Mexican subsidiary's annulment claim regarding the Mexican Tax authority's decision not to allow the deduction of expenses and credit of VAT in respect of the engagement of Cuceju by the former Mexican subsidiary.

According to the Purchase Agreement of the Integrated Solutions division dated February 7, 2021, we were financially liable for the outcome of this dispute and so had to indemnify Aeronautics Ltd. according to the final tax resolution in this matter. Therefore, on July 19, 2022, Aeronautics Ltd. and Magal Security Systems Ltd. (formerly Onlshel Ltd.) (collectively for this section the "Buyer") and us, agreed that we, reimburse the Buyer in the amount of \$4.3 million (approximately 86,855 thousands Mexican Peso, in accordance with the then USD-Mexican Peso exchange rate) (the "Tax Payment Amount"), as set forth in the closing protocol dated June 30, 2021 to the Purchase Agreement. The Buyer committed to pay the Tax Payment Amount to the relevant Mexican tax authorities.

Dividend Distribution Policy

While we have historically retained our earnings to finance operations and expand our business, on December 7, 2020, we announced a cash distribution in the amount of US\$1.079 per share (approximately US\$ 25 million in the aggregate) which was paid on December 28, 2020, and, following the completion of the sale of Integration Solutions Division and court approval, we announced on August 16, 2021 a cash distribution in the amount of \$1.725 per share (approximately \$40 million in the aggregate), which was paid on September 22, 2021. Future dividend distributions are subject to the discretion of our board of directors and approval of our shareholders and will depend on a number of factors, including our operating results, future capital resources available for distribution, capital requirements, financial condition, the tax implications of dividend distributions on our income, future prospects and any other factors our board of directors may deem relevant.

The distribution of dividends also may be limited by Israeli law, which permits the distribution of dividends only out of profits (as defined by the Israeli Companies Law) or otherwise upon the permission of the court, and only if the Board of Directors determines that such distribution will not jeopardize the ability of the company to repay its debts on the due date thereof. "Profits" are defined in the Israeli Companies Law as the balance of surpluses, or the surpluses accumulated over the past two years, whichever is the greater, in accordance with the latest adjusted financial statements, audited or reviewed, prepared by the company, provided that the date in respect of which the statements were prepared is no earlier than six months prior to the date of distribution. "Surplus" means sums included in a company's shareholders' equity originating from the net profit of the company, as determined according to generally accepted accounting principles, and sums other than share capital or premiums that are included in shareholders' equity under generally accepted accounting principles and that the Minister of Justice has prescribed to be considered surplus.

B. Significant Changes.

Since the date of the annual consolidated financial statements included in this annual report, no significant changes have occurred.

ITEM 9. The Offer and Listing

A. Offer and Listing Details.

Our ordinary shares are traded on the NASDAQ Global Market. Our ticker symbol is "SNT."

B. Plan of Distribution.

Not applicable.

C. Markets.

Our ordinary shares have traded on the NASDAQ Global Market since our initial public offering in 1993. Since September 30, 2021 our ordinary shares trade under the symbol "SNT" (previously under the symbol "MAGS").

D. Selling Shareholders.

Not applicable.

E. Dilution.

Not applicable.

F. Expenses of the Issue.

Not applicable.

ITEM 10. Additional Information

A. Share Capital.

Not applicable.

B. Memorandum and Articles of Association.

Purposes and Objects of the Company

We are a public company registered with the Israeli Companies Registrar and have been assigned company number 52-003892-8. Under our memorandum of association, we were established for the purposes of acquiring a plant from Israel Aircraft Industries known as the Magal Plant, which was engaged in the development, manufacture, sale and support of alarm devices and dealing in the development, manufacturing and support of security alarm devices and other similar products. In addition, the purpose of our Company is to be eligible to perform and act in connection with any right or obligation of whatever kind or nature permissible under Israeli law.

Board of Directors

The strategic management of our business (as distinguished from the daily management of our business affairs) is vested in our board of directors, which may exercise all such powers and do all such acts as our company is authorized to exercise and do, and which are not required to be exercised by a resolution of the general meeting of our shareholders. The board of directors may, subject to the provisions of the Israeli Companies Law, delegate some of its powers to committees, each consisting of one or more directors, provided that at least one member of such committee is an external director.

According to the Israeli Companies Law, we may stipulate in our articles of association that the general meeting of shareholders is authorized to assume the responsibilities of the board of directors. In the event the board of directors is unable to act or exercise its powers, the general meeting of shareholders is authorized to exercise the powers of the board of directors, even if the articles of association do not stipulate so. Our board of directors has the power to assume the responsibilities of our chief executive officer if he is unable to act or exercise his powers or if he fails to fulfill the instructions of the board of directors with respect to a specific matter.

Our articles of association do not impose any mandatory retirement or age limit requirements on our directors and our directors are not required to own shares in our company in order to qualify to serve as directors.

The authority of our directors to enter into borrowing arrangements on our behalf is not limited, except in the same manner as any other transaction by us.

For a discussion of Israeli law concerning a director's fiduciary duties and the approval of transactions with office holders, see Item 6.C. "Directors, Senior Management and Employees – Board Practices – Approval of Related Party Transactions under Israeli Law."

General Meetings of Shareholders

Under the Israeli Companies Law, a company must convene an annual meeting of shareholders at least once every calendar year and within 15 months of the last annual meeting. Depending on the matter to be voted upon, notice of at least 21 days or 35 days prior to the date of the meeting is required. Our board of directors may, in its discretion, convene additional meetings as "special general meetings." In addition, the board must convene a special general meeting upon the demand of two of the directors, 25% of the nominated directors, one or more shareholders having at least 5% of the outstanding share capital and at least 1% of the voting power in the company, or one or more shareholders having at least 5% of the voting power in the company.

A shareholder present, in person or by proxy, at the commencement of a general meeting of shareholders may not seek the cancellation of any proceedings or resolutions adopted at such general meeting of shareholders on account of any defect in the notice of such meeting relating to the time or the place thereof. Shareholders who are registered in our register of shareholders at the record date may vote at the general meeting of shareholders. The record date is set in the resolution to convene the general meeting of shareholders, provided, however, that such record date must be between 14 to 21 days or, in the event of a vote by ballots, between 28 to 40 days prior the date the general meeting of shareholders is held.

The quorum required for a general meeting of shareholders consists of at least two record shareholders, present in person or by proxy, who hold, in the aggregate, at least one third of the voting power of our outstanding shares. A general meeting of shareholders will be adjourned for lack of a quorum after half an hour from the time appointed for such meeting to the same day in the following week at the same time and place or any other time and place as the board of directors designates in a notice to the shareholders. At such reconvened meeting, if a quorum is not present within half an hour from the time appointed for such meeting, two or more shareholders, present in person or by proxy, will constitute a quorum. The only business that may be considered at an adjourned general meeting of shareholders is the business that might have been lawfully considered at the general meeting of shareholders originally convened and the only resolutions that may be adopted are the resolutions that could have been adopted at the general meeting of shareholders originally convened.

Please refer to Exhibit 2.5 for Items 10.B.3, B.4, B.6, B.7, B.8, B.9 and B.10.

C. Material Contracts.

On June 30, 2021, we completed the sale of our Integration Solution Division to Aeronautics Ltd., a subsidiary of RAFAEL Advanced Defense Systems Ltd., in a share and asset purchase agreement for total consideration of \$35 million in cash, on a cash-free, debt-free basis. As part of the acquisition, Aeronautics acquired our facility in Yehud, Israel.

D. Exchange Controls.

Israeli law and regulations do not impose any material foreign exchange restrictions on non-Israeli holders of our ordinary shares.

E. Taxation.

The following is a discussion of Israeli and United States tax consequences material to us and to our shareholders. To the extent that the discussion is based on new tax legislation which has not been subject to judicial or administrative interpretation, the views expressed in the discussion might not be accepted by the tax authorities in question. The discussion is not intended, and should not be construed, as legal or professional tax advice and does not exhaust all possible tax considerations.

Holders of our ordinary shares should consult their own tax advisors as to the United States, Israeli or other tax consequences of the purchase, ownership and disposition of ordinary shares, including, in particular, the effect of any foreign, state or local taxes.

Israeli Tax Considerations

The following is a summary of the material Israeli tax laws applicable to us, and some Israeli Government programs benefiting us. This section also contains a discussion of material Israeli tax consequences concerning the ownership of and disposition of our ordinary shares. This summary does not discuss all the acts of Israeli tax law that may be relevant to a particular investor in light of his or her personal investment circumstances or to some types of investors subject to special treatment under Israeli law. Examples of this kind of investor include residents of Israel or traders in securities who are subject to special tax regimes not covered in this discussion. Since some parts of this discussion are based on new tax legislation that has not yet been subject to judicial or administrative interpretation, we cannot assure you that the appropriate tax authorities or the courts will accept the views expressed in this discussion.

The discussion below should not be construed as legal or professional tax advice and does not cover all possible tax considerations. Potential investors are urged to consult their own tax advisors as to the Israeli or other tax consequences of the purchase, ownership and disposition of our ordinary shares, including in particular, the effect of any foreign, state or local taxes.

General Corporate Tax Structure

Generally, Israeli companies are subject to corporate tax on their taxable income. Since January 2018, the corporate tax rate is 23%. In addition, Israeli companies are currently subject to regular corporate tax rate on their capital gains.

Israeli Transfer Pricing Regulations

On November 29, 2006, Income Tax Regulations (Determination of Market Terms), 2006, promulgated under Section 85A of the Israeli Tax Ordinance, came into effect, or the TP Regs. Section 85A of the Tax Ordinance and the TP Regs generally require that all cross-border transactions carried out between related parties be conducted on an arm's length principle basis and will be taxed accordingly. The TP Regs are not expected to have a material effect on us.

Until the sale of the Integrated Solution Division on June 30, 2021, we believed that we qualified as a Preferred Enterprise, under Law for the Encouragement of Capital Investments, 1959 ("the Law") and accordingly were eligible for a reduced corporate tax rate of 16% on our preferred income, as defined in the Law.

In addition, any dividends distributed to individuals or foreign residents from the preferred enterprise's earnings as above were subject to tax at a rate of 20%.

Following the sale of the Integrated Solution Division, our income is not eligible for Preferred Enterprise benefits and is taxed at the regular corporate tax rate for Israeli companies at 23%.

Taxation under Inflationary Conditions

In February 2008, the "Knesset" (Israeli parliament) passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the law starting 2008 and thereafter. Since 2008, the results for tax purposes are measured in nominal values, excluding certain adjustments for changes in the Israeli CPI carried out in the period up to December 31, 2007. Adjustments relating to capital gains such as for sale of property (betterment) and securities continue to apply until disposal. Since 2008, the amendment to the law includes, among others, the cancellation of the inflationary additions and deductions and the additional deduction for depreciation (in respect of depreciable assets purchased after the 2007 tax year).

Capital Gains Tax on Sales of Our Ordinary Shares by Foreign Holders

Israeli law generally imposes a capital gains tax on the sale of any capital assets by residents of Israel, as defined for Israeli tax purposes, and on the sale of assets located in Israel, including shares in Israeli companies, by non-residents of Israel, unless a specific exemption is available or unless a tax treaty between Israel and the shareholder's country of residence provides otherwise. The law distinguishes between real gain and inflationary surplus. The inflationary surplus is a portion of the total capital gain which is equivalent to the increase of the relevant asset's purchase price which is attributable to the increase in the CPI or, in certain circumstances, a foreign currency exchange rate, between the date of purchase and the date of sale. The real gain is the excess of the total capital gain over the inflationary surplus.

Generally, as of January 1, 2012, the tax rate applicable to capital gains derived from the sale of shares, whether listed on a stock market or not, is 25% for Israeli individuals, unless such shareholder claims a deduction for financing expenses in connection with such shares, in which case the gain will generally be taxed at a rate of 30%. Additionally, if such shareholder is considered a "significant shareholder" at the time of sale or at any time during the 12-month period preceding such sale, i.e., such shareholder holds directly or indirectly, including with others, at least 10% of any means of control in the company, the tax rate shall be 30% (in case of Israeli individual shareholders who acquired shares before January 1, 2012 the rates applicable to the holding period between January 1, 2003 and December 31, 2012 should be 20% and 25% instead of the abovementioned 25% and 30% respectively). In case of individual shareholders who acquired shares before January 1, 2003, the rates applicable to the holding period until such date shall be based on tax brackets and rates applicable to regular income. Real capital gain in such cases shall be calculated based on linearity throughout the entire holding period). However, the foregoing tax rates do not apply to: (i) dealers in securities; and (ii) shareholders who acquired their shares prior to an initial public offering (that may be subject to a different tax arrangement). Israeli companies are subject to the Corporate Tax rate on capital gains derived from the sale of listed shares. A surtax of 3% applies on top of the above rates in case of individuals whose taxable income (including inter-alia income from real capital gain) in the relevant year exceeds a threshold of NIS 647,640 (for 2021 – indexed annually).

The tax basis of our ordinary shares acquired prior to January 1, 2003 will generally be determined in accordance with the average closing share price in the three trading days preceding January 1, 2003.

However, a request may be made to the tax authorities to consider the actual adjusted cost of the shares as the tax basis if it is higher than such average price.

Non-Israeli residents are exempt from Israeli capital gains tax on any gains derived from the sale of shares of Israeli companies publicly traded on a recognized stock exchange or regulated market outside of Israel, provided however that certain conditions are met including, but not limited to that such capital gains are not derived from a permanent establishment in Israel and such shareholders did not acquire their shares prior to an initial public offering. However, non-Israeli corporations will not be entitled to such exemption if Israeli residents (i) have a controlling interest (through any means of control) of more than 25% in such non-Israeli corporation, or (ii) are the beneficiaries or are entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly.

In some instances, where our shareholders may be liable to Israeli tax on the sale of their ordinary shares, the payment of the consideration may be subject to the withholding of Israeli tax at the source (generally, withholding tax under Israeli law is not self-assessed by the payer and reduced or no withholding tax (where relevant) requires pre-approval from the ITA).

