

U. S. Securities and Exchange Commission
Washington, D. C. 20549

FORM 10-Q

☒ QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2025

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

For the transition period from _____ to _____

Commission File No. 001-41375

ACTELIS NETWORKS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

52-2160309

(I.R.S. Employer
I.D. No.)

4039 Clipper Court, Fremont, CA 94538
(Address of principal executive offices)

(510) 545-1045

Registrant's telephone number, including area code:

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.0001 par value per share	ASNS	The Nasdaq Capital Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

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 is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: as of August 12, 2025, 11,292,114 shares of the Company's common stock, par value \$0.0001 per share were issued and outstanding, including treasury shares.

ACTELIS NETWORKS, INC.
INDEX TO QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2025

TABLE OF CONTENTS

	PAGE
<u>PART I - FINANCIAL INFORMATION</u>	<u>F-1</u>
Item 1. <u>Condensed Consolidated Interim Financial Statements (Unaudited)</u>	F-1
<u>Condensed Consolidated Balance Sheets</u>	F-3
<u>Unaudited Condensed Consolidated Statements of Comprehensive Loss for the Three and Six Months Ended June 30, 2025 and 2024</u>	F-5
<u>Unaudited Condensed Consolidated Statements of Redeemable Convertible Preferred Stock, Warrants to Placement Agent and Shareholders' Equity</u>	F-6
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the Three and Six Months Ended June 30, 2025 and 2024</u>	F-8
<u>Notes to Condensed Consolidated Interim Financial Statements</u>	F-10
Item 2. <u>Management's Discussion & Analysis of Financial Condition and Results of Operations</u>	1
Item 3. <u>Quantitative and Qualitative Disclosure About Market Risk</u>	7
Item 4. <u>Controls and Procedures</u>	7
<u>PART II - OTHER INFORMATION</u>	<u>8</u>
Item 1. <u>Legal Proceedings</u>	8
Item 1A. <u>Risk Factors</u>	8
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	10
Item 3. <u>Defaults Upon Senior Securities</u>	11
Item 4. <u>Mine Safety Disclosures</u>	11
Item 5. <u>Other information</u>	11
Item 6. <u>Exhibits</u>	11
<u>SIGNATURES</u>	<u>12</u>

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), that are not historical facts and involve risks and uncertainties that could cause actual results to differ materially from those expected and projected. All statements other than statements of historical fact included in this Form 10-Q including, without limitation, statements in this “Management’s Discussion and Analysis of Financial Condition and Results of Operations” regarding the Actelis Networks Inc.’s (the “Company”, “we”) financial position, business strategy and the plans and objectives of management for future operations, are forward-looking statements. Words such as “expect,” “believe,” “anticipate,” “intend,” “estimate,” “seek” and variations and similar words and expressions are intended to identify such forward-looking statements. Such forward-looking statements relate to future events or future performances, but reflect management’s current beliefs, based on information currently available. A number of factors could cause actual events, performances or results to differ materially from the events, performance and results discussed in the forward-looking statements. For information identifying important factors that could cause actual results to differ materially from those anticipated in the forward-looking statements, please refer to Part II, Item 1A of this Quarterly Report on Form 10-Q and the Risk Factors section of our Annual Report on Form 10-K for the year ended December 31, 2024, filed on March 24, 2025, with the U.S. Securities and Exchange Commission (the “SEC”). The Company’s securities filings can be accessed on the EDGAR section of the SEC’s website at www.sec.gov.

In addition, forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about:

- our history of losses and need for additional capital to fund our operations and our ability to obtain additional capital on acceptable terms, or at all;
- our ability to protect our intellectual property and continue to innovate;
- our success in retaining or recruiting, or changes required in, our officers, key employees or directors;
- the potential insufficiency of our disclosure controls and procedures to detect errors or acts of fraud;
- the accuracy of our estimates regarding expenses, future revenues, and capital requirements;
- the success of competing products or technologies that are or may become available;
- our ability to comply with complex and increasing regulations by governmental authorities;
- our ability to regain and maintain compliance with continued listing requirements of the Nasdaq Capital Market;
- our ability to continue as a going concern;
- statements as to the impact of the political and security situation in Israel on our business, including due to the number of armed conflicts between Israel and Hamas (an Islamist militia and political group in the Gaza Strip), Hezbollah (an Islamist militia and political group in Lebanon), and Iran;
- our public securities’ potential liquidity and trading; and
- our expectations regarding the period during which we qualify as an emerging growth company under the JOBS Act.

We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make. In addition, statements that “we believe” and similar statements reflect our beliefs and opinions on the relevant subject. Forward-looking statements are based on our management’s current expectations, estimates, forecasts and projections about our business and the industry in which we operate and our management’s beliefs and assumptions, and are not guarantees of future performance or development and involve known and unknown risks, uncertainties and other factors that are in some cases beyond our control. These statements are based upon information available to us as of the date of this Quarterly Report on Form 10-Q, and while we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information. As a result, any or all of our forward-looking statements in this Quarterly Report on Form 10-Q may turn out to be inaccurate.

The forward-looking statements included in this Quarterly Report on Form 10-Q speak only as of the date of this filing. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that future results, levels of activity, performance and events and circumstances reflected in the forward-looking statements will be achieved or will occur. Except as required by law, we assume no obligation to update or revise these forward-looking statements for any reason, even if new information becomes available in the future. You should, however, review the factors and risks we describe in the reports we will file from time to time with the SEC after the date hereof.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

ACTELIS NETWORKS, INC.
QUARTERLY REPORT FOR THE PERIOD ENDED June 30, 2025
(Unaudited)

ACTELIS NETWORKS, INC.
QUARTERLY REPORT FOR THE PERIOD ENDED June 30, 2025
(Unaudited)

TABLE OF CONTENTS

	Page
Condensed consolidated financial statements (unaudited) – U.S. dollars in thousands:	
Condensed consolidated balance sheets	F-3 - F-4
Condensed consolidated statements of comprehensive loss	F-5
Condensed consolidated statements of mezzanine and Shareholders' equity	F-6 – F-7
Condensed consolidated statements of cash flows	F-8 - F-9
Notes to condensed consolidated financial statements	F-10 - F-20

ACTELIS NETWORKS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(U. S. dollars in thousands except for share and per share amounts)
(UNAUDITED)

	June 30, 2025	December 31, 2024
Assets		
CURRENT ASSETS:		
Cash and cash equivalents	393	1,967
Restricted cash equivalents	302	300
Restricted bank deposits	71	-
Trade receivables, net of allowance for credit losses of \$168 as of June 30, 2025, and December 31, 2024.	943	1,616
Inventories	2,519	2,436
Prepaid expenses and other current assets, net of allowance for doubtful debts of \$181 as of June 30, 2025, and December 31, 2024.	600	584
TOTAL CURRENT ASSETS	4,828	6,903
NON-CURRENT ASSETS:		
Property and equipment, net	33	38
Prepaid expenses and other	534	492
Restricted bank deposits	30	91
Severance pay fund	223	205
Operating lease right of use assets	241	410
Long-term deposits	93	86
TOTAL NON-CURRENT ASSETS	1,154	1,322
TOTAL ASSETS	5,982	8,225

ACTELIS NETWORKS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (continued)
(UnAUDITED)
(U. S. dollars in thousands)

	June 30, 2025	December 31, 2024
Liabilities, Mezzanine Equity and shareholders' equity		
CURRENT LIABILITIES:		
Credit line	236	774
Short-term loan	305	-
Trade payables	1,020	982
Deferred revenues	325	246
Employee and employee-related obligations	858	688
Accrued royalties	731	673
Current maturities of operating lease liabilities	229	415
Other current liabilities	535	805
TOTAL CURRENT LIABILITIES	4,239	4,583
NON-CURRENT LIABILITIES:		
Long-term loan	150	150
Deferred revenues	74	92
Accrued severance	250	229
Other long-term liabilities	17	186
TOTAL NON-CURRENT LIABILITIES	491	657
TOTAL LIABILITIES	4,730	5,240
COMMITMENTS AND CONTINGENCIES (Note 5)		
MEZZANINE EQUITY		
Redeemable convertible preferred stock - \$0.0001 par value, 10,000,000 authorized as of June 30, 2025 and December 31, 2024.		
None issued and outstanding as of June 30, 2025 and December 31, 2024.	-	-
WARRANTS TO PLACEMENT AGENT	228	228
SHAREHOLDERS' EQUITY:		
Common stock, \$0.0001 par value: 30,000,000 shares authorized: 9,540,221 and 7,623,159 shares issued and outstanding as of June 30, 2025 and December 31, 2024, respectively.	1	1
Non-voting common stock, \$0.0001 par value: 2,803,774 shares authorized as of June 30, 2025, and December 31, 2024, None issued and outstanding as of June 30, 2025 and December 31, 2024.	-	-
Additional paid-in capital	48,846	46,818
Accumulated deficit	(47,823)	(44,062)
TOTAL SHAREHOLDERS' EQUITY	1,024	2,757
TOTAL LIABILITIES, MEZZANINE EQUITY AND SHAREHOLDERS' EQUITY	5,982	8,225

The accompanying notes are an integral part of these condensed consolidated financial statements (Unaudited).

