

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2024

OR

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

For the transition period from _____ to _____

Commission File Number: 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 (IRS Employer Identification No.)
4039 Clipper Court Fremont, California (Address of Principal Executive Offices)	94538 (Zip Code)

(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, par value \$0.0001 per share	ASNS	The Nasdaq Stock Market LLC

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

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See 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 Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company

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

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

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

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

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

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2024, the last business day of the registrant's most recently completed second fiscal quarter, was approximately 11,077,194 based on the closing sale price on that date of \$2.31. Shares of common stock held by each executive officer and director and by each other person who may be deemed to be an affiliate of the Registrant have been excluded from this computation. The determination of affiliate status for this purpose is not necessarily a conclusive determination for other purposes.

As of March 21, 2025, there were 8,513,181 shares of the registrant's common stock, par value \$0.0001 per share, outstanding, including treasury shares.

ACTELIS NETWORKS, INC.
FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2024
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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K (the “Annual Report”) contains forward-looking statements. The forward-looking statements are contained principally in the sections entitled “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and “Business.” These forward-looking statements involve a number of risks and uncertainties. We caution readers that any forward-looking statement is not a guarantee of future performance and that actual results could differ materially from those contained in the forward-looking statement. These statements are based on current expectations of future events. Such statements include, but are not limited to, statements about future financial and operating results, plans, objectives, expectations and intentions, costs and expenses, interest rates, outcome of contingencies, financial condition, results of operations, liquidity, cost savings, objectives of management, business strategies, financing, potential growth and market opportunities, products, and other statements that are not historical facts.

In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “would,” “expect,” “anticipate” “plan,” “anticipate,” “could,” “intend,” “target,” “project,” “contemplate,” “believe,” “estimate,” “predict,” “potential” “possible” or “continue” or the negative of these terms or other similar expressions. Forward-looking statements contained in this Annual Report 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 grow the business due to the uncertainty resulting from the COVID-19 pandemic or any future pandemic;
- 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) and Hezbollah (an Islamist militia and political group in Lebanon);
- 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.

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. As a result, any or all of our forward-looking statements in this Annual Report may turn out to be inaccurate. Important factors that may cause actual results to differ materially from current expectations include, among other things, those listed under “Risk Factors,” “Use of Discussion and Analysis of Financial Condition and Results of Operations,” “Business” and elsewhere in this Annual Report. Potential investors are urged to consider these factors carefully in evaluating the forward-looking statements. You should read thoroughly this Annual Report and the documents that we refer to with the understanding that our actual future results may be materially different from and worse than what we expect. We qualify all of our forward-looking statements by these cautionary statements.

The forward-looking statements included in this Annual Report speak only as of the date of this Annual Report. 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 of this Annual Report. See “Where You Can Find More Information.”

On April 19, 2023, we effected a reverse stock split of our shares of common stock at the ratio of 1-for-10. Unless indicated otherwise by the context, all common stock, option, warrant and per share amounts as well as share prices appearing this Annual Report on Form 10-K have been adjusted to give retroactive effect to the stock split for all periods presented.

Item 1. Business

Company Overview

Actelis Networks, Inc. (“we,” “the Company”, “Actelis”, “us”, “our”) is a market leader in cyber-hardened, rapid-deployment networking solutions for wide-area IoT applications including federal, state and local government, intelligent traffic systems (“ITS”), military, utility, rail, telecom (notably in multi-dwelling units) and campus applications. Additionally, through our “Cyber Aware Networking” initiative, we provide an AI-based cyber monitoring and protection software-based system for all edge devices, enhancing network security and resilience and operational continuity.

Our unique portfolio of hybrid fiber, environmentally hardened aggregation switches, high density Ethernet devices, advanced management software and AI-based cyber-security offering, unlocks the hidden value of essential networks and the devices they connect, delivering a safe and cyber-aware connectivity for rapid, cost-effective deployment.

Our networking solutions use a combination of newly deployed fiber infrastructure and existing copper and coaxial lines which our patented technology can upgrade to Fiber-grade to jointly create what we believe to be a highly cost-effective, secure and quick-to-deploy network. Our patent protected hybrid-fiber networking solutions deliver excellent communication over fiber to locations that may be easy to reach with new fiber. However, for locations that are difficult, or too costly to reach with fiber, we can upgrade existing copper or coax lines to deliver cyber-hardened, high-speed connectivity without needing to replace the existing infrastructure with new fiber. We believe that such hybrid fiber networking solutions have distinct advantages in most real-life installations, while providing significant budget savings and accelerating deployment of modern IoT networks. Based on our experience, most IoT projects have challenging, hard to reach with fiber locations which may significantly increase such projects’ timeline and budgets. We believe that our solutions can provide connectivity over either fiber, copper or coax with speeds of up to multi-Gigabit communication, while supporting Fiber-grade reliability and quality.

A primary focus of ours is to provide our customers with a cyber-secure network solution. We currently offer Triple-Shield protection of data delivered with coding, scrambling and encryption of the network traffic. We also provide secure, encrypted access to our network management software, and are working to further enhance system-level and device-level software protection.

Our IoT cyber-security software solution implements AI to monitor, identify vulnerabilities and threats, offers or implements automatically AI generated plans addressing such exposures and constant reporting of all such activities, for the sake of documentation and compliance. This solution comes with the network itself, and uses the network traffic to become cyber-aware of the risks imminent to the IoT devices that are connected to that network.

When high speed, long reach, reliable and secure connectivity is required, network operators usually resort to using wireline communication over physical communication lines such as fiber, coax and copper, rather than wireless communication that is more limited in performance, reliability, reach and security. However, new fiber wireline infrastructure is costly to deploy, involves lengthy civil works to install, and, based on our internal calculations, often accounts for more than 50% of total cost of ownership (ToC) and time to deploy wide-area IoT projects.

Providing new fiber connectivity to hard-to-reach locations is especially costly and time-consuming, often requiring permits for boring, trenching, and right-of-way, sometimes done over many miles. Connecting such hard-to-reach locations may cause significant delays and budget overruns in IoT projects. Our solutions aim to solve these challenges by instantly enhancing performance of such existing copper and coax infrastructure to fiber-grade performance, through the use of advanced signal processing a unique, patented network architecture, without the need to run new fiber to hard-to-reach locations; thus, effectively accelerating deployment of many IoT projects, as we estimate, sometimes from many months to only days. The result for the network owner is a hybrid network that optimizes the use of both new Fiber (where available) as well as upgraded, fiber-grade copper and coax that is now modernized, digitized and cyber-hardened. This unique hybrid network approach is making IoT projects often significantly more affordable, fast to deploy and predictable to plan and budget. The same is correct in multi-dwelling unit buildings where the wiring from the roof (in case of a wireless based connectivity) or from the basement in case of a wired connectivity to the building. In such cases we utilize existing in-building wiring, preventing the need for brand-new ones and enables multi-gigabit connectivity to each apartment or suite.