Pursuant to the Convention Between the government of the United States of America and the government of Israel with Respect to Taxes on Income, as amended, or the U.S.-Israel Tax Treaty, the sale, exchange or disposition of ordinary shares by a person who (i) holds the ordinary shares as a capital asset, (ii) qualifies as a resident of the United States within the meaning of the U.S.-Israel Tax Treaty, or a Treaty U.S. Resident, and (iii) is entitled to claim the benefits afforded to such person by the U.S.-Israel Tax Treaty, generally, will not be subject to the Israeli capital gains tax. Such exemption will not apply if (i) such Treaty U.S. Resident holds, directly or indirectly, shares representing 10% or more of our voting power during any part of the 12-month period preceding such sale, exchange or disposition, subject to certain conditions, or (ii) the capital gains from such sale, exchange or disposition can be allocated to a permanent establishment in Israel. In such case, the sale, exchange or disposition of ordinary shares would be subject to Israeli tax, to the extent applicable; however, under the U.S.-Israel Tax Treaty, such Treaty U.S. Resident would be permitted to claim a credit for such taxes against the U.S. federal income tax imposed with respect to such sale, exchange or disposition, subject to the limitations in U.S. laws applicable to foreign tax credits. The U.S.-Israel Tax Treaty does not relate to U.S. state or local taxes.

Taxation of Dividends paid to Non-Resident Holders of Shares

Non-residents of Israel are subject to Israeli income tax on income accrued or derived from sources in Israel. Such sources of income include passive income such as dividends. On distributions of dividends other than bonus shares or stock dividends, income tax is applicable at the rate of 25%, or 30% for a shareholder that is considered a "significant shareholder" at the time of receipt of the dividend or at any time during the 12-month period preceding such, unless a different rate is provided in a treaty between Israel and the shareholder's country of residence. However, under the Investments Law, dividends generated by an Approved Enterprise (or Benefited Enterprise) are taxed at the rate of 15%. A surtax of 3% applies on top of the above rates in case of individuals whose taxable income (including inter-alia income from dividend) in the relevant year exceeds a threshold of NIS 663,240 (for 2022 – indexed annually).

Under the U.S.-Israel Tax Treaty, the maximum tax on dividends paid to a holder of ordinary shares who is a Treaty U.S. Resident is 25%. However, if the income out of which the dividend is paid is not generated by an Approved Enterprise (or Benefited Enterprise), and not more than 25% of our gross income consists of interest or dividends, dividends paid to a U.S. corporation holding at least 10% of our issued voting power during the part of the tax year which precedes the date of payment of the dividend and during the whole of its prior tax year, are generally taxed at a rate of 12.5%. Dividends generated by an Approved Enterprise (or Benefited Enterprise) are taxed at the rate of 15% under the U.S.-Israel Tax Treaty. With respect to the December 2020 and 2021 cash distributions the Company requested the ITA for a ruling determining whether the said distribution should be treated as a capital reduction or dividend. Note that treaty rates are not automatically applied under Israeli law and require preapproval from the ITA (by way of a withholding tax reduction certificate) which should be actively sought by the payee.

UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following is a description of the material U.S. federal income tax consequences of the acquisition, ownership and disposition of our ordinary shares. This description addresses only the U.S. federal income tax considerations that are relevant to U.S. Holders (as defined below) who hold our ordinary shares as capital assets. This summary is based on the U.S. Internal Revenue Code of 1986, as amended, or the Code, Treasury regulations promulgated thereunder, judicial and administrative interpretations thereof, and the U.S.-Israel Tax Treaty, or the Treaty, all as in effect on the date hereof and all of which are subject to change either prospectively or retroactively.

There can be no assurance that the U.S. Internal Revenue Service, or the IRS, will not take a different position concerning the tax consequences of the acquisition, ownership and disposition of our ordinary shares or that such a position would not be sustained. This description does not address all tax considerations that may be relevant with respect to an investment in our ordinary shares. In addition, this description does not account for the specific circumstances of any particular investor, such as:

- broker-dealers;
- financial institutions;
- certain insurance companies;
- investors liable for alternative minimum tax;
- regulated investment companies, real estate investment trusts, or grantor trusts;
- dealers or traders in securities, commodities or currencies;
- tax-exempt organizations;
- non-resident aliens of the United States or taxpayers whose functional currency is not the U.S. dollar;
- persons who hold the ordinary shares through partnerships or other pass-through entities;
- persons who acquire their ordinary shares through the exercise or cancellation of employee stock options or otherwise as compensation for services;
- persons (or their direct, indirect or constructive owners) that actually or constructively own 10% or more of our shares by vote or value; or
- investors holding ordinary shares as part of a straddle, appreciated financial position, a hedging transaction or conversion transaction.

If a partnership or an entity treated as a partnership for U.S. federal income tax purposes owns our ordinary shares, the U.S. federal income tax treatment of a partner in such a partnership will generally depend upon the status of the partner and the activities of the partnership. A partnership that owns our ordinary shares and the partners in such partnership should consult their tax advisors about the U.S. federal income tax consequences of holding and disposing of ordinary shares.

This summary does not address the effect of any U.S. federal taxation (such as estate and gift tax) other than U.S. federal income taxation. In addition, this summary does not include any discussion of state, local or non-U.S. taxation. You are urged to consult your tax advisors regarding the non-U.S. and U.S. federal, state and local tax consequences of an investment in ordinary shares.

For purposes of this summary, as used herein, the term “U.S. Holder” means a person that is eligible for the benefits of the Treaty and is a beneficial owner of an ordinary share who is, for U.S. federal income tax purposes:

- an individual who is a citizen or, for U.S. federal income tax purposes, a resident of the United States;
- a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any political subdivision thereof;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if such trust has validly elected to be treated as a U.S. person for U.S. federal income tax purposes or if (1) a court within the United States is able to exercise primary supervision over its administration and (2) one or more U.S. persons have the authority to control all of the substantial decisions of such trust.

Unless otherwise indicated, this discussion assumes that the Company is not, and will not become, a “passive foreign investment company,” or a PFIC, for U.S. federal income tax purposes. See “—*Passive Foreign Investment Companies*” below.

Taxation of Distributions

Subject to the discussion below under the heading “—*Passive Foreign Investment Companies*,” the gross amount of any distributions received with respect to our ordinary shares, including the amount of any Israeli taxes withheld therefrom, will constitute dividends for U.S. federal income tax purposes to the extent of our current and accumulated earnings and profits, as determined for U.S. federal income tax purposes. Because we do not expect to maintain calculations of our earnings and profits under U.S. federal income tax principles, it is expected that the entire amount of any distribution will generally be reported as dividend income to you. Dividends are included in gross income as ordinary income. Distributions in excess of our current and accumulated earnings and profits would be treated as a non-taxable return of capital to the extent of your tax basis in our ordinary shares and any amount in excess of your tax basis will be treated as gain from the sale of ordinary shares. See “—*Disposition of Ordinary Shares*” below for a discussion of the taxation of capital gains. Our dividends would not qualify for the dividends-received deduction generally available to corporations under section 243 of the Code.

Dividends that we pay in NIS, including the amount of any Israeli taxes withheld therefrom, will be included in your income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day such dividends are received, regardless of whether the payment is in fact converted into U.S. dollars. A U.S. Holder who receives payment in NIS and converts NIS into U.S. dollars at an exchange rate other than the rate in effect on such day may have a foreign currency exchange gain or loss that would be treated as U.S.-source ordinary income or loss. U.S. Holders should consult their own tax advisors concerning the U.S. tax consequences of acquiring, holding and disposing of NIS.

Subject to complex limitations, some of which vary depending upon the U.S. Holder’s circumstances, any Israeli withholding tax imposed on dividends paid with respect to our ordinary shares, at a rate not exceeding the applicable rate provided by the Treaty, will be a foreign income tax eligible for credit against a U.S. Holder’s U.S. federal income tax liability (or, alternatively, for deduction against income in determining such tax liability). Israeli taxes withheld in excess of the applicable rate allowed by the Treaty (if any) will not be eligible for credit against a U.S. Holder’s federal income tax liability. The limitation on foreign income taxes eligible for credit is calculated separately with respect to specific classes of income. Dividends generally will be treated as foreign-source passive category income or, in the case of certain U.S. Holders, general category income for U.S. foreign tax credit purposes. Further, there are special rules for computing the foreign tax credit limitation of a taxpayer who receives dividends subject to a reduced tax rate (see discussion below). A U.S. Holder may be denied a foreign tax credit with respect to Israeli income tax withheld from dividends received on our ordinary shares if such U.S. Holder fails to satisfy certain minimum holding period requirements or to the extent such U.S. Holder’s position in ordinary shares is hedged. An election to deduct foreign taxes instead of claiming foreign tax credit applies to all foreign taxes paid or accrued in the taxable year. The rules relating to the determination of the foreign tax credit are complex, and you should consult with your own tax advisors to determine whether and to what extent you would be entitled to this credit.

Subject to certain limitations (including the PFIC rules discussed below), “qualified dividend income” received by a non-corporate U.S. Holder will be subject to tax at the lower long-term capital gain rates (currently a maximum of 20%). Distributions taxable as dividends paid on our ordinary shares should qualify for a reduced rate provided that either: (i) we are entitled to benefits under the Treaty, or (ii) our ordinary shares are readily tradable on an established securities market in the United States and certain other requirements are met. We believe that we are entitled to benefits under the Treaty and that our ordinary shares currently are readily tradable on an established securities market in the United States (see discussion below). However, no assurance can be given that our ordinary shares will remain readily tradable. The rate reduction does not apply unless certain holding period requirements are satisfied, nor does it apply to dividends received from a PFIC (see discussion below), in respect of certain risk-reduction transactions, or in certain other situations. The legislation enacting the reduced tax rate on qualified dividend income contains special rules for computing the foreign tax credit limitation of a taxpayer who receives dividends subject to the reduced tax rate. U.S. Holders of our ordinary shares should consult their own tax advisors regarding the effect of these rules in their particular circumstances.

Sale or Disposition of Ordinary Shares

Subject to the discussion of PFIC rules below, if you sell or otherwise dispose of our ordinary shares, you will generally recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount realized on the sale or other disposition and your adjusted tax basis in our ordinary shares, in each case determined in U.S. dollars. Such gain or loss will generally be capital gain or loss and will be long-term capital gain or loss if you have held the ordinary shares for more than one year at the time of the sale or other disposition. Long-term capital gain realized by a non-corporate U.S. Holder is generally eligible for a preferential tax rate (currently a maximum of 20%). In general, any gain that you recognize on the sale or other disposition of ordinary shares will be U.S.-source for purposes of the foreign tax credit limitation; losses will generally be allocated against U.S. source income. Deduction of capital losses is subject to certain limitations under the Code.

In the case of a cash basis U.S. Holder who receives NIS in connection with the sale or disposition of our ordinary shares, the amount realized will be based on the U.S. dollar value of the NIS received with respect to the ordinary shares as determined on the settlement date of such exchange. A cash basis U.S. Holder who receives payment in NIS and converts NIS into U.S. dollars at a conversion rate other than the rate in effect on the settlement date may have a foreign currency exchange gain or loss, which would be treated as ordinary income or loss.

An accrual basis U.S. Holder may elect the same treatment required of cash basis taxpayers with respect to a sale or disposition of our ordinary shares that are traded on an established securities market, provided that the election is applied consistently from year to year. Such election may not be changed without the consent of the IRS. In the event that an accrual basis U.S. Holder does not elect to be treated as a cash basis taxpayer (pursuant to the Treasury regulations applicable to foreign currency transactions), such U.S. Holder may have a foreign currency gain or loss for U.S. federal income tax purposes because of differences between the U.S. dollar values of the currency received prevailing on the trade date and the settlement date. Any such currency gain or loss would be treated as U.S.- source ordinary income or loss and would be in addition to the gain or loss, if any, recognized by such U.S. Holder on the sale or disposition of such ordinary shares.

Passive Foreign Investment Companies

Based on the composition of our income, assets (including the value of our goodwill, going-concern value or any other unbooked intangibles, which may be determined based on the price of the ordinary shares), and operations, we believe we will not be classified as a "passive foreign investment company", or PFIC, for the 2022 taxable year. However, because PFIC status is based on our income, assets and activities for the entire taxable year, it is not possible to determine whether we will be characterized as a PFIC for our current taxable year or future taxable years until after the close of the applicable taxable year. Moreover, we must determine our PFIC status annually based on tests that are factual in nature, and our status in the current year and future years will depend on our income, assets and activities in each of those years and, as a result, cannot be predicted with certainty as of the date hereof. If we were a PFIC for any taxable year during which a U.S. Holder owned Ordinary Shares, certain adverse consequences could apply to the U.S. Holder. Specifically, unless a U.S. Holder makes one of the elections mentioned below, gain recognized by the U.S. Holder on a sale or other disposition of Ordinary Shares would be allocated ratably over the U.S. Holder's holding period for the Ordinary Shares. The amounts allocated to the taxable year of the sale or other disposition and to any year before we became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for that taxable year, and an interest charge would be imposed on the resulting tax liability. Further, any distribution in excess of 125% of the average of the annual distributions received by the U.S. Holder on our Ordinary Shares during the preceding three years or the U.S. Holder's holding period, whichever is shorter, would be subject to taxation as described immediately above. In addition, if we were a PFIC for a taxable year in which we pay a dividend or the immediately preceding taxable year, the preferential dividend rates discussed above with respect to dividends paid to certain non-corporate U.S. Holders would not apply. If we were a PFIC for any taxable year in which a U.S. Holder owned our shares, the U.S. Holder would generally be required to file annual returns with the IRS on IRS Form 8621.

If we are treated as a PFIC with respect to you for any taxable year, you will be deemed to own shares in any entities in which we own equity that are also PFICs (“lower tier PFICs”), and you may be subject to the tax consequences described above with respect to the shares of such lower tier PFIC you would be deemed to own.

i. Mark-to-market elections

If we are a PFIC for any taxable year during which you hold ordinary shares, then instead of being subject to the tax and interest charge rules discussed above, you may make an election to include gain on the ordinary shares as ordinary income under a mark-to-market method, provided that such ordinary shares are “marketable.” The ordinary shares will be marketable if they are “regularly traded” on a qualified exchange or other market, as defined in applicable U.S. Treasury regulations, such as the New York Stock Exchange (or on a foreign stock exchange that meets certain conditions). For these purposes, the ordinary shares will be considered regularly traded during any calendar year during which they are traded, other than in de minimis quantities, on at least 15 days during each calendar quarter. Any trades that have as their principal purpose meeting this requirement will be disregarded. However, because a mark-to-market election cannot be made for any lower tier PFICs that we may own, you will generally continue to be subject to the PFIC rules discussed above with respect to your indirect interest in any investments we own that are treated as an equity interest in a PFIC for U.S. federal income tax purposes. As a result, it is possible that any mark-to-market election with respect to the ordinary shares will be of limited benefit.

