UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended **December 31, 2021**

OR

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

For the transition period from ________________ to ________________

Commission file number **000-49877**

ON TRACK INNOVATIONS LTD.
(Exact name of registrant as specified in its charter)

Israel	**N/A**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Hatnufa 5, Yokneam Industrial Zone Box 372, Yokneam, Israel	**2069200**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **+ 972-4-6868000**

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

Title of each class	Trading Symbol	Name of each exchange on which registered
None		

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

Ordinary Shares, par value NIS 0.10 per share
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. 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 pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☒	Smaller reporting company ☒
	Emerging Growth Company ☐

If an emerging growth company, 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. ☐

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. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked prices of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: $11,596,882. The number of shares of the registrant's Ordinary Shares outstanding on April 4, 2022, was 75,775,393.

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In this annual report, unless otherwise specified, all dollar amounts are expressed in United States dollars. In Note 2B to our consolidated financial statements, we explain the method of exchange rate calculations which we use.

As used in this annual report, the terms “we”, “us”, “our”, “the Company”, and “OTI” mean On Track Innovations Ltd. and our subsidiaries and affiliates, unless otherwise indicated.

This Annual Report on Form 10-K includes the registered and unregistered trademarks of the Company and other persons, which are the property of their respective owners.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The statements contained in this Annual Report on Form 10-K, or Annual Report, that are not historical facts are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 and other federal securities laws. Such forward-looking statements may be identified by, among other things, the use of forward-looking terminology such as “believes,” “intends,” “plans” “expects,” “may,” “will,” “should,” "estimate," "likely," "foresee," or “anticipates” or the negative thereof or other variations thereon or comparable terminology, and similar expressions are intended to identify forward-looking statements. We remind readers that forward-looking statements are merely predictions and therefore are 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 actual future results, performance, levels of activity, or our achievements, or industry results, expressed or implied by such forward-looking statements. Such forward-looking statements may appear in Item 1 – “Business” and Item 7 – “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” as well as elsewhere in this Annual Report and include, among other statements, statements regarding the following:

- the closing of the merger transaction we entered into with Nayax Ltd., or Nayax;
- our ability to continue as a going concern and any efforts that we may undertake to support our future operations, service our debt obligations and to further execute our business plans;
- any impact of the Corona Virus, or COVID-19, pandemic on our business and cash flow, including timing of receipt of orders and payment from our customers;
- the impact of general economic, political, demographic and business conditions worldwide, including geopolitical uncertainty and instability, such as the Russia-Ukraine conflict, on general economic conditions and on our business in the short and long terms;
- future sources of revenue, ongoing relationships with current and future business partners, distributors, suppliers, customers, end-user customers and resellers;
- future costs and expenses and adequacy of capital resources;
- our expectations regarding our short-term and long-term capital requirements and satisfaction thereof;
- interest from current and new customers and rate of orders;
- the global shortage in components and the related effects of an increase in components’ prices, freight cost and longer lead-times;
- our outlook for the coming months; and
- information with respect to any other plans and strategies for our business.

The factors discussed herein, and in those risk factors described in Item “1A Risk Factors”, and those expressed from time to time in our press releases or filings with the Securities and Exchange Commission, or the SEC, could cause actual results and developments to be materially different from those expressed in or implied by such statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak and are made only as of the date of this filing.

Our business and operations are subject to substantial risks, which increase the uncertainty inherent in the forward-looking statements contained in this Annual Report. Except as required by law, we undertake no obligation to release publicly the result of any revision to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

PART I

Item 1. Business.

General Overview

We are a leading developer of contactless payment solutions, Near Field Communication (NFC) technology based, for the unattended market. We have been a technology leader since 1990, providing systems, devices and services to operators and integrators with solutions and components that are simple to implement.

To date, we have deployed over one million payment solutions to our focused unattended markets: self-service kiosk, micro-markets and vending machines, entertainment and gaming, automated teller machines, or ATM, Mass Transit Ticketing Validation, and fuel payments.

We operate through regional offices, supporting clients and payment industry partners with its unique contactless payment solutions.

On April 21, 2021, we sold our Polish subsidiary, ASEC S.A., or ASEC, including our Mass Transit Ticketing activity in Poland. The consideration for the sale of ASEC was $3 million, of which approximately $2.1 million was used to repay Polish bank loans, and which was reduced by an agreed amount of approximately $300,000 due to working capital adjustments. Following the sale of ASEC, we now operate in two segments: Retail and Petroleum.

On January 10, 2022, we filed a petition, or the Petition, with the Israeli county court of Nazareth, or the Court, seeking protections from our creditors in accordance with the Israeli Insolvency and Economic Rehabilitation Law-2018, after our Board determined that we are insolvent from a cash flow perspective.

On January 19, 2022, we entered into a binding term sheet, or the Term Sheet, with Nayax. The Term Sheet provides that we and Nayax will enter into a two-step transaction relating to (i) Nayax extending to us a senior secured convertible loan, or the Nayax Loan; and (ii) the purchase by Nayax of 100% of our share capital in consideration for $4,500,000. Consequently to the entry into the Term Sheet, and at our request, the Court withdrew the Petition.

On January 27, 2022, we entered into a definitive agreement and debenture relating to the Nayax Loan, or the Nayax Loan Agreement. On March 17, 2022, we entered into an Agreement and Plan of Merger, or the Merger Agreement, with Nayax and OTI Merger Sub Ltd., an Israeli company, wholly owned by Nayax, or Merger Sub, pursuant to which Merger Sub will merge with and into our company, with our company surviving as a direct wholly-owned subsidiary of Nayax, in exchange for $4,500,000 in cash, or the Merger Consideration.

We were incorporated under the laws of the State of Israel on February 15, 1990, under the name of De-Bug Innovations Ltd., with unlimited duration. Our name was changed to On Track Innovations Ltd. on July 8, 1991. We are registered with the Israeli Registrar of Companies, under registration number 52-004286-2 and our Ordinary Shares are quoted on the OTCQX® market, or OTCQX, under the symbol OTIVF.

Our Markets

We plan to continue to support our growing unattended markets which are self-service kiosks, micro-markets and vending machines, entertainment and gaming, ATM, mass transit ticketing validation, and fuel payments.

We believe that worldwide events including the COVID-19 pandemic are accelerating the trend towards adoption of unattended contactless payments in these markets.

Our Products

We combine a unique RF (radio frequency) technology with an “open garden” approach, and we enable our customers and partners to pick and choose products and services from our wide offering.

Our solutions include: Readers, Controllers and Terminals, Management Software, Payment Services, and a complete Payment System as a Service (PSaaS).

OTI Readers

We supply NFC and contactless payment reader products and solutions. Our products and solutions are approved by Underwriters Laboratories, Inc., or UL, and the U.S. Federal Communications Commission, or FCC, and certified by EMVCo, LLC., or EMVCo, and by MasterCard TQM (Terminal Quality Management). Our reliability and performance are based on more than a quarter of a century of experience with NFC and contactless solutions.

Our readers are certified by the leading card associations, including, among others, EMVCo, Visa, MasterCard, Amex, Discover and Interac, and are compatible as well for use with various NFC mobile payments solutions such as Apple Pay™, Google Pay™ (previously known as Android Pay), Samsung Pay™, MIFARE™, FeliCa™ and others. Our readers are also certified for EMVCo modular architecture which saves certification implementation and reduces the cost and time of any EMVCo project.

Controllers and Terminals

Controllers and Terminals are hardware devices that manage the flow of data between two machines and are used to “control” a peripheral device (*e.g.*, a vending machine). We have a range of Controllers and Terminals that provide secured and certified access to payment service providers which enable contactless payment acceptance, mobile payment acceptance, connectivity, and cloud-based management for machines.

Management software

We provide a cloud-based software for Self-Service Kiosks, Micro-Markets, Vending and any Pulse machines that provides real-time control and insights of each machine, enabling operators to remotely manage their terminal's fleet.

Payment Services

Our payment services include the following payment options:

- ***Payment Service API*** - a simple and powerful application programming interface, or API, to our payment servers to provide our customers and partners access to a certified EMVCo system to enable a fast and secured integration to new processors.

- ***Close Loop Payment*** - extending EMV payment, we offer support for close-loop payment cards with different technologies such as MIFARE and Mag-Stripe.

- ***Mobile Payment*** - we provide APIs for effortless and smooth integration with mobile payment solutions, enabling mobile payments on our system.

A complete Payment System as a Service (PSaaS)

Our system is a modular, cost-effective solution for self-service kiosks, micro-markets, vending and any pulse machines which enable contactless payments.

The complete PSaaS system incorporates telemetry, sales and operations into an all-inclusive solution that makes any kiosk, pulse or vending business connected and interactive, providing cloud control with real-time online management and alerts.

Industry Background

Under certain regulations and credit card anti-fraud legislations, the use of EMV contact and contactless payment technologies has become an essential requirement for both consumers and retailers. Various market sectors have begun to massively adopt contactless payments and are constantly looking for ways to make the adoption process as convenient as possible for both merchants and customers. Millions of contactless debit and credit cards are issued annually by leading financial institutions to various consumers, and merchants are looking to install contactless payment readers that can be easily integrated into their existing unattended point of sale locations.

The world's leading smartphone manufacturers include NFC support in their handsets, which enhances the technology adoption lifecycle. Whether it is a standard contactless travel card, or EMV contactless card, or an NFC mobile phone, the main motive is to provide quick and efficient payment solutions. Leading smartphone manufacturers have also introduced and are actively pushing the use of their own contactless payment solutions such as Apple Pay™, Google Pay™ and Samsung Pay™, all of which require a contactless reader to be available at the merchant countertop.

In addition, we have seen that the COVID-19 pandemic has accelerated the trend towards adoption of unattended contactless payments in these markets.

Strategy

Our goal is to maintain our status as a leading developer of NFC and cashless payment technologies and our reputation as a manufacturer of top-quality products carrying the highest certification standards. We have been continuously updating our strategy for the coming years, which we believe will enable us to realize our potential and resume our growth, and ultimately create shareholder value.

Key elements of our strategy for achieving this goal include:

- ***Expanding our global market presence.*** We market our products through regional offices in the United States, Europe, Africa and our headquarters in Israel. We are using our headquarters and regional offices to strengthen our presence in existing markets, penetrate new markets, provide local customer service and technical support, and adapt our products to our local customers' specific needs. We continue to expand our market presence via strategic partners and distributors around the globe.

- ***Increasing our focus on generating high-margin, recurring revenues***. We are continuing our strategy to shift from hardware sales to SaaS and in upgrading our hardware to maintain our technological lead. We intend to generate additional recurring revenues by receiving service fees for ongoing customer services and transaction fees from our customers.

- ***Enhancing our technological position***. We intend to continue to invest in research and development to develop new technologies, extend the functionality of our products and services, and offer innovative products and services to our customers and partners.

Customer Service and Technical Support

We provide our customers with training, installation support, ongoing customer service and technical support through our regional offices, distributors and local services providers, including employees located in our corporate headquarters in Yokneam, Israel, as well as employees located in our offices in Europe, South Africa and the United States. Our customer service teams in Yokneam provide central services to our global network. Our offices, distributors and local providers, in turn, provide customer service and technical support by telephone and email.

Sales and Marketing

In addition to selling our products and solutions through our distributors, we sell and market our products directly and through our regional offices. We market and sell our products in the Americas through our U.S.-based subsidiary, OTI America, in Africa, our subsidiary in South Africa, OTI PetroSmart, and in Europe, our subsidiary in Poland, OTI Europa Sp.z.o.o. In Israel and in regions where we do not have local subsidiaries or representatives, we market and sell through our main headquarters in Yokneam, Israel. Our marketing and sales staff implement marketing campaigns and programs to promote our products and services to enhance our global brand recognition. Our current marketing efforts include participation in digital events, webinars, press releases, websites, social media and client / distributor meetings. We also conduct technical seminars to inform sales staff, customers, distributors, business partners and other industry contributors of our unique products and innovative technologies.

Customers

Our customer base is concentrated into one large customer. The customer we consider to be our major customer and the percentage of our revenue represented by such major customer vary from period to period. In 2021 and 2020, such customer in North America accounted for 22% and 19%, respectively, of our total revenues for such periods. If we were to lose our major customer, or if our customer was to have difficulty meeting its financial obligations to us for any reason, our financial condition and results of operations would be adversely affected.

Manufacturing

We outsource all our manufacturing and product assemblies to third-party vendors. Whenever possible, our policy is to use more than one supplier and manufacturing subcontractor for each part of our production process in order to limit dependence on any one source.

We are ISO 9001:2015 certified. We require that our suppliers and subcontractors be ISO 9001:2015 certified. ISO 9001:2015 is an international standard promulgated by the International Standards Organization, which specifies requirements for a quality management system and provides guidance and tools for companies to ensure that their products and services consistently meet customer and regulatory requirements. This standard is updated from time to time pursuant to the international authorization requirements.

Government Regulation

Most of our products are subject to local electromagnetic compliance, or EMC/Radio regulations such as radiation, conducted emission and immunity, and safety regulations such as fire and electrical hazards, governed by low voltage standards for our regular readers and hazardous areas standards for our petroleum products. In the United States, EMC/Radio testing and certification for such products are governed by Federal Communications Commission, or FCC, Part 15 while safety testing and certification fall under the standards set by UL. In the rest of the world, where FCC and UL rules do not apply, we follow various international and local standards for EMC/Radio and safety. The compliance with these standards is assured by testing and certifying our products at various accredited labs and/or notified bodies located both in Israel and other countries (e.g., United States, Germany, South Africa, India, China, Brazil and more). Our products comply with the regulations in the markets in which we operate.

Research and Development

We believe that our future success depends on, among other things, our ability to maintain our technological leadership, enhance our existing products and develop new products, technologies and solutions. Accordingly, we intend to continue devoting substantial resources to research and development.

Our research and development activities focus on two major areas:

- developing new innovative technologies related to the contactless payment solutions market; and

- enhancing the functionality of our components and expanding the range of our products to serve new markets.

Our main research and development facilities are located at our headquarters in Israel. We believe that our success is based on our experienced team of senior engineers and technicians who have extensive experience in their respective fields. Our research and development facilities are ISO 9001:2015 certified.

Proprietary Technologies and Intellectual Property

Our success and ability to compete depend in large part upon protecting our proprietary technology and IP. We rely on a combination of patent, trademark, copyright and trade secret law, as well as know-how, confidentiality agreements and other contractual relationships with our customers, employees, affiliates, agents, consultants, distributors and others.

Our IP portfolio includes issued patents with respect to our contactless technology, as well as trademarks and designs. As part of our efficiency program, we have reduced our investment in non-core patents and registrations. The expiration dates for our granted patents range between 2027 to 2033.

We do not know whether any issued patents will be enforceable against alleged infringers or will be upheld if their validity is challenged. We generally enter into non-disclosure agreements with our customers, partners, employees, consultants, suppliers and subcontractors, and generally control access to the distribution of our products, documentation and other proprietary information.

Competition

Our competition is with technology vendors that provide contactless payments solutions products and technologies:

- **In the Kiosk, Micro markets and Vending markets,** our competition includes unattended payment solution and technology providers such as ID Tech, Nayax and Ingenico.

- **In the Petroleum Market,** we compete with fueling and fleet management end-to-end solution vendors such as Orpak and Hectronic. As this domain has high entrance barriers, competition in this field is limited.

Employees

As of December 31, 2021, we had 82 employees.

We operate in accordance with the applicable law and the provisions of the general extension orders applying to labor and employment relations in Israel. These provisions principally concern the length of the working day, minimum wages for employees, contributions to pension funds or managers' insurance, contribution to work disability insurance, convalescence, travel expenses, holidays and other conditions of employment. We provide our employees with benefits and working conditions above the required minimum and which we believe are competitive with benefits and working conditions provided by similar companies in our industry in Israel. Our employees are not represented by a labor union. We have written employment agreements with substantially all of our employees. Competition for qualified personnel in our industry is intense, and it may be difficult to attract or maintain qualified personnel to our offices. We dedicate significant resources to employee retention and have never experienced work stoppages, and we believe that our relations with our employees are good. Our subsidiaries located outside Israel operate in accordance with the local applicable labor laws and have written employment agreements with substantially all their employees.

SEC Filings

The SEC maintains an internet website that contains reports and other information regarding issuers that file electronically with the SEC. Our filings with the SEC are also available to the public through the SEC's website at www.sec.gov.

We maintain a corporate website www.otiglobal.com. Information contained on, or that can be accessed through, our website and the other websites referenced above do not constitute a part of this annual report on Form 10-K. We have included these website addresses in this annual report on Form 10-K solely as inactive textual references.

Item 1A. Risk Factors.

The following risk factors, among others, could in the future affect our actual results of operations and could cause our actual results to differ materially from those expressed in forward-looking statements made by us in this Annual Report, press releases, SEC filings or elsewhere. Before you decide to buy, hold, or sell our Ordinary Shares, you should carefully consider the risks described below, in addition to the other information contained elsewhere in this Annual Report. The following risk factors are not the only risk factors facing our Company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business. Our business, financial condition and results of operations could be seriously harmed if any of the events underlying any of these risks or uncertainties actually occurs. In that event, the market price for our Ordinary Shares could decline, and you may lose all or part of your investment.

Risks Related to Our Pending Merger

Failure to complete the Merger could results in our bankruptcy.

As discussed under "Item 1. Business – General Overview", following the determination that we are insolvent from a cash flow standpoint, we filed a petition with the Israeli court to receive protection from our creditors. Considering our state of insolvency prior to the signing of the Term Sheet with Nayax, and further considering our debts to Nayax (created, among other things, by the provision of the Nayax Loan, repayment of a $2.0 million bank loan with a full guarantee of Nayax and exposure to a risk of not being able to conduct our business due to the loss of the guarantees provided by Nayax to our suppliers and subcontractors), failure to complete the merger contemplated under the Merger Agreement, or the Merger, is likely to lead to our inability to pay off our debts, in which case we may be forced to file a bankruptcy or winding-up petition with the Israeli court, or an involuntary bankruptcy petition will be filed against the Company by a creditor, in accordance with the Israeli Insolvency and Economic Rehabilitation Law-2018. In the event such petition is not dismissed, such petition may have an adverse effect on various aspects including, but not limited to, our ability to continue operating our business, the value of our ordinary shares and our shareholders' ability to sell their holdings. It should be noted, that as part of the Nayax Loan and the Merger Agreement, until the termination of the Merger Agreement in accordance with the terms set forth therein, we are not allowed to incur debt or sell our securities without the prior written consent of Nayax, which will also impair our ability to raise funds if needed.

Failure to complete the Merger could negatively impact our share price, business, financial condition, results of operations or prospects.

The Merger is subject to the satisfaction or waiver of certain closing conditions, including, among others, the following:

- approval of the Merger Agreement by our shareholders;
- receipt of regulatory approvals, including receipt of the merger certificate from the Israeli Companies Registrar and the expiration or termination of any waiting period under Israeli law;
- there being no statute, judgment, injunction, order or decree prohibiting consummation of the transactions contemplated under the Merger Agreement;
- subject to specified materiality standards, the continuing accuracy of certain representations and warranties of each party;
- we shall (a) have taken all actions necessary to be eligible to cause the cessation of quotation of our ordinary shares on the Over-the-Counter Market and the termination of the registration thereof under the Securities Exchange Act of 1934, as amended, or the Exchange Act, in each case as soon as permissible after the effective time of the Merger, and (b) be able to provide all necessary certifications on Form 15 as of immediately after the effective time of the Merger (including without limitation having filed all necessary filings and reports to be current with the SEC (without regard to any extension under Rule 12b-25 under the Exchange Act)); and
- continued compliance by each party in all material respects with its covenants.

No assurance can be given that each of the conditions will be satisfied. In addition, the Merger Agreement may be terminated under the circumstances. If the conditions are not satisfied or waived in a timely manner and the Merger is delayed, payment of the Merger Consideration will also be delayed. Due to the our inability to pay our debts, which led to the Board's determination of our insolvency and our petitioning to the Israeli court prior to entering into the Term Sheet, such delay may cause us to return to court and re-file a petition in accordance with the Israeli Insolvency and Economic Rehabilitation Law-2018, or the Insolvency Law. If the Merger is not completed (including in the case the Merger Agreement is terminated), our ongoing business may be adversely affected.

We also could be subject to litigation related to any failure to complete the Merger. If the Merger is not completed, these risks may materialize and may adversely affect the price of our ordinary shares, our business, financial condition, results of operations or prospects.

The fact that there is a Merger pending could harm our business and results of operations.

While the Merger is pending, we are subject to a number of risks that may harm our business and results of operations, including:

- the diversion of the management and employee attention from our ongoing business operations;
- we may have difficulties retaining employees;
- we have and will continue to incur expenses related to the Merger prior to its closing;
- the disruption of current plans and operations;
- we may be unable to respond effectively to competitive pressures, industry developments and future opportunities; and
- Nayax is a competitor of some of our customers, which may bring these customers to look for alternatives for the services we provide them.

Our current employees may be uncertain about their future roles and relationships with us following completion of the Merger. This uncertainty may adversely affect our ability to attract and retain key personnel.

Failure to complete the Merger will require us to repay the Nayax Loan and the loan provided to us by U-Bank, supported by a guarantee provided by Nayax.

As contemplated by the Nayax Loan Agreement, The Nayax Loan is subject to 10% interest per year, and the accumulated interest and value added tax, if any, is payable quarterly commencing on April 1, 2022. The Nayax Loan matures on the second anniversary of the closing of the Nayax Loan Agreement and we cannot prepay it. At any time after the earlier of (i) an Event of Default (as defined under the Nayax Loan Agreement) or (ii) the completion of the Merger Agreement, and prior to the repayment of the Nayax Loan, Nayax is entitled, at its sole discretion, to convert the Nayax Loan into our ordinary shares at a price per share equals to $0.043. Failure to complete the Merger could either create dilution to the existing shareholders due to the Nayax's conversion of the Nayax Loan into ordinary shares while Nayax will also become our controlling shareholder, or, if not converted, will require the repayment of the Nayax Loan. In addition, on March 1, 2022, Nayax provided U-Bank by the First International Bank of Israel Ltd., or U-Bank, a guarantee for the repayment of a loan in an amount of $2 million, provided to us by U-Bank, or the U-Bank Loan. Failure to complete the Merger will lead to a requirement for the repayment of the U-Bank Loan. In any event where we will be required to repay the Nayax Loan or the U-Bank Loan, we will need to either raise additional funds, which may be difficult considering our inability to raise funds without the prior written approval of Nayax unless the Merger Agreement is terminated, as stipulated under the Merger Agreement and the Nayax Loan Agreement, and further considering the circumstances. Failure to raise funds may lead to difficulties paying our suppliers and service providers as well as may hamper the repayment of loans (including the Nayax Loan) and any other debt incurred towards Nayax, and may, eventually, lead to either a creditor approaching the Israeli court petitioning to declare us insolvent in accordance with the Insolvency Law, or require us to file such petition.

Our obligation to pay a termination fee or reimburse Nayax's expenses under certain circumstances and the restrictions on our ability to solicit or engage in negotiations with respect to other acquisition proposals may discourage other transactions that may be favorable to our shareholders.

Until the Merger is completed or the Merger Agreement is terminated, with limited exceptions, the Merger Agreement prohibits us from entering into, soliciting or engaging in negotiations with respect to acquisition proposals or other business combinations. In certain circumstances, we are required to pay Nayax a termination fee of $1,500,000. Furthermore, non-completion of the Merger would be considered an "event of default" under the Nayax Loan Agreement, which can result in either Nayax's requirement for an immediate repayment of the Nayax Loan, or an increase of the interest on the Nayax Loan amount to 16% interest, at the Nayax's sole discretion.

If the Merger is not consummated by July 1, 2022, Nayax may choose to terminate the transaction contemplated by the Merger Agreement under certain circumstances.

The Merger is subject to the satisfaction or waiver of certain closing conditions set forth in the Merger Agreement. The fulfillment of certain of these conditions is beyond our control, such as the receipt of the approval of the Merger by our shareholders. If the Merger has not been completed by July 1, 2022, Nayax may terminate the Merger Agreement, except that the right to terminate the Merger Agreement in this circumstance will not be available to Nayax if its material breach of the Merger Agreement has been the principal cause of or resulted in the failure of the Merger to occur on or before such date and such action or failure constitutes a breach of the Merger Agreement.

If we experience significant delays in completing the Merger, we may need to seek additional capital to finance the business.

As agreed under the Term Sheet, Nayax has provided the Company with the Nayax Loan, while stating that additional loans may be provided, provided a guarantee to U-Bank for the U-Bank Loan and further assisted us by providing certain of our suppliers with guarantees for the purpose of ensuring that we are able to operate our business. If we experience significant delays in completing the Merger, we may be in default under the Nayax Loan Agreement which may lead to Nayax's requirement for an immediate repayment of the Nayax Loan as well as its unwillingness to further support us and therefore, we may need to seek additional capital to finance our operations and for the possible repayment of the Nayax Loan, which additional capital may not be available when needed on acceptable terms, or at all. The failure to obtain such additional capital may have a material adverse effect on our ability to complete the Merger.

Some of our directors and officers have interests that may be perceived as different from the interests of our shareholders, and these persons may be deemed to have conflicts of interest in recommending to our shareholders to approve the Merger.

Some of the members of the management and our Board may have interests that may be perceived as different from, or in addition to, their interests as shareholders. These interests could cause members of our Board or our management to be perceived as having a conflict of interest in recommending approval of the Merger. The Board was aware of these interests and considered them, among other things, in evaluating and approving the Merger Agreement and the Merger and in recommending that the OTI shareholders adopt the merger agreement.

Risks Related to Our Business

We do not have enough existing cash resources to fund our operations for the next twelve months and if we are unable to secure additional capital, we may be required to seek strategic alternatives, including but not limited to reducing or ceasing our operations.

Our principal sources of liquidity since our inception have been revenues, proceeds from sales of equity securities, borrowings from banks, our shareholders and government, cash from the exercise of options and warrants and proceeds from the divestiture of parts of our businesses. We had cash, cash equivalents and short-term investments representing bank deposits of $815,000, as of December 31, 2021. Based on the projected cash flows and our cash balances as of December 31, 2021, our management is of the opinion that without further fund raising or other increase in our cash, we will not have sufficient resources to enable us to continue our operations for a period of at least the next 12 months from the filing date of this Form 10-K. Furthermore, on January 7, 2022, our Board determined that we are insolvent from a cash flow perspective, before we received the Nayax Loan. As a result, there is a substantial doubt about our ability to continue as a going concern. We have limitations on our ability to raise additional funds and to increase our cash under the Nayax Loan and the Merger Agreement.

If additional financing is not available when required or is not available on acceptable terms, we may be unable to take advantage of business opportunities or respond to competitive pressures, which could have a material adverse effect on our revenue, results of operations and financial condition. If we are unable to fund our operations without additional external financing and therefore cannot sustain future operations, we may be required to cease our operations and/or seek bankruptcy protection, as we have done in the past.

We have a history of losses, and we expect to continue to incur full-year losses in 2022 and may further incur losses in subsequent years.

We have incurred losses in each year since we commenced operations in 1990. We reported net losses attributable to shareholders of $11,659,000 in 2021 and $6,133,000 in 2020. We expect to continue to incur full-year losses in 2022 and may incur losses also in subsequent years, as we invest in the expansion of our global sales and marketing network, shift our business model away from product sales towards services and transaction fees, and enhance our research and development capabilities to develop existing and new products.

We face risks resulting from a global shortage in the components required for the supply of our products.

As part of the different impacts of the COVID 19 pandemic, there has been a global shortage in various components, including in the components required for the production and supply of our products, which has led to an increase in the prices of such components, freight costs and to longer lead-times. Such shortage has made it harder for us to be able to supply orders made by customers, which impacted our revenues and the product gross margin, mainly in the retail segment. In order to mitigate the risk, we encouraged our customers to provide a forecast to their demand and continue to maintain a comprehensive network of worldwide suppliers in order to optimize our access to critical components. In addition, during last few months we have purchased a larger amount of such components to be used for the supply and sales later this year. However, these measures may not be sufficient to mitigate the aforementioned risks, and if the shortage continues, or even worsens, this may adversely impact our business. As long as the COVID-19 pandemic continues, and possibly also thereafter, the components’ lead-time may be longer than normal and the shortage in components may continue or become greater, which would adversely affect our business.

If the markets for our products do not grow, sales of our products may not grow and may even decline.

The success of our products depends on the continuing adoption of cashless payment solutions within a broad spectrum of industries including unattended retail, and fueling. Such adoption of cashless payment solutions and technologies depends on the enactment and implementation of regulations and industry standards regarding secure cashless payment. Should such industries fail to adopt cashless payment technologies or solutions or experience any economic downturn, or should regulations fail to support such solutions, the markets for our products may not grow and we may fail to achieve our business goals.

Additionally, potential customers, may already have installed systems that are based on technologies different from ours and therefore may be less willing to incur the capital expenditures required to install or upgrade to our products. As a result, we cannot assure that there will be sufficient market opportunities for our products. New technologies for payments different from ours might be adopted by the markets and could reduce the need for our payment solutions.

We depend on one large customer and the loss such customer would lower our revenues.

Our customer base is concentrated into one large customer. Our revenues may continue to depend on a limited number of major customers. The customer we consider to be our major customer and the percentage of our revenue represented by such major customer vary from period to period. In 2021 and 2020, such customer in North America accounted for 22% and 19%, respectively, of our total revenues for such periods. If we were to lose our major customer, or if our customer was to have difficulty meeting its financial obligations to us for any reason, our financial condition and results of operations would be adversely affected.

We face intense competition. If we are unable to compete successfully, our business prospects will be impaired.