ACTELIS NETWORKS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(UNAUDITED)
(U. S. dollars in thousands)

	Six months ended June 30,		Three months ended June 30,	
	2025	2024	2025	2024
REVENUES	1,662	4,157	941	3,431
COST OF REVENUES	1,106	1,994	636	1,488
GROSS PROFIT	556	2,163	305	1,943
OPERATING EXPENSES:				
Research and development expenses	1,356	1,250	675	603
Sales and marketing expenses	1,366	1,274	700	647
General and administrative expenses	1,419	1,607	703	790
Other income	-	(163)	-	(163)
TOTAL OPERATING EXPENSES	4,141	3,968	2,078	1,877
OPERATING INCOME (LOSS)	(3,585)	(1,805)	(1,773)	66
Interest expense	(56)	(344)	(22)	(137)
Other Financial income (expense), net	(120)	85	(106)	(7)
NET COMPREHENSIVE LOSS FOR THE PERIOD	(3,761)	(2,064)	(1,901)	(78)
Net loss per share attributable to common shareholders – basic and diluted	(0.43)	(0.51)	(0.21)	(0.01)
Weighted average number of common stocks used in computing net loss per share – basic and diluted	8,837,441	4,000,994	9,144,125	4,257,674

The accompanying notes are an integral part of these condensed consolidated financial statements (Unaudited).

ACTELIS NETWORKS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF MEZZANINE EQUITY AND SHAREHOLDERS' EQUITY
(UNAUDITED)
U.S. dollars in thousands (except number of shares)

Six months ended	Redeemable Convertible Preferred Stock	Warrants To Placement Agent	Common Stock		Non-voting Common Stock		Additional	Accumulated	Total
	Amount	Amount	Number of shares	Amount	Number of shares	Amount	paid-in capital	deficit	shareholders' equity
BALANCE AS OF JANUARY 1, 2024	-	159	3,007,745	1	-	-	39,916	(39,688)	229
Share based compensation	-	-	-	-	-	-	179	-	179
Exercise of options into common stock	-	-	21,225	*	-	-	32	-	32
Vesting of RSUs	-	-	18,495	*	-	-	(*)	-	-
Warrant inducement agreement, net of offering costs	-	42	999,670	*	-	-	2,560	-	2,560
Exercise of Pre funded warrants into common stock	-	-	970,187	*	-	-	-	-	*
Net comprehensive loss for the period	-	-	-	-	-	-	-	(2,064)	(2,064)
BALANCE AS OF JUNE 30, 2024	-	201	5,017,322	1	-	-	42,687	(41,752)	936
BALANCE AS OF JANUARY 1, 2025	-	228	7,623,159	1	-	-	46,818	(44,062)	2,757
Share based compensation	-	-	-	-	-	-	129	-	129
Vesting of RSUs	-	-	15,763	*	-	-	(*)	-	-
Issuance of common stock, net of offering costs	-	-	1,901,299	*	-	-	1,877	-	1,877
Warrants to lender	-	-	-	-	-	-	22	-	22
Net comprehensive loss for the period	-	-	-	-	-	-	-	(3,761)	(3,761)
BALANCE AS OF June 30, 2025	-	228	9,540,221	1	-	-	48,846	(47,823)	1,024

* Represents an amount less than \$1 thousand.

The accompanying notes are an integral part of these condensed consolidated financial statements (Unaudited)

ACTELIS NETWORKS, INC.
CONSOLIDATED STATEMENTS OF MEZZANINE EQUITY AND SHAREHOLDERS' EQUITY (CAPITAL DEFICIENCY)
(UNAUDITED)
U.S. dollars in thousands (except number of shares)

Three Months Ended	Redeemable Convertible Preferred Stock	Warrants To Placement Agent	Common Stock		Non-voting Common Stock		Additional	Accumulated	Total
	Amount		Number of shares	Amount	Number of shares	Amount	paid-in capital	deficit	shareholders' equity (capital deficiency)
BALANCE AS OF APRIL 1, 2024	-	159	3,010,244	1	-	-	40,005	(41,674)	(1,668)
Share based compensation	-	-	-	-	-	-	90	-	90
Vesting of RSUs	-	-	15,996	*	-	-	(*)	-	-
Exercise of options into common stock	-	-	21,225	-	-	-	32	-	32
Exercise of Pre funded warrants into common stock	-	-	970,187	*	-	-	-	-	*
Warrant inducement agreement, net of offering costs	-	42	999,670	-	-	-	2,560	-	2,560
Net comprehensive loss for the period	-	-	-	-	-	-	-	(78)	(78)
BALANCE AS OF JUNE 30, 2024	-	201	5,017,322	1	-	-	42,687	(41,752)	936
BALANCE AS OF APRIL 1, 2025	-	228	9,019,758	1	-	-	48,499	(45,922)	2,578
Share based compensation	-	-	-	-	-	-	50	-	50
Vesting of RSUs	-	-	14,098	*	-	-	(*)	-	-
Issuance of common stock, net of offering costs	-	-	506,365	*	-	-	297	-	297
Net comprehensive loss for the period	-	-	-	-	-	-	-	(1,901)	(1,901)
BALANCE AS OF June 30, 2025	-	228	9,540,221	1	-	-	48,846	(47,823)	1,024

* Represents an amount less than \$1 thousand.

The accompanying notes are an integral part of these condensed consolidated financial statements (Unaudited).

ACTELIS NETWORKS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six months ended	
	June 30,	
	2025	2024
	U.S. dollars in thousands	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss for the period	(3,761)	(2,064)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	12	8
Inventories write-downs	92	25
Financial expenses (income)	106	(116)
Share-based compensation	129	179
Changes in operating assets and liabilities:		
Trade receivables	673	(26)
Net change in operating lease assets and liabilities	(17)	1
Inventories	(150)	342
Prepaid expenses and other current assets	(57)	(150)
Trade payables	39	(347)
Deferred revenues	61	(209)
Other current liabilities	(343)	14
Other long-term liabilities	(2)	-
Net cash used in operating activities	<u>(3,218)</u>	<u>(2,343)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Short term deposits	1	198
Purchase of property and equipment	(5)	(1)
Net cash (used in)/provided by investing activities	<u>(4)</u>	<u>197</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of options		32
Proceeds from issuance common stock	2,100	*
Offering cost from issuance of common stock	(223)	-
Credit lines with bank, net	(539)	1,045
Proceeds from Warrant inducement agreement	-	2,999
Underwriting commissions and other offering costs	-	(397)
Proceeds from short term loans	305	-
Early repayment of long term loan	-	(3,483)
Repayment of long-term loan	-	(193)
Net cash provided by financing activities	<u>1,643</u>	<u>3</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS	<u>7</u>	<u>(10)</u>
DECREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS	<u>(1,572)</u>	<u>(2,153)</u>
BALANCE OF CASH, CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	<u>2,267</u>	<u>5,515</u>
BALANCE OF CASH, CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<u>695</u>	<u>3,362</u>

The accompanying notes are an integral part of these condensed consolidated financial statements (Unaudited).

ACTELIS NETWORKS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(UNAUDITED)

	June 30	
	2025	2024
	U.S. dollars in thousands	
RECONCILIATION OF CASH, CASH EQUIVALENTS AND RESTRICTED CASH:		
Cash and cash equivalents	393	2,412
Restricted cash equivalents, current	302	790
Restricted cash and cash equivalents, non-current	-	160
Total cash, cash equivalents and restricted cash	695	3,362
Six months ended June 30,		
	2025	2024
	U.S. dollars in thousands	
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	190	326
SUPPLEMENTARY INFORMATION ON INVESTING AND FINANCING ACTIVITIES NOT INVOLVING CASH FLOWS:		
Warrant to lender	22	1,493
Other non-current assets	50	-

The accompanying notes are an integral part of these condensed consolidated financial statements (Unaudited).

ACTELIS NETWORKS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
U.S. DOLLARS IN THOUSANDS

NOTE 1 – GENERAL:

- a. Actelis Networks, Inc. (hereafter -the Company) was established in 1998, under the laws of the state of Delaware. The Company has a wholly-owned subsidiary in Israel, Actelis Networks Israel Ltd. (hereafter – the Subsidiary). The Company is engaged in the design, development, manufacturing, and marketing of cyber hardened, hybrid fiber, networking solutions for IoT and Telecommunication governmental agencies and companies. The Company's customers include governmental agencies, providers of telecommunication services, enterprises as well as resellers of the Company's products. On May 12, 2022, the Company accepted a notification of effectiveness from the SEC, and on May 17, 2022, completed its IPO. The Company's Common Stock is listed on the NASDAQ.
- b. The Company has incurred significant losses and negative cash flows from operations. Net loss was \$3,761 and \$2,064 for the six months ended June 30, 2025, and June 30, 2024, respectively. During the six months ended June 30, 2025, and June 30, 2024, the Company had negative cash flows from operations of \$3,218 and \$2,343, respectively. As of June 30, 2025, the Company's accumulated deficit was \$48 million. The Company has funded its operations to date through equity and debt financing and has cash on hand (including restricted cash equivalents) of \$0.7 million, short term restricted bank deposits of \$71 thousand, long-term restricted bank deposits of \$30 thousand and long term deposit of \$93 thousand as of June 30, 2025. The Company monitors its cash flow projections on a current basis and takes active measures to obtain the funding it requires to continue its operations. However, these cash flow projections are subject to various uncertainties concerning their fulfilment such as the ability to continue to increase revenues and gross margin and reduce its operating cost and expenses. If the Company is not successful in generating sufficient cash flow or completing additional financing, including debt financing, then it will need to execute a new cost reduction plan in addition to previous cost reduction plans that were executed so far. The Company's transition to profitable operations is dependent on generating a level of revenues adequate to support its cost and expense structure. The Company expects to fund operations using cash on hand, through operational cash flows and raising additional equity and debt funds as well as improving its gross margin through better revenue mix and generating other efficiencies. There are no assurances, however, that the Company will be able to generate the revenue necessary to support its cost and expense structure or that it will be successful in obtaining the level of financing necessary for its operations. Management has evaluated the significance of these conditions and has determined that the Company does not have sufficient resources to meet its operating obligations for at least one year from the issuance date of these consolidated financial statements. These conditions raise substantial doubt as to the Company's ability to continue as a going concern. These consolidated financial statements have been prepared assuming that the Company will continue as a going concern and do not include any adjustments that might result from the outcome of this uncertainty.
- c. On October 7, 2023, Hamas terrorists initiated a series of terror attacks targeting both civilian and military sites in Southern and Central Israel, prompting a response from the Israel Defense Forces. Additionally, Hezbollah and the Houthi movement launched attacks on military and civilian locations in Israel, leading to further Israeli responses, including intensified air and ground operations in Lebanon. The Houthi movement also targeted international shipping lanes in the Red Sea. On April 14, 2024, and again on October 1, 2024, Iran carried out drone and missile strikes against Israel, to which Israel responded.