If you make an effective mark-to-market election, in each year that we are a PFIC, you will include in ordinary income the excess of the fair market value of your ordinary shares at the end of the year over your adjusted tax basis in the ordinary shares. You will be entitled to deduct as an ordinary loss in each such year the excess of your adjusted tax basis in the ordinary shares over their fair market value at the end of the year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. If you make an effective mark-to-market election, in each year that we are a PFIC, any gain that you recognize upon the sale or other disposition of your ordinary shares will be treated as ordinary income and any loss will be treated as ordinary loss, but only to the extent of the net amount of previously included income as a result of the mark-to-market election.

Your adjusted tax basis in the ordinary shares will be increased by the amount of any income inclusion and decreased by the amount of any deductions under the mark-to-market rules discussed above. If you make an effective mark-to-market election, it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the ordinary shares are no longer regularly traded on a qualified exchange or the IRS consents to the revocation of the election. You should consult your tax advisor about the availability of the mark-to-market election, and whether making the election would be advisable in your particular circumstances.

ii. Qualified electing fund elections

In certain circumstances, a U.S. equity holder in a PFIC may avoid the adverse tax and interest charge regime described above by making a “qualified electing fund” election to include in income its share of the corporation’s income on a current basis. However, you may make a qualified electing fund election with respect to the ordinary shares only if we agree to furnish you annually with a PFIC annual information statement as specified in the applicable U.S. Treasury regulations. We do not intend to provide the information necessary for you to make a qualified electing fund election if we are classified as a PFIC. Therefore, you should assume that you will not receive such information from us and would therefore be unable to make a qualified electing fund election with respect to any of our ordinary shares were we to be or become a PFIC.

Additional Tax on Investment Income

In addition to the income taxes described above, U.S. Holders that are individuals, estates or trusts and whose income exceeds certain thresholds will be subject to a 3.8% Medicare contribution tax on net investment income, which includes dividends and capital gains from the sale or exchange of our Ordinary shares.

Backup Withholding and Information Reporting

Payments in respect of our ordinary shares may be subject to information reporting to the IRS and to U.S. backup withholding tax at the rate (currently) of 24%. Backup withholding will not apply, however, if you (i) are a corporation, or fall within certain exempt categories, and demonstrate the fact when so required, or (ii) furnish a correct taxpayer identification number and make any other required certification.

Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules may be credited against a U.S. Holder's U.S. tax liability. A U.S. Holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS.

U.S. citizens and individuals taxable as resident aliens of the United States that own "specified foreign financial assets" with an aggregate value in a taxable year in excess of certain thresholds (as determined under rules in Treasury regulations) and that are required to file a U.S. federal income tax return generally will be required to file an information report with respect to those assets with their tax returns. IRS Form 8938 has been issued for that purpose. "Specified foreign financial assets" include any financial accounts maintained by foreign financial institutions, foreign stocks held directly, and interests in foreign estates, foreign pension plans or foreign deferred compensation plans. Under those rules, our ordinary shares, whether owned directly or through a financial institution, estate or pension or deferred compensation plan, would be "specified foreign financial assets." Under Treasury regulations, the reporting obligation applies to certain U.S. entities that hold, directly or indirectly, specified foreign financial assets. Penalties can apply if there is a failure to satisfy this reporting obligation. A U.S. Holder is urged to consult the U.S. Holder's tax advisor regarding the reporting obligation.

Any U.S. Holder who acquires more than \$100,000 of our ordinary shares or holds 10% or more in vote or value of our ordinary shares may be subject to certain additional U.S. information reporting requirements.

The above description is not intended to constitute a complete analysis of all tax consequences relating to acquisition, ownership and disposition of our ordinary shares. You should consult your tax advisor concerning the tax consequences of your particular situation.

F. Dividends and Paying Agents.

Not applicable.

G. Statements by Experts.

Not applicable.

H. Documents on Display.

We are subject to certain of the reporting requirements of the Securities and Exchange Act of 1934, as amended, or the Exchange Act, as applicable to "foreign private issuers" as defined in Rule 3b-4 under the Exchange Act. As a foreign private issuer, we are exempt from certain provisions of the Exchange Act. Accordingly, our proxy solicitations are not subject to the disclosure and procedural requirements of Regulation 14A under the Exchange Act, and transactions in our equity securities by our officers and directors are exempt from reporting and the "short-swing" profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required to file quarterly reports including financial statements. We file with the SEC an annual report on Form 20-F containing financial statements audited by an independent accounting firm. We also submit to the SEC reports on Form 6-K containing, among other things, press releases and unaudited financial information. We post our annual report on Form 20-F on our website (www.senstartechnologies.com) promptly following the filing of our annual report with the SEC. The information on our website is not incorporated by reference into this annual report.

The SEC maintains an Internet website that contains reports and other information about issuers, like us, that file electronically with the SEC. The address of that website is www.sec.gov. We make our reports available on our internet website, free of charge, as soon as reasonably practicable after such material is electronically filed with the SEC. The documents concerning our company that are referred to in this annual report may also be inspected at our executive offices in Israel.

I. Subsidiary Information.

Not applicable.

J. Annual Report to Security Holders.

Not applicable.

ITEM 11. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to a variety of risks, including changes in interest rates and foreign currency fluctuations.

Foreign Currency Exchange Risk

We sell most of our products in North America, Europe, Latin America and Israel. Our revenues are primarily denominated in U.S. dollars, Canadian dollars, Euros and NIS, while a portion of our expenses, primarily labor expenses, is incurred in NIS and Canadian Dollars. Additionally, certain assets, especially trade receivables, as well as part of our liabilities are denominated in NIS and CAD. As a result, fluctuations in rates of exchange between the U.S. dollar and non-U.S. dollar currencies may affect our operating results and financial condition. The dollar cost of our operations in Israel may be adversely affected by the appreciation of the NIS against the U.S. dollar. The U.S. dollar cost of our operations in Canada may be adversely affected by the appreciation of the Canadian dollars against the U.S. dollar. The U.S. dollar cost of our operations in Mexico may be adversely affected by the appreciation of the Mexican peso against the U.S. dollar. In addition, the value of our non-U.S. dollar revenues could be adversely affected by the depreciation of the U.S. dollar against such currencies.

The U.S. dollar cost of our operations in Canada is influenced by the exchange rate between the U.S. dollar and the CAD. In 2022 the CAD depreciated against the U.S. dollar by 6.4%. In 2021 and 2020 the CAD appreciated against the U.S. dollar by 0.1% and 2.1%, respectively.

In 2022, foreign currency fluctuations had a positive impact on our results of operations as we recorded foreign exchange gain, net of \$0.4 million. In 2021 and 2020, foreign currency fluctuations had a negative impact on our results of operations as we recorded foreign exchange loss, net of \$1 million and \$1 million, respectively.

We cannot assure you that in the future our results of operations may not be materially affected by currency fluctuations.

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**Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in its Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our chief executive officer and chief financial officer to allow timely decisions regarding required disclosure. Our management, including our chief executive officer and chief financial officer, conducted an evaluation of our disclosure controls and procedures, as defined under Exchange Act Rule 13a-15(e), as of the end of the period covered by this Annual Report on Form 20-F. Based upon that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective.

Management's Report on Internal Control over Financial Reporting

Our management, including our chief executive officer and chief financial officer, is responsible for establishing and maintaining adequate internal control over financial reporting, as defined under Exchange Act Rules 13a-15(f) and 15d-15(f). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. Internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with appropriate authorizations; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2022. In conducting its assessment of internal control over financial reporting, management based its evaluation on the framework in "Internal Control – Integrated Framework" (2013) issued by the Committee of Sponsoring Organizations, or the COSO, of the Treadway Commission. Based on that assessment, our management has concluded that our internal control over financial reporting was effective as of December 31, 2022.

Changes in Internal Control over Financial Reporting

During the period covered by this Annual Report on Form 20-F, no changes in our internal control over financial reporting have occurred that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16. [Reserved]**ITEM 16A. Audit Committee Financial Expert**

Our board of directors has determined that Ms. Limor Steklov, an external and independent director, meets the definition of an audit committee financial expert, as defined by rules of the SEC. For a brief description of Ms. Steklov's relevant experience, see Item 6.A. "Directors, Senior Management and Employees – Directors and Senior Management."

ITEM 16B. Code of Ethics

Our amended and restated code of ethics, which was initially adopted in April 2010 and thereafter amended in 2017 and is reviewed periodically by the Board, applies to our chief executive officer and all senior financial officers of our company, including our chief financial officer, chief accounting officer or controller, and persons performing similar functions. The amended and restated code of ethics reflects our growing emphasis on international operations and better addresses issues related with such activities by providing clear instructions in connection with commercial international activities. The code of ethics is publicly available on our website at www.senstartechnologies.com. Written copies are available upon request. If we make any substantive amendment to the code of ethics or grant any waivers, including any implicit waiver, from a provision of the code of ethics, we will disclose the nature of such amendment or waiver on our website.

ITEM 16C. Principal Accountant Fees and Services**Independent Public Accountant Fees and Services**

The following table sets forth, for each of the years indicated, the fees billed by our principal independent registered public accounting firm, Kost Forer Gabbay & Kasierer, a member of Ernst & Young global. All of such fees were pre-approved by our Audit Committee.

Services Rendered	Year Ended December 31,	
	2022	2021
Audit (1)	232,000	270,000
Tax (2)	56,000	43,000
Other (3)	4,000	4,000
Total	292,000	317,000

- (1) Audit fees are for audit services for each of the years shown in the table, including fees associated with the annual audit (including audit of our internal control over financial reporting), consultations on various accounting issues and audit services provided in connection with other statutory or regulatory filings.
- (2) Tax fees are for professional services rendered by our auditors for tax compliance, tax planning and tax advice on actual or contemplated transactions, tax consulting associated to international taxation, tax assessment deliberation, transfer pricing and withholding tax assessments.
- (3) Other fees primarily relate to out of pocket reimbursement of expenses and primarily traveling expenses of our auditors. These fees also relate to fees associated with the conflict Minerals work plan, due diligence, and the Risk Assessment Service.

Pre-Approval Policies and Procedures

Our audit committee has adopted a policy and procedures for the pre-approval of audit and non-audit services rendered by our independent public accounting firm, Kost Forer Gabbay & Kasierer and their affiliates. Pre-approval of an audit or non-audit service may be given as a general pre-approval, as part of the audit committee's approval of the scope of the engagement of our independent auditor, or on an individual basis. Any proposed services exceeding general pre-approved levels also require specific pre-approval by our audit committee. The policy prohibits retention of the independent public accountants to perform the prohibited non-audit functions defined in Section 201 of the Sarbanes-Oxley Act or the rules of the SEC, and also requires the audit committee to consider whether proposed services are compatible with the independence of the public accountants.

ITEM 16D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

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

We did not purchase any ordinary shares of our company nor did an affiliated purchaser purchase any shares of our company on our behalf during 2022.

ITEM 16F. Changes in Registrant's Certifying Accountant

None.

ITEM 16G. Corporate Governance

Under NASDAQ Stock Market Rule 5615(a)(3), foreign private issuers, such as our company, are permitted to follow certain home country corporate governance practices instead of certain provisions of NASDAQ Stock Market Rules. A foreign private issuer that elects to follow a home country practice instead of any of such NASDAQ requirements must submit to NASDAQ in advance a written statement from an independent counsel in such issuer's home country certifying that the issuer's practices are not prohibited by the home country's laws.

We currently follow Israeli law and practice in respect of the following requirements:

- the requirement regarding the process of nominating directors. Instead, we follow Israeli law and practice in accordance with which our directors are recommended by our board of directors for election by our shareholders. See Item 6.C. "Directors, Senior Management and Employees – Board Practices – Election of Directors."
- the requirement regarding the compensation of our chief executive officer and all other executive officers. Instead, we follow Israeli law and practice in accordance with which our board of directors must approve all compensation arrangements for our chief executive officer and all compensation arrangements for officers are subject to the chief executive officer's approval. See Item 6.C. "Directors, Senior Management and Employees – Compensation."
- the requirement that our independent directors have regularly scheduled meetings at which only independent directors are present. Under Israeli law, independent directors are not required to hold executive sessions.
- the requirement that we maintain a majority of independent directors, as defined under NASDAQ Stock Market Rules. Under Israeli law and practice we are required to appoint at least two external directors, within the meaning of the Israeli Companies Law, to our board of directors.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 16I. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.

Not applicable.

ITEM 16J. Insider Trading Policies .

Not applicable.

PART III

ITEM 17. Financial Statements

We have elected to furnish financial statements and related information specified in Item 18.

ITEM 18. Financial Statements

The financial statements required by this item are found at the end of this annual report, beginning on page F-1.