We face intense competition from developers of contact and contactless payments products. We compete on the basis of a range of factors including price, compatibility with the products of other manufacturers, and the ability to support new industry standards and introduce new reliable technologies. Many of our competitors have greater market recognition, larger customer bases, and substantially greater financial, technical, marketing, distribution, and other resources than we possess. As a result, they may be able to introduce new products, respond to customer requirements and adapt to evolving industry standards more quickly than we can.

From time to time, we or our present or future competitors may announce new or enhanced products or technologies that have the potential to replace or shorten the life cycles of our existing products. The announcement of new or enhanced products may cause customers to delay or alter their purchasing decisions in anticipation of such products, and new products developed by our competitors may render our products obsolete or achieve greater market acceptance than our products.

If we cannot compete successfully with our existing and future competitors, we could experience lower sales, price reductions, loss of revenues, reduced gross margins and reduced market share.

If we fail to develop new products or adapt our existing products for use in new markets, our revenue growth may be impeded and we may incur significant losses.

Although we are devoting significant resources to develop new products and adapting our existing products for use in new markets, if we fail to develop our new products or adapt our existing products for existing or new markets, we may not recoup the expenses incurred in our efforts to do so, our revenue growth may be impeded and we may incur significant losses.

Our revenue growth may be impaired if we are unable to maintain our current, and establish new, strategic relationships.

The markets for our products are usually specialized and may require us to enter into strategic relationships in order to facilitate or accelerate our market penetration. We consider a relationship to be strategic when we integrate our technology into some of the product offerings of a business partner or engage a distributor that has a significant position in a specified market. Failure of our strategic partners to perform in a satisfactory manner or to meet their undertakings in the penetration of new markets, or the termination of any of our strategic relationships or our failure to develop additional relationships in the future may limit our ability to expand the markets in which our products are deployed or to sell particular products.

The terms of certain of our agreements may restrict our ability to take actions that we believe to be desirable.

Certain agreements that we have entered into with our distributors provide exclusivity for different time periods, ranging from several months to several years, or with respect to specific regions and/or products. For example, in certain markets, we sell our products through distributors who, in certain cases, have exclusive distribution rights in that market or certain territories if specified minimum volume commitments are met. The foregoing could have a material adverse effect on our business, operating results and financial condition if these partners do not perform in a satisfactory manner.

Our products may have long development and sales cycles and we may expend significant resources in relation to a specific project without realizing any revenues.

The development and sales cycles for our products vary from project to project. Typically, the projects in which we are involved are complex and require that we customize our products to our customers' needs and specifications. We then conduct evaluation, testing, implementation and acceptance procedures and sometimes we are required to perform a long certification process for our products. Only after successful completion of these procedures and certifications will customers place orders for our products in commercial quantities. In addition, our sales contracts sometimes do not include minimum purchase commitments. We therefore cannot always ensure that product development will result in commercial sales. Our average development cycle is typically between six and 18 months from initial contact with a potential customer until we deliver commercial quantities to the customer and recognize significant revenues. As a result, we may expend financial, management and other resources to develop customer relationships before we recognize revenues, if any.

Defects in our products could harm our reputation, result in loss of customers and revenues or subject us to product liability claims.

Our products are highly technical and deployed as part of large and complex projects. As a result of the nature of our products, they can only be fully tested when fully deployed. Any defects in our products could result in harm to our reputation; loss of, or delay in, revenues; loss of customers and market share; failure to attract new customers or achieve market acceptance for our products; unexpected expenses to remedy such defects; and/or exposure to potential product liability claims.

While we currently maintain product liability insurance, we cannot be certain that this insurance will be sufficient to cover any successful product liability claim. Any product liability claim could result in changes to our insurance policies, including premium increases or the imposition of a large deductible or co-insurance requirements. Any product liability claim in excess of our insurance coverage would have to be paid out of our cash reserves. Furthermore, the assertion of product liability claims, regardless of the merits underlying the claim, could result in substantial costs to us, divert management's attention away from our operations and damage our reputation.

Delays or discontinuance of the supply of components or manufacturing and assembly of our products may hamper our ability to produce our products on a timely basis and cause short-term adverse effects.

Most of the components we use in our products are supplied by third-party suppliers and manufacturers. Some of these suppliers are single source manufacturers. Termination of manufacturing of a certain product, provision of services or support (commonly referred to as "end of life"), allocations due to high demand, or delays or shortages could interrupt and delay the supply of our products to our customers and may result in cancellation of orders for our products. Similarly, we do not always have long-term supply contracts under which our suppliers are committed to supply us with components at fixed or defined prices. Suppliers sometimes may increase component prices significantly without advance warning or could discontinue the manufacturing or supply of components used in our products. In addition, third party suppliers may face other challenges in fulfilling their contractual obligations with us which are beyond our control. Although we make efforts to identify and retain second source manufacturers and vendors, we may not always be able to develop alternative sources of supply and services. Even if we are able to identify such alternative sources, we may need to modify our products to render them compatible with other components. This may cause delays in product shipments, increase manufacturing costs and increase product prices.

Some of our suppliers and vendors are located in different countries and, therefore, we may experience logistical difficulties in our supply chain, including long lead times for receipt of products or components and shipping delays. In addition, our subcontractors may, on occasion, feel the impact of potential economic or political instability in their regions, which could affect their ability to supply us with components for our products in a timely manner.

If we are unable to protect or assert our intellectual property rights, our business and results of operations may be harmed.

Our success and ability to compete depend considerably on using our IP and proprietary rights to protect our technology and products. We rely on a combination of patent, trademark, design, copyright, and trade secret laws, confidentiality agreements and other contractual relationships with our employees, customers, affiliates, distributors, suppliers and others. While substantially all of our employees are subject to non-compete agreements, these agreements may be difficult to enforce as a result of Israeli law limiting the scope of employee non-competition undertakings. We further note that the Israeli Supreme Court noted (in an obiter dictum) in 2012, without making any decisive ruling, that an employee who contributes to an invention during his employment could be allowed to seek compensation for it from their employer, even if the employee's contract of employment specifically states otherwise and the employee has transferred all intellectual property rights to the employer. The Israeli Supreme Court considered the possibility that a contract that revokes the employee's right for royalties and compensation may not necessarily foreclose the right of the employee to claim a right for royalties. As a result, even if the Company believes that none of its employees has any rights in any of the Company's intellectual property, or to receive royalties, it is unclear if, and to what extent, our employees may be able to claim compensation with respect to our future revenue. As a result, we may receive less revenue from future products if such claims are successful, or incur additional royalty expenses, which in turn could impact our future profitability.

Our patent portfolio includes registered patents and pending patents applications mainly in U.S. encompassing, among others, product applications, system and product architecture and product concepts. We cannot be certain that patents will be issued with respect to any of our pending or future patent applications or that the scope of our existing patents, or any future patents that are issued to us, will provide us with adequate protection for our technology and products. Others may challenge our patents or patent applications as well as our registered trademarks and other intellectual property rights. We do not know whether any of them will be upheld as valid or will be enforceable against alleged infringers. Thus, we do not know whether they will enable us to prevent or hinder the development of competing products or technologies. Moreover, patents provide legal protection only in the countries where they are registered, and the extent of the protection granted by patents varies from country to country.

The measures we have taken to protect our technology and products may not be sufficient to prevent their misappropriation by third parties or their independent development by others of similar technologies or products. If our patents and other intellectual property rights do not adequately protect our technology, competitors may be able to offer products similar to our products more easily. Our competitors may also develop competing technology by designing around our patents and thereafter manufacturing and selling products that compete directly with ours, which would harm our business, financial position and results of operations.

In order to protect our technology and products and enforce our patents and other proprietary rights, we may need to initiate, prosecute or defend litigation and other proceedings before courts and patent and trademark offices in multiple countries. Significant resources may be required to support such litigation.

If we fail to adhere to regulations and security standards imposed by credit card networks, or if our products are not certified or otherwise fail to comply with such regulations and security standards (such as payment card industry standards, etc.) or if our customers fail to take proper protective measures and hold us liable for the consequences, our results of operations could be adversely affected.

We are required by some of our customers to meet industry standards imposed by payment systems standards-setting organizations such as EMV, credit card associations such as Visa, MasterCard, Discover and other credit card associations and standard-setting organizations such as the Payment Card Industry Security Standards Council, and other local organizations. Furthermore, some of our offerings are subject to the Payment Card Industry Data Security Standards, which are a set of multifaceted security standards that are designed to protect credit card and personal information as mandated by payment card industry entities. Even though we attempt to protect our company through our contracts with our customers, we have limited oversight or control over the actions and practices of our clients and other third-party service providers.

New standards are continually being adopted or proposed as a result of worldwide anti-fraud initiatives, encryption of cardholder or personal information, the increasing need for system compatibility and technology developments such as wireless, optical fiber infrastructure, telecommunication, virtual private network, or VPN, VPN infrastructure, satellite-based communication and another wireline IP communication. We cannot ensure that we will be able to design our solutions to comply with future standards or regulations on a timely basis, if at all. Compliance with these standards could increase the cost of developing or producing our products, while non-compliance may harm our reputation or result in customer and client claims. New products designed to meet any new standards need to be introduced to the market and ordinarily need to be certified by the credit card associations and our customers before being purchased. The certification process is costly and time-consuming and increases the amount of time and resources it takes to sell our products, as well as the product development cycle time and cost. Selling products that are non-compliant may result in fines against us or our customers, which we may be liable to pay. After selling and/or installation of a system or a product, the customer is responsible for any operational aspect of such system or product ensuring them from unexpected crashes.

In addition, even if our products are designed to be compliant, compliance with certain security standards is determined on the basis of the network environment in which our customers and service providers install our products. Therefore, such compliance depends upon additional factors such as the proper installation of the components of the environment (including our systems, compliance of software and system components provided by other vendors), implementation of compliant security processes and business practices and adherence to such processes and practices.

Our business and financial condition could be adversely affected if we do not comply with new or existing industry standards and regulations or obtain or retain necessary regulatory approval or certifications in a timely fashion, or if compliance results in increasing the cost of our products.

Our products may infringe on the IP rights of others.

It is not always possible to know with certainty whether or not the manufacture and sale of our products or the licenses we are granted from third parties infringe patents or other IP rights owned by third parties. Third parties may, from time to time, claim that our products infringe on their patent or other IP rights. In addition, if third parties claim that our customers are violating their IP rights, our customers may seek indemnification from us or may terminate their relationships with us.

IP rights litigation is complex and costly, and we cannot be sure of the outcome of any litigation. Even if we prevail, the cost of litigation could harm our results of operations. In addition, litigation is time-consuming and could divert our management’s attention and resources away from our business. If we do not prevail in such litigation, in addition to any damages we might have to pay, we might be required to discontinue the use of certain processes, cease the manufacture, use and sale of infringing products and solutions, and expend significant resources to develop non-infringing technology or obtain licenses on unfavorable terms. In addition, some licenses are non-exclusive and, therefore, our competitors may have access to the same technology licensed to us.

Our international sales and operations are subject to complex laws relating to foreign corrupt practices and bribery, among many other subjects. A violation of, or change in, these laws could adversely affect our business, financial condition or results of operations.

Our operations in countries outside the U.S. are subject, among others, to the Foreign Corrupt Practices Act of 1977 as amended from time to time, or FCPA, which prohibits U.S. companies or foreign companies which their shares are traded on a U.S. stock exchange, or their agents and employees from providing anything of value to a foreign public official as defined in the FCPA for the purposes of influencing any act or decision of these individuals in their official capacity to help obtain or retain business, direct business to any person or corporate entity, or obtain any unfair advantage. We have internal control policies and procedures with respect to the FCPA. However, we cannot assure that our policies and procedures will always protect us from reckless or criminal acts that may be committed by our employees or agents. Violations of the FCPA may result in severe criminal or civil sanctions, and we may be subject to other liabilities, which could have a material adverse effect on our business, consolidated results of operations and consolidated financial condition. In addition, investigations by governmental authorities as well as legal, social, economic, and political issues in countries where we operate could have a material adverse effect on our business and consolidated results of operations. We are also subject to the risks that our employees or agents outside of the U.S. may fail to comply with other applicable laws. The costs of complying with these and similar laws may be significant and may require significant management time and focus. Any violation of these or similar laws, intentional or unintentional, could have a material adverse effect on our business, financial condition or results of operations.

We use third parties' goods and services from time to time. Although we make efforts to ensure the service quality, we cannot control the actions of such third parties, and therefore we may be subject to claims and risks.

We depend on third-party service providers, suppliers, and licensors to supply some of the services, hardware, software and operational support necessary to provide some of our services. If these vendors experience operating or financial difficulties or are otherwise unable to provide the equipment or services we need fully or in a timely manner, at our specifications and at reasonable prices, our ability to provide some services might be materially adversely affected, or the need to procure or develop alternative sources of the affected materials or services might delay our ability to serve our customers. These events could materially and adversely affect our ability to retain and attract customers, and have a material negative impact on our operations, business, financial results and financial condition.

We may have to adapt our products in order to integrate them into our customers' systems if new government regulations or industry standards are adopted or current regulations or standards are changed.

Some of our products and/or future products under development are or may be subject to government or international regulation in the countries in which they are used. Some of our systems are also required to meet safety regulation standards. In addition, governmental or international certification for the systems into which our products are integrated may be required. If there is a change in government regulations or industry standards, we may have to make significant modifications to our products and, as a result, could incur significant costs and may be unable to deploy our products in a timely manner.

In addition, prior to purchasing our products, some customers may require us to receive or obtain a third-party certification, or occasionally certify our products by ourselves, that our products can be integrated successfully into their systems or comply with applicable regulations. In some cases, in order for our products, or for the system into which they are integrated, to be certified, we may have to make significant product modifications. Furthermore, receipt of third-party certifications may not occur in a timely manner or at all. Failure to receive third-party certifications could render us unable to deploy our products in a timely manner or at all, which may adversely affect our operations, business, financial results and financial condition.

We have certain operations in countries that may be adversely affected by political or economic instability.

We are a company with worldwide operations. In addition to being headquartered in Israel, we derive a certain portion of our sales and future growth from regions such as Latin America, Eastern Europe and Africa, which may be more susceptible to political or economic instability.

Certain portions of our operations are conducted outside the markets in which our products are sold, and accordingly, we often import a substantial number of products into such markets. We may, therefore, be denied access to our customers or suppliers or denied the ability to ship products from any of our sites as a result of a closing of the borders of the countries in which we sell our products, or in which our operations are located, due to economic, legislative or political conditions. This could have a material negative impact on our operations, business, financial results and financial condition.

Due to the conflict between Russia and Ukraine, and in light of sanctions imposed by certain countries on Russia, our Board guided our management to halt sales to Russian customers. As a result, our revenues will be adversely impacted

We derive a portion of our revenues from sales to resellers that are not the end-users of our products. We are dependent, to a certain extent, on the ability of these resellers to maintain their existing business and secure new business.

Some of our revenues are derived from sales to customers and distributors that incorporate our products into systems which they supply and install for use by their end-use customers. While we view such resellers as our final customers, our revenues may decline if the efforts of these resellers fail in their efforts to sell their products or to resell our products. Further, the faulty or negligent implementation and installation of our products by our customers or their end-use customers may harm our reputation and dilute our brand name. We are one step removed from the end-users of our products, and therefore it may be more difficult for us to rectify damage to our reputation caused by resellers that have direct contact with end-users. In addition, termination of agreements with resellers or revocation of exclusive distribution rights within certain countries might be difficult. If we are unable to maintain our current relationships with resellers or develop relationships with new resellers, we may not be able to sell our products, and our results of operations could be impaired.

While we also sell directly to end-users, our future success will depend upon the timing and size of future purchases by resellers and the success of their products and services for which they use our products.

We are exposed to credit risk with some of our customers and to credit exposures and currency controls, which could result in material losses.

A significant portion of our net revenues is on an open credit basis that we provide to our customers. While we assess collectability for revenue recognition purposes on a regular basis, credit risks may be higher and collections may be more difficult to enforce, and future losses due to inability to collect some or a major part of future revenues, if incurred, could harm our business and have a material adverse effect on our operating results and financial condition. Additionally, to the extent that any uncertainty in the global economy makes it more difficult for some customers to obtain financing, our customers' ability to pay could be adversely impacted, which in turn could have a material adverse impact on our business, cash flows, operating results, and financial condition.

Risks Related to Our Ordinary Shares

Failure to meet the Standards for Continued Qualification for the OTCQX International Tier as per the OTCQX Rules for International Companies could result in moving the Company's securities to the OTC Pink and eventually cause limited liquidity and a lower price per share.

On February 16, 2022, we received a notice from the OTC Markets Group stating that we failed to meet the standards for continued qualification for the quotation of our shares on the OTC Markets, as our per share minimum bid price was lower than $0.10 and our market capitalization has stayed below $5,000,000 for more than 30 consecutive days. We were given a cure period of 180 days during which we must meet the applicable criteria for 10 consecutive trading days. In the event that such criteria are not met during the cure period, our securities will be moved from the OTCQX International to OTC Pink, which might result in a more limited liquidity and price of our securities, and might make it harder for you to sell your shares. You may be unable to sell your securities unless a market can be established or sustained.

Our share price has fluctuated in the past and may continue to fluctuate in the future.

The market price of our Ordinary Shares has fluctuated significantly and may continue to do so. The market price of our Ordinary Shares may be significantly affected by factors such as the announcements of new products or product enhancements by us or our competitors, technological innovations by us or our competitors or periodic variations in our results of operations. In addition, any statements or changes in estimates by analysts covering our shares or relating to the industries in which we operate could result in an immediate effect that may be adverse to the market price of our shares.

Trading in shares of companies listed on OTCQX in general, and trading in shares of technology companies in particular, has been subject to extreme price and volume fluctuations that have been unrelated or disproportionate to operating performance. These factors may depress the market price of our Ordinary Shares, regardless of our actual operating performance.

Securities litigation has also often been brought against companies following periods of volatility in the market price of its securities. In the future, we may be the target of similar litigation that could result in substantial costs and diversion of our management's attention and resources.

There is a limited market for our Ordinary Shares, and the trading price of our Ordinary Shares is subject to volatility.

Our Ordinary Shares began trading on the OTCQX in October 2019, following the delisting of our Ordinary Shares from the Nasdaq Capital Market. Because our Ordinary Shares are no longer listed on a registered national securities exchange, we are subject to certain "blue sky" laws of the various states which impose restrictions on our ability to offer and sell our securities. These "blue sky" laws may make it more difficult for us to raise capital or to issue our Ordinary Shares for equity compensation or other strategic purposes, which could adversely affect our ability to fund our operations or to attract and retain employees. In addition, our Ordinary Shares may be defined as a "penny stock" under Rule 3a51-1 under the Exchange Act. "Penny stocks" are subject to Rule 15g-9, which imposes additional sales practice requirements on broker-dealers that sell low-priced securities to persons other than established customers and institutional accredited investors. For transactions covered by this rule, a broker-dealer must make a special suitability determination for the purchaser and have received the purchaser's written consent to the transaction prior to sale. Consequently, the rule may affect the ability of broker-dealers to sell our Ordinary Shares and affect the ability of holders to sell their Ordinary Shares in the secondary market. To the extent our share is subject to the penny stock regulations, the market liquidity for the Ordinary Shares will be adversely affected.

We may need additional funds in the future and our share price could be adversely affected by future sales of our Ordinary Shares.

We experienced an immediate need to raise funds and on January 27, 2022, we entered into the Nayax Loan, which, according to the Merger Agreement, will, following the completion of the Merger, become our parent company. Under the Loan Agreement we received from Nayax a loan in the amount of $5,500,000, or the Nayax Loan Amount. Non-completion of the Merger would be considered an "event of default" under the Nayax Loan Agreement, which can result in Nayax's requirement for an immediate repayment of the Nayax Loan Amount, or an increase of the annual interest on the Nayax Loan Amount from 10% to 16%, at Nayax's sole discretion. At any time after the earlier of (i) an event of default, as contemplated in the Nayax Loan Agreement, or (ii) the completion of the Merger Agreement, and prior to the repayment of the Nayax Loan Amount, Nayax is entitled, at its sole discretion, to convert the Nayax Loan Amount into ordinary shares of the Company at a price per share equal to $0.043. Failure to complete the Merger could create, among other things discussed above, dilution to the existing shareholders.

Our shareholders could experience dilution of their ownership interest by reason of our issuing more shares.

Under Israeli law, shareholders in public companies do not have preemptive rights unless those rights are provided pursuant to a contract. This means that generally our shareholders do not have the legal right to purchase shares in a new issue before they are offered to third parties. However, pursuant to the terms and provisions of the share purchase agreement, or the Share Purchase Agreement, dated December 23, 2019, Ivy has a right to purchase any future equity securities offered by us, except with respect to certain exempt issuances as set forth in the Share Purchase Agreement. As a result, our shareholders could experience dilution of their ownership interest by reason of our raising additional funds through the issuance of Ordinary Shares.

We do not anticipate paying cash dividends in the foreseeable future.

We have never declared or paid cash dividends on our Ordinary Shares, and we do not anticipate paying cash dividends in the foreseeable future. Any return to investors is expected to come, if at all, only from potential increases in the price of our Ordinary Shares. The payment of any dividends by the Company is solely at the discretion of our Board and based on the conditions set forth in the Israeli Companies Law, 1999, or the Companies Law.

Risks Related to Conducting Business in Israel

Provisions of Israeli law may make it easy for our shareholders to demand that we convene a shareholders meeting, and/or allow shareholders to convene a shareholder meeting without the consent of our management, which may disrupt our management's ability to run our company.

Section 63(b) of the Companies Law may allow any one or more of our shareholders holding at least 5% of our voting rights to demand that we convene an extraordinary shareholders meeting. Also, in the event that we choose not to convene an extraordinary shareholders meeting pursuant to such a request, Sections 64-65 of the Companies Law provide, among others, that such shareholders may independently convene an extraordinary shareholders meeting within three months (or under court's ruling) and require us to cover the costs, within reason, and as a result thereof, our directors might be required to repay us such costs. If our shareholders decide to exercise these rights in a way inconsistent with our management's strategic plans, our management's ability to run our company may be disrupted, and this process may entail significant costs to us.

Potential political, economic and military instability in the State of Israel, where our senior management and a majority of our facilities are located, may adversely affect our results of operations.

Our headquarters and principal offices, and a substantial portion of our operations, are located in the State of Israel. In addition, all of our officers are residents of Israel, Accordingly, political, economic and military conditions in Israel directly affect our business.

Any hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners, or a significant downturn in the economic or financial condition of Israel, could affect adversely our operations. Ongoing and revived hostilities or other Israeli political or economic factors could harm our operations, product development and results of operations.

Although Israel has entered into various agreements with Egypt, Jordan, the Palestinian Authority and with various states in the Persian Gulf, there has been a continuous unrest and terrorist activity with varying levels of severity, the most recent of which was the armed conflict with Hamas in May 2021. In addition, Israel faces threats from more distant neighbors, in particular, Iran. Our insurance policies do not cover us for the damages incurred in connection with these conflicts or for any resulting disruption in our operations. The Israeli government, as a matter of law, provides coverage for the reinstatement value of direct damages that are caused by terrorist attacks or acts of war; however, the government may cease providing such coverage or the coverage might not be enough to cover potential damages. In the event that hostilities disrupt the ongoing operation of our facilities or the airports and seaports on which we depend to import and export our supplies and products, our operations may be materially adversely affected.

Several countries, principally in the Middle East, still restrict doing business with Israel and Israeli companies, and additional countries may impose restrictions on doing business with Israel and Israeli companies, whether as a result of hostilities in the region or otherwise. In addition, there have been increased efforts by activists to cause companies, research institutions and consumers to boycott Israeli goods and cooperation with Israeli-related entities based on Israeli government policies. Such actions, particularly if they become more widespread, may adversely impact our ability to cooperate with research institutions and collaborate with other third parties. Any hostilities involving Israel, any interruption or curtailment of trade or scientific cooperation between Israel and its present partners, or a significant downturn in the economic or financial condition of Israel could adversely affect our business, financial condition and results of operations. We may also be targeted by cyber terrorists specifically because we are an Israeli-related company.

Finally, many Israeli citizens are obligated to perform several days, and in some cases more, of annual military reserve duty each year until they reach the age of 40 (or older, for reservists who are military officers or who have certain occupations) and, in the event of a military conflict, may be called to active duty. In response to increases in terrorist activity, there have been periods of significant call-ups of military reservists. It is possible that there will be military reserve duty call-ups in the future. Our operations could be disrupted by such call-ups, which may include the call-up of members of our management. Such disruption could materially adversely affect our business, prospects, financial condition and results of operations.

The Israeli government programs in which we currently participate, and the Israeli tax benefits we are currently entitled to, require us to meet several conditions, and they may be terminated or reduced in the future. This could increase our costs and/or our taxes.

We are entitled to certain tax benefits under Israeli government programs, largely as a result of the “Approved Enterprise” status granted to some of our capital investment programs by the Israeli Ministry of Finance, and due to eligibility of tax benefits under the “Preferred Enterprise” routes. These benefits include tax exemption or reduced tax rates. Without such benefits, our taxable income would be taxed at the regular corporate tax rate (23% in 2021). To maintain our eligibility for these tax benefits, we must continue to meet conditions, including making specified investments in property, plant, and equipment and maintaining a certain minimum level of export sales. We cannot assure that we will continue to be eligible for these tax benefits at the same rate or at all. The termination or reduction of these programs and tax benefits could increase our taxes, once we become profitable, and could have a material adverse effect on our business.

Because we received grants from the Israeli Innovation Authority, we are subject to ongoing restrictions relating to our business.

In the past, we have received royalty-bearing grants from the Israeli Innovation Authority (formerly the Office of the Chief Scientist of the Israeli Ministry of Economy), or the IIA, for research and development of certain of our products. We are obligated to pay royalties with respect to the grants that we received. In addition, the terms of the IIA grants limit our ability to manufacture products or transfer technologies outside of Israel if such products or technologies were developed using know-how developed with or based upon IIA grants. Pursuant to the Israeli Encouragement of Research and Development in the Industry Law, we and any non-Israeli who becomes a holder of 5% or more of our share capital are generally required to notify the IIA and such non-Israeli shareholder is required to undertake to observe the law governing the grant programs of the IIA, the principal restrictions of which are the transferability limits described above.

The terms of grants we received from the Israeli government for certain of our research and development activities may require us, in addition to the payment of royalties, to satisfy specified conditions in order to manufacture products or transfer technologies outside of Israel. We may also be required to pay penalties in addition to repayment of the grants.

Our research and development efforts, during the period between 1999 and 2006, were financed in part through royalty-bearing grants that we received from the IIA. As of December 31, 2021, we received a total of approximately $7 million from the IIA. The total amount of grants received as of December 31, 2021, net of royalties paid, was approximately $3.4 million (including accrued interest). With respect to such grants, we are committed to pay the IIA royalties at a rate of 3%-3.5% from our sales, up to the total amount of grants received, linked to the dollar and bearing interest at an annual rate of LIBOR applicable to dollar deposits. The United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced in July 2017 that it will no longer persuade or require banks to submit rates for LIBOR after 2021. In September 2021, the Bank of Israel, which determines annual interest rates, published a directive which stated that annual interest at a variable rate linked to the LIBOR rate for loans in U.S. dollars will be replaced by the Secured Overnight Financing Rate, or the SOFR, in June 2023. It is not clear as of yet whether the IIA will replace the LIBOR with SOFR and when. While it is not currently possible to determine precisely whether, or to what extent, the replacement of LIBOR with SOFR would affect us, the implementation of SOFR may increase our financial liabilities to the IIA.

Even following full repayment of the IIA grants, we are required to comply with the requirements of the Israeli Encouragement of Industrial Research and Development Law, 5744-1984, and related regulations, or the Research Law. When a company develops know-how, technology or products using IIA grants, the terms of these grants and the Research Law restrict the transfer of such know-how, and the transfer of manufacturing or manufacturing rights of such products, technologies or know-how outside of Israel, without the prior approval of the IIA. Therefore, if aspects of our technologies are deemed to have been developed with IIA funding, the discretionary approval of an IIA committee would be required for any transfer to third parties outside of Israel of IIA-supported know-how or manufacturing or manufacturing rights related to those aspects of such technologies, and may result in payment of increased royalties (both increased royalty rates and increased royalty ceilings) and/or payment of additional amounts to the IIA. We may not receive such approvals. Furthermore, the IIA may impose certain conditions on any arrangement under which it permits us to transfer technology or development out of Israel (including for the purpose of manufacturing). Licensing IIA-supported technologies may, under certain circumstances, be considered a transfer of know-how and therefore may require approval as aforementioned.

The transfer of IIA-supported technology, manufacturing or manufacturing rights or know-how outside of Israel may involve the payment of additional amounts depending upon the value of the transferred technology or know-how, the amount of IIA support, the time of completion of the IIA-supported research project and other factors up to a maximum of six times the amount of the grants received. These restrictions and requirements for payment may impair our ability to sell our technology assets outside of Israel or to outsource or transfer development or manufacturing activities with respect to any product or technology outside of Israel.

Furthermore, the consideration available to our shareholders in a transaction involving the transfer outside of Israel of technology or know-how developed with IIA funding (such as a merger or similar transaction) may be reduced by any amounts that we are required to pay to the IIA.

Our obligations and limitations pursuant to the Research Law are not limited in time and may not be terminated by us at will.

It may be difficult to enforce a U.S. judgment against us, our officers and directors or to assert U.S. securities law claims in Israel.

We are incorporated in Israel. Some of our executive officers are not residents of the United States, and a substantial portion of our assets is located outside of the United States. Therefore, it may be difficult for an investor, or any other person or entity, to enforce a U.S. court judgment based upon the civil liability provisions of the U.S. federal securities laws in an Israeli court against us or any of these persons or to affect service of process upon these persons in the United States. Additionally, it may be difficult for an investor, or any other person or entity, to enforce civil liabilities under U.S. federal securities laws in original actions instituted in Israel.