In addition, our solutions can also provide power over existing copper and coax lines to remotely power up network elements and IoT components connected to them (like cameras, small cell and Wi-Fi base stations sensors etc.). Connecting power lines to millions of IoT locations can be costly and very time consuming as well (similar to data connectivity, for the same reason-need for civil works). By offering the ability to combine power delivery over the same existing copper and coax lines that we use for high-speed data, we believe our solutions are solving yet another important challenge in connecting hard-to-reach locations. We believe that combining communication and power over the same existing lines is particularly important to help connect many fifth generation, or 5G, small cells and Wi-Fi base stations, as high cost of connectivity and power is often slowing their deployment.

Since our inception, our business was focused on serving telecommunication service providers, also known as Telcos, to provide connectivity for enterprises and residential customers. Our products and solutions have been deployed with more than 100 telecommunication service providers worldwide, in enterprise, residential and mobile base station connectivity applications. In recent years, as we have further developed our technology and introduced additional products, we turned our focus on serving the wide-area IoT, federal and DoD markets, as well as multi-dwelling units (“MDUs”), and introduced, in 2024, our cyber-aware networking solutions for IoT markets as well.

Our operations are focused on our fast-growing IoT, federal and DoD markets, while maintaining our commitment to our existing Telco customers, and particularly MDUs. In 2024, we introduced new product offering, some of which could serve both the IoT markets and our Telco customers.

In August 2024, we announced signing a strategic partnership with an advanced cybersecurity provider to develop and deliver a novel, AI-Powered SaaS offering, under Actelis’ ‘Cyber Aware Networking’ initiative. This software, designed as an intelligence layer integrated into Actelis’ networking devices, leverages the network’s power and proximity to IoT devices to monitor and protect physical assets such as cameras, sensors, and other devices at the edge, enabling corrective actions before issues propagate throughout the network.

We derive a majority of our revenues from our existing and new IoT (including federal and DoD) customers. For the years ended December 31, 2024 and December 31, 2023, our IoT customers in the aggregate accounted for approximately 72% and 73% of our revenues, respectively.

We derive a significant portion of our revenues from a limited number of our customers. For the years ended December 31, 2024 and December 31, 2023, our top ten customers in the aggregate accounted for approximately 74% and 66% of our revenues.

We have incurred significant losses and negative cash flows from operations and as of December 31, 2024, we had an accumulated deficit of \$44.0 million. We have funded our operations to date through equity and debt financing and we had cash on hand (including short term bank deposits and restricted cash equivalents) of \$2.3 million and long-term restricted cash and cash equivalents and restricted bank deposits of \$0.2 million as of December 31, 2024. We continue to invest in sales and marketing resources to fuel our growth.

Our technology is both powerful and compact and is built as a relatively small set of feature-rich network elements, that serve as building block in many IoT verticals. These elements include switches, typically enhanced with signal processing SW, concentrators, reach extenders, data encryption elements, power sources and a smart networking software that allows for remote management and monitoring down to the single element and line performance, configuration management making complex network topologies easy to deploy, analyze, debug and remote SW download to help with remote handling of large and small networks.

Our cyber-security solution is SaaS-based. As such, it provides continuous protection through learning of the network and devices it protects, and constant alerting and review against external data bases of known threats, creating a repeatable, ever-improving protection cycle.

Rapid Deployment and Lower Cost of Critical Connectivity for IoT

We aim to become the global leading provider of cyber-secure, cost-effective and quick-to-deploy hybrid networking for all wide-area IoT applications. Our products work over all types of wireline media on the global data network, whether owned or operated by telecom service providers or a private network operated by enterprises or government organizations as well as MDU buildings. Our products are structured as building blocks for most IoT applications and are feature-rich. This allows for one Actelis platform to often replace multiple other platforms available in the market, allowing for space-saving installation, energy conservation (which we believe results in a more environmentally sustainable network, through the avoidance of need to add new physical infrastructure), and making network planning easier for our customers. We aim at having our products installed and help accelerate deployment of wire-area IoT projects and applications everywhere.

For example, in one of the projects where our solutions are deployed, we found that 70% of locations are easy-to-reach with new fiber optic installation. Connectivity for such easy-to-reach locations may, as we believe, average \$26,000 per mile for new fiber laid on poles, and can take between days to weeks to connect. However, the remaining 30% of locations were hard-to-reach with new fiber optics, and accordingly may require boring or trenching to reach IoT sensors or camera locations. Getting fiber to those 30% of hard-to-reach would require potentially connecting over obstacles, roads, long distances, and may also require obtaining the right of way and permits for extensive civil works. We believe this aspect of the deployment of new fiber optics may cost up to \$400,000 per mile, which for this particular project would have impacted thousands of miles of roads, resulting in enormous cost, delay and interruption to traffic.

In another project, we have been selected to provide networking for a major city that has fiber installed to 15% of its traffic junctions, however 85% of its junctions are connected to low performance copper lines susceptible for bad actors to tamper with. Upgrading the entire city's infrastructure to Fiber would have involved major civil works, permit delays and traffic interruptions for months or years, with a cost that would greatly exceed city's budget. Our hybrid fiber network allowed for the city to use its 15% fiber deployment, upgrade instantly the performance of its existing 85% copper lines to fiber-grade and join the two under a comprehensive management and security software package from Actelis to create one seamless network, while providing major savings of both time and money.

In another project, we provided our hybrid networking connectivity solution with remote powering over the data lines to 3G and 4G base stations. Looking forward, we believe that a dense grid of 5G small cells would be required to enable global 5G coverage, which, may accelerate IoT deployment in many smart city projects and other dense areas. We believe that connecting and powering these 5G small cells to the network cost effectively and rapidly, in both hard-to-reach and easy-to-reach locations is key to successful and timely deployment for such network.

In 2022, we released our first product family of hardened, hybrid, encrypted fiber product family with 10Gbps switching capacity.

In 2023, we introduced the next-generation product families for hybrid-fiber Gigabit grade connectivity under the product family name, “Gigaline” or GL. Under the Gigaline families of hybrid-fiber networking solutions for fiber, copper and coax environments, we solved new challenges faced by our IoT and telecom customers and expanded our offerings.

In 2024, we continued to refine and improve our multi-gigabit products, both hybrid-fiber and fiber-only, enabled their service to more types of use-cases, and launched the MetaShield cyber-aware networking product family.