ITEM 19. Exhibits

<u>Exhibit No.</u>	<u>Description</u>
1.1	Memorandum of Association of the Registrant (1)
1.2	Articles of Association of the Registrant (2)
2.1	Specimen Share Certificate for Ordinary Share (3)
2.2	Registrant's 2010 Israeli Share Option Plan (4)
2.4	Amendment to Registrant's 2010 Israeli Share Option Plan(5)
2.5	Description of the rights of each class of securities registered under Section 12 of the Securities Exchange Act of 1934(6)
4.1	Form of Indemnification Agreement – Office Holder(7)
4.2	Compensation Policy of Office Holders (8)
4.3	Share and Asset Purchase Agreement by and between Aeronautics Ltd. and the Registrant dated February 7, 2021. (9)
8.1	List of Subsidiaries of the Registrant (10)
12.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act, as amended
12.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act, as amended
13.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1	Consent of Kost Forer Gabbay & Kasierer
101.INS	Inline XBRL Instance Document.*
101.SCH	Inline XBRL Taxonomy Extension Schema Document.*
101.PRE	Inline XBRL Taxonomy Presentation Linkbase Document.*
101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document.*
101.LAB	Inline XBRL Taxonomy Label Linkbase Document.*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.*
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)*

* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for the purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

- (1) Filed as an exhibit to our Registration Statement on Form F-1 (File No. 33-57438), filed with the Securities and Exchange Commission on January 26, 1993, as amended, and incorporated herein by reference.
- (2) Filed as an exhibit to our Registration Statement on Form F-1 (No. 33-57438), filed with the Securities and Exchange Commission on January 26, 1993, as amended, and incorporated herein by reference, as amended by an amendment filed as an exhibit to our Registration Statement on Form S-8 (File No. 333-6246), filed with the Commission on January 7, 1997 and incorporated herein by reference, as further amended by an amendment filed as an exhibit to our Annual Report on Form 20-F for the fiscal year ended December 31, 2000, filed with the Securities and Exchange Commission on June 29, 2001 and incorporated herein by reference, as further amended by the company's shareholders on July 17, 2002, as described under Form 6-K furnished to the SEC on June 19, 2002, as further amended by the company's shareholders on August 20, 2008, as described under Form 6-K furnished to the SEC on July 17, 2008, and as further amended by the company's shareholders on August 31, 2011, as described under Form 6-K furnished to the SEC on July 27, 2011.
- (3) Filed as Exhibit 2.1 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2019, and incorporated herein by reference.
- (4) Filed as Exhibit 2.3 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2010, and incorporated herein by reference.
- (5) Filed as Exhibit 2.4 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2013, and incorporated herein by reference.
- (6) Filed as Exhibit 2.5 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2019, and incorporated herein by reference.
- (7) Filed as Exhibit A to Exhibit 99.1 to the Registrant's Proxy Statement on Form 6-K furnished to the Securities and Exchange Commission on July 15, 2019 and incorporated herein by reference.
- (8) Filed as Exhibit A to Exhibit 99.1 to the Registrant's Proxy Statement on Form 6-K furnished to the Securities and Exchange Commission on July 16, 2021 and incorporated herein by reference.
- (9) Filed as Exhibit 99.2 to the Registrant's Report on Form 6-K furnished to the Securities and Exchange Commission on February 8, 2021 and incorporated herein by reference.
- (10) Filed as Exhibit 8.1 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2021, and incorporated herein by reference.

SENSTAR TECHNOLOGIES LTD. (FORMERLY: MAGAL SECURITY SYSTEMS LTD.)
AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2022

IN U.S. DOLLARS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of

SENSTAR TECHNOLOGIES LTD.
(Formerly: Magal Security Systems Ltd.)

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Senstar Technologies Ltd. (formerly: Magal Security Systems Ltd.) and its Subsidiaries (the Company) as of December 31, 2022 and 2021, the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2022, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

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

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

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

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Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Title	Goodwill impairment assessment
<i>Description of the Matter</i>	<p>At December 31, 2022, the Company had \$10.9 million of goodwill on its consolidated balance sheet. As discussed in Note 2 to the consolidated financial statements, the Company's evaluation of goodwill for impairment involves the comparison of the Company's reporting unit estimated fair value to its carrying amount annually in the fourth quarter of each year or more frequently if a change in circumstances or the occurrence of events indicates that potential impairment exists. During the fourth quarter of 2022, the Company estimated the fair value of its reporting unit using discounted cash flow calculation and performed a quantitative goodwill impairment test.</p> <p>Auditing the Company's estimated fair value involved a high degree of auditor judgement due to the effort to evaluate management's assumptions and estimates that are subject to risk and uncertainty related to future growth rates, margin projections, and the discount rate.</p>
<i>How We Addressed the Matter in Our Audit</i>	<p>Our audit procedures included, among others, evaluating management's ability to accurately forecast future sales growth by comparing actual results to management's historical forecasts, evaluating the reasonableness of management's sales and operating profit forecasts by comparing the forecasts to (1) historical sales and operating profit and (2) internal communications to management and the Board of Directors, and evaluating with the assistance of our fair value specialists, the discount rate, including testing the underlying source information and the mathematical accuracy of the calculation, and by developing a range of independent estimates and comparing those to the discount rate selected by management. Additionally, we performed sensitivity analyses of the significant assumptions to evaluate the changes in the fair value of the reporting unit that would result from reasonably expected changes in the significant assumptions.</p>

We have served as the Company's auditor since 1984.

Tel-Aviv, Israel
April 20, 2023

/s/ Kost Forer Gabbay & Kasierer
KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31,	
	2022	2021
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 14,937	\$ 26,397
Short-term bank deposits	110	-
Restricted cash and deposits	5	6
Trade receivables, net	9,973	7,723
Unbilled accounts receivable	350	26
Other accounts receivable and prepaid expenses (Note 3)	1,441	2,010
Inventories (Note 4)	8,443	5,751
Total current assets	35,259	41,913
LONG-TERM ASSETS:		
Deferred tax assets (Note 13)	1,981	502
Operating lease right-of-use assets (Note 5)	987	1,228
Total long-term assets	2,968	1,730
PROPERTY AND EQUIPMENT, NET (Note 6)	1,651	2,109
INTANGIBLE ASSETS, NET (Note 7)	1,142	2,186
GOODWILL (Note 8)	10,866	11,449
Total assets	\$ 51,886	\$ 59,387

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

CONSOLIDATED BALANCE SHEETS

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

	December 31,	
	2022	2021
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	\$ 2,408	\$ 2,710
Customer advances	239	390
Deferred revenues	2,866	2,704
Other accounts payable and accrued expenses (Note 9)	4,749	13,203
Short-term operating lease liabilities (Note 5)	248	276
Total current liabilities	10,510	19,283
LONG-TERM LIABILITIES:		
Deferred revenues	1,463	1,690
Deferred tax liabilities (Note 13)	865	899
Accrued severance pay	330	523
Long-term operating lease liabilities (Note 5)	757	969
Other long-term liabilities	274	266
Total long-term liabilities	3,689	4,347
COMMITMENTS AND CONTINGENT LIABILITIES (Note 10)		
SHAREHOLDERS' EQUITY:		
Share capital -		
Ordinary shares of NIS 1 par value -		
Authorized: 39,748,000 shares at December 31, 2022 and 2021; Issued and outstanding: 23,309,987 and 23,301,653 shares at December 31, 2022 and 2021, respectively	6,799	6,796
Additional paid-in capital	30,503	30,394
Accumulated other comprehensive income	(758)	1,222
Foreign currency translation adjustments (Company's standalone financial statements)	9,654	9,687
Accumulated deficit	(8,511)	(12,342)
Total shareholders' equity (Note 11)	37,687	35,757
Total liabilities and shareholders' equity	\$ 51,886	\$ 59,387

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

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Year ended December 31,		
	2022	2021	2020
Revenues	\$ 35,558	\$ 34,916	\$ 33,351
Cost of revenues	14,056	12,935	11,244
Gross profit	21,502	21,981	22,107
Operating expenses:			
Research and development, net	4,032	3,933	3,970
Selling and marketing	9,008	9,998	8,609
General and administrative	6,978	6,969	6,475
Total operating expenses	20,018	20,900	19,054
Operating income	1,484	1,081	3,053
Financial income (expenses), net (Note 16)	141	(1,011)	(1,017)
Income before income taxes	1,625	70	2,036
Taxes on income (tax benefit) (Note 13)	(2,404)	2,261	1,770
Net income (loss) from continuing operations	4,029	(2,191)	266
Net income (loss) from discontinued operations (Note 1b)	(198)	8,607	436
Net income	\$ 3,831	\$ 6,416	\$ 702
Net income (loss) attributable to:			
Non-controlling interests from continuing operations	\$ -	\$ (1)	\$ (23)
Redeemable non-controlling interests from continuing operations	-	-	365
Senstar shareholders	3,831	6,417	360
Net income	\$ 3,831	\$ 6,416	\$ 702
Basic net income (loss) per share:			
Continuing operations	\$ 0.17	\$ (0.09)	\$ 0.01
Discontinued operations	(0.01)	0.37	0.00
Basic net income per share	\$ 0.16	\$ 0.28	\$ 0.01
Diluted net income (loss) per share:			
Continuing operations	\$ 0.17	\$ (0.09)	\$ 0.01
Discontinued operations	(0.01)	0.37	0.00
Diluted net income per share	\$ 0.16	\$ 0.28	\$ 0.01

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

U.S. dollars in thousands

	Year ended December 31,		
	2022	2021	2020
Net income	\$ 3,831	\$ 6,416	\$ 702
Realized foreign currency translation adjustments from subsidiaries	-	1,442	-
Foreign currency translation adjustments	(1,980)	(254)	661
Total other comprehensive income	(1,980)	1,188	661
Total comprehensive income	\$ 1,851	\$ 7,604	\$ 1,363
Total comprehensive income (loss) attributable to:			
Non-controlling interests	\$ -	\$ -	\$ (23)
Redeemable non-controlling interests	-	-	619
Senstar shareholders	1,851	7,604	767
Total comprehensive income	\$ 1,851	\$ 7,604	\$ 1,363

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

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

	Number of shares	Ordinary shares	Additional paid-in capital	Accumulated other comprehensive income (loss)	Foreign currency translation adjustment - the Company	Retained earnings (accumulated deficit)	Non-controlling interests	Total shareholders' equity
Balance as of January 1, 2020	23,153,985	\$ 6,750	\$ 94,696	\$ (627)	\$ 5,924	\$ (18,961)	\$ 24	\$ 87,806
Issuance of shares upon exercise of employee stock options	10,000	3	38	-	-	-	-	41
Stock-based compensation	-	-	231	-	-	-	-	231
Cash distribution paid to Company's shareholders	-	-	(25,000)	-	-	-	-	(25,000)
Foreign currency translation adjustments - the Company	-	-	-	-	3,180	-	-	3,180
Comprehensive income (loss):								
Net income (loss)	-	-	-	-	-	360	(23)	337
Foreign currency translation adjustments	-	-	-	661	-	-	-	661
Adjustment to the redemption value of redeemable non-controlling interests	-	-	-	-	-	(158)	-	(158)
Balance as of December 31, 2020	23,163,985	6,753	69,965	34	9,104	(18,759)	1	67,098
Issuance of shares upon exercise of employee stock options	137,668	43	391	-	-	-	-	434
Stock-based compensation	-	-	155	-	-	-	-	155
Cash distribution paid to Company's shareholders	-	-	(40,117)	-	-	-	-	(40,117)
Foreign currency translation adjustments - the Company	-	-	-	-	583	-	-	583
Comprehensive income (loss):								
Net income (loss)	-	-	-	-	-	6,417	(1)	6,416
Realized foreign currency translation adjustments	-	-	-	1,442	-	-	-	1,442
Foreign currency translation adjustments	-	-	-	(254)	-	-	-	(254)
Balance as of December 31, 2021	23,301,653	\$ 6,796	\$ 30,394	\$ 1,222	\$ 9,687	\$ (12,342)	\$ -	\$ 35,757

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

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

	<u>Number of shares</u>	<u>Ordinary shares</u>	<u>Additional paid-in capital</u>	<u>Accumulated other comprehensive income (loss)</u>	<u>Foreign currency translation adjustment - the Company</u>	<u>Retained earnings (accumulated deficit)</u>	<u>Total shareholders' equity</u>
Balance as of December 31, 2021	23,301,653	\$ 6,796	\$ 30,394	\$ 1,222	\$ 9,687	\$ (12,342)	\$ 35,757
Issuance of shares upon exercise of employee stock options	8,334	3	16	-	-	-	19
Stock-based compensation	-	-	93	-	-	-	93
Foreign currency translation adjustments- the Company	-	-	-	-	(33)	-	(33)
Comprehensive income (loss):							
Net income	-	-	-	-	-	3,831	3,831
Foreign currency translation adjustments	-	-	-	(1,980)	-	-	(1,980)
Balance as of December 31, 2022	23,309,987	\$ 6,799	\$ 30,503	\$ (758)	\$ 9,654	\$ (8,511)	\$ 37,687

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2022	2021	2020
Cash flows from operating activities:			
Net income	\$ 3,831	\$ 6,416	\$ 702
Adjustments required to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	1,430	1,869	1,956
Loss on sale of property and equipment	-	-	17
Increase (decrease) in accrued interest and exchange differences on short-term and other long-term liabilities	-	-	(155)
Stock based compensation	93	155	231
Decrease (increase) in trade receivables, net	(2,539)	11,097	(1,626)
Decrease (increase) in unbilled accounts receivable	(339)	2,593	(2,135)
Decrease (increase) in other accounts receivable and prepaid expenses	455	(10)	(555)
Decrease (increase) in inventories	(3,152)	(683)	845
Increase in long-term trade receivables	-	7	13
Decrease (increase) in deferred income taxes	(1,420)	1,350	879
Decrease in operating lease right-of-use assets	261	917	1,542
Increase in operating lease liabilities	(257)	(977)	(1,486)
Increase (decrease) in trade payables	(161)	(771)	1,855
Increase (decrease) in other accounts payable and accrued expenses and deferred revenues	(7,435)	(229)	1,803
Decrease in customer advances	(143)	(540)	(1,462)
Accrued severance pay, net	(139)	(277)	(107)
Gain on divestiture of the Integrated Solutions Division (see Note 1b)	-	(14,888)	-
Net cash provided by (used in) operating activities	\$ (9,515)	\$ 6,029	\$ 2,317

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2022	2021	2020
Cash flows from investing activities:			
Investment in restricted deposits	-	-	77
Release (investment) of short-term and long-term bank deposits	(108)	65	16,978
Proceeds from sale of property and equipment	29	-	40
Purchase of property and equipment	(158)	(792)	(816)
Asset acquisition of technology, know-how and patents	-	(169)	(59)
Proceeds from divestiture of the Integrated Solutions Division (see Note 1b)	-	32,621	-
Net cash provided by (used in) investing activities	(237)	31,725	16,220
Cash flows from financing activities:			
Cash distribution to Company's shareholders	-	(40,117)	(25,000)
Dividend to redeemable non-controlling interests	-	-	(1,935)
Purchase of redeemable non-controlling interest	-	-	(1,891)
Proceeds from issuance of shares upon exercise of options to employees	19	434	41
Net cash provided by (used in) financing activities	19	(39,683)	(28,785)
Effect of exchange rate changes on cash and cash equivalents	(1,727)	981	2,828
Decrease in cash, cash equivalents and restricted cash	(11,460)	(948)	(7,420)
Cash, cash equivalents and restricted cash at the beginning of the year, including cash attributable to discontinued operations	26,397	27,345	34,765
Cash, cash equivalents and restricted cash at the end of the year, including cash attributable to discontinued operations	14,937	26,397	27,345
Less - cash, cash equivalents and restricted cash attributable to discontinued operations	-	-	2,814
Cash, cash equivalents and restricted cash from continuing operations	\$ 14,937	\$ 26,397	\$ 24,531

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2022	2021	2020
Supplemental disclosures of cash flows activities:			
Cash and cash equivalents	\$ 14,937	\$ 26,397	\$ 27,093
Restricted cash	-	-	252
Total Cash, cash equivalents and restricted cash	<u>\$ 14,937</u>	<u>\$ 26,397</u>	<u>\$ 27,345</u>
Cash paid during the year for:			
Interest	\$ 110	\$ -	\$ 167
Income taxes	\$ 1,412	\$ 1,971	\$ 2,454
Significant non-cash transactions:			
Right-of-use asset recognized with corresponding lease liability	<u>\$ 151</u>	<u>\$ 444</u>	<u>\$ 1,167</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL

a. General:

Senstar Technologies Ltd. (formerly: Magal Security Systems Ltd.) ("the Parent Company" or "Senstar") and its subsidiaries (together - "the Company") is a leading international provider of comprehensive physical, video, and access control security products and solutions. The Company offers comprehensive solutions for critical sites, which leverage its broad portfolio of homegrown PIDS (Perimeter Intrusion Detection Systems), advanced VMS (Video Management Software) with native IVA (Intelligent Video Analytics) security solutions, as well as access control products and technologies.

b. On February 7, 2021, the Company entered into an agreement (the "Purchase Agreement") with Aeronautics Ltd., a subsidiary of RAFAEL Advanced Defense Systems Ltd., to sell the Company's Integrated Solutions Division (the "Projects Division"), representing substantially all of the Company's Integrated Solutions segment for total consideration of \$35 million in cash at closing. On June 30, 2021, the Company completed the sale. The divestiture of the Company's Integrated Solutions Division represented a strategic shift in the Company's operations.