Provisions of Israeli law may delay, prevent or make undesirable an acquisition of all or a significant portion of our shares or assets.

The Companies Law regulates acquisitions of shares through tender offers, requires special approvals for transactions involving shareholders holding 25% or more of a company's capital, and regulates other matters that may be relevant to these types of transactions. These provisions of Israeli law could have the effect of delaying or preventing a change in control and may make it more difficult for a third party to acquire us, even if doing so would be beneficial to our shareholders. These provisions may limit the price that investors may be willing to pay in the future for our Ordinary Shares. Furthermore, Israeli tax considerations may make potential transactions undesirable to us or to some of our shareholders.

General Risk Factors

Our Board and committees do not currently meet the requirements mandated under the Israeli Companies Law.

Due to the resignation of three members of the Board during December of 2021, including the resignation of an external director on December 26, 2021, the resignation of the Board's chairperson on December 28, 2021 and the resignation of an additional director on December 30, 2021, our Board's composition does not meet the Companies Law's requirements for a public company's composition of the board of directors. Section 114 of the Companies Law mandates that a public company is required to appoint an audit committee, while Section 115 of the Companies Law provides that the audit committee should be comprised of a minimum of three members, including all acting external directors of the board and at least a majority of independent directors. Section 115 also mandates that the chairman of the board will not be a member of the audit committee. Section 118A of the Companies Law further mandates a requirement for public companies to appoint a compensation committee, while applying the same requirements as to the composition thereof. Following the resignation of three members of the Board, there are only three members remaining on our Board, one of which was appointed chairman in accordance with the requirements of Section 94(a) of the Companies Law. Due to the fact that a chairman may not serve as a member of the audit or compensation committees, and that such committees must include two members who are external directors, while we have one external director only, the Board does not meet the Companies Law's requirements with respect to the structure of such committees.

In addition, Section 239(b) of the Companies Law determines that external directors of a public company shall be appointed at a general meeting of shareholders. Due to this requirement of Section 239(b), we are currently unable to appoint a replacement to the external director who resigned in order to bring ourselves to be in compliance with the requirements of the Companies Law. An additional factor which prevents us from being able to comply with requirements of the Companies Law is the fact that due to our financial state, the acting directors receive minimal compensation while they deal with a greater exposure to complaints relating to their fiduciary duties, which are duties of directors set under the Companies Law and the Israeli case law.

Furthermore, our Articles of Association provide under Article 4.2 that the number of the directors on the Board shall not be fewer than five. Article 4.2.11 provides that if the number of directors falls below the minimum number, the remaining directors shall be entitled to act solely in order to (i) fill in the vacant position, (ii) in order to convene a general meeting of the Company's shareholders or (iii) act to manage the Company's affairs solely in matters that cannot be delayed.

Due to the structural issues described above, we may not be able to pass certain resolutions that may be beneficial to us.

If we fail to hire, train and retain qualified research and development personnel, our ability to enhance our existing products, develop new products and compete successfully may be materially and adversely affected.

Our success depends, in part, on our ability to hire and train qualified research and development personnel. Individuals who have expertise in research and development in our industry are scarce. Competition for such personnel is intense, particularly in Israel. Consequently, hiring, training and retaining such personnel is time-consuming and expensive. If we fail to hire, train and retain employees with skills in research and development, we may not be able to enhance our existing products or develop new products.

Security breaches and system failures could expose us to liability, harm our business or result in the loss of customers.

We retain sensitive data, including intellectual property, books of record and personally identifiable information, on our networks. It is critical to our business strategy that our infrastructure and other infrastructure we use to host our solutions remain secure, do not suffer system failures and are perceived by customers and partners to be secure and reliable. Despite our security measures, our infrastructure and the third-party infrastructure we use to host our solutions may be vulnerable to attacks by hackers or other disruptive problems. Any security breach or system failure may compromise information stored on our networks. Such an occurrence could negatively affect our reputation as a trusted provider of the affected solutions.

Changes in international markets and difficulties with international operations could harm our business.

We derive revenues from different geographical areas. Our ability to maintain our position in existing markets and/or to penetrate new, regional and local markets is dependent, in part, on the stability of regional and local economies. Our regional sales may continue to fluctuate widely and may be adversely impacted by future political or economic instability in these or other foreign countries or regions.

In addition, there are inherent risks in these international operations which include, among others:

- changes in regulatory requirements and communications standards;
- changes in external political policies, such as embargos based on manufacturing origin;
- political and economic instability;
- required licenses, tariffs and other trade barriers;
- difficulties in enforcing IP rights across, or having to litigate disputes in, various jurisdictions;
- difficulties in staffing and managing international operations;
- potentially adverse tax consequences;
- the burden of complying with a wide variety of complex laws and treaties in various jurisdictions; and
- business interruptions resulting from geopolitical actions, including war and terrorism (as well as the current conflict between Russia and Ukraine), or natural disasters including the recent spread of the coronavirus, earthquakes, typhoons, floods, and fires.

If we are unable to manage the risks associated with our focus on international sales, our business may be harmed.

Currency fluctuations could adversely affect our results of operations.

We generate a significant portion of our revenues in U.S. Dollars, but we incur some of our expenses in other currencies. Our principal non-U.S. Dollar expenses are for Israeli employees' salaries, which are in New Israeli Shekels, or NIS. Our subsidiary in Poland, OTI Europa Sp.z.o.o incurs expenses in Polish Zloty and our subsidiary in South Africa, OTI PetroSmart, incurs expenses in South African Rand. To the extent that we and our subsidiaries conduct our business in different currencies, our revenues and expenses and, as a result, our assets and liabilities, are not necessarily accounted for in the same currency. We are therefore exposed to foreign currency exchange rate fluctuations. These fluctuations may negatively affect our results of operations. Our operations could also be adversely affected if we are unable to limit our exposure to currency fluctuations in the future.

To mitigate the risk of financial exposure to fluctuations in the exchange rate of the U.S. Dollar against the NIS or other currencies, we may enter into currency hedging transactions. However, these measures may not adequately protect us from material adverse effects resulting from currency fluctuations. In addition, if we wish to maintain the U.S. Dollar-denominated value of sales made in other currencies, any devaluation of the other currencies relative to the U.S. Dollar would require us to increase our other currency denominated selling prices which could negatively affect our sales.

The general economic outlook may adversely affect our business.

Our operations and performance depend on worldwide economic conditions and their impact on levels of business and public spending. Fluctuations or downturns in global or regional economies may adversely affect the budgeting and purchasing behavior of our customers and our potential customers, including shifting customers' purchasing patterns to lower-cost options, which could adversely affect our product sales.

In addition, uncertainties in financial and credit markets may adversely affect the ability of our customers, suppliers, distributors and resellers to obtain financing for significant purchases and operations and to fulfill their contractual obligations with us. As a result, we could encounter, among other adverse effects, a decrease in or cancellation of orders for our products, and an increase in additional reserves for uncollectible accounts receivable being required.

We may be adversely affected by the effects of inflation.

Inflation has the potential to adversely affect our business, results of operations, financial position and liquidity by increasing our overall cost structure, particularly if we are unable to achieve commensurate increases in the prices we charge our customers. The existence of inflation in the economy has the potential to result in higher interest rates and capital costs, supply shortages, increased costs of labor and other similar effects. As a result of inflation, we have experienced and may continue to experience, increases in our costs associated with operating our business including labor, equipment and other inputs. Although we may take measures to mitigate the impact of this inflation through pricing actions, if these measures are not effective our business, results of operations, financial position and liquidity could be materially adversely affected. Even if such measures are effective, there could be a difference between the timing of when these beneficial actions impact our results of operations and when the cost inflation is incurred. Additionally, the pricing actions we take could result in loss of customers or a decrease in sales.

We may fail to maintain effective internal control in accordance with Section 404 of the Sarbanes-Oxley Act of 2002.

The Sarbanes-Oxley Act of 2002 imposes certain duties on us and our executives and directors. Our efforts to comply with the requirements of the Sarbanes-Oxley Act, and in particular with Section 404, have resulted in increased general and administrative expenses and a diversion of management time and attention, and we expect these efforts to require the continued commitment of resources. 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 control over financial reporting. Although our management has determined that we had effective internal control over financial reporting as of December 31, 2021, we may identify material weaknesses or significant deficiencies in our future internal control over financial reporting. In addition, as a smaller reporting company, our internal control over financial reporting is not required to be audited by our independent registered public accounting firm. 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.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

We lease approximately 700 square meters in Yokneam, Israel, which serves as our headquarters. This lease expires on January 31, 2025 with an option of a 5-year extension which shall begin on February 1, 2025 and ends on January 31, 2030. We also lease approximately 250 square meters in Rosh Pina, Israel, where our research and development functions are located. This lease will expire on August 30, 2023 subject to three one-year options of extension.

We believe that the current space we have is adequate to meet our current and near future needs.

Item 3. Legal Proceedings.

For information with respect to legal proceedings to be disclosed under this Item, see Note 10E to the consolidated financial statements contained in “Item 8. Financial Statements and Supplementary Data” of this Annual Report.

Item 4. Mine Safety Disclosures.

Not Applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our Ordinary Shares are quoted on the OTCQX Market under the symbol “OTIVF”. As detailed under Item 1 above, we received a notice from the OTC Markets Group stating that we failed to meet the standards for continued qualification for the quotation of our shares on the OTC Markets. If we fail to meet the OTC Market’s criteria within 180 days from the date of the notice, our securities will be moved from the OTCQX International to OTC Pink.

Record Holders

Based on a review of the information provided to us by our transfer agent, as of April 4, 2022, there were 22 holders of record of our Ordinary Shares. This number may not be representative of the actual number of beneficial holders of our shares since many of our Ordinary Shares are held of record by brokers or other nominees.

Item 6. [Reserved].

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

This discussion and analysis should be read in conjunction with our consolidated financial statements and notes thereto contained in “Item 8. Financial Statements and Supplementary Data” of this Annual Report.

Overview

We are a leading developer of contactless payment solutions, NFC technology based, for the unattended market. We have been a technology leader since 1990, providing systems, devices and services to operators and integrators with solutions and components that are simple to implement.

To date, we have deployed over one million payment solutions to our focused unattended markets: self-service kiosk, micro-markets and vending machines, entertainment and gaming, ATM, Mass Transit Ticketing Validation, and fuel payments.

We operate through regional offices, supporting clients and payment industry partners with its unique contactless payment solutions.

On April 21, 2021, we sold our Polish subsidiary, ASEC S.A., or ASEC, including our Mass Transit Ticketing activity in Poland. The consideration for the sale of ASEC was equal to $3,000,000, of which approximately $2,100,000 was used to repay Polish bank loans, and which was reduced by an agreed amount of approximately $300,000 due to working capital adjustments. Following this sale of ASEC, we now operate in two segments (1) Retail, and (2) Petroleum.

On January 10, 2022, we filed a petition, or the Petition, with the Israeli county court of Nazareth, or the Court, seeking protections from our creditors in accordance with the Israeli Insolvency and Economic Rehabilitation Law-2018, after our Board determined that we are insolvent from a cash flow perspective.

On January 19, 2022 we entered into a binding term sheet, or the Term Sheet, with Nayax. The Term Sheet provides that we and Nayax will enter into a two-step transaction relating to (i) Nayax extending to us a senior secured convertible loan, or the Nayax Loan; and (ii) the purchase by Nayax of 100% of our share capital in consideration for $4,500,000. Consequently to the entry into the Term Sheet, and at our request, the Court dismissed the Petition.

On January 27, 2022, we entered into a definitive agreement and debenture relating to the Nayax Loan. On March 17, 2022, we entered into an Agreement and Plan of Merger, or the Merger Agreement, with Nayax and OTI Merger Sub Ltd., an Israeli company, wholly owned by Nayax, or Merger Sub, pursuant to which Merger Sub will merge with and into our company, with our company surviving as a direct wholly-owned subsidiary of Nayax, in exchange for $4,500,000 in cash.

We were incorporated under the laws of the State of Israel on February 15, 1990, under the name of De-Bug Innovations Ltd., with unlimited duration. Our name was changed to On Track Innovations Ltd. on July 8, 1991. We are registered with the Israeli Registrar of Companies, under registration number 52-004286-2 and our Ordinary Shares are currently quoted on the OTCQX® market, or OTCQX, under the symbol OTIVF.

Year ended December 31, 2021, compared to year ended December 31, 2020

Sources of Revenue

We have historically derived a substantial majority of our revenues from the sale of our products, including both complete systems and original equipment manufacturer components. In addition, we generate revenues from licensing and transaction fees, and also, less significantly, from engineering services, customer services, and technical support. During the past two years, the revenues that we have derived from sales and from licensing and transaction fees have been as follows (in thousands):

	Year ended December 31,	
	2021	**2020**
Sales	$ 13,278	$ 11,392
Software as a Service (SaaS)	$ 1,597	$ 1,350
Total revenues	$ 14,875	$ 12,742

Sales. Sales increased by $2.1 million, or 17%, in 2021 compared to 2020. The increase in 2021 compared to 2020, is mainly attributed to an increase in Retail sales in the Americas and Europe, partially offset by a decrease in sales of Retail products in APAC.

SaaS. Software as a service, or SaaS, revenues include monthly payments for a set of different software applications such as Terminal Management Systems, Payment gateway, and other software applications for the Retail segment, and a separate set of applications for fuel management systems supporting the Petroleum segment. The increase of $247,000 in 2021, or 18%, compared to 2020, is mainly attributed to an increase in our revenues in both segments, mainly in our Retail segment.

We have historically derived revenues from different geographical areas. The following table sets forth our revenues, by dollar amount (in thousands) and as a percentage of annual revenues in different geographical areas, during the past two years:

Year ended December 31,	**Americas**		**Europe**		**Africa**		**APAC**	
2021	$ 7,202	49%	$ 4,335	29%	$ 1,502	10%	$ 1,836	12%
2020	$ 4,574	36%	$ 4,233	33%	$ 1,520	12%	$ 2,415	19%

Our revenues from sales in the Americas increased by $2.6 million, or 57%, in 2021 compared to 2020, mainly due to an increase in Retail sales to the United States market. Our revenues from sales in Europe increased by $102,000, or 2%, in 2021 compared to 2020, mainly due to an increase in Retail sales. Our revenues from sales in Africa remained consistent. Our revenues from sales in APAC decreased by $579,000, or 24%, in 2021 compared to 2020, mainly due to a decrease in Retail sales.

Our revenues derived from territories outside the United States, which are primarily received in currencies other than the U.S. Dollar, have a varying impact upon our total revenues, as a result of fluctuations in such currencies' exchange rates versus the U.S. Dollar.

Due to the conflict between Russia and Ukraine, and in light of sanctions imposed by certain countries on Russia, our Board guided our management to halt sales to Russian customers. As a result, our revenues will be adversely impacted.

The following table sets forth our revenues, by dollar amount (in thousands) and as a percentage of annual revenues by segments, during the past two years:

Year ended December 31,	**Retail**			**Petroleum**		
2021	$	12,223	82%	$	2,652	18%
2020	$	10,174	80%	$	2,568	20%

Revenues in 2021 from the Retail segment increased by $2.0 million, or 20%, compared to 2020, mainly attributed to an increase in Retail sales in APAC, the United States and Europe. Revenues in 2021 from the Petroleum segment decreased by $84,000, or 3%, compared to 2020, mainly due to a decrease in Petroleum sales in Africa.

Cost of Revenues and Gross Margin

Our cost of revenues, presented by gross profit and gross margin percentage, for each of the past two years has been as follows (dollar amounts in thousands):

	Year ended December 31,			
Cost of revenues	**2021**		**2020**	
Cost of sales	$	10,848	$	7,641
Gross profit	$	4,027	$	5,101
Gross margin percentage		27%		40%

Cost of sales. Cost of sales consists primarily of materials, as well as salaries, fees to subcontractors and related costs of our technical staff that assemble our products. The cost of sales in 2021 compared to 2020 increased by $3.2 million, or 42%, that resulted primarily from an increase in sales and an increase in the cost of components due to a global components shortage as a result of the COVID-19 pandemic.

Gross margin. The decrease in gross margin in 2021 compared to 2020, is mainly attributed to an increase of cost of components due to a global shortage of components as part of the impact of the COVID-19 pandemic.

Operating expenses

Our operating expenses for each of the past two years have been as follows (in thousands):

	Year ended December 31,			
Operating expenses	**2021**		**2020**	
Research and development	$	3,718	$	3,531
Selling and marketing	$	2,893	$	3,233
General and administrative	$	3,383	$	3,017
Total operating expenses	$	9,994	$	9,781

Research and development. Our research and development expenses consist primarily of the salaries and related expenses of our research and development staff, as well as subcontracting expenses and depreciation of long-lived assets. The increase of $187,000, or 5%, in 2021 compared to 2020, is primarily attributed to an increase in expenses relating to employees.

Selling and marketing. Our selling and marketing expenses consist primarily of salaries and substantially all the expenses of our sales and marketing and offices in the United States, South Africa, Europe and Israel, as well as expenses related to advertising, professional expenses and participation in exhibitions and tradeshows and doubtful accounts expenses. The decrease of $340,000, or 11%, in 2021 compared to 2020, is primarily attributed to a decrease in employment expenses and provision for doubtful accounts.

General and administrative. Our general and administrative expenses consist primarily of salaries and related expenses of our executive management and financial and administrative staff. These expenses also include costs of our professional advisors (such as legal and accounting), office expenses and insurance. The increase of $366,000, or 12%, in 2021 compared to 2020, is primarily attributed to an increase in professional expenses.

Financing expenses, net

Our financing expenses, net, for each of the past two years, have been as follows (in thousands):

	Year ended December 31,	
	2021	**2020**
Financial expenses deriving from a convertible short-term loan from shareholders	$ 3,748	$ 90
Other financial expenses, net	$ 387	$ 280
Financing expenses, net	$ 4,135	$ 370

Financing expenses consist primarily of interest payable on loans, bank commissions, foreign exchange losses and financial expenses deriving from a convertible short-term loan received from shareholders. Financing income consists primarily of foreign exchange gains and interest earned on investments in short-term deposits. The increase in financing expenses, net, of $3.7 million in 2021 compared to 2020 is mainly attributed to transaction expenses related to a convertible short-term loan received from shareholders, partially offset by exchange rate differentials.

Income tax benefit, net

Our income tax benefit, net for each of the past two years, have been as follows (in thousands):

	Year ended December 31,	
	2021	**2020**
Income tax benefit, net	$ 13	$ 10

The increase in our tax benefit, net, of $3,000, or 30%, in 2021 compared to 2020 is mainly attributed to income tax benefit due to previous years as recognized by our South African subsidiary in 2020.

Net loss from continuing operations

Our net loss from continuing operations for each of the past two years has been as follows (in thousands):

	Year ended December 31,	
	2021	**2020**
Net loss from continuing operations	$ 10,089	$ 5,040

The increase of net loss from continuing operations of $5.0 million , or 200%, in 2021 compared to 2020 is mainly due to an increase in non-cash financing expenses relating to the loan provided by shareholders, and to a lesser degree due to a decrease in gross profit that resulted primarily from an increase in components costs which derives from a global components shortage caused due to the impact of the COVID-19 pandemic, partially offset by a decrease in operating expenses.

Net loss from discontinued operations

Our net loss from discontinued operations for each of the past two years has been as follows (in thousands):

	Year ended December 31,	
	2021	2020
Net loss from discontinued operations	$ (1,570)	$ (1,093)

Our net loss from discontinued operations for the reporting periods are presented in the statements of operations as discontinued operations separately from continuing operations. The increase in the net loss from discontinued operations of $477,000, or 44% in 2021, compared to 2020, is mainly due to a re-classification of an amount of $746,000 of exchange differences on translation from other comprehensive loss to net loss from discontinued operations made due to completion of the sale of ASEC, and net expenses relating to the settlement of the litigation with Merwell Inc. and SuperCom Ltd.

Net loss

Our net loss for each of the past two years has been as follows (in thousands):

	Year ended December 31,	
	2021	2020
Net loss	$ (11,659)	$ (6,133)

The increase of $5.5 million, or 90%, in net loss in 2021 compared to 2020, is mainly due to an increase in non-cash financing expenses derived from the loan provided by shareholders, an increase in loss from discontinued operations and to a lesser degree due to a decrease in gross profit that resulted primarily from an increase in components costs derived from a global components shortage as part of the impact of the COVID-19 pandemic, partially offset by a decrease in operating expenses.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States. Accordingly, we are required to make certain estimates, judgments and assumptions that we believe are reasonable based on the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and results of operations. To fully understand and evaluate our reported financial results, we believe it is important to understand our revenue recognition policy, our policy with respect to discontinued operations and our policy with respect to contingent consideration.

Revenue recognition. We generate revenues from our product sales manufactured based on our technology. In addition, we generate revenues from the technology we developed through transaction fee arrangements and licensing agreements. Revenues are also generated from non-recurring engineering, customer services and technical support. Based on Accounting Standards Update, or ASU, 2014-09, *Revenue from Contracts with Customer*, we recognize revenue when we satisfy a performance obligation by transferring control over a product or service to a customer.

Our cost of warranty that the product will perform according to certain specifications and that we will repair or replace the product if it ceases to work properly, is insignificant and is treated according to accounting guidance for contingencies.

Discontinued operations. Upon divestiture of a business, the Company classifies such business as a discontinued operation, if the divested business represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results.

For disposals other than by sale such as abandonment, the results of operations of business would not be recorded as a discontinued operation until the period in which the business is actually abandoned.

We have concluded that the divestiture of the SmartID division and the Mass Transit Ticketing activity qualify as discontinued operations and therefore have been presented as such.

The results of businesses that have qualified as discontinued operations have been presented as such for all reporting periods. Results of discontinued operations include all revenues and expenses directly derived from such businesses; general corporate overhead is not allocated to discontinued operations.

Any loss or gain that arose from the divestiture of a business that qualifies as discontinued operations have been included in the results of the discontinued operations.

We also present cash flows from discontinued operations separately from cash flows of continuing operations.

Assets and liabilities of discontinued operations that have not yet been actually sold are presented on the balance sheet in one line item. Assets and liabilities of such discontinued operations are not offset and are presented as such only for the current year balance sheet.

Contingent consideration. Certain sale arrangements consist of contingent consideration based on the divested business future sales or profits. We record the contingent consideration portion of the arrangement when the consideration is determined to be realizable.

Liquidity and Capital Resources

Since inception, our principal sources of liquidity have been revenues, proceeds from sales of equity securities, borrowings from banks, the Israeli government and shareholders, including convertible loans, proceeds from the exercise of options, and warrants as well as proceeds from the divestiture of parts of our businesses. We had cash, cash equivalents and short-term investments representing bank deposits of $815,000, as of December 31, 2021. As of December 31, 2021, we also have a payable balance on our short-term bank loan, that is due within the next 12 months of approximately $2.1 million and a convertible short-term loan from shareholders (including a controlling shareholder) including accrued interest, of approximately $1.7 million. On January 10, 2022, we filed the Petition with the Court seeking protections from our creditors in accordance with the Israeli Insolvency and Economic Rehabilitation Law-2018, after our Board determined that we are insolvent from a cash flow perspective. However, following the signing of the agreement relating to the Nayax Loan, such Petition was dismissed and all amounts due under the convertible loan from shareholders (including our controlling shareholder) and the bank loan, were paid in full. Subsequent to the balance sheet date, we received the new convertible loan from Nayax in the amount of $5.5 million. In addition, Nayax has provided us with a full guarantee for a $2.0 million short-term loan provided to us by a bank which bears an annual interest rate of SOFR plus 2.45%, which is being rolled over on a monthly basis (i.e., repaid and re-provided on a monthly basis), and additional guarantees to our suppliers and subcontractors to allow us to maintain our ongoing production and sale of our products.

The situation in Poland resulting from the COVID-19 pandemic, led to an almost complete stop to our Mass Transit Ticketing sales business, which negatively impacted our cash flow. On April 21, 2021, we completed the sale of ASEC, including our Mass Transit Ticketing activity.

In the event where the Merger is not completed, under certain circumstances, we will be required to pay Nayax a termination fee of $1.5 million. Furthermore, non-completion of the merger would be considered an "event of default" under the Nayax Loan Agreement, which can result in Nayax's requirement for an immediate repayment of the Nayax Loan Amount, or an increase of the annual interest on the Nayax Loan Amount from 10% to 16% interest, at Nayax's sole discretion. We will also be required to repay the bank loan provided with Nayax's guarantee and would be exposed to a risk of not being able to conduct our business due to the loss of the guarantees provided by Nayax to our suppliers and subcontractors. Based on the projected cash flows and our cash balances as of December 31, 2021, we believe that without: (1) the completion of the Merger and increase of our cash by receiving additional loans from Nayax (at Nayax's sole discretion) under the terms set under the Nayax Loan Agreement; or (2) other increase in our cash, we will not have sufficient resources to enable us to continue our operations for a period of at least the next 12 months, and may need to commence insolvency proceedings. As a result, there is a substantial doubt regarding our ability to continue as a going concern.

In connection with the outbreak of COVID-19, we have taken steps to protect our workforce in Israel, the United States, Poland, South Africa and elsewhere. Such steps include working from home where possible, minimizing face-to-face meetings, utilizing video conferencing as much as possible, social distancing at facilities and elimination of most international travel. We continue to comply with all local health directives.

The global shortage in components, which caused an increase in components prices, freight cost and longer lead-time, created a delay in fulfilling customers' orders, which impacted our revenues and product gross margin, mainly in the Retail segment. As a response to this business environment, we encouraged our customers to provide a forecast for their demand. We continue to maintain a comprehensive network of world-wide suppliers in order to optimize our access to critical components. As long as the COVID-19 pandemic continues, and possibly also thereafter, the components' lead-time may be longer than normal and the shortage in components may continue or get worse.

It is difficult to predict with certainty what other impacts the COVID-19 pandemic may have on us.

As of December 31, 2021, our and certain of our subsidiaries' manufacturing facilities and certain equipment have been pledged as security in respect of a loan received from a bank. Our short-term deposits in the amount of $105,000 have been pledged as security in respect of guarantees granted. Such deposits cannot be pledged to others or withdrawn without the consent of the bank.

As of December 31, 2021, we granted a guarantee to the lessor of our headquarters in Israel in amount of $112,540 whose expiration date is May 2024.

For the years ended December 31, 2021 and December 31, 2020, we had a negative cash flow from continuing operations of $5.6 million and $1.9 million, respectively.

Operating activities related to continuing operations

For the year ended December 31, 2021, net cash used in continuing operating activities was $5.6 million primarily due to a $10.1 million net loss from operating activities, a $2.3 increase in trade receivables, a $727,000 increase in inventories, a $438,000 increase in other receivables and prepaid expenses, a $61,000 change in accrued interest and linkage differences, net, $13,000 of deferred tax benefits, net, and a $13,000 change in accrued severance pay, net, partially offset by $3.7 million of transaction expenses related to a convertible short-term loan received from shareholders, a $3.0 million increase in trade payables, a $766,000 increase in other current liabilities, $378,000 of depreciation and amortization, and a $100,000 non-cash expense due to stock-based compensation issued to employees and others.

For the year ended December 31, 2020, net cash used in continuing operating activities was $1.9 million primarily due to a $5.0 million net loss from operating activities, a $212,000 decrease in other current liabilities and a $36,000 of deferred tax benefits, net, partially offset by a $1.0 million increase in trade payables, a $989,000 decrease in trade receivables, a $541,000 decrease in inventories, $419,000 of depreciation and amortization, a $115,000 decrease in other receivables and prepaid expenses, a $110,000 change in accrued interest and linkage differences, net, $90,000 of transaction expenses related to convertible short-term loan received from Ivy, a $67,000 non-cash expense due to stock-based compensation issued to employees and others and a $65,000 change in accrued severance pay, net.

Investing and financing activities related to continuing operations

For the year ended December 31, 2021, net cash used in continuing investing activities was $247,000, due to purchases of property and equipment and intangible assets.

For the year ended December 31, 2020, net cash provided by continuing investing activities was $1.8 million, mainly due to a $2.2 million net change in short-term investments, partially offset by $407,000 of purchases of property and equipment and intangible assets.

For the year ended December 31, 2021, net cash provided by continuing financing activities was $3.9 million, mainly due to $3.2 million in proceeds from the issuance of ordinary shares as part of a rights offering, net of issuance costs, a $923,000 convertible short-term loan received from our controlling shareholder, net of transaction costs, and a $18,000 long-term loan received, partially offset by a $174,000 decrease in short-term bank credit, net, and a $7,000 repayment of long-term bank loans.

For the year ended December 31, 2020, net cash provided by continuing financing activities was $1.7 million, mainly due to $1.4 million in proceeds from the issuance of Ordinary Shares, net of issuance costs, and a $578,000 convertible short-term loan received from our controlling shareholder, net of transaction costs, partially offset by a $215,000 decrease in short-term bank credit, net, and $7,000 repayment of long-term bank loans.

We raised additional funds and increased our cash, cash equivalents and long-term investments in a gross amount of $3.3 million by closing a rights offering, or the Rights Offering, on May, 19, 2021, under which we offered our existing shareholders to purchase additional ordinary shares in consideration for a lower exercise price than the quoted share price in the active market. The Rights Offering was oversubscribed and generated $3.3 million in gross proceeds. The issuance costs derived for the Rights Offering were approximately $128,000. As part of the Rights Offering, we issued an aggregate of 18,965,516 ordinary shares for $0.174 per share.