Cybersecurity

IoT networks are vulnerable to cyber-attacks as they often carry data related to critical processes and applications, such as provision of energy, water, gas and transportation services, to large populations. At the same time, they are often found in the wide range, meaning, in public locations, adding further risks of tampering and break-ins.

In August 2024, we signed a strategic partnership with a cyber-security development company, which helped us launch our new cyber-aware networking solution for IoT networks. In December 2024, we launched our all-new MetaShield SaaS product as a cyber-security solution that comes from the network itself, and is currently being introduced to our existing and new customers.

Our products all include cyber safety features that we are constantly developing. They currently include network traffic encryption and coding. We have developed and implemented a multi-layered “Triple Shield” technology that includes (i) information coding for resilience and security (for copper wires); (ii) multi-line information scrambling for increased resilience and added security (for copper wires); and (iii) an additional 256-bit hardware-based real-time encryption of data running over fiber, coax or copper — creating end-to-end protection for the entire hybrid network. Our network management software is also cyber-hardened and helps protect the system. Our systems have been selected for deployment in sensitive applications with U.S. DoD and other governments and military organizations, airports, utility companies, oil and gas companies, smart cities, rail and traffic applications globally.

We successfully completed the certification of our product lines for Federal Intelligence Protocol Standards (FIPS) 140-2, and we are currently in the final stages of completing the next FIPS certification (140-3). In 2024, we were approved by the DoD’s Joint Interoperability Test Command (JITC) for interoperability and cybersecurity, allowing our products to be included in several federal approved product lists (APL).

Market Verticals We Address

We execute our vision through a multi-channel, global approach that combines our expertise, with the expertise of our trusted business partners, system integrators, distributors, and consultants.

We operate a vertical-based marketing plan where we dedicate efforts and resources to each vertical. The IoT verticals that we have focused on include: intelligent transportation systems (ITS), rail, federal and military, airports, energy and water, smart city, education campuses, industrial campuses, and MDU. The MDU vertical involves providing networking solutions for residential buildings with multiple units, such as apartment complexes and condominiums. Our products are utilized within networks deployed by cities such as the City of Los Angeles, the District of Columbia the City of Seattle, the City of Munich, Germany, as well as notable entities such as Highways England, the Federal Aviation Administration, the U.S. military, including the Air Force, Navy and National Guard, as well as Stanford University.

Our customers benefit from rapidly and cost-effectively enabling their critical IoT functions such as traffic cameras and smart signaling, security cameras, smart parking meters and ticketing, rail signaling and control, electrical substation management and protection, military operations, and many more. Recently, Actelis Networks has secured significant orders and launched groundbreaking solutions like MetaShield, an AI-based cybersecurity solution, driving SaaS growth and edge infrastructure resilience. To date, we have been most successful in selling to customers in the intelligent transportation systems, rail, federal and military, airports, and MDU markets, primarily in the US, Canada, Europe, and Japan.

Recent Trends in our Markets

State of IoT Connectivity Market, including Federal and DoD

IoT infrastructure connectivity demand is growing rapidly. We believe there is an urgent need to connect tens of millions of locations with a fast and secure connection. A huge challenge for IoT projects is that implementing connectivity between different IoT points in a network can consume the majority of a project's cost and time to implement, including unpredictable and unanticipated challenges that arise in each individual project.

According to a report by Facts and Factors (January 2022) Global Internet of Things (IoT) market is expected to grow to \$1.8 trillion by 2028, at a Compounded Average Growth Rate (CAGR) of 24.5%.

According to a report by Grand View Research (December 2022), the smart city market for connectivity infrastructure alone is expected to reach to \$6,965.02 billion by 2030 at a CAGR of 25.8%. Accordingly, we believe that the number of IoT applications requiring our fast, smart, and secure connectivity is immense and provides us with a great market opportunity to grow our business. From smart transportation systems (smart cameras, smart lights and signals, Vehicle to Everything, or V2X communication) and smart security (cameras and radars), to smart parking, smart rail, power station monitoring, and industrial and warehouse automation, we believe that we are uniquely positioned to address all of these applications in a versatile and flexible manner.

We believe that there is an unserved segment that is extremely large within that market pertaining to the challenges in protecting the interface between the physical security and the cybersecurity of campuses, enterprises, industrial IoT (IIoT), government facilities, Smart Cities and utility plants.

In addition, we are targeting the multi-dwelling, multi-tenant (MDU, MTU) market, which we believe are in dire need for multi-Gigabit connectivity, and are extremely limited in their ability to invest significant funds to enable such objective. According to the National Multi Family Council tabulations of 2023 American Community Survey Market Data, by the U.S. service bureau (updated October 2024), there are approximately 23 million apartment units in the U.S. alone, the majority of which were built before the year 2000, and, therefore, do not have built-in fiber-to-the-apartment infrastructure.

5G base stations and small cells need to be deployed in a dense grid of millions of locations and need to be connected to Gigabit speed communication and power. We are addressing these needs for the rapid connectivity and power, aiming at enabling faster and more cost-effective deployment of 5G in IoT.

Recent Developments

June 2024 Warrant Inducement

On June 5, 2024, we entered into an inducement agreement with a certain holder of certain of our existing warrants to purchase up to an aggregate of 999,670 shares of our common stock originally issued on May 8, 2023, with a five and one-half year term, at an exercise price of \$2.75 per share (the "May 2023 Warrants").

Pursuant to the inducement agreement, the holder agreed to exercise for cash its May 2023 Warrants to purchase an aggregate of 999,670 shares of our common stock at an exercise price of \$2.75 per share, in consideration of our agreement to issue new common stock purchase warrants (the "June 2024 Warrants"), as described below, to purchase up to an aggregate of 1,999,340 shares of our common stock, at an exercise price of \$2.00 per share.

H.C. Wainwright & Co., LLC (the "Placement Agent") acted as our exclusive placement agent in connection with the June 2024 Warrant Inducement. In connection with the June 2024 Warrant Inducement, we issued to certain designees of the Placement Agent warrants (the "June 2024 Placement Agent Warrants") to purchase up to 69,977 shares of common stock (representing 7.0% of the Existing Warrants being exercised), which have the same terms as the June 2024 Warrants, except that the Placement Agent Warrants have an exercise price equal to \$3.4375 per share (125% of the exercise price of the May 2023 Warrants). The June 2024 Warrants were immediately exercisable from the date of issuance, until five and one-half year anniversary of such date for 999,670 of the June 2024 Warrants, and until twenty four months anniversary of such date for the remaining 999,670 of the June 2024 Warrants. The Placement Agent Warrants are immediately exercisable from the date of issuance, until the five and one-half year anniversary of such date.

The closing of the June 2024 Warrant Inducement occurred on June 6, 2024.