ACTELIS NETWORKS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
U.S. DOLLARS IN THOUSANDS

NOTE 1 – GENERAL: (continued):

Most recently, on June 13, 2025, Israel launched a preemptive attack on Iran, to which Iran responded with ballistic missiles and drone attacks. On June 23, 2025, Israel and Iran agreed to a ceasefire, although there is no assurance that cease fire will continue. However, the duration and intensity of the ongoing conflicts in Gaza, Northern Israel, Lebanon, Iran and the broader region remain uncertain. As of the signing date, our operations and financial results have not been significantly impacted, though, as of August 14, 2025, two of our employees have been called to reserve duty in the Israel Defense Forces from time to time, which has not been materially affecting our operation.

We do not anticipate any short-term material impact on our business performance due to the ongoing conflicts in the Gaza Strip, Lebanon, Iran and the security situation in Israel. However, as this is an unpredictable event, its continuation or resolution could influence our expectations. We are closely monitoring political and military developments and assessing their potential impact on our operations, financial performance, and overall business condition.

- d. On August 25, 2023, the Company received a notification letter from the Nasdaq Staff indicating that we are not in compliance with Nasdaq Listing Rule 5550(b)(1) due to the company's failure to meet the Minimum Shareholders' Equity Requirement or any alternatives to such requirement. In order to maintain listing on the Nasdaq Capital Market, the company has submitted a plan of compliance addressing how we intended to regain compliance.

The company had until February 21, 2024 to evidence compliance with the Minimum Shareholders' Equity Requirement. On March 27, 2024, the Company received a delist determination letter (the "Delist Letter") from the Staff advising the Company that the Staff had determined to delist the Company's securities from Nasdaq due to its non-compliance with the Equity Rule unless the Company timely requests a hearing before the Nasdaq Hearings Panel (the "Panel"). The Company timely requested a hearing before the Panel. Following the hearing, on June 10, 2024, the Panel granted the Company's request for continued listing subject to the Company evidencing compliance with the Minimum Shareholders' Equity Requirement by August 27, 2025.

In addition, on May 12, 2025, Nasdaq notified us (the "Notification Letter") that we were not in compliance with the minimum bid set forth in Nasdaq Listing Rule 5550(a)(2), which requires our common stock to maintain a minimum bid price of \$1.00 per share. The Notification Letter has no immediate effect on the listing or trading of our common stock on Nasdaq and, at this time, the common stock will continue to trade on Nasdaq under the symbol "ASNS".

The Notification Letter provides that we have 180 calendar days, or until November 10, 2025, to regain compliance with Nasdaq Listing Rule 5550(a)(2). To regain compliance, our common stock must have a closing bid price of at least \$1.00 per share for a minimum of 10 consecutive business days. If we do not regain compliance by November 10, 2025, an additional 180 days may be granted to regain compliance, so long as we meet certain listing criteria. If we do not qualify for the second compliance period or fail to regain compliance during the second 180-day period, then Nasdaq will notify us of its determination to delist our common stock, at which point we will have the opportunity to appeal the delisting determination to a Hearings Panel.

ACTELIS NETWORKS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
U.S. DOLLARS IN THOUSANDS

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES:

a. Basis of presentation

The accompanying unaudited condensed consolidated interim financial statements have been prepared in accordance with Article 10 of the Securities and Exchange Commission (“SEC”)’s Regulation S-X. As permitted under those rules, certain footnotes and other financial information that are normally required by generally accepted accounting principles in the United States (“U.S. GAAP”) can be condensed or omitted. These financial statements reflect all adjustments, which include only normal recurring adjustments, necessary for a fair statement of its financial position as of and for the periods presented. These condensed consolidated financial statements and notes thereto are unaudited and should be read in conjunction with the Company’s audited financial statements for the year ended December 31, 2024. The results of operations for the six months ended June 30, 2025, are not necessarily indicative of results that could be expected for the 2025 fiscal year or any other interim period or for any other future year. All intercompany transactions and balances have been eliminated in consolidation.

b. Use of estimates in preparation of financial statements

The preparation of the unaudited condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions that affect the amounts reported in the unaudited condensed consolidated financial statements and accompanying notes. The Company evaluates on an ongoing basis its assumptions, including those related to fair values of financial instruments, inventory write-offs, as well as in estimates used in applying the revenue recognition policy. The Company’s management believes that the estimates, judgments, and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the unaudited condensed consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

c. Segments

Our Chief Executive Officer (CEO), as the Chief Operating Decision Maker (CODM), oversees the Company’s business activities as a single operating and reportable segment at the consolidated level. Accordingly, the CODM evaluates segment performance, allocates resources, and measures profit or loss based on consolidated net loss. Additionally, the CODM monitors and manages the Company’s operations by reviewing functional expenses—including cost of revenues, sales and marketing, research and development, and general and administrative expenses—at the consolidated level.

ACTELIS NETWORKS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
U.S. DOLLARS IN THOUSANDS

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES: (continued):

d. Fair value of financial instruments

Fair value measurements are classified and disclosed in one of the following three categories:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company measured the fair value of the warrants liability it issued based on Level 3 inputs, and the warrants liability amounted to \$0 as of June 30, 2025 and December 31, 2024.

As of June 30, 2025, and December 31, 2024, the fair values of the Company's cash and cash equivalents, restricted cash equivalents, trade receivables, trade payables, long-term loan, short term loans, restricted bank deposits, Severance pay fund and other current assets approximated the carrying values presented in the Company's condensed consolidated balance sheets because of their nature.

e. Concentration of risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents, restricted cash equivalents, restricted bank deposits, and trade receivables. Cash and cash equivalents and restricted cash equivalents are placed with banks and financial institutions in the United States and Israel.

Management believes that the financial institutions that hold the Company's investments are financially sound and, accordingly, present minimal credit risk with respect to those investments.

The Company's trade receivables are derived primarily from telecommunication operators, the Company's reseller customers and enterprises located mainly in the United States, Europe, and Asia.

Credit risk with respect to trade receivables exists to the full extent of the amounts presented in the condensed consolidated financial statements. Management makes judgments as to its ability to collect outstanding accounts receivable and provides allowances for the applicable portion of accounts receivable when collection becomes doubtful.

ACTELIS NETWORKS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
U.S. DOLLARS IN THOUSANDS

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES: (continued):

The Company estimates Current Expected Credit Losses (CECL) on trade receivables at inception for estimated losses resulting from the inability of the Company's customers to make required payments, based on estimated current expected credit losses. The allowance represents the current estimate of lifetime expected credit losses over the remaining duration of existing accounts receivable considering historical information, current market conditions and reasonable and supportable forecasts when appropriate. The estimate is a result of the Company's ongoing evaluation of collectability, customer creditworthiness, historical levels of credit losses, and future expectations.

The Company has customers balances representing 10% or more of Trade receivables as follows:

1. Customer A- 14% and 5% of the Company Trade receivables balance as of June 30, 2025 and December 31, 2024 respectively.
2. Customer B- 11% and 6% of the Company Trade receivables balance as of June 30, 2025 and December 31, 2024 respectively.
3. Customer C- 10% and 6% of the Company Trade receivables balance as of June 30, 2025 and December 31, 2024 respectively.
4. Customer D- 1% and 39% of the Company Trade receivables balance as of June 30, 2025 and December 31, 2024 respectively.

The Company does not see any credit risk regarding the major trade receivable balance.

f. New Accounting Pronouncements

Accounting Pronouncements effective in future periods

In December 2023, the FASB issued ASU 2023-09 Improvements to Income Tax Disclosures. The ASU improves the transparency of income tax disclosures by requiring (1) consistent categories and greater disaggregation of information in the rate reconciliation and (2) income taxes paid disaggregated by jurisdiction. It also includes certain other amendments to improve the effectiveness of income tax disclosures. The ASU is effective for the Company for annual periods beginning after December 15, 2025. The Company is evaluating the potential impact of this guidance on its consolidated financial statements. The amendments in this Update should be applied on a prospective basis. Retrospective application is permitted.