As contemplated by the Nayax Loan Agreement, the Nayax Loan is subject to 10% interest per year, and the accumulated interest and value added tax, if any, is payable quarterly commencing on April 1, 2022. The Nayax Loan matures on the second anniversary of the closing of the Nayax Loan Agreement and we are not permitted to prepay it. At any time after the earlier of (i) an Event of Default (as defined under the Nayax Loan Agreement) or (ii) the completion of the Merger Agreement, and prior to the repayment of the Nayax Loan, Nayax is entitled, at its sole discretion, to convert the Nayax Loan into our ordinary shares at a price per share equal to $0.043.

On March 1, 2022, we received the U-Bank Loan in the amount of $2 million for which Nayax provided us with a full guarantee, which bears an annual interest rate of a SOFR plus 2.45%, which is being rolled over on a monthly basis (i.e., repaid and re-provided on a monthly basis).

Operating, Investing and financing activities related to discontinued operations

For the year ended December 31, 2021, net cash used in discontinued operating activities was $2.1 million, mainly related to a payment of $2.0 million to Merwell Inc., as part of a settlement agreement.

For the year ended December 31, 2020, net cash used in discontinued operating activities was $2.1 million, mainly related to the Mass Transit Ticketing operation, as well as an amount of $482,000 derived from a payment to Harel, an insurance company, due to a legal proceeding.

For the year ended December 31, 2021, net cash provided by discontinued investing activities was $2.9 million, mainly related to $1.6 million derived from a settlement with SuperCom Ltd., including earn-out consideration, and $2.7 million consideration for the sale of ASEC, partially offset by cash and cash equivalents as held by ASEC at the closing date of its sale.

For the year ended December 31, 2020, net cash used in discontinued investing activities was $948,000, mainly related to the purchase of property and equipment for the Mass Transit Ticketing activity.

For the year ended December 31, 2021, net cash used in discontinued financing activities was $380,000, related to repayment of a short-term bank loan for the Mass Transit Ticketing operations.

For the year ended December 31, 2020, net cash provided by discontinued financing activities was $1.2 million, mainly related to loans received for the Mass Transit Ticketing activity.

Market Risks

Market risks relating to our operations result primarily from changes in interest rates and currency fluctuations. In order to limit our exposure, we may enter, from time to time, into various non-speculative derivative transactions. Our objective is to reduce exposure and fluctuations in earnings and cash flows associated with changes in interest rates and foreign currency rates. We do not use financial instruments for trading purposes.

Interest Rate Risks

We are exposed to market risks resulting from changes in interest rates, primarily in connection with our loan obligations to banks. We do not currently use derivative financial instruments to limit exposure to interest rate risks. As of December 31, 2021, we had a short and long term loan obligations of $2,090,000 and $26,000, respectively, the vast majority of which are subject to variable interest rates. The carrying values of the loans are equivalent to or approximate their fair market value as they bear interest at approximate market rates.

Impact of Inflation and Currency Fluctuations

Our functional and reporting currency is the U.S. Dollar. We generate a certain portion of our revenues, and we incur some of our expenses in other currencies. As a result, we are exposed to the risk that the rate of inflation in countries in which we are active other than the United States will exceed the rate of devaluation of such countries' currencies in relation to the dollar or that the timing of any such devaluation will lag behind inflation in such countries. To date, we have been affected by changes in the rate of inflation or the exchange rates of other countries' currencies compared to the dollar, and we cannot assure you that we will not be adversely affected in the future.

The inflation was 2.8% in 2021 in Israel. The annual rate of deflation in Israel was 0.7% in 2020. The NIS revaluated against the U.S. Dollar by approximately 3.0% and 7.0% in 2021 and 2020, respectively.

Government of Israel Support Programs

Until 2005, we participated in programs offered by the IIA that supports research and development activities. From our inception through 2007, we received grants totaling approximately $7.0 million (excluding accrued interest) from the IIA, and as of December 31, 2021, we repaid approximately $6.0 million in respect of refundable projects. Under the terms of these programs, a royalty of 3%-3.5% of the sales of products must be paid to the IIA, beginning with the commencement of sales of products developed with grant funds and ending when the dollar value of the grant (including interest based on annual rate of LIBOR applicable to dollar deposits) is repaid. In 2006, we decided to cease our participation with the IIA.

Royalties payable with respect to grants received under programs approved after January 1, 1999, however, will be subject to interest on the dollar-linked value of the total grants received at an annual rate of LIBOR applicable to dollar deposits. As of December 31, 2021, we have received a total of $3.4 million from the IIA net of royalties paid to it (or accrued for).

Local Manufacturing Obligation

The terms of the Encouragement of Research, Development and Technological Innovation in the Industry Law, 5744-1984 (formerly known as the Law for the Encouragement of Research and Development in Industry 5744-1984), and the regulations, guidelines, rules, procedures and benefit tracks thereunder, collectively, the Innovation Law, also require that the manufacturing of products developed with government grants be performed in Israel unless the IIA has granted special approval. Such approval is not required for the transfer of up to 10% of the manufacturing capacity in the aggregate, in which case a notice must be provided to the IIA and not objected to by the IIA within 30 days of such notice. If the IIA consents to the manufacture of the products outside of Israel, we may be required to pay increased royalties, ranging from 120% to 300% of the amount of the IIA grant, depending on the percentage of foreign manufacture.

These restrictions continue to apply even after we have paid the full amount of royalties payable with respect of the grants. Based upon the aggregate grants received to date, we expect that we will continue to pay royalties to the IIA to the extent of our sales of our products and related services for the foreseeable future. Separate IIA consent is required to transfer to third-parties technologies developed through projects in which the government participates. These restrictions do not apply to exports from Israel of products developed with these technologies.

Know-How Transfer Limitation

The Innovation Law restricts the ability to transfer know-how funded by the IIA outside of Israel. Transfer of IIA funded know-how outside of Israel requires prior approval of the IIA and may be subject to payments to the IIA, calculated according to formulae provided under the Innovation Law. The redemption fee is subject to a cap of six times the total amount of the IIA grants, plus interest accrued thereon (i.e. the total liability to the IIA, including accrued interest, multiplied by six). If we wish to transfer IIA funded know-how, the terms for approval will be determined according to the nature of the transaction and the consideration paid to us in connection with such transfer.

Approval of transfer of IIA funded know-how to another Israeli company may be granted only if the recipient abides by the provisions of the Innovation law and related regulations, including the restrictions on the transfer of know-how and manufacturing rights outside of Israel.

Change of Control

Any non-Israeli citizen, resident or entity that, among other things, (i) becomes a holder of 5% or more of our share capital or voting rights, (ii) is entitled to appoint our directors or our chief executive officer or (iii) serves as one of our directors or as our chief executive officer (including holders of 25% or more of the voting power, equity or the right to nominate directors in such direct holder, if applicable) is required to notify the IIA and undertake to comply with the rules and regulations applicable to the grant programs of the IIA, including the restrictions on transfer described above.

Approval to manufacture products outside of Israel or consent to the transfer of IIA funded know-how, if requested, is within the discretion of the IIA. Furthermore, the IIA may impose certain conditions on any arrangement under which it permits us to transfer IIA funded know-how or manufacturing out of Israel.

The consideration available to our shareholders in a future transaction involving the transfer outside of Israel of know-how developed with IIA funding (such as a merger or similar transaction) may be reduced by any amounts that we are required to pay to the IIA.

Further Updates Relating to the IIA Grants

We have a dispute with the IIA in the amount of approximately NIS 3.6 million ($1.1 million) including accrued interest (while the current debt to the IIA as presented in our financial statements amounts to approximately $180,000) due to a claim of the IIA about miscalculations in the amount of royalties paid by us and the revenues on which we must pay royalties. We have not yet completed our discussions with the IIA and intend to exhaust all options in order to resolve this matter in a favorable manner. We believe that, at the current stage, it is more likely than not that a positive resolution will be applied to this dispute. Accordingly, no additional accrual has been recorded in the financial statements in respect of this matter.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 8. Financial Statements and Supplementary Data.

Our financial statements are stated in thousands of United States dollars and are prepared in accordance with U.S. GAAP.

The following audited consolidated financial statements are filed as part of this Annual Report on Form 10-K:

Report of Independent Registered Public Accounting Firm, dated April 13, 2022.

Consolidated Balance Sheets.

Consolidated Statements of Operations.

Consolidated Statements of Comprehensive Loss.

Consolidated Statements of Changes in Equity.

Consolidated Statements of Cash Flows.

Notes to the Consolidated Financial Statements.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not applicable.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

Our management, including our Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, are responsible for establishing and maintaining our disclosure controls and procedures (within the meaning of Rule 13a-15(e) of the Exchange Act). These controls and procedures are designed to ensure that information required to be disclosed in the reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information was made known to our management, including our CEO and CFO, by others within the Company, as appropriate to allow timely decisions regarding required disclosure. We evaluated these disclosure controls and procedures under the supervision of our CEO and CFO as of December 31, 2021. Based on that evaluation, our management, including our CEO and CFO, concluded that our disclosure controls and procedures are effective as of such date.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Our internal control over financial reporting policies and procedures are designed under the supervision of the CEO and CFO to provide reasonable assurance regarding the reliability of the financial reporting and preparation of the financial statements for the external reporting purposes in accordance with U.S. GAAP. Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our evaluation under the framework in *Internal Control—Integrated Framework (2013)*, our management concluded that our internal control over financial reporting was effective as of December 31, 2021.

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

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended December 31, 2021, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

Not applicable.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Our Directors and executive officers, as of the date hereof, together with their ages and business backgrounds are as follows:

Name	Age	Position(s) Held
William C. Anderson III (1)(3)	51	Chairman of the Board of Directors
Uri Arazy (1)(2)	64	Director
Leonid Berkovitch (1)(2)(3)(4)	55	Director
Amir Eilam	42	Chief Executive Officer
Assaf Cohen	37	Chief Financial Officer

(1) Independent Director under Nasdaq rules
(2) Member of Compensation Committee
(3) Member of Audit Committee
(4) External director under the Companies Law

Directors

William C. Anderson III has served as a director since 2014, and as Chairman of our Board since December 2021. Mr. Anderson is the founder of AmpThink LLC, a wireless solutions company focused on building large, complex, wireless networks employing different technologies, and has been acting as the President of AmpThink LLC since its incorporation in 2011. Prior to AmpThink, Mr. Anderson was co-founder of Genesta, a wireless systems integrator specializing in the design and deployment of warehouse automation systems, where Mr. Anderson from 2000 to 2011 acted as Chief Technology Officer. Mr. Anderson holds a degree in Economics and Philosophy from Boston College and a Master’s degree in Management Science from The State University of New York.

Uri Arazy has served as a director since March 2021. He served in a variety of positions in Intel Corporation between 1984 and 2019. Between 2005 and 2019, Mr. Arazy served as an Investment Director of Intel Capital Israel. In the past five years, Mr. Arazy invested and served on the board of directors of technology startups including WSC Sports Technologies, Interlude, Spotinst, Moovit, Velostrata, Cloudify and Gigaspaces. Mr. Arazy holds a B.A. in Computer Science from Queens College, NY, an M.Sc. in Computer Science from Columbia University, NY, an M.B.A. from Tel Aviv University and Northwestern University and an M.A. in Security and Diplomacy from the Tel Aviv University.

Leonid Berkovitch has served as an External Director since April 2020. Mr. Berkovitch has nearly 30 years of experience in the smart card industry, having worked in leading technology companies in areas including telecom, e-transactions and digital security. From 1996 to 2004, Mr. Berkovitch served as a Senior Vice President Sales EMEA, Marketing & Product lines Director in the Test & Transactions Division of Schlumberger Limited (NYSE: SLB). From 2004 to 2006, Mr. Berkovitch served as a Business Unit Director for Axalto. From 2006 to 2011, Mr. Berkovitch served as a Managing Director Emerging Businesses for Gemalto N.V. Mr. Berkovitch joined Orange Group at the end of 2011 and served as a Vice-President Product Marketing in Viaccess-Orca (an affiliate company of Orange) until 2018. Since 2018, he has been Director IoT, Connected Home at Orange’s Corporate Unit and since the end of 2020, he has been a Senior Director; Connectivity at Orange Business Services. Mr. Berkovitch holds a Master of Science degree in Telecommunication Engineering from the State University of Telecommunications of Saint-Petersburg.

Executive Officers

Amir Eilam was appointed as the Company's Chief Executive Officer effective November 3, 2021. Since 2012 and until his appointment as Chief Executive Officer, Mr. Eilam served as our VP of research and development. Before that Mr. Eilam started working in the embedded software department as a research and development engineer, then managed the Firmware and Petroleum departments, specializing in operating system design for embedded products since 2005. Mr. Eilam holds a B.Sc. in Electronics Engineering from Ort Braude College of Engineering in Israel.

Assaf Cohen was appointed as the Company's Chief Financial Officer effective February 27, 2018 and served also as the Company's Interim Chief Executive Officer from July 2019 to November 2019. Prior to his appointment, Mr. Cohen served as the Company's controller and deputy Chief Financial Officer from July 2015 and oversaw the Company's finance department in this capacity. Prior to joining the Company, Mr. Cohen was a controller at a private company, Samgal Ltd., for a year and a half and prior to that he was a senior accountant at Ernst & Young. Mr. Cohen received a B.A. in economics and accounting from the Haifa University, and he is a Certified Public Accountant in Israel.

Board Practices

Election of Directors; Appointment of Officers

Our Board currently consists of three directors. Our non-External Directors are appointed, removed or replaced by a majority vote of our shareholders present in person or by proxy at a general meeting of our shareholders according to the Companies Law and our Articles of Association.

Once elected at a shareholders' meeting, our directors, except for External Directors, hold office until the first general meeting of shareholders held at least three years after their election. Incumbent directors may be reelected at that meeting. A director may be elected for consecutive terms unless prohibited by law.

Under the Companies Law, neither the Chief Executive Officer of a public company nor a family member thereof or any person directly or indirectly subordinate to the Chief Executive Officer, may serve as a Chairman of the Board, and vice versa unless authorized by a general meeting of the shareholders according to the required vote pursuant to the Companies Law and then only for a period of time that does not exceed three years.

Our Board appoints our Chief Executive Officer and his terms of employment are approved by the general shareholders meeting according to the provisions of the Companies Law. With the exception of our Chief Executive Officer and our directors, each of our executive officers serves at the discretion of our Chief Executive Officer, subject to the terms of any employment agreement, and holds office until his or her successor is elected or until his or her earlier resignation or removal.

Board Leadership Structure

Mr. Eilam is our Chief Executive Officer, and Mr. Anderson is Chairman of our Board. As Chief Executive Officer of the Company, Mr. Eilam reports to the Board. None of our independent directors serves as the lead independent director. We believe that this leadership structure is appropriate given the current size and operations of the Company.

Risk Oversight

Our Board's role in risk oversight includes risk analysis and assessment in connection with each financial and business review, update and decision-making proposal and deliberations.

The Board's role in our risk oversight is consistent with our leadership structure, with our Chief Executive Officer, whose performance is assessed by the Board, and other members of senior management having responsibility for assessing and managing our risk exposure, and the Board providing oversight in connection with those efforts.

The Board, including the Audit Committee and Compensation Committee, periodically reviews and assesses the significant risks to the Company. Our management is responsible for the Company's risk management process and the day-to-day supervision and mitigation of risks. These risks include strategic, operational, competitive, financial, legal and regulatory risks. Our Board leadership structure, together with the frequent interaction between our directors and management, assists in this effort. Communication between our Board and management regarding long-term strategic planning and short-term operational practices include matters of material risk inherent in our business.

The Board plays an active role, as a whole and at the committee level in overseeing management of the Company's risks. Each of our Board committees is focused on specific risks within their areas of responsibility, but the Board believes that the overall enterprise risk management process is more properly overseen by all of the members of the Board. The Audit Committee is responsible, among other things, for overseeing the management of financial and accounting risks, risks related to the Company's compliance with legal and regulatory requirements, risks in regard to the independent auditor's performance of its internal audit function, evaluation of any inadequacies in the business management of the Company and risks in related-party transactions. The Compensation Committee is responsible, among other things, for overseeing the management of risks relating to executive and employee compensation plans, incentive awards and other beneficial arrangements. While each committee is responsible for the evaluation and management of such risks, the entire Board is regularly informed through committee reports. The Board incorporates the insight provided by these reports into its overall risk management analysis.

The Board administers its risk oversight responsibilities through the Chief Executive Officer and the Chief Financial Officer, who, together with management representatives of the relevant functional areas review and assess the operations of the Company as well as operating management's identification, assessment and mitigation of the material risks affecting our operations.

As of December 31, 2021, following the resignation of three directors, our Audit and Compensation committees do not meet the requirements of the Companies Law.

External Directors

Under the Companies Law, companies incorporated under the laws of the State of Israel whose shares were offered to and are traded by the public, such as us, must appoint at least two External Directors, unless they qualify and choose to adopt the exemption specified in Regulation 5D of the Israeli Companies Regulations (Relief for Public Companies with Shares Listed for Trading on a Stock Market Outside of Israel), 5760-2000, or the Exemption Regulations. We no longer qualify for the Exemption Regulations. As of December 31, 2021, and following the resignation of Mr. Zvi Atlas, who was elected to serve as an External Director on December 2, 2021, we only have one External Director serving, Mr. Leonid Berkovitch and therefore, we do not currently comply with the requirements of the Company's Law. In light of the contemplated Merger and taking into account our current financial state and the lack of interest of potential candidates, we do not plan to appoint or elect additional directors. Based on the information provided to us, Mr. Berkovitch qualifies as an External Director under the Companies Law.

The Companies Law provides that a person may not be appointed as an External Director if the person is a relative of the controlling shareholder of the company or if the person (or any of the person's relatives, partners, employers or anyone to whom the person is directly or indirectly subjected to or any entity under the person's control) has or had during the two years preceding the date of appointment any affiliation with the company, its controlling shareholder, any of the controlling shareholder's relatives, any other entity under the control of the company or the company's controlling shareholder, and, where there is no controlling shareholder and no shareholder holding 25% or more of the voting power of the company, any affiliation to the chairman of the board of directors of the company, the company's chief executive officer, any beneficial owner of 5% or more of the issued shares or the voting power of the company or the most senior executive officer of the company in the finance field.

The term affiliation includes: an employment relationship, a business or professional relationship maintained on a regular basis, control, and service as an office holder, excluding service as a director in a private company prior to the first offering of its shares to the public, if such director was appointed as a director of the private company in order to serve as an External Director following the public offering.

"Office holder" is defined in the Companies Law as a chief executive officer, chief business manager, deputy general manager, vice general manager, any person who holds such position in the company, even if such person holds a different title, any director and other manager or officer who reports directly to the chief executive officer.

No person can serve as an External Director if his or her position or other business interests create, or may create, a conflict of interest with his or her responsibilities as an External Director or may otherwise interfere with his or her ability to serve as an External Director.

No person can serve as an External Director if the person (or any of the person's relatives, partners, employers, anyone to whom the person is directly or indirectly subjected to or any entity under the person's control) has business or professional relations with anyone the affiliation with whom is prohibited by the Companies Law, even if those affiliations are not of an ongoing nature, excluding negligible affiliations.

Our External Director is required to possess professional qualifications as set out in regulations promulgated under the Companies Law. In addition, our Board is required to determine how many of our non-External Directors should be required to have financial and accounting expertise. In determining such number, the Board must consider, among other things, the type and size of the company and the scope and complexity of its operations.

Under the Companies Law, each of our External Directors must also serve on our Audit Committee and Compensation Committee, unless we qualify and choose to adopt the exemption specified in Regulation 5D of the Exemption Regulations. Due to the resignation of three of our directors, and due to having only one acting External Director, our Audit and Compensation Committees do not meet the requirements of the Companies Law.

Under the Companies Law, until the lapse of two years from termination of office (and with respect to a relative of an External Director who is not the External Director's spouse or child, one year from termination of office), we, our controlling shareholders and any corporation in their control, may not grant a person who served as an External Director of the company, or to its spouse or child, any benefit, directly or indirectly, and may not engage a person who served as an External Director of the company, or its spouse or child, as an office holder of the company or an entity under the control of the company's controlling shareholder and cannot employ or receive services from that person, either directly or indirectly, including through a corporation controlled by that person.

Mr. Berkovitch has no relationship with us besides serving on our Board.

If, at the time an External Director is appointed, all current members of the Board, who are not controlling shareholders or family members thereof, are of the same gender, then that External Director must be of the other gender. The requirement of Israeli residency does not apply to the External Directors of companies whose shares are listed for trading outside of Israel.

External Directors are elected by a majority vote at a shareholders' meeting at which either the majority of shares voted at the meeting, including at least a majority of the shares held by non-controlling shareholders disinterested with respect to the interests of controlling shareholders voted at the meeting, vote in favor of the election of the External Director, or the total number of shares held by non-controlling shareholders disinterested with respect to the interests of controlling shareholders voted against the election of the External Director does not exceed two percent of the aggregate voting rights in the company.

The initial term of an External Director is three years commencing from the date of his or her election and under regulations that apply to Israeli companies whose shares that have been offered to the public outside of Israel or traded on a stock exchange outside of Israel, may be extended for consecutive additional three year periods (unlike other public companies, in which only two additional three year periods are allowed). External Directors may only be removed by the same percentage of shareholders as is required for their election, or by a court, and then only if the External Directors cease to meet the statutory qualifications for their appointment or if they violate their duty of loyalty to the company. If an External Directorship becomes vacant, our Board is required under the Companies Law to call a shareholders' meeting promptly to appoint a new External Director. Unless we qualify and choose to adopt the exemption specified in Regulation 5D of the Exemption Regulations, each committee of our Board that is required by law to be formed must include at least one External Director and the Audit Committee and Compensation Committee must include all of the External Directors. An External Director is entitled to compensation as provided in regulations adopted under the Companies Law and is otherwise prohibited from receiving any other compensation, directly or indirectly, in connection with services provided as an External Director.

Alternate Directors

Under our articles of association, each of our directors may appoint, with the agreement of the Board and subject to the provisions of the Companies Law, by written notice to us, any person to serve as an alternate director. Under the Companies Law, neither a currently serving director nor a currently-serving alternate director or any person not eligible under the Companies Law to be appointed as a director may be appointed as an alternate director. An alternate director has all the rights and duties of the director appointing him, unless the appointment of the alternate provides otherwise, and the right to remuneration. The alternate director may not act at any meeting at which the appointing director is present. Unless the time period or scope of the appointment is limited by the appointing director, the appointment is effective for all purposes but expires upon the expiration of the appointing director's term. Currently, none of our directors has appointed any alternate directors.

Directors' Service Contracts

None of our directors has any services contracts either with us or with any of our subsidiaries, which provide for benefits upon termination of employment or service.

Board Committees

As of December 31, 2021, following the resignation of three directors. our Audit and a Compensation committee do not meet the requirements of the Companies Law.

Audit Committee

Due to the resignation of three members of the Board during December of 2021, including the resignation of an External Director on December 26, 2021, the resignation of the Board's chairperson on December 28, 2021 and the resignation of an additional director on December 30, 2021, our Board's composition does not meet the Companies Law's requirements for a public company's composition of the board of directors. Section 114 of the Companies Law mandates that a public company is required to appoint an audit committee, while Section 115 of the Companies Law provides that the audit committee should be comprised of a minimum of three members, including all acting external directors of the board and at least a majority of independent directors. Section 115 also mandates that the chairman of the board will not be a member of the Audit Committee. Following the resignation of three members of the Board, we only have three members remaining on the Board, one of which was appointed chairman in accordance with the requirements of Section 94(a) of the Companies Law. Due to the fact that a chairman may not serve as a member of the audit or compensation committees, and that such committees must include two members who are external directors, while we have one external director only, the board cannot meet the Companies Law's requirements with respect to the structure of such committees.

In addition, Section 239(b) of the Companies Law determines that an external directors of a public company shall be appointed at a general meeting of shareholders. Due to this requirement of Section 239(b), we are currently unable to appoint an alternate external director in order to bring ourselves to be in compliance with the requirements of the Companies Law. An additional factor which prevents us from being able to comply with requirements of the Companies Law is the fact that due to our financial state, the acting directors receive minimal compensation while they deal with a greater exposure to complaints relating to their fiduciary duties, which are duties of directors set under the Companies Law and the Israeli case law.

Our Audit Committee operates under a written charter that is posted on our website at http://investors.otiglobal.com.

Our Audit Committee provides assistance to our Board in fulfilling its legal and fiduciary obligations in matters involving our accounting, auditing, financial reporting, internal control and legal compliance functions by pre-approving the services performed by our independent accountants and reviewing their reports regarding our accounting practices and systems of internal control over financial reporting. Our Audit Committee also oversees the audit efforts of our independent accountants and takes those actions that it deems necessary to satisfy itself that the accountants are independent of management.

Under the Companies Law and Nasdaq rules, our Audit Committee is responsible for (i) determining whether there are deficiencies in the business management practices of our Company, including in consultation with our internal auditor or the independent auditor, and making recommendations to the Board to improve such practices, (ii) determining whether to approve certain related party transactions (including transactions in which an office holder has a personal interest) and whether such transaction should be deemed as material or extraordinary, (iii) where the Board approves the working plan of the internal auditor, to examine such working plan before its submission to the Board and propose amendments thereto, (iv) examining our internal controls and internal auditor's performance, including whether the internal auditor has sufficient resources and tools to dispose of its responsibilities, (v) examining the scope of our auditor's work and compensation and submitting a recommendation with respect thereto to our Board or shareholders, depending on which of them is considering the appointment of our auditor, and (vi) establishing procedures for the handling of employee complaints as to the management of our business and the protection to be provided to such employees. In compliance with regulations promulgated under the Companies Law, our Audit Committee also approves our financial statements, thereby fulfilling the requirement that a board committee provide such approval.

Prior to the resignation of three members of our Board, our Audit Committee held five meetings during the fiscal year ended December 31, 2021 (and four written resolutions in lieu of a meeting).

OTI is not required under SEC rules to have its financial statements reviewed or approved by a separate Audit Committee. OTI's financial statements for fiscal year 2021 were reviewed and approved by the Board, as required under applicable Israeli law.

Internal Auditor

Under the Companies Law, the Board must appoint an internal auditor who is recommended by the Audit Committee. The role of the internal auditor is to examine, among other things, whether the company's actions comply with the law and orderly business procedure. Under the Companies Law, the internal auditor may not be an office holder or an interested party, as defined below, or a relative of an office holder or an interested party, or the company's independent accountant or the independent accountant's representative. The Companies Law defines an "interested party" as a holder of 5% or more of the issued shares or voting rights of a company, a person or entity who has the right to designate at least one director or the general manager of the company, and a person who serves as a director or general manager. Since March 5, 2012, Mr. Gali Gana, CPA, of Rosenblum Holzman & Co., has served as our internal auditor.

Compensation Committee

As described above, due to the resignation of three of our directors, and due to the requirements of Section 118A of the Companies Law, which mandates a requirement for public companies to appoint a compensation committee, while applying the same requirements that apply to the composition of the Audit Committee, as further detailed above, we currently do not have a Compensation Committee that meets the requirements of the Companies Law.

The Compensation Committee operates under a charter that is posted on our website at http://investors.otiglobal.com.

Under the Companies Law and Nasdaq rules, our Compensation Committee is responsible for (i) proposing office holder compensation policies to the Board, (ii) proposing necessary revisions to any compensation policy and examining its implementation, (iii) determining whether to approve transactions with respect to compensation of office holders, and (iv) determining, in accordance with office holder compensation policies, whether to exempt an engagement with an unaffiliated nominee for the position of chief executive officer from requiring shareholder approval.

Subject to the provisions of the Companies Law, compensation of executive officers is generally determined and approved by our Compensation Committee and our Board. Shareholder approval is generally required when (i) approval by our Board and our Compensation Committee is not consistent with our Amended and Restated Executive Officers Compensation Policy, as amended from time to time, or (ii) the compensation is that of our Chief Executive Officer. In special circumstances, our Compensation Committee and Board may approve the compensation of an executive officer (other than a director, a chief executive officer or a controlling shareholder) or approve the compensation policy despite shareholder objection. Additionally, under certain circumstances, our Compensation Committee may exempt an engagement with a nominee for the position of chief executive officer from requiring shareholders' approval or may otherwise postpone such shareholders' approval.

A director or executive officer may not be present when the Board discusses or votes upon the terms of his or her compensation, unless the chairman of the Board (as applicable) determines that he or she should be present to present the transaction that is subject to approval. The Chief Executive Officer may not be present during voting or deliberations regarding his or her compensation.

We may from time to time engage the services of external compensation consultants on a case by case basis, though we did not engage any such compensation consultant for the fiscal year ended December 31, 2021.

Our Compensation Committee held seven meetings during the fiscal year ended December 31, 2021 (and adopted certain resolutions by way of one unanimous written consent).

Nominating Committee; Director Candidates

We do not have a Nominating Committee or any committees of a similar nature, nor any charter governing the nomination process. Our Board does not believe that such committees are needed for a company our size. Under the Companies Law, our directors are elected by the general meeting of shareholders, with the recommendation of the Board. There is no formal process or policy that governs the manner in which we identify potential candidates for the Board. Historically, however, the Board has considered several factors in evaluating candidates for nomination to the Board, including the candidate's knowledge of the Company and its business, the candidate's business experience and credentials, and whether the candidate would represent the interests of all the Company's shareholders as opposed to a specific group of shareholders. Diversity is not considered material in identifying nominees for directors. We do not have a formal policy with respect to our consideration of Board nominees recommended by our shareholders because we are a small company. A shareholder who desires to recommend a candidate for nomination to the Board should do so by writing to us at Board of Directors, c/o Company Secretary, On Track Innovations Ltd., Hatnufa 5, Yokneam Industrial Zone, Yokneam, Israel.