July 2024 Warrant Inducement

On June 30, 2024, we entered into an inducement letter with a holder of our June 2024 Warrants, to purchase up to an aggregate of 999,670 shares of the June 2024 Warrants, originally issued on June 6, 2024, with a twenty-four month term, at an exercise price of \$2.00 per share.

Pursuant to the inducement letter, the holder agreed to exercise for cash its warrants to purchase an aggregate of 999,670 shares of our common stock at an exercise price of \$2.00 per share, in consideration of our agreement to issue new common stock purchase warrants (the “July 2024 Warrants”), as described below, to purchase up to an aggregate of 1,999,340 shares of our common stock (the “July 2024 Warrant Shares”), at an exercise price of \$1.75 per share.

We engaged the Placement Agent to act as our exclusive placement agent in connection with the July 2024 Warrant Inducement. In connection with the July 2024 Warrant Inducement, we issued to certain designees of the Placement Agent warrants (the “July 2024 Placement Agent Warrants”) to purchase up to 69,977 shares of common stock (representing 7.0% of the Existing Warrants being exercised), which have the same terms as the July 2024 Warrants, except that the Placement Agent Warrants have an exercise price equal to \$2.50 per share (125% of the exercise price of the June 2024 Warrants). The July 2024 Warrants were immediately exercisable from the date of issuance, until twenty four months anniversary of such date. The July 2024 Placement Agent Warrants are immediately exercisable from the date of issuance, until the five and one-half year anniversary of such date.

The closing of the July 2024 Warrant Inducement occurred on July 2, 2024.

September 2024 ATM Agreement

In September 2024, we entered into the ATM Agreement with H.C. Wainwright & Co., LLC (the “ATM Program”) pursuant to which we may offer and sell, at our option, up to \$3.4 million of our shares of common stock through an at-the-market equity program under which H.C. Wainwright & Co., LLC agreed to act as sales agent. In March 2025, we increased the at-the-market equity program by an additional \$1.3 million. As of the date of this report, we have sold 2,472,850 of our shares of common stock for total gross proceeds of approximately \$3.4 million under the ATM Program. As of the date of this filing and so long as our public float remains below \$75.0 million, we are subject to limitations pursuant to General Instruction I.B.6 of Form S-3, which limits the amount we can offer to up to one-third of our public float during any trailing 12-month period.

Nasdaq Listing Compliance

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 are in compliance with 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.

Our Solutions

We have invested nearly \$100 million over the years to develop our patented, multi-layered “Triple Shield” technology, which can serve all connectivity markets. Our Triple Shield technology includes signal processing software that is implementing optimization of multi-line signal coordination, the elimination of interference to boost connectivity performance, the optimization of coding for resilience and security, multi-line data scrambling for low latency, increased resilience, and added security. Our solutions also offer implementation of 256-bit encryption of transmission for data running over fiber or copper for network-wide protection of data. Our technology is packaged into a small set of compact, hardened, feature-rich network elements (such as switches, concentrators and reach extenders) — the MetaLIGHT product family — that are used as building blocks addressing the needs of most wide-area IoT verticals and applications, in a space-and energy-saving fashion. The ability to drive remote powering and synchronization signals to network ends over existing copper transmission lines provides additional significant cost-and-time benefits to network operators.

In 2023, we introduced the next-generation product families for hybrid-fiber-copper (or in short “hybrid-fiber”) Gigabit grade connectivity under the product family name, “Gigaline” or GL. Under the Gigaline families of hybrid-fiber networking solutions for fiber, copper and coax environments, we solved new challenges faced by our IoT and telecom customers and expanded our offerings.

One such product line, the GL800 aims at extending multi-gigabit fiber-grade connectivity to buildings, enterprises, IoT installations, campuses, and 5G/4G base stations.

A second product line, the GL900, extends Gigabit connectivity from fiber installations outside buildings (“homes passed” by fiber) into individual offices and apartments within MDUs and MTUs, without the need for landlord investment in re-wiring buildings with fiber. MDU/MTU market in the US alone is estimated by the company to include more than 18M buildings.

A third product group, GL5000 and GL6000, that was introduced in 2023 includes over 40 variants of hardened, 10Gbps fiber switches to expand our fiber offering into the IoT market.

Our product offering includes our EMS network management software, providing built-in automation to help configure, manage, monitor, safeguard, install and maintain complex, hybrid networks of thousands of elements remotely. Our EMS management Software was enhanced to support these new products and strengthened with advanced security features to support better cyber production and meet DoD demands. Our products are also built for future integration with enhanced security services we may introduce in the future.

A fourth product group, MetaShield, that was introduced in 2024, is a cyber-security, cyber-aware networking solution, an AI-powered, asset intelligence and threat management that comes as part of our networking solutions. Its objective is to continuously monitor IoT devices for cyber-risks, network behaviors, trends and overall health, to detect cyber attacks and operational anomalies, to document such performance tracking and provide compliance reports, and to automatically-correct the vulnerabilities, anomalies and attacks that it identifies. It is a cloud-base Software-as-a-service solution, that can be a stand-alone solution that works on any network, or, integrated with our networking solutions.

We aim to continue developing our technology to include more system-wide security and further hybridity across all types of infrastructure. We will also seek to include cutting-edge computing capabilities to serve all connectivity needs for our IoT customers, in an effective and easily deployable way, while maintaining our commitment to serve our existing Telco customers.

We believe that our strong reputation as a provider of high-quality solutions, and the trust we gain from being recognized as a solid solution provider by prominent customers (such as the U.S. DoD) help us execute our strategy.

Products

- **Gigaline 800/900/5000/6000 Series.** Advanced, software managed, temperature and cyber-hardened, layer 2 and layer 3, hybrid-fiber-copper switching devices, at multi-gigabit speeds of up to 10Gbps. These devices deliver a much broader selection of solutions for large and small networks, at higher speeds, and better security, in support of hybrid-fiber networks that contain more fiber, and covering IoT, MDU and MTU markets.
- **MetaLight ML500/600/700/Series.** EADs (Ethernet Access Devices) are a series of products which are cost efficient, compact and hardened Ethernet switches for long-distance hybrid-fiber networks, located near the IoT devices connected to the network. For example, our EAD is used to connect street traffic lights and nearby controllers, cameras and IoT devices to the traffic control center, where either fiber, copper or coax infrastructure cabling exists. This product family can be installed either indoors or outdoors, including under extreme weather conditions.
- **MetaShield.** is a cyber-security, cyber-aware networking solution, an AI-powered, asset intelligence and threat management that comes as part of the network. Its objective is to continuously monitor IoT devices for cyber-risks, network behaviors, trends and overall health, to detect cyber attacks and operational anomalies, to document such performance tracking and provide compliance reports, and to automatically-correct the vulnerabilities, anomalies and attacks that it identifies. It is a cloud-base Software-as-a-service solution, that can be a stand-alone solution that works on any network, or, integrated with our networking solutions.
- **ML2300 Aggregator Series.** This product is designed for large, medium, and small aggregation/operating and control centers. Network aggregators can connect hundreds of locations or elements. For example, control centers of highways could use such aggregators to communicate with hundreds of EADs installed in cabinets along highways in order to securely connect IoT devices (e.g. security cameras) to the highway network.