In November 2024, the FASB issued ASU 2024-03 Income Statement - Reporting Comprehensive Income - Expense Disaggregation Disclosure (Subtopic 220-40): Disaggregation of Income Statement Expense and ASU 2025-01, Income Statement - Reporting Comprehensive Income - Expense Disaggregation Disclosures (Subtopic 220-40): Clarifying the Effective Date. The ASU improves the disclosures about a public business entity's expenses and provides more detailed information about the types of expenses in commonly presented expense captions. The amendments require that at each interim and annual reporting period an entity will, inter alia, disclose amounts of purchases of inventory, employee compensation, depreciation and amortization included in each relevant expense caption (such as cost of sales, general and administrative, and research and development). The ASU is effective for annual reporting period beginning after December 15, 2026, and interim periods within annual reporting periods beginning after December 15, 2027. Early adoption is permitted. The Company is evaluating the potential impact of this guidance on its consolidated financial statement disclosures.

In July 2025, the FASB issued ASU 2025-05, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses for Accounts Receivable and Contract Assets. This amendment introduces a practical expedient for the application of the current expected credit loss ("CECL") model to current accounts receivable and contract assets. The amendments will be effective for annual reporting periods beginning after December 15, 2025, and interim reporting periods within those annual reporting periods, on a prospective basis, with early adoption permitted. The Company is evaluating the potential impact of this guidance on its consolidated financial statement disclosures.

ACTELIS NETWORKS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
U.S. DOLLARS IN THOUSANDS

NOTE 3 – INVENTORIES:

	June 30, 2025	December 31, 2024
Raw materials	1,580	1,521
Finished goods	939	915
	<u>2,519</u>	<u>2,436</u>

Inventory write-downs amounted to \$92 and \$25 during the six months ended June 30, 2025, and 2024, respectively and \$87 and \$25 during the three months ended June 30 2025 and 2024, respectively. Inventories write-downs are recorded in cost of revenues.

NOTE 4 – LOANS:

- a. As a result of the COVID pandemic, the US and Israeli governments offered different programs of financial aid. The Company participated in the following programs:

On July 1, 2020, the Company received Economic Injury Disaster Loan (the “EIDL Loan”) from an American Bank under the Small Business Administration COVID19 Program in the total of \$150. The loan matures in June 2050 and bears interest of 3.75% per annum, payable monthly commencing on January 1, 2023, unless forgiven per program regulations. As of June 30, 2025, the total loan balance outstanding was \$150.

- b. In February 2024, the Company performed a partial early repayment of Migdalor Loan in the amount of 2 million NIS (approximately \$550). During April and May 2024, the Company made an additional partial early repayment of Migdalor loan in the amount of 10.9 million NIS (approximately \$2,933). In May 2024, the Company signed an amendment to the agreement with Migdalor, pursuant to which the remaining \$470 of the one-time interest payment which was originally due in January 2024 to Migdalor will be paid in 12 equal monthly payments bearing 9.6% interest from February 2024 till February 2025.

In addition, the Company is obligated to issue Migdalor warrants to acquire common stock for up to \$150 subject to the terms of amendment.

In July 2024, the company repaid the remaining loan balance to Migdalor, totaling 1.16 million ILS (approximately \$0.3 million)

As of June 30, 2025, the total outstanding of the one-time interest payment was approximately \$59.

ACTELIS NETWORKS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
U.S. DOLLARS IN THOUSANDS

NOTE 5 – COMMITMENTS AND CONTINGENCIES:

The Company is obligated to repay certain research and development grants received from the Government of Israel in the form of a royalty rate on future sales of products derived from the funded research and development activities. The aggregate amount of royalties to be paid is determined based on 100% of the total grants received for qualified projects plus interest. The Company may be required to pay royalties based on previous years funding in periods after June 30, 2025, for the future sale of product that includes technology developed and funded with these research and development grants received to date.

In October 2024, the company entered into a payment plan with the Israel Innovation Authority (“IIA”) to settle the outstanding amount as of the previous year. According to the agreement, the IIA agreed to offset a delayed payment of approximately \$50 from the total outstanding amount. The company committed to making an immediate payment of \$190 and to spread the remaining balance over two years, with quarterly installments of approximately \$106 starting from October 2024. The outstanding debt will continue to accrue interest and linkage differences in accordance with legal requirements until fully settled. Additionally, the company is required to report and pay ongoing royalties starting from the first half of 2024.

During the six and three months ended June 30, 2025 the company repaid \$236 and \$0 respectively.

As of June 30, 2025, the Company had received approximately \$14,300 (approximately \$15,830 including interest) and repaid approximately \$10,857 in such grants.

As of June 30, 2025, and December 31, 2024, the Company had a liability to pay royalties in the amount of approximately \$731 thousand and \$839 thousand respectively.

ACTELIS NETWORKS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
U.S. DOLLARS IN THOUSANDS

NOTE 6 – SHAREHOLDERS’ EQUITY:

a. As of June 30, 2025 total of 10,690 common stock are held by the company as treasury shares.

b. Total outstanding warrants as of June 30, 2025, are as follow:

	Number of warrants	Exercise price	Period left in years
Warrants May 2023	66,127	\$4.625	3.6
Warrants December 2023	1,360,170	\$1.18 - \$1.47	4.2
Warrants June 2024	1,069,647	\$2 - \$3.43	4.7
Warrants July 2024	2,069,317	\$2.5 - \$1.75	1.45
Other	36,942	\$10.27 - \$50	1.20 - 2.1
Outstanding as of June 30, 2025	<u>4,602,203</u>		

c. **At the Market Offering Agreement:**

On September 18, 2024, the Company entered into At the Market Offering Agreement (the “ATM Agreement”), with H.C. Wainwright & Co. (“Wainwright”), as sales agent, pursuant to which the Company may issue and sell shares of its common stock, from time to time, through Wainwright.

Under the ATM Agreement, Wainwright may sell shares in transactions that are deemed to be “at the market” offerings as defined in Rule 415 under the Securities Act, as amended, or in any other method permitted by law, including in privately negotiated transactions.

The Company or Wainwright may suspend or terminate the ATM Agreement upon notice to the other party and subject to other conditions.

The Company will pay Wainwright a commission of 3.0% of the gross sales price of any common stock sold under the ATM Agreement and has agreed to provide Wainwright with customary indemnification and contribution rights. The Company will also reimburse Wainwright for certain specified expenses.

During the first quarter of 2025, the company issued and sold 1,394,934 shares of common stock for gross proceeds of approximately \$1,750 thousand. Total cost related to the offering is approximately \$170.

During the second quarter of 2025, the company issued and sold 506,365 shares of common stock for gross proceeds of approximately \$350 thousand. Total cost related to the offering is approximately \$53 thousand.

ACTELIS NETWORKS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
U.S. DOLLARS IN THOUSANDS

NOTE 6 – SHAREHOLDERS’ EQUITY: (continued):

d. Share-based compensation:

1) A summary of the Company’s share options, granted to employees, directors, under option plans is as follows:

	Number of options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Outstanding – January 1, 2025	62,678	4.38	3.4
Granted	-	-	-
Exercised	-	-	-
Forfeited	(1,248)	5.21	-
Outstanding – June 30, 2025	61,430	4.36	2.6
Exercisable – June 30, 2025	59,015	3.9	2.4

The majority of the share-based compensation expenses included in the Condensed consolidated statements of comprehensive loss under General and Administrative.

As of June 30, 2025, the unrecognized compensation costs related to those unvested stock options are \$9, which are expected to be recognized over a weighted-average period of 6 months.

2) A summary of the Company’s RSUs, granted to employees, directors, under option plans is as follows:

	June 30, 2025	
	Number of RSUs	Weighted- Average Grant Date Fair Value
RSUs outstanding at the beginning of the year	36,254	12.38
Granted during the period	-	-
Vested during the period	(15,763)	4.77
Forfeited during the period	-	-
Outstanding as of June 30, 2025	20,491	3.74

The majority of the RSUs expenses included in the Condensed consolidated statements of comprehensive loss under General and Administrative.

As of June 30, 2025, the unrecognized compensation cost related to unvested RSUs is approximately \$42 which are expected to be recognized over a weighted-average period of 6 months.

ACTELIS NETWORKS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
U.S. DOLLARS IN THOUSANDS

NOTE 7 – BASIC AND DILUTED LOSS PER SHARE:

Basic net loss per share is computed using the weighted average number of shares of common stock and pre-funded warrants and fully vested RSUs outstanding during the period, net of treasury shares. In computing diluted loss per share, basic loss per share is adjusted to take into account the potential dilution that could occur upon the exercise of options and RSUs granted under employee stock compensation plans, and the exercise of warrants using the treasury stock method.

Diluted loss per share excludes 4,602,203 shares underlying outstanding warrants, 61,430 shares underlying outstanding options, and 20,491 shares underlying outstanding RSUs for the three and six months ended June 30, 2025, because the effect of their inclusion in the computation would be antidilutive.

Diluted loss per share excludes 3,532,406 shares underlying outstanding warrants, 65,102 shares underlying outstanding options, and 52,652 shares underlying outstanding RSUs for the three and six months ended June 30, 2024, because the effect of their inclusion in the computation would be antidilutive.