Code of Ethics

We have adopted a Code of Business Conduct and Ethics that applies to our directors, executive officers and all of our employees. The Code of Business Conduct and Ethics is publicly available on our website at http://investors.otiglobal.com/corporate-governance, and we will provide, at no charge, persons with a written copy upon written request made to us. The information contained in, or accessible through, our website does not constitute part of this Annual Report.

Delinquent Section 16(a) Reports

Based solely upon a review of Forms 3 and 4, and amendments thereto, submitted to the SEC during the fiscal year ended December 31, 2021, we believe that during said year, our executive officers, directors and all persons who own more than ten percent of a registered class of our equity securities complied with all Section 16(a) filing requirements, except the following:

Form 4 filed by Sandra Hardardottir on May 28, 2021, which was due May 19, 2021.
Form 4 filed by Jerry Ivy on May 28, 2021, which was due May 19, 2021.
Form 4 filed by William Anderson on May 28, 2021, which was due May 19, 2021.
Form 4 filed by Jerry Ivy on March 10, 2021, which was due March 4, 2021.

Item 11. Executive Compensation.

Summary Compensation Table

The following table sets forth the compensation earned during the years ended December 31, 2021 and 2020 by (i) our Chief Executive Officer; (ii) our Chief Financial Officer; (iii) our Former Executive Officer; (iv) our VP of Hardware Engineering and (v) our VP Operations. We refer to the persons listed in (i) and (ii) collectively as the Named Executive Officers, which includes additional officers not required under SEC rules, in accordance with the requirements of Israeli law.

Name and Principal Position	Year	Salary ($) (1)	Bonus ($)	Stock-based Awards ($) (2)	Non-equity Incentive Plan Compensation ($)	All other Compensation ($) (3)	Total ($)
Amir Eilam	2021	159,847	-	33,150	-	50,921	243,918
Chief Executive Officer (4)	2020	154,042	-	1,022	-	46,306	201,370
Assaf Cohen	2021	175,462	-	52,000	-	51,204	278,666
Chief Financial Officer (5)	2020	173,155	-	-	-	43,639	216,794
Yehuda Holtzman	2021	276,822	-	19,500	-	82,730	379,052
Former Chief Executive Officer (6)	2020	273,844	-	67,612	-	79,811	421,268
Nehemia Itay	2021	172,756	-	10,406	-	45,916	229,078
VP & CSc of Hardware Engineering (7)	2020	169,683	-	1,022	-	42,988	213,693
Sagi Nataf	2021	123,319	-	19,500	-	43,686	186,505
VP Operations (8)	2020	112,348	-	1,022	-	38,316	151,687
Nir Gazit	2021	117,199	-	16,770	-	41,339	175,309
VP of Product (9)	2020	112,495	-	511	-	39,832	152,838

(1) Salary payments which were made in NIS were translated into U.S. Dollars according to the annual average exchange rate of NIS 3.23 per U.S. Dollar in 2021 and NIS 3.44 per U.S. Dollar in 2020.

(2) The fair value recognized for the 2021 option awards was determined as of the grant date in accordance with FASB ASC Topic 718 (see Note 12C to our consolidated financial statements included in this Annual Report). The fair value recognized for the 2021 option awards was determined as of the grant date in accordance with FASB ASC Topic 718, based on the following assumptions: expected dividend yield of 0%, expected volatility of 97% to 130%, risk-free interest rate of 0.17% to 1.53% and expected life of 2.49 to 2.50 years. The fair value recognized for the 2021 restricted shares was determined as of the grant date.

(3) This cost reflects social benefits (as required under applicable Israeli law) and car expenses.

(4) The 2021 “All Other Compensation” of Mr. Eilam, as shown in the table above, is comprised of $18,699 of car expenses and $32,222 of social benefits. The 2020 “All Other Compensation” of Mr. Eilam, as shown in the table above, is comprised of $14,902 of car expenses and $31,404 of social benefits.
(5) The 2021 “All Other Compensation” of Mr. Cohen, as shown in the table above, is comprised of $17,584 of car expenses and $33,620 of social benefits. The 2020 “All Other Compensation” of Mr. Cohen, as shown in the table above, is comprised of $14,931 of car expenses and $28,708 of social benefits.
(6) The 2021 “All Other Compensation” of Mr. Holtzman, as shown in the table above, is comprised of $25,726 of car expenses and $57,004 of social benefits. The 2020 “All Other Compensation” of Mr. Holtzman, as shown in the table above, is comprised of $22,920 of car expenses and $56,891 of social benefits.
(7) The 2021 “All Other Compensation” of Mr. Itay, as shown in the table above, is comprised of $17,832 of car expenses and $28,084 of social benefits. The 2020 “All Other Compensation” of Mr. Itay, as shown in the table above, is comprised of $15,745 of car expenses and $27,243 of social benefits.
(8) The 2021 “All Other Compensation” of Mr. Nataf, as shown in the table above, is comprised of $17,894 of car expenses and $25,792 of social benefits. The 2020 “All Other Compensation” of Mr. Nataf, as shown in the table above, is comprised of $13,828 of car expenses and $24,488 of social benefits.
(9) The 2021 “All Other Compensation” of Mr. Gazit, as shown in the table above, is comprised of $15,603 of car expenses and $25,736 of social benefits. The 2020 “All Other Compensation” of Mr. Gazit, as shown in the table above, is comprised of $14,641 of car expenses and $25,191 of social benefits.

All of the incumbent Named Executive Officers mentioned in the table above and our directors are entitled to acceleration of the vesting of any unvested share options and restricted shares in the event of a change of control of the Company, including in connection with the Merger.

Pension, Retirement or Similar Benefit Plans

Except as required by applicable law (relating to severance payments to Israeli employees), none of our current officers or employees are entitled to receive any payments upon termination of employment.

Executive Officers Compensation Policy

In accordance with the Companies Law, we adopted a Compensation Policy in 2013, which was thereafter amended by our Compensation Committee, approved by our Board and recommended to our shareholders and approved thereby at our annual general meeting held on December 15, 2016. An updated compensation policy was not approved by our shareholders at our meeting on September 27, 2019. However, our Board approved it notwithstanding such shareholders vote.

The Compensation Policy sets rules and guidelines with respect to our compensation strategy for executive officers and directors, and is designed to provide for the retention of, and to attract, highly qualified executives. The Compensation Policy is designed to balance competitive compensation of executive officers with our financial resources, while creating appropriate incentives considering, *inter alia*, risk management factors arising from our business, executive compensation benchmarks used in the industry, our size (including without limitation, sales volume and number of employees), the nature of our business and our then-current cash flow situation, in order to promote our long-term goals, work plan, policies and the interests of our shareholders.

The Compensation Policy is designed to allow us to create a full compensation package for each of our executive officers based on common principles. With respect to variable compensation components, the Compensation Policy is designed to allow us to consider each executive officer’s contribution in achieving our short-term and long-term strategic goals and in maximizing its profits from a long-term perspective and in accordance with the executive officer’s position.

The Compensation Policy further provides for an annual performance bonus payable to executive officers. The payment of such bonus is tied to long-term corporate performance, rather than short-term stock market performance. Bonuses are paid in accordance with specific performance targets and based, among others, upon the following factors: (i) the Company’s achievement of certain financial performance metrics, consisting of annual revenue targets, EBITDA target, each based on our annual budget; (ii) achievement by the respective executive of certain predetermined objectives; and (iii) other discretionary considerations, taking into account tangible and intangible performance factors, including the executive’s relative contribution to the Company.

Bonus payments shall not exceed, in the case of a Chief Executive Officer, an aggregate amount equivalent to twelve months' base salary, and for other executive officers, an aggregate amount equivalent to nine months' base salary of the respective executive.

Employment Agreements

We maintain written employment and related agreements with all of our current executive officers. These agreements provide for monthly salaries and contributions by us to executive insurance and vocational studies funds. The employment agreements of certain executive officers provide for the achievement of an annual bonus, as described above. In addition, we may decide to grant our executive officers share options from time to time. All of our executive officers' employment and related agreements contain provisions regarding noncompetition, confidentiality of information and assignment of inventions. The enforceability of covenants not to compete in Israel is unclear.

We have the following written agreements and other arrangements concerning compensation with our current executive officers:

Agreement with Amir Eilam. We have an employment agreement with Mr. Eilam, which provides that Mr. Eilam will serve as Chief Executive Officer of the Company and our subsidiaries, in consideration of a monthly gross salary (effective November 3, 2021 and as described below NIS 55,000) and other standard benefits. Mr. Eilam also receives grants of restricted shares on an annual basis to promote retention and as an incentive, subject to vesting requirements. The issuance of such restricted shares is subject to the discretion and approval of both the Company's Compensation Committee and the Board. According to the employment agreement, Mr. Eilam is eligible to receive an annual bonus in an amount up to 7 months' gross base salary. The employment agreement is for an unlimited duration, provided that each party may terminate it without cause upon serving the other party a written notice of three months, prior to termination.

Agreement with Assaf Cohen. We have an employment agreement with Mr. Cohen, which provides that Mr. Cohen will serve as Chief Financial Officer of the Company and our subsidiaries, in consideration of a monthly gross salary (effective August 1, 2019 and as described below NIS 45,000; between January 1, 2019 and July 31, 2019 NIS 35,000; between March 1, 2018 and December 31, 2018 NIS 30,000) and other standard benefits. Mr. Cohen also receives grants of options on an annual basis to promote retention and as an incentive, subject to vesting requirements. The issuance of such options is subject to the discretion and approval of both the Company's Compensation Committee and the Board. According to the employment agreement, Mr. Cohen is eligible to receive an annual bonus in an amount up to 4 months' gross base salary. The employment agreement is for an unlimited duration, provided that each party may terminate it without cause upon serving the other party a written notice of six months (formerly was three months), prior to termination. Effective August 1, 2019, as approved by our Board and Compensation Committee, and pursuant to the amendment to Mr. Cohen's employment agreement dated September 30, 2019, Mr. Cohen's monthly gross salary is NIS 45,000 and the abovementioned written notice for termination is six months. In addition, pursuant to the amendment to Mr. Cohen's employment agreement, as also approved by the Company's shareholders, Mr. Cohen received a lump sum bonus, in the amount of NIS 100,000, for his services as the Interim Chief Executive Officer of the Company. On March 17, 2020, our Board and Compensation Committee approved an increase in Mr. Cohen's 2020 maximum annual bonus from 4 months' to 6 months' gross base salary. On November 22, 2020, as part of the cost reduction steps taken by our management, our Board of Directors and Compensation Committee approved that effective November 1, 2020, Mr. Cohen's monthly gross salary is decreased for a period of one year from NIS 45,000 to NIS 34,650. Following the approval of our Board of Directors and Compensation Committee, as of June 1, 2021, the reduction was cancelled and Mr. Cohen's monthly gross salary was reinstated to NIS 45,000.

Outstanding Equity Awards at Fiscal Year-End

The following table shows options to purchase our Ordinary Shares outstanding on December 31, 2021, held by each of our Named Executive Officers.

		Number of Securities Underlying Unexercised Equity Awards			
Name	Security Type	Number of securities underlying unexercised (#) exercisable	Number of securities underlying unexercised (#) unexercisable	Purchase exercise price($)	Expiration date
Amir Eilam [(1)]	RSA	3,334	506,666	$ 0.03	-
Assaf Cohen [(2)]	RSA	-	400,000	$ 0.03	-
Yehuda Hotltzman [(3)]	RSA	-	-	-	-
Nehemia Itay [(4)]	Options	3,333	6,667	$ 0.22	01/06/2026
	Options	6,667	3,333	$ 0.28	03/07/2028
	RSA	3,334	66,666	$ 0.03	-
Sagi Nataf [(5)]	RSA	3,334	146,666	$ 0.03	-
Nir Gazit [(6)]	RSA	1,668	127,332	$ 0.03	-

(1) On December 2, 2021, 255,000 restricted shares were granted to Mr. Eilam under the 2021 Equity Incentive Plan, or the 2021 Plan, and on March 7 2022, 255,000 restricted shares were granted to Mr. Eilam under the 2021 Plan. The restricted shares vest as follow: (i) 3,334 shares vested on 12/02/2021; (ii) 31,666 shares will vest in two equal instalments on each of 12/02/2022 and 12/02/2023; and (iii) 475,000 shares will vest in three equal instalments on each of 12/02/2022, 12/02/2023 and 12/02/2024.

(2) On December 2, 2021, 400,000 restricted shares were granted to Mr. Cohen under the 2021 Plan. The restricted shares vest as follow: (i) 50,000 shares will vest in two equal instalment on each 12/02/2022 and 12/2023; (ii) 350,000 shares will vest in three equal instalments on each of 12/02/2022, 12/02/2023 and 12/02/2024.

(3) Mr. Holtzman waived his right to receive 150,000 restricted shares.

(4) On March 17, 2020, 10,000 options were granted to Mr. Itay under the OTI 2001 Stock Option Plan, or the 2001 Plan. The options vest in three equal annual installments, commencing March 17, 2021. On December 2, 2021, 70,000 restricted shares were granted to Mr. Itay under the 2021 Plan. The restricted shares vest as follow: (i) 3,334 shares vested on 12/02/2021; (ii) 16,666 shares will vest in two equal instalments on each of 12/02/2022 and 12/02/2023; and (iii) 50,000 shares will vest in three equal instalments on each of 12/02/2022, 12/02/2023 and 12/02/2024.

(5) On December 2, 2021, 150,000 restricted shares were granted to Mr. Nataf under the 2021 Plan. The restricted shares vest as follow: (i) 3,334 shares vested on 12/02/2021; (ii) 31,666 shares will vest in two equal instalments on each of 12/02/2022 and 12/02/2023; and (iii) 115,000 shares will vest in three equal instalments on each of 12/02/2022, 12/02/2023 and 12/02/2024.

(6) On December 2, 2021, 129,000 restricted shares were granted to Mr. Gazit under the 2021 Plan. The restricted shares vest as follow: (i) 1,668 shares vested on 12/02/2021; (ii) 23,332 shares will vest in two equal instalments on each of 12/02/2022 and 12/02/2023; and (iii) 104,000 shares will vest in three equal instalments on each of 12/02/2022, 12/02/2023 and 12/02/2024.

Director Compensation for 2021

The following table provides information regarding compensation earned by, awarded or paid to each person for serving as a director who was not a Named Executive Officer during the fiscal year ended December 31, 2021:

Name	Fees Earned or Paid in Cash ($) (1)	Option Awards ($)	Total ($)
William C. Anderson III (3)	23,750	4,141	27,891
Leonid Berkovitch	35,318	-	35,318
Uri Arazy (3)	35,270	7,039	42,309
Sandra B. Hardardottir (2)	21,187	-	21,187
Donna Marks (2)	26,898	-	26,898
Michael Shanahan (2)	22,576	-	22,576
Zvi Atlas (2)	3,303	-	3,303

(1) This column represents the sums that our non-executive directors received or entitled to receive according to the Israeli regulations as an annual fee as well as for attending Board and Board committee meetings.

(2) Former director.

(3) The fair value of each option granted to directors during 2021 was estimated on the date of grant, using the Black-Scholes model and the following assumptions:

- Expected dividend yield: 0%.
- Expected volatility: 103%-130%.
- Risk-free interest rate: 0.17%-0.30%.
- Expected life: Years 2.50.
- Dividend yield of zero percent.
- Expected average volatility represents a weighted average standard deviation rate for the price of the Company's ordinary shares on the OTCQX market.
- Risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant.
- Estimated expected lives are based on historical grants data

As of December 31, 2021, our directors held options to purchase our ordinary shares as follows:

Name	Aggregate number of shares Underlying stock options
William C. Anderson III	60,000
Leonid Berkovitch	30,000
Uri Arazy	30,000

From January 1, 2021, until December 31, 2021, we reimbursed our directors for expenses incurred in connection with attending Board meetings and committee meetings and provided the following compensation for directors: annual compensation of NIS 49,110 (approximately $15,204); meeting participation fees of NIS 3,283 (approximately $1,016) per in-person meeting; meeting participation by telephone of NIS 1,971 (approximately $610) per meeting; and NIS 1,642 (approximately $508) per written resolution.

On November 22, 2020, as part of our management's efforts to reduce costs, four of our board members, Ms. Sandra Bjork Hardardottir, Mr. Leonid Berkovitch, Ms. Donna Seidenberg Marks and Michael Shanahan, volunteered to reduce their compensation by 25%, such that the cash compensation paid to each of these directors effective November 22, 2020, was as follows: Annual compensation of NIS 36,833 (approximately $11,500), meeting participation fees of NIS 2,462 (approximately $770) per in-person meeting, meeting participation by telephone fees of NIS 1,478 (approximately $460) per meeting and NIS 1,232 (approximately $380) per written resolution. In addition, on November 22, 2020, our fifth director, William C. Anderson, volunteered to waive part of the compensation from the Company effective November 22, 2020.

Our executive directors do not receive additional separate compensation for their service on the Board or any committee of the Board. During 2021, our non-executive directors were reimbursed for their expenses for each board meeting, and committee meeting attended and in addition received the foregoing compensation with respect to attendance at such meetings. The aggregate amount paid by us to our non-executive directors for their service during 2021 was $96,547.

Under the Companies Law, an External Director is entitled to compensation as provided in regulations adopted under the Companies Law and is otherwise prohibited from receiving any other compensation, directly or indirectly, in connection with services provided as an External Director.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholders Matters.

The following table sets forth certain information, to the best knowledge and belief of the Company, as of March 17, 2022 (unless provided herein otherwise), with respect to holdings of our Ordinary Shares by (1) each person known by us to be the beneficial owner of more than 5% of the total number of shares of our Ordinary Shares outstanding as of such date; (2) each of our current directors; (3) each of our Named Executive Officers; and (4) all of our current directors and executive officers as a group.

Unless otherwise indicated below, all information with respect to the ownership of any of the below shareholders has been furnished by such shareholder and we believe that the persons named in the table have sole voting and sole investment power with respect to all of the shares shown as owned, subject to community property laws, where applicable. The shares owned by our current directors and executive officers include the shares owned by their family members to which such nominees, directors and executive officers disclaim beneficial ownership, as provided for below. If a shareholder has the right to acquire shares by exercising options currently exercisable or exercisable within 60 days of the date of this table, these shares are deemed outstanding for the purpose of computing the percentage owned by the specific shareholder (that is, they are included in both the numerator and the denominator), but they are disregarded for the purpose of computing the percentage owned by any other shareholder.

The information in the table below is based on 75,775,393 Ordinary Shares outstanding as of April 4, 2022 and reflects number of shares owned. Unless otherwise indicated, the address of each of the individuals named below is: c/o On Track Innovations Inc., Hatnufa 5, Yokneam Industrial Zone, Yokneam, Israel, 2069200.

Name of beneficial owner	Position	Number of Ordinary Shares Beneficially Owned	% of Class of Ordinary Shares
William C. Anderson III(1)	Director	3,680,496	4.9%
Leonid Berkovitch(2)	Director	20,000	*
Uri Arazy(3)	Director	10,000	*
Amir Eilam(4)	Chief Executive Officer	510,000	*
Assaf Cohen(5)	Chief Financial Officer	400,000	*
Yehuda Holtzman(6)	Former Chief Executive Officer	-	*
Nehemia Itay(7)	VP Hardware Engineering	80,000	*
Sagi Nataf(8)	VP Operations	150,000	*
Nir Gazit(9)	VP of Product	129,000	*
All current directors and executive officers (as a group persons)		4,620,496	6.1%
5% Shareholders			
Jerry L. Ivy, Jr.(10)	Shareholder	26,157,984	35.9%

(*) Less than 1%

(1) Includes 3,650,496 Ordinary Shares held by Mr. Anderson, and includes options held by Mr. Anderson to purchase 30,000 ordinary shares currently exercisable or exercisable within 60 days of April 4, 2022.

(2) Consists of options held by Mr. Berkovitch to purchase 20,000 ordinary shares currently exercisable or exercisable within 60 days of April 4, 2022.

(3) Consists of options held by Mr. Arazy to purchase 10,000 ordinary shares currently exercisable or exercisable within 60 days of April 4, 2022.

(4) Consists of 510,000 restricted shares held by Mr. Eilam.

(5) Consists of 400,000 restricted shares held by Mr. Cohen.

(6) Mr. Holtzman forfeited his restricted shares.

(7) Consists of 70,000 restricted shares held by Mr. Itay, and options held by Mr. Itay to purchase 10,000 ordinary shares currently exercisable or exercisable within 60 days of this table.

(8) Consists of 150,000 restricted shares held by Mr. Nataf.

(9) Consists of 129,000 restricted shares held by Mr. Gazit.

(10) Information is based solely on Schedule 13D/A filed by Mr. Jerry L. Ivy, Jr. with the SEC on March 18, 2022, and consists of 24,468,205 Ordinary Shares held by Mr. Ivy and 1,689,779 Ordinary Shares held by Sandra Bjork Hardardottir. Mr. Ivy's address is 1003 Lake St. #301, Kirkland, WA 98033.

All of the Named Executive Officers mentioned in the table above and our directors are entitled to acceleration of the vesting of any unvested share options and restricted shares in the event of a change of control of the Company, including in connection with the Merger.

The following table summarizes certain information regarding our equity compensation plan as of December 31, 2021:

Plan Category	Number of securities to be issued upon exercise of outstanding equity	Weighted-average exercise price of outstanding equity	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plan approved by security holders (1)	4,428,833	$ 0.20	6,798,046
Equity compensation plan not approved by security holders	-	-	-
Total	4,428,833	$ $0.20	6,798,046

(1) Calculated based on 1,443,333 options with an average exercise price of $0.54 and 2,985,500 restricted shares with an average exercise price of $0.03. Total securities remaining available for future issuance are calculated based on 3,783,546 options and 3,014,500 restricted shares.

2001 Stock Option Plan

We established our 2001 Plan in February 2001 (as amended and restated on December November 30, 2011), and have amended it several times up to the latest amendment on November 21, 2017. The 2001 Plan provides for the grant of options to our employees, directors, and consultants, and those of our subsidiaries and affiliates until December 31, 2021.

Under the 2001 Plan, as of April 4, 2022, options for 12,017,454 Ordinary Shares had been exercised, and options for 611,002 Ordinary Shares are outstanding, including vested options with respect to 288,682 Ordinary Shares. Of the options that are outstanding, as of April 4, 2022, 80,000 options are held by our directors and officers and have a weighted average exercise price of $0.28 per share.

2021 Incentive Equity Plan

We established our 2021 Plan in July 2021. The 2021 Plan provides for the grant of equity to our employees, directors, and consultants, and those of our subsidiaries and affiliates.

Under the 2021 Plan, as of April 4, 2022, 2,925,834 restricted shares were granted, of which 39,682 vested and are no longer subject to restrictions. Of the restricted shares granted, as of April 4, 2022, 1,259,000 restricted shares are held by our directors and officers.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Our policy is to enter into transactions with related parties on terms that are on the whole no less favorable to us than those that would be available from unaffiliated parties at arm’s length.

We have entered into employment agreements with all of our executive officers as mentioned above and indemnification agreements with all of our executive officers and directors. In addition, we have granted options to purchase our Ordinary Shares to our directors and executive officers, as mentioned elsewhere in this Annual Report.

Other than described above, and except for the Loan Agreement, the Share Purchase Agreement, and the former Chairman of the Board, Ms. Hardardottir, and the former Director, Mr. Shanahan, who were designated by Ivy pursuant to the Share Purchase Agreement, none of our directors, executive officers or shareholders holding more than 5% of our outstanding Ordinary Shares, or members of any such person’s immediate family, has any relationship with the Company besides serving as directors or executive officers.

Item 14. Principal Accounting Fees and Services.

Independent Registered Public Accounting Firm

The Company has engaged Kesselman and Kesselman, Certified Public Accountants (Isr.), a member firm of PricewaterhouseCoopers International Limited, or PwC Israel, as its principal independent registered public accounting firm for the fiscal year ended December 31, 2021.

Policy on Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm

Our Audit Committee is generally responsible for the oversight of our independent auditors' work. The Audit Committee's policy is to pre-approve all audit and non-audit services provided by PwC Israel. These services may include audit services, audit-related services, tax services and other services, as further described below. The Audit Committee sets forth the basis for its preapproval in detail, listing the particular services which are pre-approved, and setting forth a specific budget for such services. Additional services may be pre-approved by the Audit Committee on an individual basis. Once services have been pre-approved, PwC Israel and our management then report to the Audit Committee on a periodic basis regarding the extent of services actually provided in accordance with the applicable pre-approval, and regarding the fees for the services performed.

Our Audit Committee pre-approved all audit and non-audit services provided to us and to our subsidiaries during the periods listed below. The Audit Committee approves discrete projects on a case-by-case basis that may have a material effect on our operations and also considers whether proposed services are compatible with the independence of the independent auditors.

Pursuant to our pre-approval policy, the Audit Committee pre-approves and delegates to our Chairman of the Board the authority to approve the retention of ad-hoc audit and non-audit services from our independent auditors, beyond the scope approved by the Audit Committee as part of the annual audit plan.

Principal Accountant Fees and Services

The following fees were billed by PWC Israel and affiliate firms for professional services rendered thereby for the year ended December 31, 2021, and 2020 (in thousands):

		2021		2020
Audit Fees (1)	$	155	$	180
Audit-Related Fees	$	-		-
Tax Fees	$	-	$	-
All Other Fees (2)	$	25		3
Total	$	180	$	183

(1) The audit fees for the years ended December 31, 2021 and 2020, are the aggregate fees billed or billable (for the year) for the professional services rendered for the audits of our 2021 and 2020 annual consolidated financial statements, review of consolidated quarterly financial statements of 2021 and 2020, and services that are normally provided in connection with statutory audits of us and our subsidiaries, consents and assistance with review of documents filed with the SEC.

(2) All other fees are fees billed for accounting standard procedure.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

2.1	Agreement and Plan of Merger dated March 17, 2022, by and among Nayax Ltd., OTI Merger Sub Ltd. and the Company (incorporated by reference to the Company's Current Report on Form 8-K, filed with the SEC on March 17, 2022).
3.1	Amended and Restated Articles of Association (incorporated by reference to the Company's proxy statement on Schedule 14A filed with the SEC on October 28, 2021).
3.2*	Memorandum of Association, as amended and restated after the December 2, 2021 amendment.
4.1*	Description of Securities of the Company Registered under Section 12 of the Exchange Act.
10.1	Amended and Restated On Track Innovations Ltd. 2001 Share Option Plan (incorporated by reference to the Company's proxy statement on Schedule 14A filed with the SEC on October 16, 2017). +
10.2	2021 Equity Incentive Plan (incorporated by reference to the Company's Quarterly Report on Form 10-Q, filed with the SEC on August 16, 2021). +
10.3	Form of Indemnification Agreement between the Company and its directors and officers (incorporated by reference to the Company's proxy statement on Schedule 14A filed with the SEC on March 10, 2020. +
10.4	Personal Employment Agreement, dated November 5, 2019, by and between the Company and Yehuda Holtzman (incorporated by reference to the Company's Current Report on Form 8-K, filed with the SEC on November 6, 2019). +
10.5*	Personal Employment Agreement, dated February 2, 2022, by and between the Company and Amir Eilam. +
10.6	Personal and Special Employment Agreement dated February 27, 2018, by and between the Company and Assaf Cohen (incorporated by reference to the Company's Annual Report on Form 10-K, filed with the SEC on March 29, 2018). +
10.7	Amendment to Personal Employment Agreement, dated September 30, 2019, by and between the Company and Assaf Cohen (incorporated by reference to the Company's Quarterly Report on Form 10-Q, filed with the SEC on November 13, 2019). +
10.8	Amended and Restated Executive Officers Compensation Policy (incorporated by reference to the Company's proxy statement on Schedule 14A filed with the SEC on October 28, 2021). +
10.9	Share Purchase Agreement dated December 23, 2019 by and among the Company, Jerry L. Ivy, Jr. Descendants' Trust and certain other investors (incorporated by reference to the Company's Current Report on Form 8-K, filed with the SEC on December 26, 2019).
10.10	Binding Term Sheet dated January 19, 2022, by and between Nayax Ltd. and the Company (incorporated by reference to the Company's Current Report on Form 8-K, filed with the SEC on January 19, 2022).
10.11	Senior Secured Convertible Loan Financing Agreement dated January 27, 2022, by and between Nayax Ltd. and the Company (incorporated by reference to the Company's Current Report on Form 8-K, filed with the SEC on January 31, 2022).

10.12	Debenture dated January 27, 2022, by and between Nayax Ltd. and the Company (incorporated by reference to the Company's Current Report on Form 8-K, filed with the SEC on January 31, 2022).
10.13*	An English Summary of the Material Provisions of a Hebrew Document Titled "A Request for a Loan in a Foreign Currency" Dated February 28, 2022.
21.1*	List of Subsidiaries of the Company.
23.1*	Consent of Independent Registered Public Accounting Firm.
31.1*	Certification pursuant to Rule 13a-14(a)/15d-14(a) of Amir Eilam.
31.2*	Certification pursuant to Rule 13a-14(a)/15d-14(a) of Assaf Cohen.
32.1**	Certification pursuant to 18 U.S.C. Section 1350 of Amir Eilam.
32.2**	Certification pursuant to 18 U.S.C. Section 1350 of Assaf Cohen.
101*	The following materials from our Annual Report on Form 10-K for the year ended December 31, 2021 formatted in inline XBRL (inline eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Loss, (iv) the Consolidated Statements of Changes in Equity, (v) the Consolidated Statements of Cash Flows, and (vi) the Notes to the Consolidated Financial Statements, tagged as blocks of text and in detail.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* Filed herewith.
** Furnished herewith.
\+ Management contract or compensation plan.

Item 16. Form 10-K Summary.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

On Track Innovations Ltd.