- **XR239 Series.** This product is installed on long copper lines and can be remotely powered from the data lines themselves, while a special algorithm (Dynamic Spectral Software) is ensuring minimal interference with other signals running on adjacent conduits in the same cable. It features a repeater to extend connectivity range to long distances, in some cases up to 100Km. The repeater is installed outdoors and is resistant to cold, hot, rain, ice or snow. Our repeaters have been installed along rail systems in Alaska and Canada and have been safely performing for more than five years.



- **Advanced MetaLIGHT/Gigaline EMS software.** Our EMS (Element Management Systems) software enable remote management, monitoring, maintenance, and configuration of the installed equipment in the network. It is designed to monitor, control and configure our network elements in the field, locally or remotely, for networks of various scales up to thousands of elements. Our implementation during 2021 and 2022 for our end-user customer Highways England, as an example, is using such EMS systems to control thousands of EADs connecting IoT devices along thousands of highway miles. It includes detailed monitoring, logging and tracking of functions both locally and remotely, to allow for easy debugging and configuration of networks, security management, graphical display of network topologies, management of licenses, remote software download, and connectivity to other network and management systems. EMS may also manage other software keys and elements (for example, for encryption or other cyber-safety functions), for which customers may pay separately for the licenses.



We also offer support and maintenance services together with the sales of our product. This includes consulting, telephone troubleshooting and remote support, training, product repairs, and software updates.

Product Specifications

Our products use advanced signal processing implemented at the system level, with an approach that treats multiple copper lines as one multi-line channel, which we believe to achieve the following benefits:

- Speeds ranging from 10MB to 10GBPS; distances up to 100Km (speeds a lower for longer distances) infrastructure
- Supporting any hybrid combination of new Fiber infrastructure and existing copper and coax infrastructure, supporting data security an encryption protocols, certified for FIPS by US DoD labs; supporting outdoor hardened environmental requirements dense and compact to save space and allow for flexible location setting.
- Automatic calibration tools and automated management SW enable hassle-free installation withing hours vs. weeks over existing wiring.
- Improve communication reliability even if copper lines are of poor quality, so that network operators can, in most cases, guarantee their customers what we believe are Service Level Availabilities (SLAs) and uptime similar to that of fiber optic infrastructure regardless of the media used, and uptime that allows our customers to support mission-critical applications.

In addition to these main benefits, we have focused our efforts and implemented technologies in our products in order to achieve the following:

- Transmission in the copper lines to take into account signals in neighboring lines to minimize crosstalk interference and be “Spectrally Friendly”;

- Multi-line spatial coding scrambling of data in a way that enhances connection immunity to interference, and makes tapping into the data very difficult;
- Integration of remote powering and data on the same copper pairs;
- Minimizing transmission delay to support delay-sensitive applications; and
- Ability to safely, and accurately transmit clock signals for cellular base station synchronization (not available yet for 5G).

Since our inception, our business was focused on serving telecommunication service providers (Telecom), also known as Telcos, for enterprises and residential customers. Our products and solutions have been deployed with more than 100 telecommunication service providers worldwide, in enterprise, residential and mobile base station connectivity applications. In recent years, as we have further developed our technology and rolled out additional products, we turned our focus on serving the IoT markets. Our operations are focused on our fast-growing IoT business while maintaining our commitment to our existing Telecom customers.

Our Competitive Advantage

We have invested heavily and over more than 10 years in the development of copper technologies and hybrid-fiber communication systems to create a solution that enables high-speed communication over real-life networks of mixed media, securely, reliably, and with Gigabit-grade resilience.

Copper and coax lines are readily available in billions of locations. They are often buried in the ground, running in the walls of buildings or hanging from telephone poles, in bundles of tens or hundreds of wires.

Copper wires were never designed for long-reach, secure, high-speed communication. Attempts to deliver high-speed would encounter many problems, including signal attenuation, cross-talk interference from other lines in the Bundle and from any external electrical sources, variable quality and signal interruptions, and variable latency. Such wires are also relatively easy to tap into physically, and the information is also radiated outside of the cable and may be exposed to security threats.

In order to correct the issues with providing high speed communications over copper wiring, we developed technologies utilizing a multi-line approach, encoding, scrambling and processing the signals at system level (rather than at the single lines level), and finally also offering data encryption, to combat interference, electromagnetic noise, and issues with copper line quality and data security.

The next step was to integrate our existing technologies into hybrid-fiber building blocks, that provide seamless communication over mixed, real-life fiber-copper-coax networks, and many other advantages.

We believe our products offer a unique solution on the market in terms of value, by providing the following:

- High performance hybrid-fiber communication system
 - Speeds from 10Mbps to 10Gbps
 - Reach of up to 100Km (speed declines over long distances in copper)
 - Robust connectivity allowing Gigabit-grade service SLAs in various harsh environments over copper, coax or fiber
 - Rapid installation in hours vs. weeks or months if new infrastructure is needed
- Cyber-protection on several levels, including Triple Shield Protection:
 - Multi-line data scrambling and coding (copper)

- 256-bit system-wide encryption
- System level protection (encryption and other protections) of management software, operating system and traffic flow

Military — grade, DoD certified FIPS cyber protection

- Dense, feature-full design to replace multiple alternative elements in the market, and allow for installation that is compact, lower cost and power saving:
 - Advanced switching functions supporting complex network topologies
 - Support for both advanced, digital IoT devices as well as existing analog devices with serial interfaces — to save the need to replace these devices while allowing them to join the digital network
 - Power feeding for cameras and other IoT devices with the data cable
 - Ability to install our IoT building blocks in remote locations with no power. Power can be provided from the communication line
 - Ability to provide precise synchronization over the communication lines to base stations
 - Routing functions
 - Support for spectrally-friendly reach extenders up to 100Km with minimal impact on other communication lines
- Automated software tools for installation and management (including automated line calibration and configuration recognition during installation to avoid manual work, advanced management systems that allow remote troubleshooting of any line connected to the system to save on operation and management time)

We believe that the combination of these advantages provides our customers with a highly cost-effective solution to quickly obtain IoT connectivity anywhere in their network.