The following table sets forth the computation of basic and diluted net loss per share attributable to common shareholders:

	Six months ended June 30,		Three months ended June 30,	
	2025	2024	2025	2024
Numerator:				
Net loss	\$ (3,761)	\$ (2,064)	\$ (1,901)	\$ (78)
Denominator:				
Common shares outstanding used in computing net loss per share attributable to common shareholders	8,837,441	3,159,451	9,144,125	3,998,957
Pre-Funded warrants to purchase common shares	-	841,543	-	258,717
Weighted average number of shares used in computing basic and diluted net loss per share attributable to common shareholders	8,837,441	4,000,994	9,144,125	4,257,674
Net loss per share attributable to common shareholders – basic and diluted	<u>(0.43)</u>	<u>(0.51)</u>	<u>(0.21)</u>	<u>(0.01)</u>

NOTE 8 – ENTITY WIDE INFORMATION AND DISAGGREGATED REVENUES:

The Company operates as one operating segment (developing and marketing access broadband equipment for copper and fiber networks).

a. Geographic information:

Following is a summary of revenues by geographic areas. Revenues attributed to geographic areas, based on the location of the end customers:

	Six months ended June 30,		Three months ended June 30,	
	2025	2024	2025	2024
North America	\$ 1,100	\$ 3,463	\$ 623	\$ 3,075
Europe, the Middle East and Africa	434	667	204	332
Asia Pacific	128	27	114	25
	<u>\$ 1,662</u>	<u>\$ 4,157</u>	<u>\$ 941</u>	<u>\$ 3,431</u>

ACTELIS NETWORKS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
U.S. DOLLARS IN THOUSANDS

b. Revenues from contract liability:

	Six months ended, June 30, 2025	Six months ended, June 30, 2024
Opening balance	339	460
Revenue recognized that was included in the contract liability balance at the beginning of the year	(117)	(364)
Additions	177	155
Ending balance	399	251

As of June 30, 2025, the aggregate amount of the transaction price allocated to the remaining performance obligation is \$399, and the Company will recognize this revenue over the next 12-18 months.

c. Customers representing 10% or more of net revenues and the amount of revenues recognized are as follows:

	Six months ended June 30, 2025	Three months ended June 30, 2025
Customer A	-	-
Customer B	13% \$ 217	-
Customer C	8% \$ 128	12% \$ 114
Customer D	7% \$ 108	12% \$ 108
Customer E	6% \$ 104	11% \$ 103
Customer F	8% \$ 136	10% \$ 93

	Six months ended June 30, 2024	Three months ended June 30, 2024
Customer A	52% \$ 2,152	63% \$ 2,152
Customer B	1.2% \$ 47	1% \$ 32
Customer C	0.5% \$ 17	-
Customer D	0.2% \$ 8	-
Customer E	4% \$ 161	5% \$ 161
Customer F	-	-

The majority of the Company's revenues are recognized at a point in time.

NOTE 9 – SUBSEQUENT EVENTS:

Private Placement

The Company entered into a Securities Purchase Agreement with certain accredited investors, pursuant to which it completed a private placement offering on July 2, 2025, for gross proceeds of approximately \$1.0 million. In connection with the offering, the Company issued 1,626,019 shares of common stock and accompanying warrants to purchase additional shares of common stock, subject to shareholder approval. H.C. Wainwright acted as Placement Agent and received fees totaling 7% of gross proceeds, plus \$35,000 in expenses and warrants equal to 7% of shares sold, exercisable for five years after shareholder approval.

2025 Annual Shareholders Meeting

On August 12, 2025, the Company's shareholders approved the Actelis 2025 Equity Incentive Plan, authorizing a new pool of 1.8 million plan shares. The plan is effective until 2035.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

References in this report to “we,” “Actelis,” “us,” “our,” or the “Company” refer to Actelis Networks, Inc. and its wholly owned subsidiary. References to our “management” or our “management team” refer to our officers and directors. You should read the following discussion of our historical performance, financial condition and future prospects in conjunction with the management’s discussion and analysis of financial conditions and results of operations and the audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2024 filed with the SEC on March 24, 2025 (referred to herein as the “Annual Report”). The following discussion and analysis of our financial condition and results of operations should also be read in conjunction with the condensed consolidated financial statements (including the notes thereto) contained elsewhere in this report. Certain information contained in the discussion and analysis set forth below includes forward-looking statements that involve risk and uncertainties. For further information on items that could impact our future operating performance or financial condition, see the sections titled “Risk Factors” included in the Annual Report, as updated in Part II, Item 1A below, and the Special Note Regarding Forward Looking Statements above.

Results of Operations

The table below provides our results of operations for the periods indicated.

	Six months ended June 30		Three months ended June 30	
	2025	2024	2025	2024
	(dollars in thousands)		(dollars in thousands)	
Revenues	1,662	\$ 4,157	\$ 941	\$ 3,431
Cost of revenues	1,106	1,994	636	1,488
Gross profit	556	2,163	305	1,943
Research and development expenses, net	1,356	1,250	675	603
Sales and marketing, net	1,366	1,274	700	647
General and administrative, net	1,419	1,607	703	790
Other Income	-	(163)	-	(163)
Operating (loss) income	(3,585)	(1,805)	(1,773)	66
Interest expenses	(56)	(344)	(22)	(137)
Other Financial income (expenses), net	(120)	85	(106)	(7)
Net Comprehensive Loss for the period	<u>(3,761)</u>	<u>\$ (2,064)</u>	<u>\$ (1,901)</u>	<u>(78)</u>

Three and Six Months Ended June 30, 2025, Compared to Three and Six Months Ended June 30, 2024

Revenues

Our revenues for the three months ended June 30, 2025, amounted to \$0.9 million, compared to approximately \$3.4 million for the three months ended June 30, 2024. The decline is associated with a software and services renewal last year for 2 years which will be up for renewal in 2027, as well as a large deal to the City of Washington D.C. last year, while 2025’s revenues are more backend loaded.

Our revenues for the six months ended June 30, 2025, amounted to \$1.7 million, compared to approximately \$4.16 million for the six months ended June 30, 2024. The decline is associated with a software and services renewal last year for 2 years which will be up for renewal in 2027, as well as a large deal to the City of Washington D.C. last year, while 2025’s revenues are more backend loaded.

Cost of Revenues

Our cost of revenues for the three months ended June 30, 2025, amounted to \$0.6 million, compared to approximately \$1.5 million for the three months ended June 30, 2024. The decrease from the corresponding period was mainly attributable to fixed cost remaining constant and sales reduced.

Our cost of revenues for the six months ended June 30, 2025, amounted to \$1.1 million, compared to approximately \$2.0 million for the six months ended June 30, 2024. The decrease from the corresponding period was mainly attributable to fixed cost remaining constant and sales reduced.

Research and Development Expenses

Our research and development expenses for the three months ended June 30, 2025, amounted to \$0.7 million, compared to \$0.6 million for the three months ended June 30, 2024. The increase was primarily driven by a rise in the utilization of professional services for our GL900 product line and exchange rate differences.

Our research and development expenses for the six months ended June 30, 2025, amounted to \$1.4 million, compared to \$1.25 million for the six months ended June 30, 2024. The increase was primarily driven by a rise in the utilization of professional services for our GL900 product line and exchange rate differences.

Sales and Marketing Expenses

Our sales and marketing expenses for the three months ended June 30, 2025, amounted to \$0.7 million, compared to \$0.65 million for the three months ended June 30, 2024. The increase was primarily due to payroll expenses and engaging consultants to expand market reach in different countries in Europe and Asia.

Our sales and marketing expenses for the six months ended June 30, 2025, amounted to \$1.4 million, compared to \$1.3 million for the six months ended June 30, 2024. The increase was primarily due to payroll expenses and engaging consultants to expand market reach in different countries in Europe and Asia.

General and Administrative Expenses

Our general and administrative expenses for the three months ended June 30, 2025, amounted to \$0.7 million, compared to \$0.79 million for the three months ended June 30, 2024. The decrease was mainly due to cost reduction measures taken.

Our general and administrative expenses for the six months ended June 30, 2025, amounted to \$1.4 million, compared to \$1.6 million for the six months ended June 30, 2024. The decrease was mainly due to cost reduction measures taken.

Operating (Loss) Income

Our operating loss for the three months ended June 30, 2025, was \$1.8 million, compared to an operating income of approximately \$66,000 for the three months ended June 30, 2024. The increase is due to the decline in sales, while operating expenditure remained consistent. The effects of exchange rate fluctuations and increased vacation expenses have contributed to the increase in operating loss.

Our operating loss for the six months ended June 30, 2025, was \$3.6 million, compared to an operating loss of approximately \$1.8 million for the six months ended June 30, 2024. The increase is due to the decline in sales, while operating expenditure remained consistent. The effects of exchange rate fluctuations and increased vacation expenses have contributed to the increase in operating loss.

Other Financial Expenses, Net and Interest Expenses

Our financial expense, net for the three months ended June 30, 2025, was \$128,000 (including \$22,000 interest expenses) compared to financial expense, net of \$144,000 (including \$137,000 interest expenses) for the three months ended June 30, 2024. The exchange rate expense lead to an increase in financial expenses which is offset by a decrease in interest expense and other bank related charges mainly due to the repayment of loan.

Our financial expense, net for the six months ended June 30, 2025, was \$176,000 (including \$56,000 interest expenses) compared to financial expense, net of \$259,000 (including \$344,000 interest expenses) for the six months ended June 30, 2024. The exchange rate expense lead to an increase in financial expenses which is offset by a decrease in interest expense and other bank related charges mainly due to the repayment of loan.

Net Loss

Our net loss for the three months ended June 30, 2025 was \$1.9 million, compared to net loss of approximately \$78,000 for the three months ended June 30, 2024. The increase in net loss is due to lower sales, while operating expenditure remained consistent and exchange rate effect.

Our net loss for the six months ended June 30, 2025 was \$3.8 million, compared to net loss of approximately \$2.06 million for the six months ended June 30, 2024. The increase in net loss is due to lower sales, while operating expenditure remained consistent and exchange rate effect.