Dated: April 13, 2022

By: /s/ Amir Eilam
Amir Eilam
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Amir Eilam Amir Eilam	Chief Executive Officer (principal executive officer)	April 13, 2022
/s/ Assaf Cohen Assaf Cohen	Chief Financial Officer (principal financial officer and principal accounting officer)	April 13, 2022
/s/ William C. Anderson William C. Anderson	Chairman of the Board of Directors	April 13, 2022
/s/ Uri Arazy Uri Arazy	Director	April 13, 2022
/s/ Leonid Berkovitch Leonid Berkovitch	Director	April 13, 2022

**On Track Innovations Ltd.
and its Subsidiaries**

**Consolidated Financial Statements
as of December 31, 2021**

Consolidated Financial Statements as of December 31, 2021

Contents

Report of Independent Registered Public Accounting Firm

To the shareholders and the board of directors of
On Track Innovations Ltd.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of On Track Innovations Ltd. and its subsidiaries (the "Company") as of December 31, 2021 and 2020, and the related consolidated statements of operations, comprehensive loss, changes in equity and cash flows for each of the years then ended, including 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 as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the years then ended in conformity with accounting principles generally accepted in the United States of America.

Substantial Doubt about the Company's Ability to Continue as a Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2(A) to the consolidated financial statements, the Company has suffered recurring losses from operations and cash outflows from operating activities. Management's plans in regard to these matters are also described in Note 2(A). The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

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

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

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

Critical Audit Matters

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

/s/ Kesselman & Kesselman
Certified Public Accountants (Isr.)
A member firm of PricewaterhouseCoopers
International Limited
Haifa, Israel
April 13, 2022

We have served as the Company's auditor since 2019.

Consolidated Balance Sheets

US dollars in thousands

	December 31	
	2021	**2020**
Assets		
Current assets		
Cash and cash equivalents	$ 815	$ 1,377
Short-term investments	-	105
Trade receivables (net of allowance for doubtful accounts of $614 and $620 as of December 31, 2021 and December 31, 2020, respectively)	3,274	1,148
Other receivables and prepaid expenses	1,159	695
Inventories	3,200	2,479
Assets from discontinued operations - held for sale	-	6,358
Total current assets	8,448	12,162
Non-current assets		
Restricted bank deposit	105	-
Long term restricted deposit for employee benefits	529	511
Severance pay deposits	485	411
Property, plant and equipment, net	673	752
Intangible assets, net	162	247
Right-of-use assets due to operating leases	2,134	2,903
Total non-current assets	4,088	4,824
Total Assets	$ 12,536	$ 16,986

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

Consolidated Balance Sheets

US dollars in thousands except share data

	December 31	
	2021	**2020**
Liabilities and Equity		
Current Liabilities		
Short-term bank credit and current maturities of long-term bank loans	$ 2,095	$ 542
Convertible short-term loan from shareholders, including a controlling shareholder	1,745	625
Trade payables	4,657	1,667
Other current liabilities	2,832	2,283
Liabilities from discontinued operations - held for sale	-	5,829
Total current liabilities	11,329	10,946
Long-Term Liabilities		
Long-term loans, net of current maturities	21	14
Long-term liabilities due to operating leases, net of current maturities	1,650	2,343
Accrued severance pay	1,038	977
Total long-term liabilities	2,709	3,334
Total Liabilities	14,038	14,280
Commitments and Contingencies (Note 10)		
Equity		
Shareholders' (Deficit) Equity		
Ordinary shares of NIS 0.1 par value: Authorized – 120,000,000 and 100,000,000 shares as of December 31, 2021 and 2020, respectively; issued: 76,954,092 and 55,003,076 shares as of December 31, 2021 and 2020, respectively; outstanding: 72,789,893 and 53,824,377 shares as of December 31, 2021 and 2020, respectively	2,008	1,423
Additional paid-in capital	233,462	227,209
Treasury shares at cost - 1,178,699 shares as of December 31, 2021 and 2020	(2,000)	(2,000)
Accumulated other comprehensive loss	(348)	(961)
Accumulated deficit	(234,624)	(222,965)
Total Shareholders' (Deficit) Equity	(1,502)	2,706
Total Liabilities and Equity	$ 12,536	$ 16,986

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

Consolidated Statements of Operations

US dollars in thousands except share and per share data

	Year ended December 31	
	2021	**2020**
Revenues		
Sales	$ 13,278	$ 11,392
Software as a Service ("SaaS")	1,597	1,350
Total revenues	14,875	12,742
Cost of revenues		
Cost of sales	10,848	7,641
Total cost of revenues	10,848	7,641
Gross profit	4,027	5,101
Operating expenses		
Research and development	3,718	3,531
Selling and marketing	2,893	3,233
General and administrative	3,383	3,017
Total operating expenses	9,994	9,781
Operating loss from continuing operations	(5,967)	(4,680)
Financial expenses derived from convertible short-term loan from shareholders, including a controlling shareholder	(3,748)	(90)
Other financial expenses, net	(387)	(280)
Financial expenses, net	(4,135)	(370)
Loss from continuing operations before taxes on income	(10,102)	(5,050)
Income tax benefit, net	13	10
Net loss from continuing operations	(10,089)	(5,040)
Net loss from discontinued operations	(1,570)	(1,093)
Net loss	$ (11,659)	$ (6,133)
Basic and diluted net loss attributable to shareholders per ordinary share		
From continuing operations	$ (0.15)	$ (0.09)
From discontinued operations	$ (0.03)	$ (0.02)
	$ (0.18)	$ (0.11)
Weighted average number of ordinary shares used in computing basic and diluted net loss per ordinary share	65,567,409	(*) 55,665,816

(*) Basic and diluted net losses attributable to shareholders per ordinary share for previous reporting periods were retroactively adjusted due to the completion of rights offering, see Note 2N.

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

Consolidated Statements of Comprehensive Loss

US dollars in thousands

	Year ended December 31	
	2021	**2020**
Total comprehensive loss:		
Net loss	$ (11,659)	$ (6,133)
Exchange differences on translation released following sale of a subsidiary	746	-
Exchange differences on translation of foreign continuing operations	(81)	(1)
Exchange differences on translation of foreign discontinued operations	(52)	14
Total comprehensive loss	$ (11,046)	$ (6,120)

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

Consolidated Statements of Changes in Equity

US dollars in thousands, except share data

	Number of Shares issued	Share capital	Additional paid-in capital	Treasury Shares	Accumulated other comprehensive loss	Accumulated deficit	Total equity
Balance as of January 1, 2020	47,963,076	$ 1,226	$ 225,970	$ (2,000)	$ (974)	$ (216,832)	$ 7,390
Changes during the year ended December 31, 2020:							
Issuance of shares, net of issuance costs of $39 (*)	7,040,000	197	1,172	-	-	-	1,369
Stock-based compensation (*)	-	-	67	-	-	-	67
Exchange differences on translation of foreign operations	-	-	-	-	13	-	13
Net loss	-	-	-	-	-	(6,133)	(6,133)
Balance as of December 31, 2020	55,003,076	$ 1,423	$ 227,209	$ (2,000)	$ (961)	$ (222,965)	$ 2,706
Changes during the year ended December 31, 2021:							
Issuance of shares, net of issuance costs of $128 (*)	18,965,516	585	2,587	-	-	-	3,172
Stock-based compensation (*)	2,985,500	-	100	-	-	-	100
Exchange differences on translation of foreign operations	-	-	-	-	(**)613	-	613
Classification of embedded derivative from liability to equity (***)	-	-	3,566	-	-	-	3,566
Net loss	-	-	-	-	-	(11,659)	(11,659)
Balance as of December 31, 2021	76,954,092	$ 2,008	$ 233,462	$ (2,000)	$ (348)	$ (234,624)	$ (1,502)

(*) See Note 12 regarding Restricted Shares Awards.
(**) Including exchange differences on translation released following sale of a subsidiary in amount of $746.
(***) See Note 9.

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

Consolidated Statements of Cash Flows

US dollars in thousands

	Year ended December 31	
	2021	**2020**
Cash flows from continuing operating activities		
Net loss from continuing operations	$ (10,089)	$ (5,040)
Adjustments required to reconcile net loss to net cash used in continuing operating activities:		
Stock-based compensation related to options, restricted stock awards and shares issued to employees and others	100	67
Accrued interest, linkage differences, net	(61)	110
Financial expenses derived from convertible short-term loan from shareholders, including a controlling shareholder	3,748	90
Depreciation and amortization	378	419
Deferred benefits, net	(13)	(36)
Changes in operating assets and liabilities:		
Change in accrued severance pay, net	(13)	65
(Increase) decrease in trade receivables, net	(2,290)	989
(Increase) decrease in other receivables and prepaid expenses	(438)	115
(Increase) decrease in inventories	(727)	541
Increase in trade payables	3,011	1,027
Increase (decrease) in other current liabilities	766	(212)
Net cash used in continuing operating activities	(5,628)	(1,865)
Cash flows from continuing investing activities		
Purchase of property and equipment and intangible assets	(247)	(407)
Change in short-term investments, net	-	2,216
Net cash (used in) provided by continuing investing activities	(247)	1,809
Cash flows from continuing financing activities		
(Decrease) Increase in short-term bank credit, net	(174)	(215)
Convertible short-term loan received from shareholders, including a controlling shareholder, net of transaction expenses	923	578
Long-term loan received	18	-
Repayment of long-term bank loans	(7)	(7)
Proceeds from issuance of shares, net of issuance costs	3,187	1,369
Net cash provided by continuing financing activities	3,947	1,725
Cash flows from discontinued operations		
Net cash used in discontinued operating activities	(2,096)	(2,065)
Net cash provided by (used in) discontinued investing activities	2,926	(948)
Net cash (used in) provided by discontinued financing activities	(380)	1,204
Total net cash provided by (used in) discontinued operations	450	(1,809)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(101)	(9)
Decrease in cash, cash equivalents and restricted cash	(1,579)	(149)
Cash, cash equivalents and restricted cash - beginning of the year (*)	2,499	2,648
Cash, cash equivalents and restricted cash at the end of the year (*)	$ 920	$ 2,499

(*) Including cash and cash equivalents from discontinued operations held for sale. See also Note 14.

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

Consolidated Statements of Cash Flows (cont'd)

US dollars in thousands

	Year ended December 31	
	2021	**2020**
Supplementary cash flows information:		
Cash paid during the period for:		
Interest paid (*)	$ 101	$ 83
Income taxes paid	$ -	$ (**) 41
Income taxes refund received	$ 6	$ 83

(*) Including interest paid as used in discontinued operations in amount of $7 and $10 for the years ended December 31, 2021 and 2020, respectively

(**) Derives from discontinued operations

	2021	2020
Supplemental disclosures of non-cash flow information		
Payables due to issuance costs	$ 15	$ -
Payables due to transaction expenses related to convertible short-term loan received from shareholders, including a controlling shareholder	$ -	$ 43
Payables due to purchase of property and equipment and intangible assets	$ 9	$ 14
Classification of embedded derivative from liability to equity	$ 3,566	$ -

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

US dollars, NIS and Euro in thousands, except share and per share data

Note 1 - General

A. Introduction

On Track Innovations Ltd. (the “Company”) was founded in 1990, in Israel. The Company and its subsidiaries (together, the “Group”) are principally engaged in the field of design and development of cashless payment solutions.

The Company’s ordinary shares are listed for trading on the OTCQX market (formerly listed on the Nasdaq Capital Market until October 31, 2019).

On January 10, 2022, the Company filed a petition (the “Petition”) with the Israeli county court of Nazareth, seeking protections from its creditors in accordance with the Israeli Insolvency and Economic Rehabilitation Law-2018, after the Company’s Board of Directors determined that the Company is insolvent from a cash flow perspective.

On January 19, 2022, the Company entered into a binding term sheet (the “Term Sheet”), with Nayax Ltd. (“Nayax”). The Term Sheet provides that the Company and Nayax will enter into a two-step transaction relating to (i) Nayax extending to the Company a senior secured convertible loan in amount of $5,500 (the “Nayax Loan”), and (ii) the purchase by Nayax of 100% of the Company’s share capital in consideration for $4,500. Consequently, to the entry into the Term Sheet, and at the Company’s request, the Israeli county court of Nazareth dismissed the Petition.

On January 27, 2022 (the “Effective Date”), the Company entered into a definitive agreement and debenture relating to the Nayax Loan (the “Nayax Loan Agreement”). On March 17, 2022, the Company entered into an Agreement and Plan of Merger, with Nayax and OTI Merger Sub Ltd., an |Israeli company, wholly owned by Nayax, (“Merger Sub”), pursuant to which Merger Sub will merge with and into the Company, with the Company surviving as a direct wholly-owned subsidiary of Nayax, in exchange for $4,500 in cash (the “Merger”).

As of December 31, 2021, the Company operates in two operating segments: (a) Retail, and (b) Petroleum (see Note 15).

Certain definitions

$ - United States Dollars
NIS - New Israeli Shekel

B. Divestiture of operations

1. In December 2013, the Company completed the sale of certain assets, subsidiaries and intellectual property (“IP”) relating to its Smart ID division, for a total price of $10,000 in cash and an additional $12,500 subject to performance-based milestones. Accordingly, the results and the cash flows of this operation for all reporting periods are presented in the statements of operations and in the statements of cash flows, respectively, as discontinued operations separately from continuing operations.

On April 20, 2016, the purchaser of the Smart ID division, SuperCom Ltd. (“SuperCom”), and the Company entered into a settlement agreement resolving certain litigation between SuperCom and the Company pursuant to which SuperCom paid the Company $2,050 and agreed to pay the Company up to $1,500 in accordance with and subject to a certain earn-out mechanism. In November 2017, the Company commenced an arbitration procedure with SuperCom, in which the Company claimed that additional earn-out payments were not paid to the Company. SuperCom raised claims against the Company during the arbitration for material damages. An arbitration decision was issued on December 24, 2018 in the Company’s favor and denied SuperCom's claims.

Note 1 – General (cont'd)

B. Divestiture of operations (cont'd)

1. Cont'd

The arbitrator ordered SuperCom to disclose the financial information regarding the earn-out payments that the Company was entitled to receive, and to pay the Company accordingly, or otherwise pay the Company approximately $1,300 that reflects the maximum earn-out amount that was not paid to the Company by SuperCom. The arbitration verdict was approved as a court's verdict in June 2019, but SuperCom failed to disclose the financial information in the way it should have done according to the arbitration decision. Therefore, in December 2019 the Company submitted a complementary claim to the arbitrator, asking for a final award that includes a final payment by SuperCom (as opposed to merely disclosing information). On January 21, 2021, after conclusion of the evidence phase in the arbitration, and after the Company already filed its summaries, SuperCom submitted new documents claiming that these include the missing financial information. Following the submission of these documents, on February 9, 2021, the Company submitted an application claiming that implementing the contractual sanction mechanism on the amounts presented in these documents testifies to the Company's entitlement to the maximum earn-out amount, and, therefore, the arbitrator was requested to order that the parties will complete their summaries and then a verdict will be given. On March 8, 2021, the arbitrator accepted the Company's application and on April 11, 2021, the Company submitted complementary summaries. Following an arbitration process between the Company and SuperCom, on August 10, 2021, the parties entered into a settlement agreement that concluded the legal proceedings with SuperCom. For further details see Note 10D.

2. On March 29, 2021, the Company entered into an agreement (the "Sale Agreement") for the sale of 100% of the issued and outstanding share capital of its wholly owned Polish subsidiary, ASEC S.A. ("ASEC"), with Vector Software SP. Z O.O. (the "Buyer"). ASEC is headquartered in Krakow, Poland, and had been conducting the Company's Mass Transit Ticketing business in Europe.

The sale of ASEC was completed on April 21, 2021. The Company has determined that the Mass Transit Ticketing business qualifies as a discontinued operation. Accordingly, the results and the cash flows of this operation for all reporting periods are presented in the statements of operations and in the statements of cash flows, respectively, as discontinued operations separately from continuing operations. In addition, assets and liabilities of the Polish subsidiary and assets and liabilities related to the Mass Transit Ticketing operation that have not yet been actually sold as of December 31, 2020, are presented as assets and liabilities held for sale in the balance sheets as of December 31, 2020.

The consideration for ASEC after reduction of some working capital adjustments, as agreed in April 2021, is approximately $2,700, out of which: (i) approximately $2,100 was transferred from the Buyer to ASEC at the end of March 2021 in order to repay Polish bank loans, out of which approximately $1,700 was repaid as of March 31, 2021 and a loan of approximately $400 was repaid at the beginning of April 2021 and (ii) $600 was paid by the Buyer to the Company in April 2021.

The Sale Agreement contains customary representations and warranties, as well as covenants, including an undertaking the Company provided not to compete with the business of ASEC for a period of five years after the closing and an undertaking to indemnify ASEC and the Buyer for certain damages. The Company's liability is limited to the purchase price actually paid by the Buyer.

US dollars, NIS and Euro in thousands, except share and per share data

Note 2 – Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The significant accounting policies followed in the preparation of the financial statements, applied on a consistent basis, are as follows:

A. Liquidity and Capital Resources

The Company has had recurring losses and cash outflows from operating activities. It has an accumulated deficit as of December 31, 2021 of $234,624 and a shareholder's equity deficit of $1,502. As of December 31, 2021 the Company also has a payable balance on its short-term bank loan, that is due within the next 12 months of $2,095 and a convertible short-term loan from shareholders (including a controlling shareholder) including accrued interest, of $1,745. On January 10, 2022, the Company filed the petition with the Court, seeking protections from its creditors in accordance with the Israeli Insolvency and Economic Rehabilitation Law-2018, after the Company's Board of Directors determined that the Company is insolvent from a cash flow perspective. However, following the signing of the Term Sheet with Nayax, as mentioned in Note 1A, such Petition was dismissed. At the end of January 2022, the Company signed the agreement relating to the Nayax Loan in amount of $5,500, as mentioned in Note 1A, and received the proceeds from this Nayax Loan. Consequently, all amounts due under the convertible loan from shareholders (including the Company's controlling shareholder) and the bank loan, were paid in full. In addition, Nayax has provided the Company with a full guarantee for a $2,000 short-term loan provided to the Company by a bank at the end of February 2022, and additional guarantees to the Company's suppliers and subcontractors to allow it to maintain its ongoing production and sale of its products.

Since inception, the Company's principal sources of liquidity have been revenues, proceeds from sales of equity securities (regarding to the issuance of shares during the reporting period, see Note 12), borrowings from banks, government and shareholders, including convertible loans, proceeds from the exercise of options and warrants as well as proceeds from the divestiture of parts of the Company's businesses. The Company had cash and cash equivalents of $815 as of December 31, 2021.

The ongoing situation in Poland resulting from the coronavirus ("COVID-19") pandemic, led to an almost complete stop to the Company's Mass Transit Ticketing sales business, which negatively impacted the Company's cash flow. On April 21, 2021, the Company completed the sale of ASEC, including its Mass Transit Ticketing activity, as disclosed in Note 1B(2). The results, including the revenues, and the cash flows of the Mass Transit Ticketing operation for all reporting periods are presented in the statements of operations and in the statements of cash flows, respectively, as discontinued operations separately from continuing operations.

Note 2 – Significant Accounting Policies (cont'd)

A. Liquidity and Capital Resources (cont’d)

In the event where the Merger, as mentioned in Note 1A, is not completed, under certain circumstances, the Company will be required to pay Nayax a termination fee of $1,500. Furthermore, non-completion of the merger would be considered an “event of default” under the Nayax Loan Agreement, which can result in Nayax’s requirement for an immediate repayment of the Nayax Loan, or an increase of the annual interest on the Nayax Loan from 10% to 16% interest, at Nayax’s sole discretion. At any time after the earlier of (i) an event of default, as contemplated in the Nayax Loan Agreement, or (ii) the completion of the Merger Agreement, and prior to the repayment of the Nayax Loan which shall be due and payable in full by the Company on the second anniversary of the Effective Date, Nayax is entitled, at its sole discretion, to convert the Nayax Loan into ordinary shares of the Company at a price per share equal to $0.043. The Company will also be required to repay the bank loan provided with Nayax’s guarantee and would be exposed to a risk of not being able to conduct the Company’s business due to the loss of the guarantees provided by Nayax to the Company’s suppliers and subcontractors. Based on the projected cash flows and the Company’s cash balances as of December 31, 2021, the Company believes that without: (1) the completion of the Merger and increase of the Company’s cash by receiving additional loans from Nayax (at Nayax’s sole discretion) under the terms set under the Nayax Loan Agreement; or (2) other increase in the Company’s cash, the Company will not have sufficient resources to enable it to continue its operations for a period of at least the next 12 months, and may need to commence insolvency proceedings. As a result, there is a substantial doubt regarding the Company’s ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

In connection with the outbreak of COVID-19, the Company has taken steps to protect its workforce in Israel, South Africa, the United States, Poland, and elsewhere. Such steps include working from home where possible, minimizing face-to-face meetings, utilizing video conferencing as much as possible, social distancing at facilities and elimination of most international travel. The Company continues to comply with all local health directives.

The global shortage in components, which caused an increase in components prices, freight cost and longer lead-time, created a delay in fulfilling customers’ orders which adversely impacted the Company’s revenues and product gross margin, mainly in the Retail segment. As a response to this business environment, the Company encouraged its customers to provide a forecast for their demand. The Company continues to maintain a comprehensive network of world-wide suppliers in order to optimize its access to critical components. As long as the COVID-19 pandemic continues, and possibly also thereafter, the components’ lead-time may be longer than normal, and the shortage in components may continue or get worse.

It is difficult to predict with certainty what other impacts the COVID-19 pandemic may have on the Company.

Note 2 - Significant Accounting Policies (cont'd)

B. Financial statements in U.S. dollars

Substantially all of the Company's and certain of its subsidiaries' revenues are in U.S. dollars. A significant portion of purchases of materials, components and marketing costs are denominated in U.S. dollars. Therefore, both the functional and reporting currencies of the Company and certain of its subsidiaries are the U.S. dollar.

Transactions and balances denominated in U.S. dollars are presented at their original amounts.

For entities with a U.S. dollar functional currency, transactions and balances in other currencies are remeasured into U.S. dollars in accordance with the principles set forth in Accounting Standards Codification ("ASC") Topic 830, *Foreign Currency Matters*, i.e. at the date the transaction is recognized, each asset, liability, or instance of revenue, expense, gain, or loss arising from the transaction is measured and recorded in the functional currency by use of the exchange rate in effect at that date. When translation using the exchange rates at the dates that the numerous revenues, expenses, gains and losses are recognized is impractical, an appropriately weighted average exchange rate for the period is used to translate those elements.

At each balance sheet date, recorded balances of monetary assets and liabilities that are denominated in a currency other than the functional currency are adjusted to reflect the current exchange rate. Exchange gains and losses from the remeasurement of such items denominated in non U.S. dollar currencies are reflected in the consolidated statements of operations, among 'financial expenses, net', as appropriate.

The functional currency of the Company's subsidiary in South Africa is the U.S. dollar. The functional currency of the Polish subsidiary is its local currency. The financial statements of companies with a functional currency that is not the U.S. dollar are translated into U.S. dollars using the exchange rate at the balance sheet date for assets and liabilities, and weighted average exchange rates for revenues and expenses (which approximates the translation of each transaction). Translation adjustments resulting from the process of the aforesaid translation are included as a separate component of equity (accumulated other comprehensive gain or loss).

C. Principles of consolidation

The consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiaries. Intercompany transactions and balances have been eliminated in consolidation.

D. Estimates and assumptions

The preparation of the consolidated financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. Such estimates include the valuation of useful lives of long-lived assets, revenue recognition, discontinued operations, valuation of accounts receivable and allowance for doubtful accounts, valuation of inventories, legal contingencies, the assumptions whether renewal options of lease period of buildings will be exercised in the future, the assumptions used in the calculation of stock-based compensation, income taxes and other contingencies. Estimates and assumptions are periodically reviewed by management and the effects of any material revisions are reflected in the period that they are determined to be necessary. Actual results, however, may vary from these estimates.

Note 2 - Significant Accounting Policies (cont'd)

E. Cash equivalents

Cash equivalents are short-term highly liquid investments and debt instruments that are readily convertible to cash with original maturities of three months or less from the date of purchase. Bank deposits with original maturities of more than three months, or specific deposits that are intended to be held as bank deposits for more than three months, and which will mature within one year, are classified as short-term investments.

F. Trade receivables

Trade receivables are recorded at the invoiced amount and do not bear interest. Collections of trade receivables are included in net cash provided by operating activities in the consolidated statements of cash flows. The consolidated financial statements include an allowance for loss from receivables for which collection is in doubt. In determining the adequacy of the allowance consideration is given to each trade receivable historical experience, aging of the receivable, adjusted to take into account current market conditions and information available about specific debtors, including their financial condition, current payment patterns, the volume of their operations, and evaluation of the security received from them or their guarantors.

G. Short-term investments

Short-term investments consist of:

(1) Bank deposits whose maturities are longer than three months from the date of purchase, but not longer than one year from the balance sheet date.

(2) Bank deposits whose maturities are less than three months from the date of purchase, but are intended to be held as bank deposits for more than three months.

(3) Restricted bank deposits whose maturities are not longer than one year from the balance sheet date (for further details, see Note 10B).

H. Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined by calculating raw materials, work in process and finished products on a "moving average" basis. Net realizable value is defined as the “estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation.” Inventory write-offs are provided to cover risks arising from slow moving items or technological obsolescence. Such write-offs have been included in cost of revenues.

I. Property, plant and equipment, net

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets as follows:

	Years
Computers, software and manufacturing equipment	3-5
Office furniture and equipment	5-16
	(mainly - 10)

Leasehold improvements are amortized by the straight-line method over the shorter of the lease term or the estimated useful economic life of such improvements.

US dollars, NIS and Euro in thousands, except share and per share data

Note 2 - Significant Accounting Policies (cont'd)

J. Impairment of long-lived assets

Long-lived assets, such as right-of-use assets due to operating leases, property, plant, and equipment, and intangible assets subject to amortization, are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset to be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

K. Revenue recognition

The Group generates revenues from product sales manufactured based on the Company's technology. In addition, the Company generates revenues from the technology it developed through SaaS arrangements, transaction fee arrangements and licensing agreements. Revenues are also generated from non-recurring engineering, customer services and technical support.

Topic 606 requires entities to follow a five-step process:

(1) Identify the contract(s) with a customer,

(2) Identify the performance obligations in the contract,

(3) Determine the transaction price,

(4) Allocate the transaction price to the performance obligations in the contract, and

(5) Recognize revenue when (or as) the entity satisfies a performance obligation.

The Company accounts for a contract with a customer when it has approval and commitment from both parties, the rights of the parties and payment terms are identified, the contract has commercial substance and collectability of consideration is probable.

For each contract, the Company exercises judgement to identify separate performance obligations and to evaluate, at the inception of the contract, if each distinct performance obligation within the contract is satisfied at a point in time or over time.

Revenue is measured based on a consideration specified in a contract with a customer, and excludes any sales incentives and amounts collected on behalf of third parties.

In certain arrangements with variable consideration, the Company exercises judgement in order to estimate the amount of variable consideration to be included in the transaction price. In these arrangements, revenue is recognized over time as it is mainly attributed to ongoing services provided.

Revenue is allocated among performance obligations in a manner that reflects the consideration that the Company expects to be entitled for the promised goods or services based on standalone selling prices "SSP". SSP are estimated for each distinct performance obligation and judgment may be required in their determination. The best evidence of SSP is the observable price of a product or service when the Company sells the goods separately in similar circumstances and to similar customers.

The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. For an analysis of the performance obligations and the timing of revenue recognition, for each type of the contract, see also Note 11.

In addition, when the Company has an unconditional right to receive proceeds before the performance obligation was fulfilled, it is required to record receivables against contract liabilities.

Notes to the Consolidated Financial Statements

US dollars, NIS and Euro in thousands, except share and per share data

Note 2 - Significant Accounting Policies (cont'd)

L. Research, development costs and intangible assets

Research and development costs, which consist mainly of labor costs, materials and subcontractors, are charged to operations as incurred.

In accordance with ASC Topic 350-40, "*Internal Use Software*", the former subsidiary in Poland, ASEC, capitalized certain internal use software development costs associated with creating and enhancing internally developed software related to its operations. Software development activities generally consisted of three stages (i) the research and planning stage, (ii) the application and development stage, and (iii) the post-implementation stage. Costs incurred in the research and planning stage and in the post-implementation stage were expensed as incurred. Costs incurred in the application and infrastructure development stage were capitalized. These costs included personnel and related employee benefits expenses for employees who are directly associated with the software development. These capitalized costs were amortized on a straight-line basis over the estimated useful life of 5 years upon initial release of the software. The capitalized internal use software development costs, net of accumulated amortization, were $370 as of December 31, 2020, and presented as held for sale. Amortization expenses derive from the capitalized internal use software development costs were presented within discontinued operations in the consolidated statements of operations for all reporting periods in those financial statements.

According to ASC Topic 350, "*Intangibles - Goodwill and Other*," software that is part of a product or process to be sold to a customer shall be accounted for under ASC Subtopic 985-20. The Company's products contain embedded software which is an integral part of these products because it allows the various components of the products to communicate with each other and the products are clearly unable to function without this coding. The costs of product certification are capitalized once technological feasibility is determined. The Company determines that technological feasibility for its products is reached after all high-risk development issues have been resolved. Once the products are available for general release to the Company's customers, the Company ceases capitalizing the product certification costs and all additional costs, if any, are expensed. The capitalized product certification costs are amortized on a product-by-product basis using straight-line amortization, over a period of 3 years. The amortization begins when the products are available for general release to the Company's customers. As of December 31, 2021, the capitalized certification costs, net of accumulated amortization, are $162 (as of December 31, 2020 - $247).