We believe that our hybrid-fiber solutions have a significant competitive advantage in several layers: (a) copper performance (speed, reach, link stability and data security); (b) seamless fiber-copper-coax integration and end-to-end data encryption; (c) overall system cyber-hardened design; (d) versatile, compact and feature-dense products with a good fit to the vast majority of applications; (e) very high product and transmission reliability; automatic configuration tools and advanced management of every element in the field; and (f) highly cost-effective when compared to alternatives. We believe that these advantages lead to very good value for our customers for both rapid deployment to all locations, regardless of whether these locations are hard to reach. We also believe that these characteristics provide us with a competitive advantage against many, if not all, companies in our space, such as Cisco, Rad, Nokia, Siemens, Belden and others.

We have hundreds of large, medium and small network operators as end users of our products, including municipalities, railway, airports, electricity, water infrastructure companies as well as other governmental agencies and military customers. We believe that we enjoy a strong reputation for offering reliable, high-performance and high-end products. We expect that the acceptance process for our new products for existing customers will become simpler due to customers positive accumulated experience working with us. We also have many non-exclusive third-party distributors, resellers and system integrators and partners around the world, located in the U.S., Canada, Philippines, Germany, Italy, Spain, Scandinavian countries, Greece, Netherlands, Japan and India. These non-exclusive third-party distributors are used to selling our products, and we believe that they appreciate the reliability of our products and the quality of service and support that we provide. All of these advantages constitute an entry barrier, which we believe may make it more difficult for a competitor to reach a similar status.

We believe that over the past years, we have built a reputation for providing, according to our customers, reliable, high-quality communication solutions with better copper and hybrid fiber performance than other alternatives on the market. A competitor who wants to enter the market will have to compete with our reputation, which has been acquired over a long period by providing long-term quality service to hundreds of network operators and hundreds of thousands of end customers and IoT elements.

Our Sales and Marketing Strategy

We operate through two regions — Americas and International (consisting of EMEA, or Europe, Middle East and Africa, and APAC, or Asia Pacific) in a matrix with a vertical structure that is described below. Our sales and support teams are currently located in the United States, Mexico, Germany, Israel, and India. We also execute our sales and marketing plan through a multi-channel by vertical global approach that combines our expertise with the expertise of our trusted business partners. Our current business partners, as well as the partners we will seek in the future, are system integrators, distributors, contractors, resellers, and consultants. Our business partners are currently located in North America, Central America, Europe, India, Singapore, China, Australia, Vietnam and Japan. Once we identify a relevant business opportunity in a new territory, we seek to partner with local business partners or agents. We believe our strong brand name of high-quality communication solutions, as well as the credibility we gain with esteemed customers such as the U.S. DoD, enhances our ability to provide our products and services. For example, we achieved UL laboratories compliance with FIPS 140-2 cybersecurity standard required by the United States Department of Defense (the “DoD”) and the Joint Interoperability Test Command (JITC) labs approval of the Company’s products for cybersecurity and interoperability, putting the products in the DoD Approved Products List (APL).

We operate a vertical-based marketing plan where we dedicate tailored solutions and individual resources to each specific vertical. Our verticals include Intelligent Traffic Systems (ITS), rail, smart city, Telecom, utilities, federal and military.

ITS

ITS include customers who manage road systems such as departments of traffic on either the municipality, county, state, or national level. The types of applications in this vertical that require communication include road cameras, lane management systems, and road signs.

Rail

Rail systems include customers who own and operate traditional inter-city rail lines as well as light rails. Some applications requiring communication in this vertical are central train control systems, rail signals, safety cameras and alert sensors, and rail station communication. We currently have projects within this vertical in North America, Europe, and Asia Pacific.

Federal and Military

Our current and future federal and military federal aviation authorities, US military, Air Force and Navy bases, and other government and military facilities. For example, during 2022, we were selected by Norseman Defense Technologies as an authorized sales partner to provide our solutions to all branches of the US Military and Government. The types of applications within this vertical that requiring communication include radars, perimeter security systems, energy systems, offices, laboratories and residences. We currently have projects within this vertical in North America, Europe and Asia Pacific.

Airports

Airports include customers who are either a State or Federal airport agency, or a service provider to the airport industry. The types of applications within this vertical requiring communication are airport security, baggage management, and airport Wi-Fi. Since 2022, we are delivering to our airport integration customer, who is a worldwide market-leader in airport operation technology, with which we signed an agreement to provide our solutions to hundreds of airports in 39 countries.

Energy and Water

Energy and water include customers such as electric utilities, oil companies and water utilities. The types of applications within this vertical that require communication are sub-station monitoring, oil and gas pipeline and refineries, electric and water flow monitoring, and perimeter security. We have projects within this vertical in North America and Europe.

Smart City

We believe the goal of nearly any city worldwide is to become smarter and better serve its residents and visitors. Smart city customers include such municipalities. The types of applications in this vertical requiring communication include security cameras, parking management, energy and water management, waste management, digital signs, and provision of Wi-Fi connectivity. We currently have projects in more than 100 cities, mostly in North America and Europe.

Telco

Telco customers include communication service providers of both wired and wireless services (including 4G and 5G). The types of applications within this vertical requiring communication include enterprise offices, branch offices, residential buildings, educational facilities and back-haul for mobile base stations.

Channel and Territory coverage

The majority of our business is conducted indirectly through various types of business partners, namely system integrators, distributors, contractors, resellers and consultants. Nevertheless, our team often accompanies a channel partner during the selling process to help secure a deal with an end-user. We seek to cover the geographic territories in which we sell, in combination with the target verticals described above. In this effort, we take advantage of existing strong relationships with business partners in the United States, Canada, Europe, Latin America, and Asia Pacific and also seek to recruit new business partners that can help us expand our coverage.

In addition, we maintain a website (at www.actelis.com) tailored to the IoT strategy and is expanding our marketing initiatives (professional organizations, shows, online targeting, online campaigns and lead generation) to grow our opportunity pipeline.

We operate through two main regional sales teams — Americas and International (consisting of EMEA (Europe, Middle East and Africa) and APAC (Asia Pacific)) in a vertical model similar to that which was described in our marketing strategy above and generates its pipeline of leads and opportunities through a combination of channel presence, on-line presence as well as direct touch. Our sales teams are very experienced in the target verticals and have significant competencies in the target networks of decision makers. We intend to invest in expanding this presence and strength.

Software and Services

Our products consist of hardware and an embedded software that function together to deliver the product's essential functionality. Our products are sold with a two-year warranty for repairs or replacements of the product in the event of damage or failure during the term of the support period, which is accounted for as a standard warranty. Services relating to repair or replacement of hardware beyond the standard warranty period are offered under renewable, fee-based contracts and include telephone support, remote diagnostics, and access to on-site technical support personnel.