Discontinued operation:

Under ASC 205-20, "Discontinued Operation" when a component of an entity, as defined in ASC 205-20, has been disposed of or is classified as held for sale, the results of its operations, including the gain or loss on its component are classified as discontinued operations and the assets and liabilities of such component are classified as assets and liabilities attributed to discontinued operations; that is, provided that the operations, assets and liabilities and cash flows of the component have been eliminated from the Company's consolidated operations and the Company will have no significant continuing involvement in the operations of the component.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1- GENERAL (Cont.)

Following the sale of the Project Division, the Project Division's results of operations and statement of financial position balances are disclosed as a discontinued operation, including the resulting income from the sale. All prior periods comparable results of operation have been retroactively included in discontinued operations.

Starting in the third quarter of fiscal year 2021, the Company began to operate in one reportable segment as the Integrated Solutions Division comprised substantially all of the Company's Integrated Solutions segment. Results of discontinued operations includes all revenues and expenses directly derived from the Integrated Solutions Division, with the exception of general corporate overhead and other costs that were previously allocated to the Integrated Solutions segment but have not been allocated to discontinued operations.

The following table presents the gain associated with the sale, presented in the results of our discontinued operations below, for the year ended December 31, 2021:

Gross purchase price	\$ 35,000
Provision (1)	(4,049)
Net assets sold	(14,621)
Realized foreign currency translation adjustments	(1,442)
Total net gain on divestiture of the Integrated Solutions Division	<u>\$ 14,888</u>

The carrying value of the net assets sold as follows:

Cash and cash equivalents	\$ 2,008
Restricted cash and deposits	371
Trade receivables and Unbilled accounts receivable	11,323
Other accounts receivable and prepaid expenses	3,140
Inventories	7,120
Deferred tax assets	2,083
Operating lease right-of-use assets, net of operating lease liabilities	46
Other long-term assets	42
Property and equipment, net	3,926
Goodwill and intangible assets, net	302
Trade payables	(4,156)
Customer advances	(3,420)
Other accounts payable and accrued expenses and deferred revenues	(8,123)
Severance pay, net	(41)
Total net assets sold	<u>\$ 14,621</u>

(1) According to the Purchase Agreement of the Integrated Solutions division dated February 7, 2021, the Company was financially liable for the outcome of Magal Mexico's dispute with the Mexican tax authorities and has to indemnify Aeronautics Ltd. For further information and final resolution of the dispute refer to Note 10b.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1- GENERAL (Cont.)

The following table presents the results of the discontinued operations for the years ended December 31, 2022, 2021 and 2020, are presented below:

	Year ended December 31,		
	2022	2021	2020
Revenues	\$ -	\$ 17,177	\$ 48,113
Cost of revenues	-	14,906	35,783
Gross profit	-	2,271	12,330
Operating expenses:			
Research and development, net	-	828	1,688
Selling and marketing	-	2,223	5,274
General and administrative	-	3,814	3,238
Total operating expenses	-	6,865	10,200
Operating income (loss)	-	(4,594)	2,130
Financial expenses, net	-	(76)	(463)
Income (loss) before income taxes	-	(4,670)	1,667
Taxes on income	-	1,611	1,231
Income (loss) after income taxes	-	(6,281)	436
Capital gain from discontinued operation	(198)	14,888	-
Net income (loss) from discontinued operation	\$ (198)	\$ 8,607	\$ 436

The following table presents cash flows for discontinued operations:

	Year ended December 31,		
	2022	2021	2020
Net cash provided by (used in) discontinued operating activities	\$ (4,180)	\$ 1,392	\$ 963
Net cash provided by (used in) discontinued investing activities	\$ -	\$ 32,447	\$ (461)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"), followed on a consistent basis.

a. Use of estimates:

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such management estimates and assumptions are related, but not limited to estimates used in determining values of goodwill and identifiable intangible assets, revenue recognition, allowances for credit losses, inventory write-offs, warranty provision, tax assets and tax positions, legal contingencies, amounts classified as discontinued operations and stock-based compensation costs. Actual results could differ from those estimates.

b. Financial statements in U.S. dollars:

The Company's revenues are generated in U.S. dollars, EURO, Canadian dollars and NIS. In addition, most of the Parent Company's costs are incurred in NIS. The Company's management believes that the NIS is the primary currency of the economic environment in which the Parent Company operates.

The Company's reporting currency is the U.S. dollar.

The functional currency of the Parent Company is the NIS. The functional currency of the Parent Company's foreign subsidiaries is the local currency in which each subsidiary operates.

ASC 830, "Foreign Currency Matters" sets the standards for translating foreign currency financial statements of consolidated subsidiaries. The first step in the translation process is to identify the functional currency for each entity included in the financial statements. The accounts of each entity are then measured in its functional currency. All transaction gains and losses from the measurement of monetary balance sheet items are reflected in the statement of operations as financial income or expenses, as appropriate.

After the measurement process is complete the financial statements are translated into the reporting currency, which is the U.S. dollar, using the current rate method. Equity accounts are translated using historical exchange rates. All other balance sheet accounts are translated using the exchange rates in effect at the balance sheet date. Statement of operations amounts have been translated using the average exchange rate for the year. The resulting translation adjustments are reported as a component of shareholders' equity in accumulated other comprehensive income (loss).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

c. Principles of consolidation:

The consolidated financial statements include the accounts of the Parent Company and its subsidiaries. Intercompany transactions and balances including profits from intercompany sales not yet realized outside the Company, have been eliminated upon consolidation.

Changes in the Parent Company's ownership interest with no change of control are treated as equity transactions.

Non-controlling interests in subsidiaries represent the equity in subsidiaries not attributable, directly or indirectly, to a parent. Non-controlling interests are presented in equity separately from the equity attributable to the equity holders of the Company. Profit or loss and components of other comprehensive income are attributed to the Company and to non-controlling interests. Losses are attributed to non-controlling interests even if they result in a negative balance of non-controlling interests in the consolidated statement of financial position. When the purchase price of a non-controlling interest exceeds the book value at the time of purchase, any excess or shortfall is recognized as an adjustment to additional paid-in capital.

Redeemable non-controlling interests are classified as temporary equity, separate from permanent equity, on the consolidated balance sheets and measured at each reporting period at the higher of their redemption amount or the non-controlling interest book value, in accordance with the requirements of ASC 810 "Consolidation" and ASC 480-10-S99-3A, "Distinguishing Liabilities from Equity".

On December 31, 2020, the Company's Israeli subsidiary paid a dividend of \$1,935 to the redeemable non-controlling interest.

On December 31, 2020, the Company acquired the remaining 45% redeemable non-controlling interest in ESC BAZ. Ltd ("ESC BAZ") for total consideration of \$1,891. ESC BAZ was sold as part of the Integrated Solutions Division sale (see Note 1b).

d. Cash equivalents:

Cash equivalents are short-term highly liquid investments that are readily convertible into cash with original maturities of three months or less at the date acquired.

e. Short-term and long-term restricted cash and deposits:

Short-term restricted cash and deposits are primarily invested in certificates of deposit that are restricted to withdrawals or use up to one year. Such certificates of deposit are used primarily as collateral for performance and advance payment guarantees to customers.

Long-term restricted cash and deposits are primarily invested in certificates of deposit that are restricted to withdrawals or use for a period for more than one year. Such certificates of deposit are used primarily as collateral for performance guarantees to customers.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2-- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f. Short-term and long-term bank deposits:

Short-term bank deposits are deposits with maturities of more than three months and less than one year and are presented at their cost.

A bank deposit with a maturity of more than one year is included in long-term bank deposits and presented at cost.

g. Inventories:

Inventories are stated at the lower of cost or net realizable value. The Company periodically evaluates the inventory quantities on hand relative to historical and projected sales volumes, current and historical selling prices and contractual obligations to maintain certain levels of parts. Based on these evaluations, inventory write-offs are provided to cover risks arising from slow-moving items, discontinued products, excess inventories, market prices lower than cost and adjusted revenue forecasts.

Cost is determined as follows:

Raw materials, parts and supplies: using the "first-in, first-out" method.

Work in progress and finished products: on the basis of direct manufacturing costs with the addition of allocable indirect cost, representing allocable operating overhead expenses and manufacturing costs.

During the years ended December 31, 2022, 2021 and 2020, the Company recorded inventory write-offs in the amounts of \$21, \$95 and \$29, respectively. Such write-offs were included in cost of revenues.

h. Property and equipment:

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets at the following annual rates:

	%
Buildings	3 - 4
Machinery and equipment	10 - 33 (mainly 10%)
Motor vehicles	15 - 20
Promotional displays	10 - 25
Office furniture and equipment	20 - 33
Leasehold improvements	By the shorter of the term of the lease or the useful life of the assets

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2-- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

i. Intangible assets:

Intangible assets are comprised of patents, capitalized and acquired technology and customer relations.

Intangible assets are amortized over their useful lives using a method of amortization that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise used up, in accordance with ASC 350, "Intangibles - Goodwill and Other." Intangible assets were amortized based on the straight-line method or acceleration method, at the following weighted average annual rates:

	%
Patents	10
Technology	12.5 - 26.7
Customer relationships	10.3 - 36.4

j. Impairment of long-lived assets:

The Company's long-lived assets (assets group) to be held or used, including right of use assets and intangible assets that are subject to amortization, are reviewed for impairment in accordance with ASC 360, "Property, Plant, and Equipment" whenever events or changes in circumstances indicate that the carrying amount of a group of assets may not be recoverable. Recoverability of a group of assets to be held and used is measured by a comparison of the carrying amount of the group to the future undiscounted cash flows expected to be generated by the group. If such group of assets is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value. During the years ended December 2022, 2021 and 2020, the Company did not record any impairment charges attributable to long-lived assets.

k. Goodwill:

Goodwill and certain other purchased intangible assets have been recorded as a result of acquisitions. Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and intangible assets acquired. Goodwill is not amortized, but rather is subject to an impairment test.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

ASC No. 350, "Intangible-Goodwill and other" requires goodwill to be tested for impairment at least annually and, in certain circumstances, between annual tests. The accounting guidance gives the option to perform a qualitative assessment to determine whether further impairment testing is necessary. The qualitative assessment considers events and circumstances that might indicate that a reporting unit's fair value is less than its carrying amount. If it is determined, as a result of the qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, a quantitative test is performed. Alternatively, ASC No. 350 permits an entity to bypass the qualitative assessment for any reporting unit and proceed directly to performing the quantitative goodwill impairment test.

If the carrying value of a reporting unit exceeds its fair value, the Company recognizes an impairment of goodwill for the amount of this excess. The Company performs an annual impairment test during the fourth quarter of each fiscal year, or more frequently if impairment indicators are present.

Starting June 30, 2021, as a result of the sale of the Integrated Solutions segment (see Note 1b), the Company began operating as one operating segment with a single reporting unit.

In 2020 the Company operated as two operating segments. For the purposes of impairment testing of goodwill, the Company identified two reporting units to which goodwill relates: (1) Products reporting unit which comprises the Products segment and; (2) ESC BAZ reporting unit within the Integrated Solutions segment.

For the years ended December 31, 2022, 2021 and 2020, no impairment losses were recorded.

1. Business combinations:

The Company accounts for business combinations in accordance with ASC No. 805, "Business Combinations". ASC No. 805 requires recognition of assets acquired, liabilities assumed, and any non-controlling interest at the acquisition date, measured at their fair values as of that date. Any excess of the fair value of net assets acquired over purchase price and any subsequent changes in estimated contingencies are to be recorded in consolidated statements of operations.

Acquisition related costs are expensed in the statement of operations in the period incurred.

Acquisition of non-controlling interests in ESC BAZ:

On December 31, 2020, the Company acquired the remaining 45% interest in ESC BAZ, increasing its ownership interest to 100% in consideration of \$1,891 to the non-controlling interest shareholders. ESC BAZ was sold as part of the Integrated Solutions Division sale (see Note 1b).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

m. Revenue recognition:

Continuing operations:

The Company recognizes revenues in accordance with ASC No. 606, "Revenue from Contracts with Customers" ("ASC No. 606"). As such, the Company identifies a contract with a customer, identifies the performance obligations in the contract, determines the transaction price, allocates the transaction price to each performance obligation in the contract and recognizes revenues when (or as) the Company satisfies a performance obligation.

Following the sale of the Integrated Solution Division, the Company generates its revenues mainly from: (1) sales of security products; (2) services and maintenance, which are performed either on a fixed-price basis or as time-and-materials based contracts; and (3) software license fees and related services (4) force protection systems project for which revenues are generated from long-term fixed price contracts

The Company enters into contracts that can include combinations of products and services, which are generally capable of being distinct and accounted for as separate performance obligations. The perpetual license is distinct as the customer can derive the economic benefit of the software without any professional services, updates or technical support.

The transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring goods or services to the customer. The Company usually does not grant a right of return to its customers.