Amortization expenses amounted to $157 and $180 for the years ended December 31, 2021 and 2020, respectively. The amortization is presented within research and development in the consolidated statements of operations.

US dollars, NIS and Euro in thousands, except share and per share data

Note 2 - Significant Accounting Policies (cont'd)

M. Stock-based compensation

The Company measures and recognizes compensation expense for all stock-based payment awards made to employees and directors based on estimated grant date fair values. The estimated fair value of awards is charged to income on a straight-line basis over the requisite service period, which is generally the vesting period.

ASC Topic 718, *Compensation – Stock Compensation* ("ASC Topic 718"), requires estimating the fair value of stock-based payments awards on the date of the grant using an option pricing model.

The Company estimates forfeitures based on historical experience.

The Company elected to recognize compensation cost for awards with only service conditions that have a graded vesting schedule using the straight-line method.

N. Basic and diluted net loss per share

Basic and diluted net loss per ordinary share is computed based on the weighted average number of ordinary shares outstanding during each year. Shares issuable for little or no cash consideration, are considered outstanding ordinary shares and included in the computation of basic net loss per ordinary share as of the date that all necessary conditions have been satisfied. In years that discontinued operations are presented, the Company uses income from continuing operations (attributable to the parent entity) as the benchmark to determine whether potential common shares are dilutive or antidilutive. Therefore, when the Company records a loss from continuing operations and the issuance of option shares would be anti-dilutive due to the loss, but the Company has net income from discontinued operations, potential shares are excluded from the diluted calculation even though the effect on net income from discontinued operations would be dilutive.

Stock options and restricted shares awards in the aggregate amount of 17,700,354 (out of which 14,065,854 that derived from the convertible loan from shareholders expired subsequent to the balance sheet date following its repayment) and 6,483,656 outstanding as of the years ended December 31, 2021 and 2020, respectively, have been excluded from the calculation of the diluted net loss per ordinary share because all such securities have an anti-dilutive effect for those periods presented.

At the beginning of the second quarter of 2021, the Company offered its shareholders rights to purchase additional ordinary shares as part of a rights offering (the "Rights Offering"). The Rights Offering was concluded on May 19, 2021 by issuance of ordinary shares, as mentioned in Note 12. The Rights Offering included an offer to all existing shareholders of the Company rights to purchase additional ordinary shares in consideration for a lower exercise price than the quoted share price on the OTCQX, which reflects a bonus element that is similar to a stock dividend. Therefore, basic and diluted net losses attributable to shareholders per ordinary share ("EPS") was adjusted retroactively for the bonus element for all periods presented. In computing the adjustment factor to the EPS, the theoretical ex-rights fair value per share was computed by adding the aggregate fair value of the shares immediately prior to the exercise of the rights to the proceeds from the exercise of the rights and dividing by the number of shares outstanding after the exercise of the rights. The resulting adjusted factor was approximately 1.07 for the year ended December 31, 2020.

Note 2 - Significant Accounting Policies (cont'd)

O. Fair value of financial instruments

The Company's financial instruments consist mainly of cash and cash equivalents, short-term interest bearing investments, accounts receivable, restricted deposits for employee benefits, accounts payable and short-term and long-term loans.

Fair value for the measurement of financial assets and liabilities is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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 liability. The Company utilizes a valuation hierarchy for disclosure of the inputs for fair value measurement. This hierarchy prioritizes the inputs into three broad levels as follows:

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.

- Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

By distinguishing between inputs that are observable in the market place, and therefore more objective, and those that are unobservable and therefore more subjective, the hierarchy is designed to indicate the relative reliability of the fair value measurements. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The Company, in estimating fair value for financial instruments, determined that the carrying amounts of cash and cash equivalents, trade receivables, short-term bank credit, convertible loan and trade payables are equivalent to, or approximate their fair value due to the short-term maturity of these instruments. The carrying amounts of variable interest rate long-term loans are equivalent or approximate to their fair value as they bear interest at approximate market rates. The liabilities held for sale as of December 31, 2020, included a long-term loan, that did not bear any interest, but taking into account the schedule of its maturities, its amount and the relatively low market rates, the difference between its carrying amount and its fair value was insignificant.

Derivatives

Embedded derivatives are separated from the host contract and carried at fair value when (1) the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract and (2) a separate, standalone instrument with the same terms would qualify as a derivative instrument. The derivative is measured both initially and in subsequent periods at fair value, with changes in fair value charged to financial expenses, net. As to embedded derivatives arising from the issuance of convertible debentures, see Note 9. Transaction expenses related to the embedded derivatives are recognized as financial expenses at the date of the initial recognition.

Notes to the Consolidated Financial Statements

US dollars, NIS and Euro in thousands, except share and per share data

Note 2 - Significant Accounting Policies (cont'd)

P. Income tax

The Company accounts for taxes on income in accordance with ASC Topic 740, *Income Taxes*. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statement of operations in the period that includes the enactment date. The Company provides a valuation allowance to reduce deferred tax assets to the amount that is more likely than not to be realized.

The Company recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Recognized income tax positions are measured at the largest amount that is greater than 50 percent likely of being realized.

The Company accounts for interest and penalties as a component of income tax expense.

Q. Severance pay

The Company’s liability for severance pay for some of its Israeli employees is calculated pursuant to Israeli Severance Pay Law, 1963 (the “Israeli Severance Pay Law”) based on the most recent salary of the employee multiplied by the number of years of employment, as of the balance sheet date. Those employees are entitled to one month’s salary for each year of employment or a portion thereof. Certain senior executives were entitled to receive additional severance pay. The Company records the liability as if it were payable at each balance sheet date on an undiscounted basis. The liability is classified based on the expected date of settlement, and therefore is usually classified as a long-term liability, unless the cessation of the employees is expected during the upcoming year.

The Company’s liability for those Israeli employees is partially provided for by monthly deposits for insurance policies and the remainder by an accrual. The value of these policies is recorded as an asset in the Company’s balance sheet.

The deposited funds include profits and losses accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to the Israeli Severance Pay Law or labor agreements. The value of the deposited funds is based on the cash redemption value of these policies. In addition, the Company has deposited certain amounts with a trustee, to compensate for any severance pay liability that is not covered by other funds. These deposits are restricted and may be withdrawn only for payment of severance pay liabilities. The severance pay funds and the restricted deposits for employee benefits are classified based on the classification of the corresponding liability.

In respect of other Israeli employees, the Company acts pursuant to the general approval of the Israeli Ministry of Labor and Welfare, pursuant to the terms of Section 14 of the Israeli Severance Pay Law, according to which the current deposits with the pension fund and/or with the insurance company exempt the Company from any additional obligation to these employees for whom the said depository payments are made. These deposits are accounted as defined contribution payments.

Severance pay expenses for the years ended December 31, 2021 and 2020 amounted to $280 and $249, respectively. Defined contribution plan expenses were $235 and $224 in the years ended December 31, 2021 and 2020, respectively.

US dollars, NIS and Euro in thousands, except share and per share data

Note 2 - Significant Accounting Policies (cont'd)

R. Advertising expenses

Advertising expenses are charged to the statements of operations as incurred. Advertising expenses as presented within the results of the continuing operations for the years ended December 31, 2021 and 2020 amounted to $120 and $250, respectively.

S. Concentrations of credit or business risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash equivalents, bank deposits and trade receivables.

Cash equivalents are invested mainly in U.S. dollars with major banks in Israel and Europe. Management believes that the financial institutions that hold the Group’s investments are financially sound and, accordingly, minimal credit risk exists with respect to these investments.

Most of the Company’s trade receivables are derived from sales to large and financially secure organizations. In determining the adequacy of the allowance, management bases its opinion, inter alia, on the estimated risks, current market conditions and in reliance on available information with respect to the debtor's financial position. As for major customers, see Note 16. The Company acquires certain components of its products from single source manufacturers.

The activity in the allowance for doubtful accounts for the years ended December 31, 2021 and 2020 is as follows:

	2021	2020
Allowance for doubtful accounts at beginning of year	$ 620	$ 570
Additions charged to allowance for doubtful accounts	3	109
Write-downs charged against the allowance	(14)	(82)
Other	5	23
Allowance for doubtful accounts at end of year	$ 614	$ 620

T. Commitments and contingencies

Liabilities for loss contingencies arising from claims, assessments, litigations, fines and penalties and other sources are recognized when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated. Loss recovery related to recovery of a loss when the recovery is less than or equal to the amount of the loss recognized in the financial statements is recognized if collection is probable and estimable. Gain contingencies are recognized only when resolved.

US dollars, NIS and Euro in thousands, except share and per share data

Note 2 - Significant Accounting Policies (cont'd)

U. Business divestures

As described in Note 1B, the Company has sold certain operations. Upon reaching a definitive agreement with an acquirer, the Company recognizes the consideration received from the divesture, less all assets and liabilities sold, as a gain or loss.

Discontinued operations

Upon divesture of a business, the Company classifies such business as a discontinued operation, if the divested business represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results.

For disposals other than by sale such as abandonment, the results of operations of a business would not be recorded as a discontinued operation until the period in which the business is actually abandoned.

The Mass Transit Ticketing divesture and the SmartID Division divesture qualify as discontinued operations and therefore have been presented as such.

Assets and liabilities of discontinued operations that have not yet been actually sold are presented on the balance sheet as of the end of each reporting year in one line.

The results of businesses that have qualified as discontinued operations have been presented as such for all reporting periods. Results of discontinued operations include all revenues and expenses directly derived from such businesses; general corporate overhead is not allocated to discontinued operations.

Any loss or gain that arose from the divesture of a business that qualifies as discontinued operations has been included within the results of the discontinued operations.

The Company also presents cash flows from discontinued operations separately from cash flows of continuing operations.

Contingent consideration

The Company’s sale arrangements consist of contingent consideration based on the divested businesses’ future sales or profits. The Company records the contingent consideration portion of the arrangement when the consideration is determined to be realizable. As of December 31, 2021, there is no outstanding contingent consideration following a settlement agreement that concluded the legal proceedings with SuperCom, as disclosed in Note 10D.

US dollars, NIS and Euro in thousands, except share and per share data

Note 2 - Significant Accounting Policies (cont'd)

V. Restricted Cash and Cash Equivalents in Statement of Cash Flows

The Company implements the Accounting Standards Update ("ASU") 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires amounts generally described as restricted cash and restricted cash equivalents to be included within cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown in the statement of cash flows.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash and cash equivalents reported within the accompanying consolidated balance sheets that sum to the total of the same such amounts presented in the accompanying consolidated statements of cash flows:

	December 31	
	2021	**2020**
Cash and cash equivalents (*)	$ 815	$ 2,394
Restricted cash, cash equivalents and bank deposit	105	105
Total cash, cash equivalents, and restricted cash and cash equivalents presented in the statements of cash flows	$ 920	$ 2,499

(*) Including cash and cash equivalents held for sale. See Notes 1B(2) and 14.

W. Leases

The Company recognizes lease expenses according to the lease standard ASC 842 *Lease*, and related amendments.

The Company determines if an arrangement is a lease at inception. Lease classification is governed by five criteria in ASC 842-10-25-2. If any of these five criteria is met, The Company classifies the lease as a finance lease; otherwise, the Company classifies the lease as an operating lease. When determining lease classification, the Company's approach in assessing two of the mentioned criteria is: (i) generally 75% or more of the remaining economic life of the underlying asset is a major part of the remaining economic life of that underlying asset; and (ii) generally 90% or more of the fair value of the underlying asset comprises substantially all of the fair value of the underlying asset.

Operating leases are included in operating lease right-of-use ("ROU") assets and operating lease liabilities in the consolidated balance sheet.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. The Company uses its incremental borrowing rate based on the information available at the commencement date to determine the present value of the lease payments.

The standard also provides practical expedients for an entity's ongoing accounting.

The Company elected the practical expedient to not separate lease and non-lease components for all of the Company's leases, other than leases of real estate. Additionally, following the adoption of ASU 2016-02 and in subsequent measurements, the Company applies the portfolio approach to account for the operating lease right-of-use assets and liabilities for certain leases and incremental borrowing rates.

Note 2 - Significant Accounting Policies (cont'd)

X. Recently Adopted Accounting Pronouncements

In December 2019, the Financial Accounting Standards Board ("FASB") issued ASU 2019-12, *Income Taxes (Topic 740) ("ASU 2019-12"): Simplifying the Accounting for Income Taxes*, which simplifies the accounting for income taxes. This ASU, among other things, removes the exception to the incremental approach for intra-period allocation of tax expense when a company has a loss from continuing operations and income from other items that are not included in continuing operations, such as income from discontinued operations, or income recorded in other comprehensive income. The general rule under ASC 740-20-45-7 is that the tax effect of pretax income or loss from continuing operations should be determined by a computation that does not consider the tax effects of items that are not included in continuing operations. Previously, companies could consider the impact on a loss from continuing operations of items in discontinued operations or other comprehensive income. However, under the amended guidance, companies should not consider the effect of items outside of continuing operations in calculating the tax effect on continuing operations. The Company adopted ASU 2019-12 as of January 1, 2021. The adoption of this accounting standard did not have a material effect on the Company's financial position, results of operations and cash flows.

Y. Recent accounting pronouncements

1. In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326)* ("ASU 2016-13"). The main objective of this ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this ASU replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments affect entities holding financial assets and net investments in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. ASU 2016-13 is effective for the Company for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018. The Company currently does not expect the adoption of this accounting standard will have a material impact on its consolidated financial statements.

2. In August 2020, the FASB issued ASU 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40)*. This pronouncement simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity's own equity. Specifically, the ASU simplifies accounting for convertible instruments by removing major separation models required under current accounting standard. In addition, the ASU removes certain settlement conditions that are required for equity contracts to qualify for it and simplifies the diluted earnings per share calculations in certain areas. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021. Early adoption is permitted for annual period beginning after December 15, 2020. The Company is currently evaluating this guidance to determine the impact it may have on its consolidated financial statements.

US dollars, NIS and Euro in thousands, except share and per share data

Note 2 - Significant Accounting Policies (cont'd)

Y. Recent accounting pronouncements (cont’d)

3. In November 2021, the FASB issued ASU 2021-10, *Government Assistance (Topic 832)*, which requires annual disclosures that increase the transparency of transactions involving government grants, including (1) the types of transactions, (2) the accounting for those transactions, and (3) the effect of those transactions on an entity’s financial statements. The amendments in this update are effective for financial statements issued for annual periods beginning after December 15, 2021. The Company is currently evaluating this guidance to determine the impact it may have on its consolidated financial statements.

Note 3 – Short-term and long-term deposits

Balances at December 31, 2021 and 2020 consist of bank deposits. The bank deposits bear weighted average annual interest of 0.55% as of December 31, 2021 (As of December 31, 2020 – 0.8%).

See Note 10B as to restrictions on certain deposits.

Note 4 - Other Receivables and Prepaid Expenses

	December 31	
	2021	**2020**
Government institutions	$ 149	$ 104
Prepaid expenses	166	257
Suppliers advance	791	227
Other receivables	53	107
	$ 1,159	$ 695

Note 5 - Inventories

	December 31	
	2021	**2020**
Raw materials	$ 1,617	$ 926
Finished products	1,583	1,553
	$ 3,200	$ 2,479

Note 6 - Property, Plant and Equipment, Net

A. Consist of:

	December 31	
	2021	**2020**
Cost		
Leasehold improvements	$ 238	$ 245
Computers, software and manufacturing equipment	7,694	7,591
Office furniture and equipment	192	193
Motor vehicles	177	146
Total cost	8,301	8,175
Total accumulated depreciation	7,628	7,423
	$ 673	$ 752

US dollars, NIS and Euro in thousands, except share and per share data

Note 6 - Property, Plant and Equipment, Net (cont'd)

B. As to liens - See Note 10B.

C. Depreciation expenses amounted to $221 and $239 for the years ended December 31, 2021 and 2020, respectively.

Note 7 - Other Current Liabilities

	December 31	
	2021	**2020**
Employees and related expenses	$ 977	$ 516
Accrued expenses	1,060	811
Customer advances	64	142
Short-term liabilities due to operating leases and current maturities	691	762
Other current liabilities	40	52
	$ 2,832	$ 2,283

Note 8 - Bank Loans

A. **Composition of long-term loans:**

	December 31	
	2021	**2020**
Long-term loans (*)	$ 26	$ 15
Less - current maturities	5	1
	$ 21	$ 14

(*) As of December 31, 2021 and 2020, the bank loans are denominated in South African Rand.

B. **Composition of short-term loans, bank credit and current maturities of long-term loans:**

		December 31	
	Interest rate (*)	**2021**	**2020**
In NIS	4. 9	2,090	541
		2,090	541
Current maturities of long-term loans		5	1
		$ 2,095	$ 542

(*) Interest in arrears as of December 31, 2021 – 11.2%. The bank credit was repaid subsequent to the balance sheet date - See Note 19.

C. Liens for short-term and long-term loans - see Note 10B.

D. As of December 31, 2021, the Group has authorized unused credit lines of $63.

Note 9 - Convertible short-term loan from a controlling shareholder

On December 9, 2020, the Company entered into a loan financing agreement (the “Loan Agreement”), with Jerry L. Ivy, Jr., Descendants’ Trust (“Ivy”, or the “Lender”), the Company’s Controlling Shareholder (as such term is defined under the Israeli Companies Law, 5759-1999, as amended (the “Companies Law”)). The Loan Agreement provides that the Lender will extend a loan to the Company in the amount of up to $1,500 (the “Loan Amount”), payable in two tranches: one of $625 at the initial closing that took place on December 17, 2020, and the other of $875 at the second closing that took place on January 28, 2021. The amount lent under the Loan Agreement was secured pursuant to a debenture by a first priority floating charge over all the Company’s tangible or intangible assets and other property, the Company owns, subject only to certain permitted security interests, as set forth in Loan Agreement. The amount lent under the Loan Agreement and all accrued interest was scheduled to mature on June 17, 2021 (the “Initial Maturity Date”), and was to be payable in full on the Initial Maturity Date, provided that the maturity date could be extended by six months, unless extended in writing and in advance at the sole option of Ivy, for such time from the initial closing. The amount lent bore interest on all outstanding principal at an interest rate of 8.0% per annum, (the “Interest”); provided, however, that upon an extension of the maturity period beyond the Initial Maturity Date, the Interest would automatically increase, effective as of the Initial Maturity Date, to the rate of 10.0% per annum. Also, in case of an extension of the Initial Maturity Date, the accrued interest for the first six months for which the Loan Amount had been outstanding would be payable by the Company to the Lender at the time of the extension, and the accrued Interest for the extension period was to be payable by the Company on the extended maturity date. In addition, the Company could repay the amount lent, in whole and not in part, and any accrued Interest thereon, at any time prior to the Initial Maturity Date (as it may be extended), in its sole discretion. On March 2, 2021, the Company obtained shareholders’ approval to the grant of a right to Ivy, pursuant to which, at any time prior to the repayment in full of the amount lent, together with Interest accrued and all other amounts outstanding under the Loan Agreement (the “Secured Amount”), Ivy would be entitled, at its sole discretion, to demand to convert (the “Conversion Right”) the entire Secured Amount into the Company’s ordinary shares, at a price per share equal to the lower of (a) $0.20 per share (subject to adjustment in the event of any bonus shares, combinations or splits) and (b) a price per share reflecting a discount to the average closing bid price of an ordinary share over the 20 trading days preceding the Initial Closing (the “Benchmark Price”) ($0.248), as follows: (i) if conversion occurs until March 17, 2021 (no later than three months after the initial closing), the conversion price per share will be $0.1984 (reflects discount of 20% of the Benchmark Price); (ii) if conversion occurs between March 18, 2021, and June 17, 2021 (more than three months but no later than six months after the initial closing), the conversion price per share will be $0.1736 (reflects discount of 30% of the Benchmark Price); (iii) if conversion occurs after June 17, 2021 (more than six months after the initial closing (to the extent extended in accordance with the terms of the Loan Agreement)), the conversion price per share will be $0.124 (reflects discount of 50% of the Benchmark Price); and (iv) if conversion occurs upon an event of default, the conversion price per share will be $0.124 (reflects discount of 50% of the Benchmark Price).

Pursuant to the Loan Agreement, the Conversion Right would become effective only following the approval thereof by the shareholders of the Company in accordance with the requirements of the Companies Law, which approval applies to a controlling shareholder transaction that includes a private offering that may increase the holdings of a controlling shareholder to and above 45% of the share capital of the Company, and would be deemed of no force or effect at any time prior to obtaining such Shareholders' Approval, if at all. The Company obtained such shareholders’ approval on March 2, 2021.

The Loan Agreement included customary events of default, including, among others, failures to repay any amounts due to the Lender, breaches or defaults under the terms of the Loan Agreement, etc. If an event of default occurred, the Secured Amount would immediately become due and payable, without the need for any notice by the Lender.

US dollars, NIS and Euro in thousands, except share and per share data

Note 9 - Convertible short-term loan from a controlling shareholder (cont'd)

The Loan Agreement was subsequently amended to allow for an additional lender (the "Additional Lender") to lend $100 under the same terms as Ivy. Accordingly, the aggregate gross amount the Company received under the Loan Agreement was $1,600, out of which $975 took place as part of the second closing on January 28, 2021.

On June 17, 2021, the Lender, being the majority of the lenders, exercised its option to extend the Initial Maturity Date, and the parties entered into a notice of exercise of option and agreement (the "Extension Agreement"), according to which the maturity date was extended until December 17, 2021 (the "Extended Maturity Date"). On December 16, 2021, the Lender exercised its option to extend the maturity date for the second time, and the parties entered into a second notice of exercise of option and agreement (the "Second Extension Agreement"), according to which the maturity date was further extended until January 28, 2022 (the "Second Extended Maturity Date", and the "Second Extended Maturity Period", as applicable). The Loan Amount had been bearing interest on all outstanding principal at an interest rate of 8.0% per annum up until the Maturity Date. During the Extended Maturity Period, the loan has been accrued interest on all outstanding principal and unpaid interest at an interest rate of 10% per annum, and it was agreed that the interest rate during the Second Extended Maturity Period would continue to bear interest at a rate of 10% per annum. The amount of interest on the Loan Amount accrued through December 17, 2021 was $138 (the "Interest Debt"). Any payment of interest was subject to withholding of taxes at source and the interest rates mentioned above were net of such withholding. Under the Second Extension Agreement, it was agreed that the Interest Debt would be payable on the Second Extended Maturity Date, while until then it would be considered part of the Loan Amount and would bear the Extension Interest rate. In the event of a conversion of the Loan amount, the Loan Amount and Interest Debt (if not otherwise paid by the Company) was to convert into ordinary shares of the Company at the conversion price of $0.124, as originally contemplated under the Loan Agreement.

As of December 31, 2021, the Secured Amount was $1,745, out of which $145 was accrued interest. On January 28, 2022, subsequent to the balance sheet date, the Secured Amount of $1,758 (including accrued interest of $158) was repaid to the Lender and the Additional Lender - See Note 19.

In accordance with ASC 815-15-25**,** Derivatives and Hedging, the conversion feature ("the conversion component") was considered an embedded derivative instrument. Since, as described above, the conversion component was required to be approved by the shareholders of the Company, the conversion component did not qualify for the scope exception under ASC 815-10-15-74(a). Therefore, the conversion component is to be recorded separately from the loan component. The conversion component is measured both initially and in subsequent periods until obtaining the shareholders' approval of the Conversion Right, at fair value, with changes in fair value charged to finance expenses, net.

The fair value of the conversion component at the initial closing, December 17, 2020, was estimated using the Trinomial model based on the assumptions, as follows:

Expected volatility (%)	125.2%
Risk-free interest rate (%)	0.09%
Expected dividend yield	0%
Contractual term (years)	0.500
Conversion price (US dollars per share)	0.124
Underlying Share price (US dollars per share)	0.220

Based on the Trinomial model, the fair value of the conversion component of the initial closing was $617 as of December 17, 2020. Accordingly, the loan component at the initial closing was $8 as of December 17, 2020.

There were no significant changes in the model assumptions as of December 31, 2020, compared to the assumptions as of December 17, 2020, as mentioned above. Therefore, the conversion component and the loan component were $617 and $8, respectively, as of December 31, 2020. Both components were presented as Convertible short-term loan from a controlling shareholder within the short-term liabilities as of December 31, 2020.

US dollars, NIS and Euro in thousands, except share and per share data

Note 9 - Convertible short-term loan from a controlling shareholder (cont'd)

The fair value of the conversion component at the second closing, January 28, 2021, was estimated using the Trinomial model based on the assumptions, as follows:

Expected volatility (%)	103.23%
Risk-free interest rate (%)	0.075%
Expected dividend yield	0%
Contractual term (years)	0.386
Conversion price (US dollars per share)	0.124
Underlying Share price (US dollars per share)	0.240

Based on the Trinomial model, the entire proceeds of the second closing in amount of $975 were allocated to the conversion component and the residual balance of the of the loan component of the second closing is zero.

The table below summarizes the balances of the conversion components and the loan components of the initial closing and the second closing, as follows:

	Conversion component	Loan component	Total
Initial closing	$ 617	$ 8	$ 625
Second closing	975	-	975
	$ 1,592	$ 8	$ 1,600

On March 2, 2021, the Company obtained shareholders' approval of the Conversion Right. At this shareholders meeting date, the fair value of the conversion component of both the initial closing and second closing was estimated using the Trinomial model based on the assumptions, as follows:

Expected volatility (%)	107.34%
Risk-free interest rate (%)	0.044%
Expected dividend yield	0%
Contractual term (years)	0.296
Conversion price (US dollars per share)	0.124
Underlying Share price (US dollars per share)	0.390

The change in the fair value of the conversion component is as follows:

	Conversion component
Fair value before the shareholders' approval date	$ 1,592
Change in fair value (*)	1,974
Fair value at the shareholders' approval date	$ 3,566

(*) This amount is recorded as loss from change in fair value of embedded derivative as part of the financial expenses in the statements of operations of the year ended December 31, 2021.

Following the shareholders' approval of the Conversion Right on March 2, 2021, the conversion component is qualifying for the scope exception under ASC 815-10-15-74(a). In accordance with ASC 815-15-35-4, since the embedded conversion option in the convertible debt no longer meets the bifurcation criteria, the fair value of the conversion component, in the amount of $3,566, was reclassified from short-term liability to shareholders equity at this approval date.

The change in the balance of the Loan component following the shareholders' approval of the Conversion Right on March 2, 2021, is as follows:

	Loan component
Balance as of March 2, 2021	$ 8

Interest and amortization of debt discount and expense	1,737
Balance as of December 31, 2021	$ 1,745

Note 10 - Commitments and Contingencies

A. Royalties to the Israel Innovation Authority (the "IIA")

The Company has entered into several research and development agreements, pursuant to which the Company received grants from the IIA, and is therefore obligated to pay royalties to the IIA at a rate of 3%-3.5% of its sales up to the amounts granted (linked to the U.S. dollar with annual interest at LIBOR as of the date of approval, for programs approved from January 1, 1999 and thereafter). The total amount of grants received as of December 31, 2021, net of royalties paid, was approximately $3,400 (including accrued interest). No grants from the IIA were received during the two-year period ended December 31, 2021.

The United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced in July 2017 that it will no longer persuade or require banks to submit rates for LIBOR after 2021. In September 2021, the Bank of Israel, which determines annual interest rates, published a directive which stated that annual interest at a variable rate linked to the LIBOR rate for loans in U.S. dollars will be replaced by the Secured Overnight Financing Rate ("SOFR") in June 2023. It is not clear yet whether the IIA will replace the LIBOR with SOFR and when. It is not currently possible to determine precisely whether, or to what extent, the replacement of LIBOR with SOFR would affect the Company.

There is a dispute between the Company and the IIA in the amount of approximately NIS 3,600 ($1,158) including accrued interest (while the current debt to the IIA as presented in the Company's financial statements amounts to approximately $133) due to a claim of the IIA about miscalculations in the amount of royalties paid by the Company and the revenues on which the Company must pay royalties. The company has not yet completed its discussions with the IIA and intends to exhaust all options in order to resolve this matter in a favorable manner. Management believes that, at the current stage, it is more likely than not that a positive resolution will be applied to this dispute. Accordingly, no additional accrual has been recorded in the financial statements in respect of this matter.

During the years ended December 31, 2021 and 2020, there were no royalty expenses.

B. Liens

The Company and certain subsidiaries have recorded floating charges on all of its tangible assets in favor of banks and subsequent to the balance sheet date in favor of Nayax.

The Company's short-term deposits in the amount of $105 have been pledged as security in respect of guarantees granted. Such deposits cannot be pledged to others or withdrawn without the consent of the bank.

C. Guarantees

As of December 31, 2021, the Company granted a guarantee in amount of $113, with an expiration date in May 2024.

Note 10 - Commitments and Contingencies (cont'd)

D. Legal claims

1. In June 2013, prior to the Company's divestiture of its SmartID division, Merwell Inc. (“Merwell”) filed a claim against the Company before an agreed-upon arbitrator alleging breach of contract in connection with certain commissions claimed to be owed to Merwell with respect to the division’s activities in Tanzania. These activities, along with all other activities of the SmartID division, were later assigned to and assumed by SuperCom in its purchase of the division. SuperCom undertook to indemnify the Company and hold it harmless against any liabilities the Company may incur in connection with Merwell’s consulting agreement and the arbitration. An arbitration decision was issued on February 21, 2016, awarding Merwell approximately $855 for outstanding commissions, plus expenses and legal fees, as well as a right to receive additional information from the Company regarding an additional engagement period in Tanzania and a right to possibly receive additional amounts from the Company, if at all, according to the information that will be provided. The arbitration decision had been appealed and the appeal was denied on June 17, 2018. In order to collect the award, Merwell filed a motion against the Company and the Nazareth District Court issued a judgment requiring the Company to pay Merwell an amount of NIS 5,080 (approximately $1,370) that was paid by the Company on January 8, 2019.