We also offer our customers our EMS management software, either as perpetual or term-based. EMS is optional and is being sold separately from our hardware products, and has been sold either as a per-element license, or as a license for a whole network.

Our customers may request added functions and features for their specific need which we can customize for an additional fee.

We also offer our customers product support services which include telephone support, remote diagnostics, and access to on-site technical support personnel. Such support service is sold as a standalone contract or in combination with EMS management software and is offered for a term, usually 12 months with a renewal option.

Additionally, our customers can purchase software support service which allow them to receive some additional features or free upgrades. Such support service is sold as a separate contract.

We offer service contracts at different levels (Silver, Gold, Platinum), which may include different levels of support (remotely or in the field), hardware repairs, spare parts, help with network design, and SW/HW upgrades. Such service contracts are sold separately from the sale of hardware products and may be sold combined with our EMS software licenses. It usually covers periods post the expiration of our warranty period and would be renewed on an annual basis. The cost of the service is derived from the size of the network, and the level of support required.

Competition

We compete in markets for networking and communications services and solutions for service providers, businesses, government agencies and other organizations worldwide. While our hybrid-fiber offerings are unique in our opinion, providing the highest value to network operators, our customer may still elect to implement their networks in other ways.

As such we compete with a number of companies in the markets we serve. Our key competitors include Moxa Technologies, FlexDSL Telecommunications AG, EtherWAN Systems, Inc. and Belden Inc.

We believe the following competitive attributes are necessary for our solutions to successfully compete in IoT and Telecom networking markets, and likewise we believe that we are providing leading products in all the categories below:

- the performance and reliability of our solutions over any wireline (non-wireless) medium;

Rapid deployment/implementation

- cost of deployment and return on investment in terms of cost savings;
- sophistication, novel and innovative intellectual property and technology, and functionality of our offerings;
- cross-platform operability;
- security;
- ease of implementation and use of service;
- management capabilities;
- high-quality customer support; and
- price.

We believe that we compare favorably on the basis of the factors listed above. However, many of our competitors have substantially greater financial, technical, and marketing resources; relationships with large vendor partners; larger global presence; larger customer bases; longer operating histories; greater brand recognition; and more established relationships in the industry than we do. Furthermore, new entrants not currently considered to be competitors may enter the market through acquisitions, partnerships, or strategic relationships. See “Item 1.A - Risk Factors — New competitors may enter the marketplace and begin to compete with the Company.”

Manufacturing, Procurement and Logistics

We take advantage of the combination of our inhouse skills and those of the third parties we partner with to execute our operational tasks which are planning and manufacturing finished goods inventory, planning and procuring raw materials and delivering products to our customers based on promised delivery schedules.

Our raw material consists of electronic chipsets, FPGA components, modems, and other electronic and mechanical components. Most of those components are procured by our contract manufacturers and we assist them as needed in specific cases. For example, since the breakout of COVID-19, as the world is experiencing shortages of electronic components, we have assisted our manufacturers in acquiring components that are harder to find. We also secure components as have been designated to be the close to end of life by their manufacturers to ensure adequate quantities of future product shipments.

Our products are assembled by various contract manufacturers, located in Israel and in Taiwan who possess the expertise of assembly and quality control required for electronic manufacturing in a turn-key fashion. Some of our products are manufactured to our specifications under an OEM arrangement. The company uses state-of-the-art logistics services from the best providers worldwide and also has in-house expertise in executing such required processes.

We believe that we can add and/or replace our contract manufacturer if necessary. We have successfully transitioned from one contract manufacturer to another in the past, and we believe that a transition would be achievable, if necessary, in the future typically within three to six months.

Warranty

Our products are generally sold with a standard warranty of two years for product defects, as well as technical center support with properly trained personnel, during normal business hours, to address incidents raised customers. Within the warranty agreement, we offer to repair or replace defective products, or software bug fixes. Upon expiration of the warranty period, the customer has an option to purchase an extended warranty contract for an additional fee, typically for one or more periods of 12 months.

Growth Strategy

Global Expansion and Recognition

We intend to leverage (a) the customers, partners, and representatives' presence in over 30 countries including the Americas, Europe and Asia, (b) brand recognition developed over more than 20 years, and (c) the fact that our products are differentiated, as we believe, offering unique value in IoT verticals, particularly in Federal/Military, Smart Cities, Smart Roads, Utilities and Rail, as well as for Telecom carriers and in particular our differentiation in providing critical Gigabit and fiber grade solutions to Multi-Dwelling Units ("MDU"). Furthermore, we believe our unique package of cyber-hardened communications building blocks for IoT environments coupled with our cyber management solution that comes with the network, will help us increase our presence and recognition as a stand-out solution.

In order to achieve the right level of global coverage, we continue to expand our network of partners and representatives, as well as reputable advisors with unique expertise, and aim increasingly at partnering with larger numbers of companies with global presence. These can be system-integrators, value-added resellers, contractors, distributors, and consultants. For example, over the last year we expanded our network of partners in Italy, France, United States and more, including Federal/Military experts assisting us in growing this vertical.

We are investing in growing our sales, channel management and support teams, and dedicate resources which specialize in specific verticals in each of the theaters. During 2024, we deployed subject matter consultants who are helping the Company in focusing its go-to-market strategy in product marketing, as well as in marketing campaigns such as outreach, targeting desired audiences and more.

Expansion of Multi-year deals

Over the past years, we entered into several large multi-year contracts with ITS, military, airports, and more that will generate more predictable sales for the next several years. For example, since the IPO, we announced several new deals we won or started to deliver, such as the worldwide airport technology provider, a provider of energy services to a major European city in a major European country, the city of San Jose, California and Northern Ireland railways. We intend to expand this strategy by investing in sales and marketing presence to extend the length these contracts and add many others.

Expansion into Cybersecurity, Recurring Revenue Model

Cybersecurity is essential for IoT infrastructure. Such security must be addressed at the data traffic, switching, and network management level. Encryption is a fundamental building block to achieve the necessary protection, preferably at a low networking layer. Our products are already capable of delivering sensitive information for many critical IoT applications, and we are investing more in making this a strong differentiator, and to have our products recognized as the most cyber-safe IoT building blocks in the growing secure IoT communication market.

Beyond that, we are expanding our cyber-protection capabilities to provide protection not only of the data that is running in the system but also to help protect elements and devices connected to the network, especially in the interface between the physical and cybersecurity systems. We are referring to such objective as Cyber-Aware Networking.