Non-GAAP Financial Measures

	Six months Ended June 30, 2025	Six months Ended June 30, 2024	Three months Ended June 30, 2025	Three months Ended June 30, 2024
<i>(U.S. dollars in thousands)</i>				
Revenues	\$ 1,662	\$ 4,157	\$ 941	\$ 3,431
GAAP net loss	(3,761)	(2,064)	(1,901)	(78)
Interest Expense	56	344	22	137
Other Financial expenses (income), net	120	(85)	106	7
Tax Expense	(29)	32	3	15
Fixed asset depreciation expense	12	8	6	3
Stock based compensation	129	179	50	90
Research and development, capitalization	-	0	-	-
Other one-time costs and expenses	-	(189)	-	(163)
Non-GAAP Adjusted EBITDA	(3,473)	(1,775)	(1,714)	11
GAAP net loss margin	(228.05)%	(49.65)%	(205.13)%	(2.27)%
Adjusted EBITDA margin	(208.98)%	(42.70)%	(182.17)%	0.03%

Use of Non-GAAP Financial Information

Non-GAAP Adjusted EBITDA and Adjusted EBITDA margin are Non-GAAP financial measures. In addition to reporting financial results in accordance with GAAP, we provide Non-GAAP supplemental operating results adjusted for certain items, including: financial expenses, which are interest, financial instrument fair value adjustments, exchange rate differences of assets and liabilities, stock based compensation expenses, depreciation and amortization expense, tax expense, and impact of development expenses ahead of product launch. We adjust for the items listed above and show non-GAAP financial measures in all periods presented, unless the impact is clearly immaterial to our financial statements. When we calculate the tax effect of the adjustments, we include all current and deferred income tax expense commensurate with the adjusted measure of pre-tax profitability.

We utilize the adjusted results to review our ongoing operations without the effect of these adjustments but not for comparison to budgeted operating results. We believe the supplemental adjusted results are useful to investors because they help them compare our results to previous periods and provide important insights into underlying trends in the business and how management oversees and optimizes our business operations on a day-to-day basis. We exclude the costs in calculating adjusted results to allow us and investors to evaluate the performance of the business based upon its expected ongoing operating structure. We believe the adjusted measures, accompanied by the disclosure of the costs of these programs, provides valuable insight to our financial performance. Adjusted results should be considered only in conjunction with results reported according to GAAP.

<i>(U.S. dollars in thousands)</i>	For the six months ended June 30		For the three months ended June 30	
	2025	2024	2025	2024
Revenues	\$ 1,662	\$ 4,157	\$ 941	\$ 3,431
Non-GAAP Adjusted EBITDA	(3,473)	(1,776)	(1,714)	11
As a percentage of revenues	(208.98)%	(42.72)%	(182.17)%	0.03%

Liquidity and Capital Resources

Since our inception, we have financed our operations primarily through the sale of equity securities, debt financing, convertible loans and royalty-bearing grants that we received from the Israel Innovation Authority. Our primary requirements for liquidity and capital are to finance working capital, capital expenditures and general corporate purposes.

Our future capital requirements will be affected by many factors, including our revenue growth, the timing and extent of investments to support such growth, the expansion of sales and marketing activities, increases in general and administrative costs, repayment of principal of our existing credit line, working capital to support securing raw material supply and many other factors as described under “Risk Factors.”

To the extent additional funds are necessary to meet our long-term liquidity needs as we continue to execute our business strategy, we anticipate that they will be obtained through the incurrence of additional indebtedness, additional equity financings or a combination of these potential sources of funds; however, such financing may not be available on favorable terms, or at all. In particular, the war in Israel and the war between Russia and the Ukraine, has resulted in, and may continue to result in, significant disruption of global financial markets, reducing our ability to access capital.

As discussed in Note 1(b) to the condensed consolidated financial statements appearing elsewhere in this Quarterly report on Form 10-Q, we have incurred significant losses and negative cash flows from operations and incurred losses of approximately \$3.8 million and approximately \$2.06 million for the six months ended June 30, 2025 and 2024, respectively. During the six months ended June 30, 2025 and 2024, we had negative cash flows from operations of \$3.2 million and \$2.3 million, respectively.

As of June 30, 2025, we had an accumulated deficit of \$48 million, cash on hand (including short term deposits and restricted cash equivalents) of \$0.7 million, short term restricted bank deposits of \$71,000, long-term restricted bank deposits of \$30,000 and long term deposit of \$93,000 as of June 30, 2025. We monitor our cash flow projections on a current basis and take active measures to obtain the funding we require to continue our operations. However, these cash flow projections are subject to various uncertainties concerning their fulfillment, such as the ability to increase revenues due to lack of customers or decrease cost structure. Our transition to profitable operations is dependent on generating a level of revenue adequate to support our cost structure through growth of existing and new customers.

We expect to fund operations using cash on hand, through operational cash flows and raising additional proceeds. There are no assurances, however, that we will be able to generate the revenue necessary to support our cost structure or that we will be successful in obtaining the level of financing necessary for our operations. Management has evaluated the significance of these conditions and has determined that we do not have sufficient resources to meet our operating obligations for at least one year from the issuance date of these condensed consolidated financial statements. These factors raise substantial doubt about the Company's ability to continue as a going concern. These condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business, and do not include any adjustments that might result from the outcome of this uncertainty.

July 2025 Private Placement

On June 30, 2025, we entered into a securities purchase agreement (the "Purchase Agreement") with certain accredited investors (the "Investors"), pursuant to which we agreed to issue and sell to the Investors in a private placement (the "July 2025 Private Placement" or the "Offering") (a) 1,626,019 shares of Common Stock, (b) Series A-3 warrants to purchase up to 1,626,019 shares of Common Stock, and (c) Series A-4 Warrants to purchase up to 3,252,038 shares of Common Stock, for a purchase price of \$0.615 per share and related Common Warrants, for a total aggregate gross proceeds of approximately \$1 million. The July 2025 Private Placement closed on July 2, 2025.

The Series A-3 Warrants have an exercise price of \$0.615 per share, are exercisable commencing on the effective date of shareholder approval (the "Shareholder Approval Date") of the issuance of the shares issuable upon exercise of the Common Warrants ("Shareholder Approval") and expire five years following the Shareholder Approval Date.

The Series A-4 Warrants have an exercise price of \$0.615 per share, are exercisable commencing on the Shareholder Approval Date and expire eighteen months following the Shareholder Approval Date.

Under the terms of the Common Warrants, the Investors may not exercise the warrants to the extent such exercise would cause the Investor, together with its affiliates and attribution parties, to beneficially own a number of shares of common stock which would exceed 4.99% (or, at such Investor's option upon issuance, 9.99%), of the Company's then outstanding Common Stock following such exercise, excluding for purposes of such determination shares of Common Stock issuable upon exercise of such warrants which have not been exercised.

H.C. Wainwright & Co., LLC acted as the Placement Agent for the issuance and sale of the Securities. The Company has agreed to pay up to an aggregate cash fee equal to 7.0% of the gross proceeds received by the Company from the Offering. The Company also agreed to pay the Placement Agent \$35,000 for accountable expenses which include a management fee equal to 1.0% of the gross proceeds raised in the Offering. The Company also agreed to issue to the Placement Agent, or its designees, Placement Agent Warrants to purchase up to 7.0% of the aggregate number of the shares of Common Stock sold to the Investors (or warrants to purchase up to 113,821 shares of Common Stock) at an exercise price per share of \$0.7688 which will be exercisable commencing on the Shareholder Approval Date and have a term of five years after the Shareholder Approval Date (the "July 2025 Placement Agent Warrants," and collectively with the Common Warrants, the "July 2025 Warrants").

Cash Flows

The table below, for the periods indicated, provides selected cash flow information:

	Six months ended June 30, 2025	Six months ended June 30, 2024
<i>(U.S. dollars in thousands)</i>		
Net cash used in operating activities (including the effect of exchange rate changes on cash and cash equivalents and restricted cash)	\$ (3,211)	\$ (2,343)
Net cash (used in)/provided by investing activities	(4)	197
Net cash provided by financing activities	1,643	3
Net change in cash	<u>\$ (1,572)</u>	<u>\$ (2,149)</u>

As of June 30, 2025, we had cash, cash equivalents, and restricted cash and cash equivalents of approximately \$0.7 million compared to approximately \$3.3 million of cash, cash equivalents and restricted cash as of June 30, 2024.

Cash used in operating activities amounted to \$3.2 million for the six months ended June 30, 2025, compared to approximately \$2.3 million for the six months ended June 30, 2024. The increase from the corresponding period was mainly due to lower sales.

Net cash used in investing activities was \$4,000 for the six months ended June 30, 2025, compared to net cash provided by investing activities of \$197,000 million for the six months ended June 30, 2024. The decrease from the corresponding period was mainly due to the absence of short-term bank deposits in six months ended June 2025 which had been present in the same period of 2024.

Net cash provided by financing activities was \$1.6 million for the three months ended June 30, 2025, compared to Net cash provided by financing activities of \$3,000 for the six months ended June 30, 2024. The increase from the corresponding period was mainly driven by proceeds from the sale of common stock through an at-the-market (ATM) offering.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements or relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities.

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements are prepared in accordance with U.S. GAAP. The preparation of these condensed consolidated financial statements requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the applicable periods. We evaluate our estimates, assumptions and judgments on an ongoing basis. Our estimates, assumptions and judgments are based on historical experience and various other factors that we believe to be reasonable under the circumstances. Different assumptions and judgments would change the estimates used in the preparation of our condensed consolidated financial statements, which, in turn, could change the results from those reported.