   As mentioned above, based on the agreement with SuperCom from April 2016 (which was granted an effect of a court judgment), SuperCom is liable for all the costs and liabilities arising out of this claim. Since SuperCom failed to pay the Company the amounts due, in February 2019 the Company initiated an arbitration process to collect from SuperCom, the amount paid to Merwell, as well as any complementary amounts, as may be ordered in the future.

   Concurrently and subject to the fulfillment of the arbitration process between the Company and SuperCom, on August 10, 2021, the parties entered into a settlement agreement that concluded the legal proceedings with SuperCom. For further details see Notes 10E(2) below.

2. On June 12, 2019, Merwell submitted a complementary claim against the Company in arbitration, with respect to the additional financial details that Merwell claims that the Company was ordered to provide according to the arbitration verdict from February 21, 2016, and additional payments that Merwell claims that the Company is obligated to pay Merwell. The said financial details refer to the quantity of smart driving licenses that Merwell claims were issued in the later period of a project in Tanzania in which Merwell claims to have provided services to the Company. Merwell claims that despite the Company’s failure to provide the details, Merwell obtained the details independently from other sources, and they indicate that the Company is obligated to pay Merwell an additional amount of approximately $1,618, and there might be additional amounts to be claimed in the future, as additional information might be found from time to time. On March 4, 2020, the Company submitted a response to this complementary claim, rejecting Merwell’s claims. On September 16, 2020, Merwell filed a request to amend the additional amount claimed from approximately $1,618 to approximately $3,012. As mentioned above, the Company was conducting in parallel a separate arbitration process against SuperCom in that matter, as the Company deems SuperCom to be liable for all the costs and liabilities arising out of this claim. On August 10, 2021, the Company reached settlement agreements with both Merwell and SuperCom. Both settlements are, as noted above, linked, as SuperCom was deemed liable for all costs and expenses arising out of the claim made by Merwell. As part of the settlement with Merwell, the Company paid NIS 5,700 (approximately $1,766) on August 10, 2021, and as part of the settlement with SuperCom (that concluded the legal proceedings, as mentioned in Notes 1B(1) and 10E(1) above), the Company received NIS 5,128 (approximately $1,589) on August 10, 2021. The loss of $177 that derives from those settlements is presented within ‘loss from discontinued operations’.

US dollars, NIS and Euro in thousands, except share and per share data

Note 10 - Commitments and Contingencies (cont'd)

D. Legal claims (cont’d)

3. In October 2013, a financial claim was filed against the Company and its then French subsidiary, Parx France (in this paragraph, together, the “Defendants”), in the Commercial Court of Paris, France (in this paragraph, the “Court”). The sum of the claim was €1,500 (approximately $1,698) and was based on the allegation that the plaintiff sustained certain losses in connection with Defendants not granting the plaintiff exclusive marketing rights to distribute and operate the Defendants’ PIAF Parking System in Paris and the Ile of France. On October 25, 2017, the Court issued its ruling in this matter dismissing all claims against the Company but ordering Parx France to pay the plaintiff €50 ($57) plus interest in damages plus another approximately €5 ($6) in other fees and penalties. As, in accordance with the sale agreement signed between the Company and Parx France, the Company was liable and should indemnify Parx France for any amount ruled against it as part of that claim, the Company offered to pay the amounts mentioned above to the plaintiff in consideration for not filing future appeals. The Plaintiff rejected this offer and filed an appeal against Parx France and the Company claiming the sum of €503 ($569) plus interest and expenses. On November 7, 2019, the Company’s external legal counsel concluded that the appeal was inadmissible, and that it believed that the opposing claims would be dismissed. The case was pleaded before the Court and the Court has provided a judgement, dated July 8, 2021, declaring that the appeal against the Company is null and void, and annulled the €50 ($57) damages pronounced by the previous court.

4. In July 2019, the Company received a request (the “Request”), to allow a petitioner to submit a class action, which concerns the petitioner's claims that, inter alia, through the EasyPark card, drivers are permitted to exceed the quota of permitted hours in accordance with the instructions of various local authorities in Israel. The Request was submitted against a company incorporated by the buyer of the assets (including the parking activity) of the Israeli subsidiaries of the Company (the “Company’s Subsidiaries”) and against two other companies that operate technological means for payment for public parking spaces scattered throughout the cities. Since the majority of potential claims against the Company’s Subsidiaries relate to the period following the sale of the Company’s Subsidiaries’ assets, including the parking activity, it appears that the Company's exposure through this channel is limited. Furthermore, even if payment will be required, the buyer would be liable for the majority of such payment. Therefore, the Company will not participate in such procedure at this stage. Based on the assessment of the Company's external legal counsel, the exposure of the Company is low.

US dollars, NIS and Euro in thousands, except share and per share data

Note 11 – Revenues

Disaggregation of revenue

The following table disaggregates the Company’s revenues by major source based on categories that depict its nature and timing as reviewed by management for the years ended December 31, 2021 and 2020:

	Year ended December 31		
	2021		
	Retail	Petroleum	Total
Cashless payment products (A)	$ 7,484	$ -	$ 7,484
Complete cashless payment solutions (B):			
Sales of products (B1)	3,570	1,688	5,258
SaaS and other services (B2)	1,169	964	2,133
	4,739	2,652	7,391
Total revenues	$ 12,223	$ 2,652	$ 14,875

	Year ended December 31		
	2020		
	Retail	Petroleum	Total
Cashless payment products (A)	$ 6,958	$ -	$ 6,958
Complete cashless payment solutions (B):			
Sales of products (B1)	2,179	1,682	3,861
SaaS and other services (B2)	1,037	886	1,923
	3,216	2,568	5,784
Total revenues	$ 10,174	$ 2,568	$ 12,742

US dollars, NIS and Euro in thousands, except share and per share data

Note 11 – Revenues (cont'd)

Performance obligations

Below is a listing of performance obligations for the Company's main revenue streams:

A. Cashless payment products –

The performance obligation is the selling of contactless payment products. Most of those products are Near Field Communication (NFC) readers. For such sales the performance obligation, transfer of control and revenue recognition occur when the products are delivered.

B. Complete cashless payment solutions –

The complete solution includes selling of products and complementary services, as follows:

1. Sales of products –

- Selling of contactless payment products (see Note 11A above) together with payment gateways and machine-to-machine controllers.

- Selling of petroleum payment solutions including site and vehicle equipment.

For such sales, the performance obligation, transfer of control and revenue recognition occur when the products are delivered.

2. SaaS and other services -

The types of arrangements and their main performance obligations are as follows:

- To provide terminal management system licensing for software that is responsible for remote terminal management and cloud-based software licensing which provide data insights. For such services, the revenue recognition occurs as the services are rendered since the performance obligation is satisfied over time.

- To provide technical and customer services for products. For such services, the performance obligation is satisfied over time and therefore revenue recognition occurs as the services are rendered.

The Company includes a warranty in connection with certain contracts with customers, which are not considered to be separate performance obligations. The cost to the Company of this warranty is insignificant.

Contract balances (excluding assets held for sales)

	December 31 2021	December 31 2020
Trade receivables, net of allowance for doubtful accounts	$ 3,274	$ 1,148
Customer advances	$ 64	$ 142

Trade receivable are recognized when the right to consideration becomes unconditional based upon contractual billing schedules.

Transaction price and variable consideration

The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer, excluding amounts collected on behalf of third parties. In certain arrangements with variable consideration, revenue is recognized over time as it is mainly attributed to ongoing services provided.

Notes to the Consolidated Financial Statements

US dollars, NIS and Euro in thousands, except share and per share data

Note 12 – Equity

A. Share capital

1. On December 23, 2019, the Company entered into a share purchase agreement (the "Agreement") with Jerry L Ivy, Jr. Descendants Trust ("Ivy") and two other investors (collectively together with Ivy – "Investors"). The Agreement relates to a private placement of an aggregate of up to 12,500,000 ordinary shares of the Company for aggregate gross proceeds to the Company of up to $2,500.

   As part of this Agreement, in December 2019 and January 2020, the Company issued 5,460,000 and 1,040,000 ordinary shares, respectively, for aggregate gross proceeds of $1,092 and $208, respectively. Under the term of the Agreement and following the issuance of those shares, the Company appointed one representative to its Board of Directors (the "Board"), designated by Ivy. Also, pursuant to the Agreement, Ivy has a right to purchase any future equity securities offered by the Company, except with respect to certain exempt issuances as set forth in the Agreement.

   The issuance of the remaining 6,000,000 ordinary shares (the "Subsequent Closing") for aggregate gross proceeds of $1,200 took place in April 2020, following the approval by the Company's shareholders on April 14, 2020, of the resolutions detailed below, that were required for the consummation of the Subsequent Closing under the Agreement and the applicable law: (i) an increase in the number of the ordinary shares authorized for issuance from 50,000,000 to 100,000,000; (ii) the issuance of the ordinary shares to Ivy following which Ivy will hold 25% or more of the total voting rights at general meetings of the shareholders of the Company; and (iii) the election of the representative designated by Ivy to the Board.

   In addition, pursuant to the terms of the Agreement, on May 5, 2020, after the consummation of the Subsequent Closing, the Board appointed an additional representative designated by Ivy. The appointment of such designee shall remain valid through the next general meeting of the Company's shareholders or as set forth in the Articles of Association of the Company.

2. During the second quarter of 2021, the Company conducted the Rights Offering, under which the Company offered its shareholders the ability to exercise subscription rights and purchase, for every subscription right held by them as of April 14, 2021 (i.e., the record date), one ordinary share of the Company, at a purchase price of $0.174 per share.

   The Rights Offering was concluded on May 19, 2021 and was oversubscribed. Accordingly, the Company issued an aggregate of 18,965,516 ordinary shares (the "Issued Shares") for aggregate gross proceeds to the Company of $3,300. The Issued Shares included 10,869,304 shares that were issued to Ivy and its affiliates, upon exercise of its basic subscription rights and over-subscription rights. Following the Rights Offering, Ivy and its affiliates own 35.9% of issued and outstanding share capital as of December 31, 2021.

   The issuance costs derived from the Rights Offering were approximately $128.

3. On December 2, 2021, the Company's shareholders approved an increase in the Company's authorized share capital, by NIS 2,000,000, divided into 20,000,000 ordinary shares of NIS 0.1 par value per share, to NIS 12,000,000, divided into 120,000,000 ordinary shares of NIS 0.1 par value per share, and approved to amend the Company's Articles of Association and Memorandum of Association accordingly.

B. Shares to non-employees

There were no grants to non-employees during the years ended December 31, 2021 and 2020.

US dollars, NIS and Euro in thousands, except share and per share data

Note 12 – Equity (cont'd)

C. Stock option plans

In February 2001, the Board approved an option plan, under which up to 75,000 share options are to be granted to the Company's employees, directors and consultants and those of the Company's subsidiaries and affiliates.

During the years 2002 to 2014, the Board approved an increase of 16,375,000 options to be reserved under the Company's share option plan.

On November 21, 2017, following the approval of the compensation committee and the Board, the shareholders of the Company approved an amendment to the Company's share option plan, so that securities may be issued under such plan from time to time until December 31, 2021.

The vesting period for the options ranges from immediate vesting to ratable vesting over a four- year period. The exercise price of options under the plan is at varying prices. Those options expire up to five years after the date of the grant. Any options which are forfeited or cancelled before expiration become available for future grants.

The fair value of each option granted to employees during 2021 and 2020 was estimated on the date of grant, using the Black-Scholes model and the following assumptions:

	Year ended December 31	
	2021	**2020**
Expected dividend yield	0%	0%
Expected volatility	113%-130%	97%-109%
Risk-free interest rate	0.17%-0.30%	0.22%-1.53%
Expected life - in years	2.50	2.49

1. Dividend yield of zero percent for all periods.
2. Expected average volatility represents a weighted average standard deviation rate for the price of the Company's ordinary shares on Nasdaq and on the OTCQX market, as applicable.
3. Risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant.
4. Estimated expected lives are based on historical grants data.

The Company's options activity during 2021 (including options to non-employees) and information as to options outstanding and options exercisable as of December 31, 2021 and 2020 are summarized in the following table:

	Number of options outstanding	**Weighted average exercise price per share**	**Aggregate intrinsic value**
Outstanding – December 31, 2020	1,443,333	$ 0.54	
Options granted	670,000	0.23	
Options expired or forfeited	(1,464,333)	0.45	
Outstanding – December 31, 2021	649,000	$ 0.42	$ -
Exercisable as of:			
December 31, 2021	139,678	$ 0.85	$ -

The weighted average grant date fair value of options granted is $0.14 and $0.12 per option during 2021 and 2020, respectively.

US dollars, NIS and Euro in thousands, except share and per share data

Note 12 – Equity (cont'd)

C. Stock option plans (cont'd)

The following table summarizes information about options outstanding and exercisable (including options to non-employees) as of December 31, 2021:

	Options outstanding			Options Exercisable		
Range ofexercise price	**Number outstanding as of December 31, 2021**	**Weighted average remaining contractual life (years)**	**Weighted Average Exercise Price**	**Number Outstanding As of December 31, 2021**	**Weighted average remaining contractual life (years)**	**Weighted Average Exercise Price**
$ 0.20-0.90	547,000	3.36	$ 0.40	72,678	2.35	$ 0.54
$ 1.07-1.22	102,000	0.91	$ 1.21	67,000	0.91	$ 1.21
	649,000	2.98		139,678	1.66	

No options were exercised during the years ended December 31, 2021 and 2020.

As of December 31, 2021, there was $74 of total unrecognized compensation cost related to non-vested stock-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 1.27 years. The total fair value of shares vested during the year ended December 31, 2021 was $45.

D. Equity Incentive Plan

On July 19, 2021, and September 22, 2021, each of the compensation committee of the Board (the "Committee") and the Board approved a new incentive plan (the "Equity Incentive Plan"). In the fourth quarter of 2021, following the filing of the Equity Incentive Plan with the Israeli Tax Authorities, the waiver of certain options and signing of appropriate grant documents by the grantees, the Company granted 2,985,500 restricted shares ("RSAs") to employees pursuant to the Equity Incentive Plan with a concurrent cancelation of options granted to some executive officers in previous quarters. The RSAs will vest over an up to three-year vesting period. RSAs to the directors of the Company, had been subject, in addition to the conditions set forth above, to the approval of the amended compensation policy in the annual general meeting of the shareholders of the Company, which was occurred on December 2, 2021. See also Note 19.

The Company does not plan to issue any additional securities under its 2001 Stock Option Plan. The company granted RSAs, among others, to some executive officers in exchange for their agreement to forfeit their outstanding options that were granted under the 2001 Stock Option Plan. The cancelation of the existing equity-classified award along with a concurrent grant of a replacement award, was accounted for as a modification. The modification amount resulted in an insignificant incremental fair value.

The fair value of each RSA granted to employees was calculated based on the intrinsic value on the grant date.

The Company's RSA activity during 2021 and information as to RSAs outstanding and RSAs exercisable as of December 31, 2021 is summarized in the following table:

	Number of RSAs outstanding	**Weighted average exercise price per share**	**Aggregate intrinsic value**
Outstanding – December 31, 2020	-	$ -	
RSAs granted	2,985,500	0.03	
Outstanding – December 31, 2021	2,985,500	$ 0.03	$ 269
Exercisable as of:			
December 31, 2021	189,682	$ 0.03	$ 17

Notes to the Consolidated Financial Statements

US dollars, NIS and Euro in thousands, except share and per share data

Note 12 – Equity (cont'd)

D. Equity Incentive Plan (cont'd)

The weighted average grant date fair value of RSAs granted is $0.13 per RSA during 2021.

The following table summarizes information about RSAs outstanding and exercisable as of December 31, 2021:

	RSAs outstanding		RSAs exercisable	
Range of exercise price	Number outstanding as of December 31, 2021	Weighted Average Exercise Price	Number Outstanding As of December 31, 2021	Weighted Average Exercise Price
$ 0.03	2,985,500	$ 0.03	189,682	$ 0.03

As of December 31, 2021, there was $376 of total unrecognized compensation cost related to non-vested stock-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 1.39 years. The total fair value of shares vested during the year ended December 31, 2021 was $17.

E. During 2021 and 2020, the Company recorded stock-based compensation expenses in the amount of $100 and $67, respectively, in accordance with ASC Topic 718.

Stock-based compensation expenses are not deductible for tax purposes.

Note 13 - Income Taxes

A. The Company and its Israeli subsidiaries

1. Measurement of taxable income under the Income Tax (Inflationary Adjustments) Law, 1985

The Company and one of its Israeli subsidiaries are foreign invested companies, and have elected, commencing January 1, 2007, to maintain their books and records in U.S. dollars for income tax purposes, as permitted under the tax regulations.

2. The Law for the Encouragement of Industry (taxes), 1969

The Company believes that it qualifies as an "Industrial Company" under the Law for the Encouragement of Industry. The principal tax benefits for the Company are the deductibility of costs in connection with public offerings and amortization of certain intangibles.

3. Corporate tax rate

The statutory tax rate in Israel is 23% during the years 2020 and 2021.

Current and deferred taxes for the reported periods are calculated according to this tax rate mentioned above.

Notes to the Consolidated Financial Statements

US dollars, NIS and Euro in thousands, except share and per share data

Note 13 - Income Taxes (cont'd)

A. The Company and its Israeli subsidiaries (cont'd)

4. Benefits under the Law for the Encouragement of Capital Investments

According to the Law for the Encouragement of Capital Investments – 1959 (the "Law"), as amended, two new tax tracks exist, one of which may be relevant to the Company, the preferred enterprise track, which mainly provides a uniform and reduced tax rate for all the Company's income entitled to benefits. According to the amended law, the tax rates on income derived by preferred companies are as follows: 7.5% for Development Area A and 16% for the rest of the country. Additional amendments to the Law became effective in January 2017 (the "2017 Amendment"), according to which, subject to certain conditions, income derived by preferred companies which will meet the definition of 'Preferred Technological Enterprises' or "PTE" (as defined in the 2017 Amendment), would be subject to reduced corporate tax rates of 7.5% in Development Area A and 12% for the rest of the country.

In addition to the aforesaid beneficial tax rates, preferred companies in Development Area A are entitled to grants track.

The Law also provides that no tax will apply to a dividend distributed out of preferred income to a shareholder that is an Israeli resident company. A tax rate of 20% shall apply to a dividend distributed out of preferred income to an individual shareholder or foreign resident, subject to double taxation prevention treaties.

The Company currently meets the conditions provided in the Law for inclusion in the scope of the preferred enterprise track.

B. Non-Israeli subsidiaries are taxed based on the income tax laws in their country of residence.

US dollars, NIS and Euro in thousands, except share and per share data
Note 13 - Income Taxes (cont'd)

C. Deferred tax assets and liabilities:

	December 31 2021	December 31 2020
Deferred tax assets:		
Carryforward losses	$ 48,722	$ 47,132
Other	863	812
Total gross deferred tax assets	49,585	47,944
Less – valuation allowance	(49,585)	(47,944)
Net deferred tax assets	$ -	$ -
Deferred tax liability -		
Net deferred tax liability (*)	$ -	$ (*) -

(*) Excluding deferred tax liability held for sale.

The net changes in the total valuation allowance for each of the years ended December 31, 2021 and 2020, are comprised as follows:

	Year ended December 31	
	2021	2020
Balance at beginning of year	$ 47,944	$ 46,868
Additions during the year from Continuing operations	1,496	1,039
Discontinued operations - see Note 1B	139	57
Tax from previous years	(39)	(39)
Exchange rate differences on carryforward losses	-	3
Deferred intercompany transactions	45	32
Other changes	-	(16)
Balance at end of year	$ 49,585	$ 47,944

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the periods in which those temporary differences or carry-forwards are deductible. Based on the level of historical taxable losses, management has reduced the deferred tax assets with a valuation allowance to the amount it believes is more likely than not to be realized.

Notes to the Consolidated Financial Statements

US dollars, NIS and Euro in thousands, except share and per share data

Note 13 - Income Taxes (cont'd)

D. As of December 31, 2021, the operating loss carry-forwards and capital loss carryforwards relating to Israeli companies amounted to $170,853 and $37,572, respectively. Operating losses in Israel may be carried forward indefinitely to offset against future taxable operational income. Under the Income Tax (Inflationary Adjustments) Law, 1985, and based on the Company's election (see Note 13A(1)), tax loss carry-forwards are denominated in U.S. dollars.

Net operating carry-forward losses relating to non-Israeli companies aggregate $3,512, which will expire as follows:

2027 - $2,701.
2028 - $533.
Indefinitely - $278.

E. The Company has not recognized a deferred tax liability for the undistributed earnings of its foreign subsidiaries that arose in 2021 and prior years, because the Company considers these earnings to be indefinitely reinvested. These undistributed earnings will be taxed upon distribution, if at all. A deferred tax liability will be recognized when the Company can no longer demonstrate that it plans to indefinitely reinvest these undistributed earnings. As of December 31, 2021, the undistributed earnings of these foreign subsidiaries were $1,636. It is impracticable to determine the additional taxes payable when these earnings are remitted.

F. Income tax expenses allocated to continuing operations are as follows:

	Year ended December 31	
	2021	**2020**
Current income tax expenses	$ -	$ -
Current income tax expenses from previous years	-	(26)
Deferred tax benefit	13	36
Income tax benefit, net	$ 13	$ 10

The net loss of discontinued operations for the year ended December 31, 2021 includes income tax benefits of $76. The net loss from discontinued operations for the year ended December 31, 2020 included income tax benefits of $202.

US dollars, NIS and Euro in thousands, except share and per share data

Note 13 - Income Taxes (cont'd)

F. Cont'd

Reported income tax benefit for the years ended December 31, 2021 and 2020 differed from the amounts that would result from applying the Israeli statutory tax rate of 23%, to loss from continuing operations before taxes on income, as a result of the following:

	Year ended December 31	
	2021	2020
Computed "expected" income tax benefit	$ 2,323	$ 1,162
Decrease in income tax benefit resulting from:		
Change in valuation allowance, net	(1,496)	(1,039)
Nondeductible stock-based compensation related to options and RSAs issued to employees	(23)	(15)
Nondeductible expenses related to convertible short-term loan from shareholders, including a controlling shareholder	(826)	-
Other nondeductible expenses	(8)	(50)
Tax from previous years	-	(26)
Other	43	(22)
Reported income tax benefit	$ 13	$ 10

G. Loss from continuing operations before taxes on income consists of the following:

	Year ended December 31	
	2021	2020
Israel	$ (8,516)	$ (4,765)
Non-Israel	(1,586)	(285)
	$ (10,102)	$ (5,050)

H. Unrecognized tax benefits

As of December 31, 2021 and 2020, the Company did not have any significant unrecognized tax benefits. In addition, the Company does not expect that the amount of unrecognized tax benefits will change significantly within the next twelve months.

For the years ended December 31, 2021 and 2020, no material interest and penalties related to unrecognized tax benefits have been accrued.

The Company and its major subsidiaries file income tax returns in Israel and South Africa. With few exceptions, the income tax returns of the Company and its major subsidiaries are open to examination by the Israeli and the respective foreign tax authorities for the tax years beginning in 2017.

US dollars, NIS and Euro in thousands, except share and per share data

Note 14 – Discontinued operations

A. As described in Note 1B, the Company divested its interest in ASEC, including its Mass Transit Ticketing activity, and the SmartID division and presented these activities as discontinued operations.

Set forth below are the results of the discontinued operations:

	Year ended December 31	
	2021	**2020**
Revenues	$ 488	$ 2,817
Expenses	(1,136)	(3,910)
Other loss, net	(*)(922)	-
Net loss from discontinued operations	$ (1,570)	$ (1,093)

(*) Mainly including net loss of $177 due to the legal proceedings, as mentioned in Note 10D(2), and loss of $746 due to transfer of the exchange differences on translation, as derived from ASEC, from other comprehensive loss to the statement of operations loss (see statements of comprehensive loss).

B. The following table summarizes information about assets and liabilities from discontinued operations held for sale as of December 31, 2021 and 2020:

	December 31	
Assets held for sale from discontinued operations:	**2021**	**2020**
Current assets:		
Cash and cash equivalents	$ -	$ 1,017
Trade receivables, net of allowance for doubtful accounts of $42	-	409
Other receivables and prepaid expenses	-	454
Inventories	-	392
Property, plant and equipment, net	-	3,136
Intangible assets, net	-	370
Right-of-use assets due to operating leases	-	580
	-	6,358
Liabilities held for sale from discontinued operations:		
Current liabilities:		
Short-term bank credit and current maturities of long-term loans	-	2,339
Trade payables	-	1,832
Other current liabilities	-	443
Long-term loans, net of current maturities (*)	-	642
Long-term liabilities due to operating leases, net of current maturities (*)	-	401
Deferred tax liability	-	172
	$ -	$ 5,829

(*) Those liabilities were received for a long-term loans (more than twelve months) in ASEC, but were presented as held for sale within the current assets as of December 31, 2020, because the Company has determined that the sale of ASEC qualified as held for sale and as a discontinued operation as of December 31, 2020.

US dollars, NIS and Euro in thousands, except share and per share data

Note 15 – Segment reporting

In view of how the Company's chief operating decision maker (“CODM”) reviews operating results for the purposes of allocating resources and assessing performance, the Company currently reports two segments which are the Group's strategic business units: (a) Retail, and (b) Petroleum.

The following summary describes the operations in each of the Group’s operating segments:

- Retail - includes selling and marketing a variety of products for cashless payment solutions for the retail market.

- Petroleum - includes manufacturing and selling of fuel payment and management solutions. The Group’s solution is a wireless, cashless, cardless and paperless refueling tracking and payment solution, providing customers with maximum flexibility and security.

The strategic business unit's allocation of resources and evaluation of performance are managed separately. The CODM does not examine assets or liabilities for those segments and therefore they are not presented. Information regarding the results of each reportable segment is included below based on the internal management reports that are reviewed by the CODM.

	Year ended December 31, 2021		
	Retail	**Petroleum**	**Consolidated**
Revenues	$ 12,223	$ 2,652	$ 14,875
Reportable segment gross profit (*)	2,711	1,354	4,065
Reconciliation of reportable segment gross profit to gross profit for the period			
Depreciation			(31)
Stock-based compensation			(7)
Gross profit for the period			**$ 4,027**

	Year ended December 31, 2020		
	Retail	**Petroleum**	**Consolidated**
Revenues	$ 10,174	$ 2,568	$ 12,742
Reportable segment gross profit (*)	4,118	1,021	5,139
Reconciliation of reportable segment gross profit to gross profit for the period			
Depreciation			(34)
Stock-based compensation			(4)
Gross profit for the period			**$ 5,101**

(*) Gross profit as reviewed by the CODM represents gross profit, adjusted to exclude depreciation and stock-based compensation.

US dollars, NIS and Euro in thousands, except share and per share data

Note 16 - Geographic Information and Major Customer

The data is presented in accordance with ASC Topic 280, "*Segment reporting.*"

	Year ended December 31	
	2021	**2020**
Revenues by geographical areas from external customers		
Americas	$ 7,202	$ 4,574
Asia	1,836	2,415
Africa	1,502	1,520
Europe	4,335	4,233
Total export	$ 14,875	$ 12,742

	December 31 2021	**December 31 2020**
Long lived assets by geographical areas (excluding assets held for sale)		
Domestic (Israel)	$ 2,691	$ 3,538
Poland (As of December 31, 2020 - Excluding assets held for sale)	41	40
South Africa	235	322
America	2	2
	$ 2,969	$ 3,902

Major Customers

	Year ended December 31	
	2021	**2020**
	%	**%**
Major Customers by percentage from total revenues		
Customer A	22%	19%

The revenues derived from this customer are presented within the revenues from the Retail segment.

US dollars, NIS and Euro in thousands, except share and per share data

Note 17 - Leases

The Company leases a limited number of assets, mainly offices and cars for use in its operations.

The Company includes renewal options that it is reasonably certain to exercise in the measurement of the lease liabilities. The remaining operating lease periods of the leases range from less than one year to eight years as of December 31, 2021. The weighted average remaining lease term is 3.2 years as of December 31, 2021.

The following is a schedule of the maturities of operating lease liabilities for the next five years as of December 31, 2021, and thereafter, as were taken into account in the calculation of the operating lease liabilities as of December 31, 2021:

2022	$	823
2023		403
2024		273
2025		267
2026		267
Thereafter		800
Total leases payments		2,833
Less - discount		492
Operating lease liabilities	$	2,341

As of December 31, 2021, the weighted average discount rate of those operating leases is approximately 5.2% (as of December 31, 2020 – 5.4%).

Operating lease costs and cash paid for amounts included in the measurement of the lease liabilities, excluding liabilities held for sale, were approximately $968 and $913, respectively, during the year ended December 31, 2021. Operating lease costs and cash paid for amounts included in the measurement of the lease liabilities, excluding liabilities held for sale, were approximately $906 and $868, respectively, during the year ended December 31, 2020. Operating lease costs include fixed payments and variable payments that depend on an index or rate. There are no other significant variable lease payments.

The Company does not have any material leases, individually or in the aggregate, classified as a finance leasing arrangement.

Note 18 – Related party

Regarding to transactions and balances with a related party, Ivy, as of December 31, 2021, see Notes 9 and 12A.

Note 19 – Subsequent events

A. See Note 1A and 2A.

B. On March 7, 2022, the Company granted 255,000 RSAs that will vest in three equal instalments in February 12, 2022, 2023, and 2024, all subject to the terms and provisions of the Company's Equity Incentive Plan, as mentioned in Note 12D.