In instances of contracts where revenue recognition differs from the timing of invoicing, the Company generally determined that those contracts do not include a significant financing component. The Company uses the practical expedient and does not assess the existence of a significant financing component when the difference between payment and revenue recognition is a year or less.

Maintenance and support agreements provide customers with rights to unspecified software product updates, if and when available. These services grant the customers online and telephone access to technical support personnel during the term of the service. The Company recognizes maintenance and support services revenues ratably over the term of the agreement, usually one year.

The Company generates revenues from the sales of its software products user licenses as well as from maintenance, support, consulting and training services.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2-- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

As required by ASC 606, following the determination of the performance obligations in the contract, the Company allocates the total transaction price to each performance obligation in an amount based on the estimated relative standalone selling prices of the promised license fees or services underlying each performance obligation. Standalone selling price is the price at which the Company would sell a promised license or service separately to a customer.

Revenues for performance obligations that are not recognized over time are recognized at the point in time when control is transferred to the customer (which is generally upon delivery) and included mainly revenues from the sales of security products without significant installation work. The Company generally does not provide a right of return to its customers. For performance obligations that are satisfied at a point in time, the Company evaluated the point in time when the customer can direct the use of, and obtain the benefits from, the products. Shipping and handling costs are not considered performance obligations and are included in cost of sales as incurred.

Services and maintenance are performed under either fixed-price or time-and-materials based contracts. Under fixed-price contracts, the Company agreed to perform certain work for a fixed price. Under time-and-materials contracts, the Company is reimbursed for labor hours at negotiated hourly billing rates and for materials. The Company's service contracts included contracts in which the customer simultaneously receives and consumes the benefits provided as the performance obligations are satisfied, accordingly, related revenues are recognized, as those services are performed or over the term of the related agreements.

For the Company's force protection systems contract, where the Company's performance does not create an asset with an alternative use, the Company recognized revenue over performance time because of continuous transfer of control to the customer. For these performance obligations that are satisfied over time, the Company recognizes revenue using an input method with revenue amounts being recognized proportionately as costs are incurred relative to the total expected costs to satisfy the performance obligation.

Remaining performance obligations:

Remaining performance obligations represent the future revenues expected to be recognized on firm orders received by the Company and are equivalent to the Company's remaining performance obligations at the end of each period for a remaining period of more than a year. The Company's remaining performance obligations as of December 31, 2022 was \$9.5 million, out of which the Company expects to recognize approximately 25% as revenue in 2023, with the remainder to be recognized thereafter.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Deferred revenues and customer advances:

Deferred revenues and customer advances decreased by \$0.2 million compared to the beginning balance of \$4.8 million as of January 1, 2022. The decrease was primarily as a result of \$4 million of recognized revenues from deferred revenues and customer advances as well as \$0.2 million of exchange rate impact. This was offset by \$4 million of new unearned amounts under contracts. The above resulted in an ending balance of \$4.6 million as of December 31, 2022.

Unbilled accounts receivable:

Unbilled accounts receivable increased by \$0.4 million compared to the beginning balance as of January 1, 2022. The increase was primarily due to \$0.4 million of recognized revenues in advance of contractual billing during the year. The above resulted in an ending balance of \$0.4 million as of December 31, 2022.

Discontinued operations:

The Company generated its revenues from the Integrated Solutions Division (*Discontinued Operation*) mainly from: (1) installation of comprehensive security systems for which revenues are generated from long-term fixed price contracts; (2) sales of security products; and (3) services and maintenance, which are performed either on a fixed-price basis or as time-and-materials based contracts.

At the inception of a contract, the Company also evaluated and determined if a contract should be separated into more than one performance obligation. The Company's installation of comprehensive security systems contracts usually includes one-performance obligations due to a significant customization for each customer's specific needs and integrated system or solution.

For most of the Company's comprehensive security systems installation contracts, where the Company's performance does not create an asset with an alternative use, the Company recognized revenue over performance time because of continuous transfer of control to the customer. For these performance obligations that are satisfied over time, the Company generally recognizes revenue using an input method with revenue amounts being recognized proportionately as costs are incurred relative to the total expected costs to satisfy the performance obligation.

The Company believed that costs incurred as a portion of total estimated costs is an appropriate measure of progress towards satisfaction of the performance obligation since this measure reasonably depicts the progress of the work effort and the Company has the ability to make reasonably dependable estimates of the extent of progress towards completion, contract revenues and contract costs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2-- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

To the extent, the transaction price includes variable consideration (e.g., contract penalties, unpriced change orders or like measures), the Company estimated the most likely amount that should be included in the transaction price subject to constraints based on the specific facts and circumstances.

For contracts that are deemed to be loss contracts, the Company established forward loss reserves for total estimated costs that are in excess of total estimated consideration under a contract in the period in which they become probable. Fees are payable upon completion of agreed upon milestones and subject to customer acceptance. Amounts of revenues recognized in advance of contractual billing are recorded as unbilled accounts receivable. In most instances, the period between the advanced recognition of revenues and the customers' billing generally ranges between one to six months.

n. Accounting for stock-based compensation:

The Company accounts for stock-based compensation in accordance with ASC 718, "Compensation-Stock Compensation". ASC 718 requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the award is recognized as an expense over the requisite service periods in the Company's consolidated income statement.

The Company recognizes compensation expenses for the value of its awards, which have graded vesting, based on the accelerated attribution method over the vesting period. The Company accounts for forfeitures as they occur.

During the years ended December 31, 2022, 2021 and 2020, the Company recognized stock-based compensation expenses related to employee stock options in the amounts of \$93, \$155 and \$231, respectively.

The Company estimates the fair value of stock options granted under ASC 718 using the Binomial model. The Binomial model for option pricing requires a number of assumptions, of which the most significant are the suboptimal exercise factor and expected stock price volatility. The suboptimal exercise factor is estimated using historical option exercise information. The suboptimal exercise factor is the ratio by which the stock price must increase over the exercise price before employees are expected to exercise their stock options. Expected volatility is based upon actual historical stock price movements and was calculated as of the grant dates for different periods, since the Binomial model can be used for different expected volatilities for different periods. The risk-free interest rate is based on the yield from U.S. Treasury zero-coupon bonds with an equivalent term to the contractual term of the options.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2-- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The expected term of options granted is derived from the output of the option valuation model and represents the period that options granted are expected to be outstanding. During the year ended December 31, 2022 no options were granted.

The following assumptions were used in the Binomial option pricing model for the years ended December 31, 2021 and 2020 (no options were granted in 2022):

	2021	2020
Dividend yield	0%	0%
Expected volatility	38.96%-42.17%	33.56%-36.45%
Risk-free interest	0.67%-1.19%	0.32%-1.51%
Contractual term	5-7 years	5-7 years
Forfeiture rate	13%	10%
Suboptimal exercise multiple	1.29	1.29

o. Research and development costs:

Research and development costs incurred in the process of developing product improvements or new products, are charged to expenses as incurred. ASC 985, "Software", requires capitalization of certain software development costs subsequent to the establishment of technological feasibility. Based on the Company's product development process, technological feasibility is established upon completion of a working model. Costs incurred by the Company between completion of the working models and the point at which the products are ready for general release are capitalized. Capitalized technology is included in intangible assets on the balance sheet and is amortized on a straight-line basis over its estimated useful life, which is generally five years. Amortization expenses are recognized under cost of revenues. Management evaluates the useful lives of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets.

In the years ended December 31, 2021 and 2020, the Company capitalized amounts of \$13 and \$59, respectively. In 2022, the Company did not capitalize research and development costs.

p. Warranty costs:

The Company provides various warranty periods up to 24 months at no extra charge. The Company estimates the costs that may be incurred under its warranty and records a liability in the amount of such costs at the time product revenue is recognized in accordance with ASC 450, "Contingencies." Factors that affect the Company's warranty liability include the number of units, historical and anticipated rates of warranty claims and cost per claim. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2-- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The following table provides the detail of the change in the Company's warranty accrual, which is a component of other accrued liabilities in the consolidated balance sheets as of December 31, 2022 and 2021:

	December 31,	
	2022	2021
Warranty provision, beginning of year	\$ 157	\$ 179
Charged to costs and expenses relating to new sales	235	112
Utilization or expiration of warranty	(155)	(135)
Foreign currency translation adjustments	(11)	1
Warranty provision, year end	<u>\$ 226</u>	<u>\$ 157</u>

q. Net earnings per share:

Basic net earnings per share are computed based on the weighted average number of Ordinary shares outstanding during each year. Diluted net earnings per share is computed based on the weighted average number of ordinary shares outstanding during each year, plus dilutive potential ordinary shares considered outstanding during the year, in accordance with ASC 260, "Earnings Per Share."

Certain of the Company's outstanding stock options have been excluded from the calculation of the diluted earnings per share because such options are anti-dilutive. The total weighted average number of the Company's ordinary shares related to the outstanding options excluded from the calculations of diluted earnings per share was 554,916 shares, 610,083 shares and 789,440 shares for the years ended December 31, 2022, 2021 and 2020, respectively.

r. Concentrations of credit risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, short-term and long-term bank deposits, trade receivables, unbilled accounts receivable and long-term trade receivables.

As of December 31, 2022, \$8,836 of the Company's cash and cash equivalents and restricted cash and short-term deposits were invested in major Israeli and U.S. banks, and approximately \$6,216 were invested in other banks, mainly with the Royal Bank of Canada, Deutsche Bank and Natwest Bank. The Company is exposed to credit risk in the event of default by the financial institutions to the extent of the amounts recorded on the accompanying consolidated balance sheets exceed federally insured limits. Generally, these deposits may be redeemed upon demand and therefore, bear low risk.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Trade receivables of the Company, as well as the unbilled accounts receivable, are primarily derived from sales to large and solid organizations and governmental authorities located mainly in the U.S., Canada, Europe and APAC.

The Company performs ongoing credit evaluations of its customers. An allowance for credit losses is recognized with respect to those amounts that the Company has determined to be doubtful of collection. In certain circumstances, the Company may require letters of credit, other collateral or additional guarantees.

Changes in the Company's allowance for credit losses related to accounts receivables during the two years ended December 31, 2022 and 2021 are as follows:

	Year ended December 31,	
	2022	2021
Balance at the beginning of the year	\$ 125	\$ 719
Credit losses expenses during the year	30	124
Customer write-offs or collections during the year	(46)	(716)
Exchange rate	(6)	(2)
	<u>\$ 103</u>	<u>\$ 125</u>

As of December 31, 2022, the Company has no significant off-balance sheet concentrations of credit risk, such as foreign exchange contracts or foreign hedging arrangements.

s. Income taxes:

The Company accounts for income taxes in accordance with ASC 740, "Income Taxes." This ASC prescribes the use of the liability method whereby deferred tax assets and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

The Company establishes reserves for uncertain tax positions based on an evaluation of whether the tax position is "more likely than not" to be sustained upon examination. The Company records interest and penalties pertaining to its uncertain tax positions in the financial statements as income tax expense.

In the year ended December 31, 2022, the Company recorded tax benefit in connection with uncertainties in income taxes of \$993. In the years ended December 31, 2021 and 2020, the Company recorded tax expenses in connection with uncertainties in income taxes of \$126 and \$312, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

t. Severance pay:

The Company has entered into an agreement with its employees implementing Section 14 of the Severance Pay Law and the General Approval of the Labor Minister dated June 30, 1998, issued in accordance with the said Section 14, mandating that upon termination of such employees' employment, all the amounts accrued in their insurance policies will be released to them. The severance pay liabilities and deposits covered by these plans are not reflected in the balance sheet as the severance pay risks have been irrevocably transferred to the severance funds.

On December 31, 2007, the then Chairman of the Company's Board of Directors, retired from his position. His retirement agreement included certain perquisites from the Company for the rest of his life. As of December 31, 2022, the actuarial value of these perquisites is estimated at approximately \$330. This provision was included as part of accrued severance pay.

Discontinued operations:

The Company's liability in Discontinued Operations for its Israeli employees severance pay is calculated pursuant to Israel's Severance Pay Law based on the most recent salary of the employees multiplied by the number of years of employment, as of the balance sheet date (the "Shut Down Method"). Employees are entitled to one month's salary for each year of employment or a portion thereof. The Company's liability for its employees in Israel is fully provided by monthly deposits with insurance policies and by an accrual. The value of these policies is recorded as an asset in the Company's balance sheet.

The deposited funds include profits accumulated up to balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to Israel's Severance Pay Law or labor agreements. The value of the deposited funds is based on the cash surrender value of these policies and includes immaterial profits.

u. Fair value measurements:

ASC 820, "Fair Value Measurement and Disclosure" clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, ASC 820 establishes a three tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2-- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Significant other observable inputs based on market data obtained from sources independent of the reporting entity.

Level 3 - Unobservable inputs which are supported by little or no market activity.

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

The carrying amounts of cash and cash equivalents, trade receivables, unbilled accounts receivable and trade payables approximate their fair value due to the short-term maturity of such instruments.

v. Advertising expenses:

Advertising costs are expensed as incurred. Advertising expenses for the years ended December 31, 2022, 2021 and 2020 were \$152, \$107 and \$43, respectively.

w. Comprehensive income (loss):

The Company accounts for comprehensive income (loss) in accordance with ASC 220, "Comprehensive Income". ASC 220 establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Comprehensive income generally represents all changes in shareholders' equity (deficiency) during the period except those resulting from investments by, or distributions to, shareholders.

The Company has determined that its items of comprehensive income (loss) relate to unrealized gain (loss) from foreign currency translation adjustments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2-- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Changes in the Company's accumulated other comprehensive income (loss), net for the years ended December 31, 2022, 2021 and 2020 are as follows:

	Year ended December 31,		
	2022	2021	2020
Balance at the beginning of the year	\$ 1,222	\$ 34	\$ (627)
Foreign currency translation adjustments	(1,980)	(254)	661
Realized foreign currency translation adjustments	-	1,442	-
Total accumulated other comprehensive income (loss)	\$ (758)	\$ 1,222	\$ 34

x. Non-controlling interest:

In 2018, the Company established a company in Kenya, which was 51% owned by the Company and 49% owned by a local partner. The non-controlling interest relating to the subsidiary was not material in 2021 and 2020. The subsidiary was sold as part of the Integrated Solutions Division sale (see Note 1b).

y. Leases:

In accordance with ASC 842, the Company determines if an arrangement is a lease and the classification of that lease at inception based on: (1) whether the contract involves the use of a distinct identified asset, (2) whether the Company obtains the right to substantially all the economic benefits from the use of the asset throughout the period, and (3) whether the Company has a right to direct the use of the asset. The Company elected to not recognize a lease liability and a right-of-use ("ROU") asset for leases with a term of twelve months or less.