Our management's discussion and analysis of our financial condition and results of operations is based on our financial statements, which we have prepared in accordance with U.S. generally accepted accounting principles issued by the Financial Accounting Standards Board, or FASB.

Our significant accounting policies include revenue from contracts with customers which is more fully described in the notes to our condensed consolidated financial statements appearing elsewhere in this Quarterly Report on Form 10-Q and our annual financial statements for the year ended December 31, 2024, including the footnotes, for a description of our significant accounting policies. We believe that these accounting policies discussed are critical to our financial results and to the understanding of our past and future performance, as these policies relate to the more significant areas involving management's estimates and assumptions. We consider an accounting estimate to be critical if: (1) it requires us to make assumptions because information was not available at the time or it included matters that were highly uncertain at the time we were making our estimate; and (2) changes in the estimate could have a material impact on our financial condition or results of operations.

Item 3. Quantitative and Qualitative Disclosure About Market Risk.

Not required for a smaller reporting company.

Item 4. Controls and Procedures.**Evaluation of Disclosure Controls and Procedures**

We continued to conduct ongoing evaluation of the effectiveness of our “disclosure controls and procedures”, as defined by Rules 13a-15(e) and 15d-15(e) of Exchange Act, as of June 30, 2025, the end of the period covered by this Quarterly Report. This evaluation, which was performed under the supervision and with the participation of management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), is performed to determine whether our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure and are effective to provide reasonable assurance that such information is recorded, processed, summarized and reported within the time periods specified by the SEC’s rules and forms. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. Disclosure controls and procedures, no matter how well designed and effectively operated, can only provide reasonable assurance of achieving their control objectives.

Based upon that evaluation, our CEO and CFO concluded our disclosure controls and procedures were effective as of the period covered by this Quarterly Report on Form 10-Q.

Management’s report on internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external reporting purposes in accordance with GAAP.

Because of its inherent limitations, our internal control over financial reporting may not prevent or detect all misstatements, including the possibility of human error, the circumvention or overriding of controls or fraud. Effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. Also, projections of any evaluation of effectiveness of internal control over financial reporting 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 over time.

Under the supervision and with the participation of the CEO and the CFO, management conducted an evaluation of the effectiveness of our internal control over financial reporting as of June 30, 2025. We performed an assessment of the effectiveness of our internal control over financial reporting based on the framework described in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of June 30, 2025.

Changes in Internal Controls over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended June 30, 2025 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II – Other Information

Item 1. Legal Proceedings.

From time to time, we are involved in various claims and legal actions arising in the ordinary course of business. To the knowledge of our management, there are no legal proceedings currently pending against us which we believe would have a material effect on our business, financial position or results of operations and, to the best of our knowledge, there are no such legal proceedings contemplated or threatened.

Item 1A. Risk Factors.

Except as set forth below in this Item 1A and the Risk Factors included in our previous filings made with the SEC, there have been no material changes to our risk factors from those disclosed in “Part I. Item 1A. Risk Factors” in the Form 10-K filed with the SEC on March 24, 2025.

Conditions in the Middle East and in Israel, where our research and development facilities are located, may harm our operations.

Our office where we conduct our research and development, operations, sales outside the Americas, and administration activities, is located in Israel. Many of our employees are residents of Israel. Most of our officers and directors are residents of Israel. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its neighboring countries, and between Israel and the Hamas (an Islamist militia and political group in the Gaza Strip), Hezbollah (an Islamist militia and political group in Lebanon), and Iran.

In October 2023, Hamas terrorists infiltrated Israel’s southern border from the Gaza Strip and conducted a series of attacks on civilian and military targets. Hamas also launched extensive rocket attacks on Israeli population and industrial centers located along Israel’s border with the Gaza Strip and in other areas within the State of Israel. These attacks resulted in extensive deaths, injuries and kidnapping of civilians and soldiers. Following the attack, Israel’s security cabinet declared war against Hamas and a military campaign against these terrorist organizations commenced in parallel to their continued rocket and terror attacks. On January 19, 2025, a temporary ceasefire went into effect. On March 18, 2025 the ceasefire ended with the resumption of the war between Israel and Hamas.

In addition, since the commencement of these events, there have been continued hostilities along Israel’s northern border with Lebanon (with the Hezbollah terror organization) and on other fronts from various extremist groups in region, such as the Houthis in Yemen and various rebel militia groups in Syria and Iraq. In October 2024, Israel began limited ground operations against Hezbollah in Lebanon, and in November 2024, a ceasefire was brokered between Israel and Hezbollah. In addition, Iran recently launched direct attacks on Israel involving hundreds of drones and missiles and has threatened to continue to attack Israel and is widely believed to be developing nuclear weapons. Iran is also believed to have a strong influence among extremist groups in the region, such as Hamas in Gaza, Hezbollah in Lebanon, the Houthi movement in Yemen and various rebel militia groups in Syria and Iraq. These situations may potentially escalate in the future to more violent events which may affect Israel and us. Additionally, Yemeni rebel group, the Houthis, launched series of attacks on global shipping routes in the Red Sea, causing disruptions of supply chain. Such clashes may escalate in the future into a greater regional conflict.

As of the date of this Quarterly Report on Form 10-Q, we have not been impacted by any absences of personnel at our service providers or counterparties located in Israel. Military service call ups that result in absences of personnel from us for an extended period of time may materially and adversely affect our business, prospects, financial condition and results of operations. As of the date of this Quarterly Report on Form 10-Q, we currently have 38 full-time employees, with 33 employees located in Israel and 5 employee located outside of Israel.

Since the war broke out on October 7, 2023, our operations have not been adversely affected by this situation, and we have not experienced any material disruptions to our operations. We have the ability, if necessary, to shift our manufacturing from Israel to other countries where we have business partners, and we have not had customers in Israel in the last year. However, the intensity and duration of Israel’s current war is difficult to predict at this stage, as are such war’s economic implications on the Company’s business and operations and on Israel’s economy in general. If the ceasefires declared collapse or a new war commences or hostilities expand to other fronts, our operations may be adversely affected.

Our commercial insurance does not cover losses that may occur as a result of events associated with the security situation in the Middle East. Although the Israeli government currently covers the reinstatement value of direct damages that are caused by terrorist attacks or acts of war, we cannot assure you that this government coverage will be maintained. Any losses or damages incurred by us could have a material adverse effect on our business. Any armed conflicts or political instability in the region would likely negatively affect business conditions and could harm our results of operations. To-date, we have received Israeli government war related support funding of approximately \$100,000.

The continued political instability and hostilities between Israel and its neighbors and any future armed conflict, terrorist activity or political instability in the region could adversely affect our operations in Israel and adversely affect the market price of our shares of common stock. In addition, several organizations and countries may restrict doing business with Israel and Israeli companies have been and are today subjected to economic boycotts. The interruption or curtailment of trade between Israel and its present trading partners could adversely affect our business, financial condition and results of operations.

Finally, political conditions within Israel may affect our operations. Israel has held five general elections between 2019 and 2022, and prior to October 2023, the Israeli government pursued extensive changes to Israel's judicial system, which sparked extensive political debate and unrest. Actual or perceived political instability in Israel or any negative changes in the political environment, may individually or in the aggregate adversely affect the Israeli economy and, in turn, our business, financial condition, results of operations and growth prospects.

Our shares of common stock could be delisted from the Nasdaq Capital Market if we fail to regain compliance with the Nasdaq's stockholders' equity continued listing standards. Our ability to publicly or privately sell equity securities and the liquidity of our shares of common stock could be adversely affected if we are delisted from the Nasdaq Capital Market.

On August 25, 2023, we received a notification letter from the Listing Qualifications Staff (the "Staff") of the Nasdaq Stock Market LLC ("Nasdaq") indicating that we are not in compliance with Nasdaq Listing Rule 5550(b)(1) due to our failure to maintain a minimum of \$2,500,000 in shareholders' equity (the "Minimum Shareholders' Equity Requirement") or any alternatives to such requirement. In order to maintain our listing on the Nasdaq Capital Market, we submitted a plan of compliance addressing how we intended to regain compliance. On March 27, 2024, we received a delist determination letter from Nasdaq advising us that the Staff had determined to delist our securities from Nasdaq due to non-compliance with the Minimum Shareholders' Equity Requirement, unless we timely request a hearing before the Nasdaq Hearings Panel (the "Panel"). We timely requested a hearing before the Panel. On August 27, 2024, we received formal written notice from Nasdaq confirming that we have evidenced compliance with all applicable criteria for continued listing on Nasdaq as set forth in Nasdaq Listing Rule 5550, including the Minimum Shareholders' Equity Requirement. In accordance with Nasdaq Listing Rule 5815(d)(4)(B), we will remain subject to a panel monitor for equity compliance through August 27, 2025.

As of the date of this filing, we believe that we are not in compliance with the Minimum Shareholders' Equity Requirement. We intend to enter into a financing transaction by September 30, 2025, with the goal of bringing us back to compliance with the Minimum Shareholders' Equity Requirement. There is no assurance that we will be able to enter into such a financing transaction, or that such transaction would ensure that we will regain, or maintain, compliance the Minimum Shareholders' Equity Requirement.

In addition, on May 20, 2024, Nasdaq notified us that we were not in compliance with the minimum bid price requirements set forth in Nasdaq Listing Rule 5550(a)(2), which requires our common stock to maintain a minimum bid price of \$1.00 per share. On June 20, 2024, we received a letter from Nasdaq that, for the 10 consecutive business days from June 5, 2024 to June 28, 2024, the closing bid price of the Company's common stock had been at \$1.00 per share or greater. Accordingly, we have regained compliance with Nasdaq Listing Rule 5550(a)(2) and Nasdaq considers the prior bid price deficiency matter now closed.

In addition, on May 12, 2025, Nasdaq notified us (the "Notification Letter") that we were not in compliance with the minimum bid set forth in Nasdaq Listing Rule 5550(a)(2), which requires our common stock to maintain a minimum bid price of \$1.00 per share. The Notification Letter has no immediate effect on the listing or trading of our common stock on Nasdaq and, at this time, the common stock will continue to trade on Nasdaq under the symbol "ASNS".

The Notification Letter provides that we have 180 calendar days, or until November 10, 2025, to regain compliance with Nasdaq Listing Rule 5550(a)(2). To regain compliance, our common stock must have a closing bid price of at least \$1.00 per share for a minimum of 10 consecutive business days. If we do not regain compliance by November 10, 2025, an additional 180 days may be granted to regain compliance, so long as we meet certain listing criteria. If we do not qualify for the second compliance period or fail to regain compliance during the second 180-day period, then Nasdaq will notify us of its determination to delist our common stock, at which point we will have the opportunity to appeal the delisting determination to a Hearings Panel.

We have in the past, and may in the future, be unable to comply with certain of the listing standards that we are required to meet to maintain the listing of our ordinary shares on Nasdaq. If we fail to satisfy the continued listing requirements of Nasdaq, such as minimum stockholders' equity requirements or minimum bid price requirements, Nasdaq may take steps to delist our shares of common stock. Such a delisting would have a negative effect on the price of our shares of common stock, impair the ability to sell or purchase our shares of common stock when persons wish to do so, and any delisting materially adversely affect our ability to raise capital or pursue strategic restructuring, refinancing or other transactions on acceptable terms, or at all. Delisting from Nasdaq could also have other negative results, including the potential loss of institutional investor interest and fewer business development opportunities, as well as a limited amount of news and analyst coverage of us. Delisting could also result in a determination that our shares of common stock are a "penny stock," which would require brokers trading in our shares of common stock to adhere to more stringent rules, possibly resulting in a reduced level of trading activity in the secondary market for our shares of common stock. In the event of a delisting, we would attempt to take actions to restore our compliance with Nasdaq's listing requirements, but we can provide no assurance that any such action taken by us would allow our shares of common stock to become listed again, stabilize the market price or improve the liquidity of our securities, prevent our shares of common stock from dropping below the Nasdaq minimum bid price requirement or prevent future non-compliance with Nasdaq's listing requirements.

Our cryptocurrency strategy faces high risk and uncertainty in light of market volatility and an evolving regulatory landscape.

On August 6, 2025, we announced that our Board of Directors approved a new treasury management strategy that includes the strategic allocation of corporate funds to cryptocurrencies as part of the Company's broader capital allocation framework. Our decision to allow investments in digital assets - including Bitcoin and other major cryptocurrencies-as a recent addition to our treasury management strategy, poses considerable risks that could materially harm our operating results and financial condition. The inherent volatility in cryptocurrency markets can lead to rapid and substantial fluctuations in the value of our digital asset holdings; such volatility may force us to liquidate positions at unfavorable prices, thereby significantly impairing our liquidity and overall financial stability.

Moreover, our cryptocurrency strategy is developing amid a continuously changing and uncertain regulatory environment. Evolving cryptocurrency regulations and varying interpretations and enforcement policies of existing laws in the United States and internationally may impose new compliance burdens, disrupt our planned operations, or necessitate significant modifications to our existing business practices. Any adverse regulatory action or delay in clarity could escalate our operational costs, materially harm the value of our digital asset holdings, restrict our flexibility in managing these assets, and damage our reputation with investors and counterparties.

Additionally, the unique audit, accounting, and internal control challenges associated with managing digital assets add further complexity. As current financial reporting standards may not fully capture the nuances of digital asset investments, future modifications to these standards could require us to amend in our accounting policies and internal controls. Our reliance on third-party custodial, trading and transaction platforms for the storage and processing of these assets also exposes us to increased cybersecurity threats, operational disruptions, and risks stemming from third-party service providers, each of which could result in significant financial inaccuracies, legal liabilities, or reputational damage. Relatedly, digital asset custodial accounts do not benefit from customary regulatory, insurance and safeguard regimes available to traditional brokerage and deposit accounts.

Given the nascent and rapidly evolving nature of digital asset markets, any unfavorable developments in market conditions, regulatory frameworks, or technological vulnerabilities could severely undermine our ability to execute our digital asset strategy effectively. Any significant adverse developments in the digital asset space may have a material negative impact on our long-term performance and strategic goals.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

July 2025 Private Placement

On June 30, 2025, we entered into the Purchase Agreement with certain Investors, pursuant to which we agreed to issue and sell to the Investors in the July 2025 Private Placement (a) 1,626,019 shares of Common Stock, (b) Series A-3 warrants to purchase up to 1,626,019 shares of Common Stock, and (c) Series A-4 Warrants to purchase up to 3,252,038 shares of Common Stock, for a purchase price of \$0.615 per share and related Common Warrants, for a total aggregate gross proceeds of approximately \$1 million. The July 2025 Private Placement closed on July 2, 2025.

The shares of Common Stock and July 2025 Warrants (and the shares of Common Stock issuable upon exercise thereof), will be issued in reliance on the exemption from registration provided by Section 4(a)(2) of the Securities Act as were not involving a public offering and in reliance on similar exemptions under applicable state laws.

As part of the July 2025 Private Placement, we entered into a Registration Rights Agreement, dated June 30, 2025 (the "Registration Rights Agreement"), with the Investors, pursuant to which the Company agreed to file a registration statement (the "Registration Statement") to register for resale the shares of Common Stock sold in the Offering and the shares of Common Stock issuable upon exercise of the July 2025 Warrants. The Company agreed to file the Registration Statement within 15 calendar days after the date of the Registration Rights Agreement. The Registration Statement was filed on July 9, 2025 and was declared effective by the SEC on July 15, 2025.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Description of Exhibits
3.1	Form of the Twenty-Fourth Amended and Restated Certificate of Incorporation of the Registrant, dated May 2, 2023 (incorporated by reference to Exhibit 3.5 to the Company's Form S-1/A, filed on May 10, 2022)
3.2	Amended and Restated Bylaws of Actelis Networks, Inc. (incorporated by reference to Exhibit 3.4 to the Company's Form S-1/A, filed on May 10, 2022)
4.1	Form of Series A-3 Warrant (incorporated by reference to Exhibit 4.1 of our Current Report on Form 8-K, filed on July 3, 2025)
4.2	Form of Series A-4 Warrant (incorporated by reference to Exhibit 4.2 of our Current Report on Form 8-K, filed on July 3, 2025)
4.3	Form of Placement Agent Warrant (incorporated by reference to Exhibit 4.3 of our Current Report on Form 8-K, filed on July 3, 2025)
10.1	Form of Securities Purchase Agreement (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K, filed on July 3, 2025)
10.2	Form of Registration Rights Agreement (incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K, filed on July 3, 2025)
31.1*	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Schema
101.CAL*	Inline XBRL Taxonomy Calculation Linkbase
101.DEF*	Inline XBRL Taxonomy Definition Linkbase
101.LAB*	Inline XBRL Taxonomy Label Linkbase
101.PRE*	Inline XBRL Taxonomy Presentation Linkbase
104*	Cover Page Interactive Data File (formatted as Inline XBRL document and contained in Exhibit 101)

* Filed herewith

SIGNATURES

Pursuant to the requirements 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.

Actelis Networks, Inc.

Date: August 14, 2025

By: /s/ Tuvia Barlev
Tuvia Barlev
Chief Executive Officer
(Principal Executive Officer)

Date: August 14, 2025

By: /s/ Yoav Efron
Yoav Efron
Chief Financial Officer and Deputy
Chief Executive Officer
(Principal Financial and Accounting Officer)

**Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the
Sarbanes-Oxley Act of 2002 and pursuant to Rule 13a-14(a) and Rule 15d-14 under the
Securities Exchange Act of 1934**

I, Tuvia Barlev, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Actelis Networks, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations: and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2025

By: /s/ Tuvia Barlev
Tuvia Barlev
Chief Executive Officer
(Principal Executive Officer)

**Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the
Sarbanes-Oxley Act of 2002 and pursuant to Rule 13a-14(a) and Rule 15d-14 under the
Securities Exchange Act of 1934**

I, Yoav Efron, certify that:

- 1 I have reviewed this Quarterly Report on Form 10-Q of Actelis Networks, Inc;
- 2 Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations: and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2025

By: /s/ Yoav Efron
Yoav Efron
Chief Financial Officer
(Principal Financial and Accounting Officer)

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

In connection with the Quarterly Report of Actelis Networks, Inc. (the “Company”) on Form 10-Q for the quarter ended June 30, 2025 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Tuvia Barlev, Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: August 14, 2025

By: /s/ Tuvia Barlev

Tuvia Barlev
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

In connection with the Quarterly Report of Actelis Networks, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2025 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Yoav Efron, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: August 14, 2025

By: /s/ Yoav Efron
Yoav Efron
Chief Financial Officer
(Principal Financial and Accounting Officer)