ROU assets and lease liabilities are recognized at commencement date based on the present value of remaining lease payments over the lease term. ROU assets are initially measured at amounts, which represents the discounted present value of the lease payments over the lease, plus any initial direct costs incurred. The lease liability is initially measured based on the discounted present value of remaining lease payments over the lease term. For this purpose, the Company considers only payments that are fixed and determinable at the time of commencement. The implicit rate within the operating leases is generally not determinable, therefore the Company uses the Incremental Borrowing Rate ("IBR") based on the information available at commencement date in determining the present value of lease payments. The Company's IBR is estimated to approximate the interest rate for collateralized borrowing with similar terms and payments and in economic environments where the leased asset is located.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2-- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Certain leases include options to extend or terminate the lease. An option to extend the lease is considered in connection with determining the ROU asset and lease liability when it is reasonably certain that the Company will exercise that option. An option to terminate is considered unless it is reasonably certain that the Company will not exercise the option.

z. Impact of recently issued and adopted accounting standards:

In November 2021, the FASB issued Accounting Standards Update No. 2021-10, Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance. Under ASU 2021-10, the accounting entities with transactions with a government that are accounted for by analogy to a grant or contribution accounting model are required to annually disclose certain information regarding the transaction including: (i) nature and related accounting policy used; (ii) line items on the balance sheet and income statement affected by the transactions; (iii) amounts applicable to each line item; and (iv) significant terms and conditions. This guidance is effective for financial statements issued for annual periods beginning after December 15, 2021. The adoption of this ASU had an immaterial impact on the Company's consolidated financial statements.

aa. New accounting pronouncements not yet effective:

As of December 31, 2022, there are no recently issued accounting pronouncements that have not yet been adopted that are expected to have a material effect on the Company's consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 3:- OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31,	
	2022	2021
Prepaid expenses	\$ 696	\$ 658
Government authorities	570	967
Others	175	385
	<u>\$ 1,441</u>	<u>\$ 2,010</u>

NOTE 4:- INVENTORIES

	December 31,	
	2022	2021
Raw materials	\$ 2,105	\$ 1,553
Work in progress	911	599
Finished products	5,427	3,599
	<u>\$ 8,443</u>	<u>\$ 5,751</u>

NOTE 5:- LEASES

The Company entered into operating leases primarily for offices and cars. The leases have remaining lease terms of up to 5.1 years.

The Company also elected the practical expedient (by class of underlying asset) to not separate lease and non-lease components and instead to account for each separate lease component and the non-lease components associated with that lease component as a single lease component for its leased cars.

a. Supplemental balance sheet information related to operating leases is as follows:

	December 31,	
	2022	2021
Operating lease ROU assets	\$ 987	\$ 1,228
Operating lease liabilities, current	\$ 248	\$ 276
Operating lease liabilities, long-term	\$ 757	\$ 969
Weighted average remaining lease term (in years)	3.32	2.71
Weighted average discount rate	3.46%	3.25%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 5:- LEASES (Cont.)

- b. Future lease payments under operating leases as of December 31, 2022, are as follows:

<u>December 31,</u>	
2023	\$ 316
2024	265
2025	233
2026	166
2027 and thereafter	<u>144</u>
Total future lease payments	1,124
Less - imputed interest	<u>(119)</u>
Total lease liability balance	<u>\$ 1,005</u>

- c. Operating lease expenses amounted to \$360, \$421 and \$438 for the years ended December 31, 2022, 2021 and 2020, respectively. Operating lease expenses with a term of twelve months or less were immaterial.

NOTE 6:- PROPERTY AND EQUIPMENT, NET

- a. Composition:

	<u>December 31,</u>	
	<u>2022</u>	<u>2021</u>
Cost:		
Land and buildings	\$ 2,767	\$ 2,924
Machinery and equipment	2,636	2,861
Motor vehicles	289	580
Promotional displays	257	244
Office furniture and equipment	<u>2,289</u>	<u>2,350</u>
	<u>8,238</u>	<u>8,959</u>
Accumulated depreciation:		
Buildings	1,846	1,841
Machinery and equipment	2,322	2,366
Motor vehicles	179	414
Promotional displays	219	192
Office furniture and equipment	<u>2,021</u>	<u>2,037</u>
	<u>6,587</u>	<u>6,850</u>
Property and equipment, net	<u>\$ 1,651</u>	<u>\$ 2,109</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 6:- PROPERTY AND EQUIPMENT, NET (Cont.)

- b. Depreciation expenses amounted to \$482, \$519 and \$434 for the years ended December 31, 2022, 2021 and 2020, respectively.

NOTE 7:- INTANGIBLE ASSETS, NET

- a. Composition:

	December 31,	
	2022	2021
Cost:		
Know-how and patents	\$ 3,230	\$ 3,397
Technology	6,337	6,487
Customer relationships	1,046	1,093
	<u>10,613</u>	<u>10,977</u>
Accumulated amortization:		
Know-how and patents	3,211	3,372
Technology	5,307	4,490
Customer relationships	953	929
	<u>9,471</u>	<u>8,791</u>
Intangible assets, net	<u>\$ 1,142</u>	<u>\$ 2,186</u>

- b. Amortization expenses related to intangible assets amounted to \$948, \$973 and \$778 for the years ended December 31, 2022, 2021 and 2020, respectively.

- c. Estimated amortization of intangible assets for the years ended:

December 31,	
2023	\$ 463
2024	326
2025	318
2026	32
2027	<u>3</u>
	<u>\$ 1,142</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 8:- GOODWILL

With effect from June 30, 2021, as a result of the sale of the Integrated Solutions segment (see Note 1b), the Company operates in one operating segment, and this segment comprises from only one reporting unit.

The goodwill balance associated with Integrated Solutions segment has been reclassified to Long-term assets of discontinued operations on the Consolidated Balance Sheet for the year ended December 31, 2020.

During the fourth quarter of 2022, the Company performed the annual impairment test for goodwill for its reporting unit using a quantitative testing approach. The Company compared the carrying amount of the reporting unit to the estimated fair value using discounted cash flow calculations. Based on the evaluation performed, the Company determined that the fair value of the reporting unit exceeded its carrying amount, and therefore, the Company determined that goodwill was not impaired.

The changes in the carrying amount of goodwill associated with continuing operations and appearing in the accompanying consolidated balance sheets as of December 31, 2021 and 2020 are as follows:

	Total
As of January 1, 2021	\$ 11,507
Foreign currency translation adjustments	(58)
As of December 31, 2021	11,449
Foreign currency translation adjustments	(583)
As of December 31, 2022	\$ 10,866

NOTE 9:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31,	
	2022	2021
Employees and payroll accruals	\$ 1,696	\$ 2,807
Accrued expenses	1,365	6,173
Government authorities	529	2,090
Uncertain tax positions	1,053	2,003
Others	106	130
	\$ 4,749	\$ 13,203

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 10:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Guarantees:

As of December 31, 2022 and 2021, the Company had credit lines of approximately \$2,117 and \$13,068, out of which \$1,595 and \$5,316 were utilized for bank performance guarantees, advance payment guarantees and bid bond guarantees from several banks, respectively, mainly in Israel and Canada.

b. Legal proceedings:

- 1) The Company is subject to legal proceedings arising in the normal course of business. Based on the advice of legal counsel, management believes that these proceedings will not have a material adverse effect on the Company's financial position or results of operations.
- 2) In February 2019, Magal Mexico (the Company's former subsidiary whose shares were sold as part of the Integrated Solutions Division sale (see Note 1b)) initiated a dispute procedure with the Mexican tax authorities requesting the recognition of deduction of certain expenses as claimed by the former Mexican subsidiary's in its annual tax filings. In July 2019, the tax authorities denied the former Mexican subsidiary position. On September 11, 2019, Magal Mexico filed a nullity claim (administrative trial) against the resolution of the Mexican Internal Revenue Service (Servicio de Administración Tributaria) that had requested the former subsidiary to correct its tax situation by virtue that certain invoices did not produce any legal effect. The claim was admitted and resolved in favor of the former subsidiary on August 5, 2020. This resolution was then challenged by the tax authority, through a motion of review before the Collegiate Courts of Circuit, which resolved the appeal by the tax authority unfavorably to the former Mexican subsidiary, on June 4, 2021. The Collegiate Court had confirmed the legality of the tax resolution and had directed the lower court to issue a similar resolution which was issued on July 2, 2021, whereby the lower court had ruled in favor of the Tax Authority.

On September 21, 2021, the former Mexican subsidiary appealed the resolution by the lower court before the Collegiate Courts of Circuit. In October 2021, the Collegiate Court admitted the appeal, however, on March 14, 2022, the Court notified the resolution whereby it ruled in favor of the Tax Authority, deciding to confirm the challenged resolution. On March 25, 2022, the former Mexican subsidiary appealed the Collegiate Court's decision before the Mexican Supreme Court of Justice. On May 17, 2022, the Mexican Court rejected the former Mexican subsidiary's annulment claim regarding the Mexican Tax authority's decision not to allow the deduction of expenses and credit of VAT in respect of the engagement of Cuceju by the former Mexican subsidiary.

According to the Purchase Agreement of the Integrated Solutions division dated February 7, 2021, the Company was financially liable for the outcome of this dispute and so has to indemnify Aeronautics Ltd. according to the final tax resolution in this matter.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 10:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

On July 19, 2022, Aeronautics Ltd. and Magal Security Systems Ltd. (formerly Onlishel Ltd.) (collectively for this section the "Buyer"), and the Company agreed that the Company will reimburse the Buyer in the amount of \$4,250 (approximately 86,855 thousands Mexican Peso, in accordance with the then USD-Mexican Peso exchange rate) (the "Tax Payment Amount"), as set forth in the closing protocol dated June 30, 2021 to the Purchase Agreement. The Buyer committed to pay the Tax Payment Amount to the relevant Mexican tax authorities.

- c. Royalty commitments to the Innovation Authority (formerly the Office of the Chief Scientist) of the Israeli Ministry of Economy, or Innovation Authority:

Under the research and development agreements between the Company and the Innovation Authority, the Company is required to pay royalties at the rate of 3.5% of revenues derived from sales of products developed with funds provided by the Innovation Authority and ancillary services, up to an amount equal to 100% of the Innovation Authority research and development grants received, linked to the U.S. dollars plus interest on the unpaid amount received based on the 12-month LIBOR rate applicable to U.S. dollar deposits. The obligation to pay these royalties is contingent on actual sales of the products and in the absence of such sales no payment is required.

On June 30, 2021, upon closing of the Company's Integrated Solutions Division sale to Aeronautics Ltd., the Company's rights and obligations concerning some of its Innovation Authority grants were assumed by Aeronautics Ltd.

As of December 31, 2022, the Company had remaining contingent obligations to pay approximately \$600 in royalties not assumed by Aeronautics Ltd. The Company's obligations are contingent upon the unlikely event of future revenues associated with the technologies developed under the said grants.

As an alternative, the Company may be required to pay royalties over the portion of the consideration attributed to the operation derived from the funds provided by the Innovation Authority, up to the maximum amount of the related funds received. Company's management estimated it to be in an immaterial amount.

NOTE 11:- SHAREHOLDERS' EQUITY

- a. Pertinent rights and privileges conferred by Ordinary shares:

The Ordinary shares of the Company are listed on the NASDAQ Global Market. The Ordinary shares confer upon their holders the right to receive notice to participate and vote in the general meetings of the Company and the right to receive dividends, if declared.

- b. Issued and outstanding share capital: 23,309,987 Ordinary shares as of December 31, 2022 and 23,301,653 Ordinary shares as of December 31, 2021.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 11:- SHAREHOLDERS' EQUITY (Cont.)

c. Stock Option Plan:

On October 27, 2003, the Company's Board of Directors approved the Company's 2003 Israeli Share Option Plan ("the 2003 Plan"). Under the 2003 Plan, stock options may be periodically granted to employees, directors, officers and consultants of the Company or its subsidiaries in accordance with the decision of the Board of Directors of the Company (or a committee appointed by it). The Board of Directors also has the authority to determine the vesting schedule and exercise price of options granted under the 2003 Plan.

In May 2008, the Board of Directors approved an amendment to the 2003 Plan, which was approved by the Company's shareholders in August 2008, which increased the number of Ordinary shares available for issuance under the 2003 Plan by an additional 1,000,000 shares and the termination of the 2003 Plan was extended from October 2013 to October 2018. Any options that are cancelled or forfeited before expiration become available for future grant.

On June 23, 2010, the Company's Annual General Meeting approved the Company's 2010 Israeli Share Option Plan, or the 2010 Plan, which authorizes the grant of options to employees, officers, directors and consultants of the Company and its subsidiaries. The Ordinary shares that remained available for future option grants under the 2003 Plan as of the date of the adoption of the 2010 Plan and any Ordinary shares that became available in the future under the 2003 Plan as a result of expiration, cancellation or relinquishment of any option outstanding under the 2003 Plan were rolled over to the 2010 Plan. No additional options will be granted under the 2003 Plan. In June 2013, the Company's shareholders approved an increase to the number of Ordinary shares available for issuance under the 2010 Plan by an additional 500,000 shares. The 2010 Plan has an original term of ten years, which was extended in August 2020 for an additional 5 years, on which date our Board of Directors had also increased and set the number of Ordinary shares available for issuance under the 2010 to 1,200,000.

As of December 31, 2022, 491,666 Ordinary shares were available for future option grants.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 11:- SHAREHOLDERS' EQUITY (Cont.)

A summary of employee option activity under the Company's stock option plans as of December 31, 2022 and changes during the year ended December 31, 2022 are as follows:

	Number of options	Weighted- average exercise price	Weighted- average remaining contractual life (in months)	Aggregate intrinsic value (in thousands)
Outstanding at January 1, 2022	620,000	2.777	36.59	157.45
Granted	-	-		
Exercised	(8,334)	2.273		
Forfeited	(59,334)	2.394		
Outstanding as of December 31, 2022	<u>552,332</u>	<u>2.826</u>	<u>26.38</u>	<u>116.81</u>
Exercisable as of December 31, 2022	<u>417,332</u>	<u>2.783</u>	<u>18.85</u>	<u>84.43</u>

The weighted-average grant-date fair value of options granted during the years ended December 31, 2021 and 2020 were \$1.56 and \$1.09, respectively. No options were granted in 2022. The aggregate intrinsic value in the table above represents the total intrinsic value (the difference between the Company's closing stock price on the last trading day of the fourth quarter of fiscal 2022 and the exercise price, multiplied by the number of in-the-money options). This amount changes, based on the fair market value of the Company's stock. As of December 31, 2022, there is no intrinsic value. The total intrinsic value of options exercised for the years ended December 31, 2021 and 2020 were approximately \$232 and \$8. As of December 31, 2022, there was approximately \$75 of unrecognized compensation costs related to non-vested share-based compensation arrangements granted under the Company's stock option plan. This cost is expected to be recognized over a period of up to 1.75 years.

The options outstanding as of December 31, 2022 are follows:

Number of options outstanding as of December 31, 2022	Exercise price	Weighted average remaining contractual life (In months)	Number of options exercisable as of December 31, 2022
45,000	1.90	43.43	15,000
16,666	2.36	29.90	16,666
1,666	2.66	7.92	1,666
360,000	2.82	17.74	360,000
24,000	3.07	13.19	24,000
35,000	3.23	54.16	-
70,000	3.28	50.05	-
<u>552,332</u>		<u>26.38</u>	<u>417,332</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 11:- SHAREHOLDERS' EQUITY (Cont.)

d. Dividends:

Dividends, will be declared and paid in U.S. dollars. Dividends paid to shareholders in Israel will be converted into NIS on the basis of the exchange rate prevailing at the date of payment.

On December 7, 2020, the Company announced a cash distribution of \$1.079 per share. The cash distribution, in the aggregate amount of \$25 million, was paid on December 28, 2020 on all of the Company's shares of record on December 17, 2020.

On August 16, 2021, the Company announced a cash distribution of \$1.725 per share. The cash distribution, in the aggregate amount of \$40.1 million, was paid on September 22, 2021 on all of the Company's shares of record on August 31, 2021.

NOTE 12:- BASIC AND DILUTED NET EARNINGS PER SHARE

	Year ended December 31,		
	2022	2021	2020
Numerator - continuing operations:			
Income (loss) from continuing operations attributable to Senstar shareholders	\$ 4,029	\$ (2,191)	\$ 266
Numerator - discontinued operations:			
Net income (loss) from discontinued operations, less income (loss) attributed to redeemable non-controlling interests and non-controlling interests, including accretion of redeemable non-controlling interests to redemption value	\$ (198)	\$ 8,607	\$ (64)
Denominator:			
Denominator for basic net earnings per share weighted-average number of shares outstanding	23,308,001	23,208,589	23,154,422
Effect of diluting securities:			
Employee stock options	1,975	-	-
Denominator for diluted net earnings per share - adjusted weighted average shares and assumed exercises	23,309,976	23,208,589	23,154,422

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 13:- TAXES ON INCOME

- a. Tax laws and tax rates applicable to the Group companies:

The Company and its Israeli subsidiary taxation:

Until the sale of the Integrated Solution Division in June 30, 2021, the Company believed that it and its Israeli subsidiary qualified as a Preferred Enterprise, under Law for the Encouragement of Capital Investments, 1959 ("the Law") and accordingly were eligible for a reduced corporate tax rate of 16% on their preferred income, as defined in the Law.

In addition, any dividends distributed to individuals or foreign residents from the preferred enterprise's earnings as above will be subject to tax at a rate of 20%.

Following the sale of the Integrated Solution Division, the Company's income is not eligible for Preferred Enterprise benefits and is taxed at the regular corporate tax rate for Israeli companies at 23%.

Non-Israeli subsidiaries taxation:

Non-Israeli subsidiaries are taxed according to the tax laws in their respective country of domicile. The tax rates of the Company's non-Israeli subsidiaries range between 19%-30%.

Tax Reform in U.S.:

On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act (the "Act"), which among other provisions, reduced the U.S. corporate tax rate from 35% to 21%, effective January 1, 2018.

- b. Tax assessments:

The Company received final tax assessments through the 2020 tax year.

The remaining subsidiaries have not received final tax assessments since their incorporation however, the assessments of these subsidiaries are deemed final through the range between 2009-2013 tax years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 13:- TAXES ON INCOME (Cont.)

- c. Reconciliation between the theoretical tax expense, assuming all income is taxed at the Israeli statutory rate, and the actual tax expense, is as follows:

	Year ended December 31,		
	2022	2021	2020
Income (loss) before taxes as reported in the statements of operations	\$ 1,625	\$ 70	\$ 2,036
Tax rate	23%	23%	23%
Theoretical tax	\$ 374	\$ 16	\$ 468
Increase (decrease) in taxes:			
Non-deductible items	177	77	136
Losses and other items for which a valuation allowance was provided	230	599	714
Repatriation of undistributed earnings	-	516	144
Realization of carryforward tax losses for which valuation allowance was provided	(175)	-	-
Changes in valuation allowance	(1,362)	(113)	(42)
Tax rate differences in subsidiaries and benefit from reduced tax rates	110	43	88
Provision for uncertain tax positions	(993)	126	312
Taxes in respect of prior years	(562)	1	18
Investment tax credit	(204)	(141)	(132)
Other	1	1,137	64
Taxes on income (tax benefit) in the statements of operations	\$ (2,404)	\$ 2,261	\$ 1,770

- d. Taxes on income (tax benefit) included in the statements of operations:

	Year ended December 31,		
	2022	2021	2020
Current	\$ (899)	\$ 1,846	\$ 959
Deferred	(1,505)	415	811
	\$ (2,404)	\$ 2,261	\$ 1,770
Domestic	\$ (1,583)	\$ 1,707	\$ 499
Foreign	(821)	554	1,271
	\$ (2,404)	\$ 2,261	\$ 1,770

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 13:- TAXES ON INCOME (Cont.)

e. Deferred income taxes:

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets are as follows:

	December 31,	
	2022	2021
Deferred tax assets:		
Operating losses carry forwards	\$ 3,548	\$ 3,471
Reserves, tax allowances, capital losses carry forwards, operating lease and others	4,029	3,952
Total deferred taxes before valuation allowance	7,577	7,423
Valuation allowance	(5,045)	(5,478)
Deferred tax assets, net:	2,532	1,945
Deferred tax liabilities:		
Property and equipment, intangible assets, operating lease and others	(721)	(1,647)
Undistributed earnings of subsidiaries	(695)	(695)
Deferred tax liabilities:	(1,416)	(2,342)
Net deferred tax assets (liability)	\$ 1,116	\$ (397)
Domestic		
	\$ (695)	\$ (695)
Foreign		
	\$ 1,811	\$ 298

Prior to 2021, the Company previously considered the undistributed earnings of all its non-Israeli subsidiaries to be indefinitely reinvested since the Company's Board of Directors has determined that the Company will not distribute any amounts of its undistributed earnings as dividends. Accordingly, the Company recorded no deferred income taxes associated with such undistributed earnings. If these earnings were distributed to Israel in the form of dividends or otherwise, the Company would be subject to additional Israeli income taxes (subject to an adjustment for foreign tax credits) and foreign withholding taxes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 13:- TAXES ON INCOME (Cont.)

Following the sale of the Integrated Solutions segment on June 30, 2021 (see Note 1b), the Company reevaluated its historic assertion and no longer consider the earnings of certain of its non-Israeli's subsidiaries to be indefinitely reinvested since the cash generated from some of the foreign subsidiaries will be distributed. As a result of the change in assertion, the impact of a repatriation of the undistributed earnings resulted in recording a deferred tax liability consisting of potential withholding and distribution taxes of \$0.7 million as of December 31, 2022.

During the year ended December 31, 2022, the Company released valuation allowance against the deferred tax assets primarily related to carryforward tax losses and other temporary differences in USA. The Company provided valuation allowance for a portion of the deferred tax regarding the carryforwards losses and other temporary differences that management believes are not expected to be realized in the foreseeable future (see Note 13g).

- f. The domestic and foreign components of income (loss) before taxes are as follows:

	Year ended December 31,		
	2022	2021	2020
Domestic	\$ (2,182)	\$ (2,608)	\$ (3,799)
Foreign	3,807	2,678	5,835
	<u>\$ 1,625</u>	<u>\$ 70</u>	<u>\$ 2,036</u>

- g. Net operating carryforward tax losses:

The Parent Company has estimated total available carryforward operating tax losses of \$9,374 to offset against future taxable income. As of December 31, 2022, the Parent Company recorded a full valuation allowance on these carry forward tax losses due to the uncertainty of their future realization. There is no time limitation for the realization of such tax losses. The Company's subsidiaries have estimated total available carryforward operating tax losses of \$5,638, which may be used to offset against future taxable income, for periods ranging between 1 to 20 years. As of December 31, 2022, the Company recorded a net deferred tax asset after valuation allowance in the amount of \$1,693 for its subsidiaries' carryforward tax losses.

Utilization of U.S. net operating losses (federal and state net operating losses) may be subject to a substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of net operating losses before utilization.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 13:- TAXES ON INCOME (Cont.)

h. Uncertain tax positions:

As of December 31, 2022 and 2021, balances in respect to ASC 740, "Income Taxes" amounted to \$1,053 and \$2,003, respectively. A reconciliation of the beginning and ending amount of unrecognized tax positions is as follows:

	December 31,	
	2022	2021
Balance at the beginning of the year	\$ 2,003	\$ 2,388
Additions based on tax positions taken related to the current year	94	225
Reduction related to expirations of statute of limitations or settlements of tax matters	(1,087)	(622)
Foreign currency translation adjustments	43	12
Balance at the end of the year	<u>\$ 1,053</u>	<u>\$ 2,003</u>

Substantially all the balance of unrecognized tax benefits, if recognized, would reduce the Company's annual effective tax rate.

NOTE 14:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES

The Company compensates its Executive Chairman of the Board for services provided to the Company commencing October 1, 2014.

In addition to the directors' fees paid by the Company to all of its directors, the Company pays for his services: (i) a monthly payment of approximately \$4 for time devoted to such position; and (ii) an annual cash bonus of \$30 that is payable only if the Company's net profit pursuant to its annual audited and consolidated financial statement exceeds \$5,000. The annual cash bonus is payable commencing as of the fiscal year 2015 and will be paid, if earned, as set forth in the Compensation Policy.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 15:- SEGMENT INFORMATION

Historically, the Company had two operating segments, which also represented its reportable segments. The Integrated Solutions Division ("Projects" segment) and Senstar Product division ("Products" segment). On June 30, 2021, the Projects segment was sold (see note 1b). Therefore, the results of the Company's Projects segment were classified as discontinued operations in the Company's consolidated statements of operations and thus excluded from both continuing operations and segment results for all periods presented. Accordingly, the Company now have one reportable segment with the change reflected in all periods presented.

Geographical information:

The following is a summary of revenues within geographic areas based on end customers' location and long-lived assets:

1. Revenues:

	Year ended December 31,		
	2022	2021	2020
North America	\$ 16,042	\$ 15,902	\$ 17,520
Europe	10,396	8,913	9,052
APAC	6,571	8,387	5,267
South and Latin America	1,334	1,296	1,322
Israel	1,195	317	-
Others	20	101	190
	<u>\$ 35,558</u>	<u>\$ 34,916</u>	<u>\$ 33,351</u>

2. Long-lived assets:

	December 31,	
	2022	2021
Israel	\$ 170	\$ 289
Europe	1,268	1,413
USA	1,764	1,816
Canada	11,375	13,374
Others	69	80
	<u>\$ 14,646</u>	<u>\$ 16,972</u>

Long-lived assets include operating lease right-of-use assets, property and equipment, net, intangible assets, net and goodwill.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 16:- SELECTED STATEMENTS OF INCOME DATA

Financial expenses:

	Year ended December 31,		
	2022	2021	2020
Financial expenses:			
Interest on short-term and long-term bank credit and bank charges and others	\$ (273)	\$ (52)	\$ (159)
Foreign exchange loss, net	-	(985)	(1,004)
	(273)	(1,037)	(1,163)
Financial income:			
Interest on short-term and long-term bank deposits	48	26	146
Foreign exchange income, net	366	-	-
	414	26	146
Financial income (expenses), net	\$ 141	\$ (1,011)	\$ (1,017)

SIGNATURE

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 amendment to annual report on its behalf.

SENSTAR TECHNOLOGIES LTD.

By: /s/ Dror Sharon

Name: Dror Sharon

Title: Chief Executive Officer

Date: April 20, 2023

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended

I, Dror Sharon, certify that:

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

Date: April 20, 2023

/s/ Dror Sharon *
Dror Sharon
Chief Executive Officer

* The originally executed copy of this Certification will be maintained at the Company's offices and will be made available for inspection upon request.

CERTIFICATION OF CHIEF FINANCIAL OFFICER

Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended

I, Tomer Hay, certify that:

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

Date April 20, 2023

/s/ Tomer Hay*
Tomer Hay
Chief Financial Officer

* The originally executed copy of this Certification will be maintained at the Company's offices and will be made available for inspection upon request.

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Senstar Technologies Ltd. (the "Company") on Form 20-F for the period ending December 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dror Sharon, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to §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 Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Dror Sharon *
Dror Sharon
Chief Executive Officer
Date: April 20, 2023

* The originally executed copy of this Certification will be maintained at the Company's offices and will be made available for inspection upon request.

This certification accompanies this Annual Report on Form 20-F pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Senstar Technologies Ltd. (the "Company") on Form 20-F for the period ending December 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Tomer Hay, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to §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 Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Tomer Hay*

Tomer Hay
Chief Financial Officer
Date: April 20, 2023

* The originally executed copy of this Certification will be maintained at the Company's offices and will be made available for inspection upon request.

This certification accompanies this Annual Report on Form 20-F pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 333-164696, 333-174127 and 333-190469) pertaining to the 2003 Israeli Stock Option Plan and the 2010 Incentive Option Scheme Senstar Technologies Ltd. (Formerly: Magal Security Systems Ltd.) of our report dated April 20, 2023, with respect to the consolidated financial statements of Senstar Technologies Ltd. (Formerly: Magal Security Systems Ltd.) included in this Annual Report (Form 20-F) for the year ended December 31, 2022.

Tel-Aviv, Israel
April 20, 2023

/s/ Kost Forer Gabbay & Kasierer
KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global