Adding the 5G Connectivity for IoT

A dense grid of 5G small cells is required in order to build a global 5G coverage, which, as we believe, may be key to IoT deployment in many smart cities and other dense areas. We believe that connecting these 5G small cells to the network cost effectively and rapidly, in both hard-to-reach and easy-to-reach locations, as well as powering them cost-effectively is key to successful and timely deployment.

5G networks deployment is slowed down, as we believe, by the challenge to provide connectivity and power to millions of base station locations that are required for an effective 5G network.

Adding Edge Computing Capabilities

Once mass deployment of our IoT connectivity building blocks is achieved, we are planning to leverage our presence in the field to offer our customers the option to host and integrate various applications into our building blocks, many of which will be installed in critical information junctions for IoT networks. Such applications may include video analysis, data monitoring and extraction, firewalls and many others, and would enable our customers, as we believe, to develop recurring revenue models for them as well as for us. We are exploring and working on these objectives, either as part of our own development, as well as in partnership with third-party technology partners.

Some examples for such applications that we have been evaluating are:

- Enhanced cyber-protection for devices and users; and
- Critical application processes contributing to public safety in roads and smart cities, that include varying levels of data, and therefore require optimization between the local edge and the cloud, such as video analysis and object recognition.

In December 2024, we launched our all-new MetaShield SaaS product as a cyber-security solution that comes from the network itself, and is currently being introduced to our existing and new customers. We continue to work on the remaining components mentioned above relative to edge computing.

United States' Bipartisan Infrastructure Law

In November 2021, Former President Biden signed the Bipartisan Infrastructure Law to invest approximately \$1.2 trillion to significantly upgrade the United States' infrastructure. Specifically, the Bipartisan Infrastructure Law mandates investing the following amounts: \$110 billion to rebuild many of America's roads and bridges; \$39 billion in public transit; \$66 billion in high-speed rail; \$108 billion to upgrade the nation's electricity grid; \$55 billion to expand access to clean drinking water; \$25 billion to modernize several US airports; \$650 billion in previous authorized funding for roads including nearly \$300 billion for the Highway Trust Fund; and \$65 billion to ensure that every American has access to high-speed internet through deploying broadband infrastructure. Part of the latter is the Broadband Equity Access and Deployment Program (the "BEAD"). The BEAD Program provides \$42.45 billion to expand high-speed Internet access by funding planning, infrastructure deployment and adoption programs. All 50 states, the District of Columbia, and the five territories participating in the Broadband Equity, Access, and Deployment (BEAD) program have approved Internet for All plans. We believe that we have a significant positive contribution of value through our solutions to the BEAD projects, and we are pursuing funded programs where we look to offer our products.

It remains uncertain what actions, if any, the Trump Administration may take to repeal or otherwise modify the the Bipartisan Infrastructure Law or BEAD.

Recent increase and creation of new tariffs by the Trump Administration is not likely to affect the Company significantly, since the Company manufactures its products in Israel and Taiwan, and the procurement of raw material is done directly to these countries. Also, the United States has stable trade agreements with Israel, where our subsidiary manages our operations, and from which exports our products to the United States.

We believe that this significant increase in infrastructure spending by the United States Government will likely result in investments in our communication infrastructure solutions, as these spending initiatives are aimed at our targeted verticals.

Growth through Mergers and Acquisitions

We continue to evaluate potential growth through mergers and acquisitions opportunities in situations where we believe that a transaction will fill business gaps or add key business operations without requiring us to wait years for marketing and sales cycles to materialize. The resulting combination of our existing products and services, new key personnel, and strategic partnerships through M&A could provide new offerings to our existing market.

For example, on May 23, 2024, we announced that we have entered into a binding term sheet (as amended, the "Term Sheet") with Quality Industrial Corp, a Nevada corporation traded on the OTC under the symbol QIND ("Target"), and Illustrato Pictures International Inc., a Nevada corporation ("Seller"), providing for the potential acquisition of between 61% to 75% of the issued and outstanding shares of the Target's share capital. However, following our due diligence process, we determined that the contemplated transaction is not in the best interest of our shareholders. As a result, on October 10, 2024, we invoked our right and provided the Target with the requisite 30-day notice of our intention to terminate the Term Sheet. As of November 11, 2024, the Term Sheet has been terminated.

If we target businesses in the same sector or location, we hope to combine resources to reduce costs, eliminate duplicate facilities or departments and increase revenue. We still believe this strategy will provide for accelerated growth and maximize investor returns.

Environmental

We are not aware of any environmental laws that have been enacted, nor are we aware of any such laws being contemplated for the future, that impact issues specific to our business.

Human Capital Resources

As of December 31, 2024, we had approximately 49 employees and contractors, of which 38 were full-time employees, including 18 in sales and marketing, 22 in research development, engineering, and operations and 9 in general and administration. We have approximately 35 employees and contractors in Israel, 9 in the U.S., 3 in Europe and 2 in Asia. Our U.S.-based employees are employed through a Professional Employer Organization, providing employee benefits and services.

We believe our culture and principles enable us to attract, retain, motivate and develop our workforce as well as drive employee engagement. We believe an engaged workforce leads to a more innovative and productive company that serves its customers better. Our employees work to ensure that our products and services connect and protect our customers critical infrastructure. A testament to that is the long-term retention of many of our employees and their loyalty to us. We measure each one through a goal setting and measurement system to maximize our enterprise value and employee career potential.

We support and strive for ethnic and gender diversity.

Legal Proceedings

From time to time, we may be 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 adverse effect on our business, financial position, results of operations and, to the best of our knowledge, there are no such legal proceedings contemplated or threatened. Regardless of outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

Government Regulation

Our products are required to be certified for safety and local standards in each country that we sell in as needed. In the United States, Canada, Europe, and Japan our products are UL certified (safety), EN (emissions Regulation), VCCI (Japanese emissions standard), CISPR (European emission standard), ICES (Canadian radio frequency emissions standards), ETSI (European electromagnetic compatibility standard), CFR (US Federal Broadcasting Regulation), as well as IEC (European Safety Standard). We have also received the JITC (Joint Interoperability Test Command) certification of meeting certain cybersecurity standards required by the DoD.

We are subject to numerous federal, state, provincial, local, and foreign laws and regulations relating to the storage, handling, emission, and discharge of materials into the environment, including the Comprehensive Environmental Response, Compensation, and Liability Act; the Clean Water Act; the Clean Air Act; the Emergency Planning and Community Right-To-Know Act; the Resource Conservation and Recovery Act; and similar laws in the other countries in which we operate. While we believe that our existing environmental control procedures are adequate, we will continue to evaluate and update our procedures as needed to address new or changing aspects of environmental matters.

Intellectual Property

We rely on a combination of trade secrets, patent, trademark and copyright laws in the United States, as well as intellectual property licenses and other contractual rights (including confidentiality procedures, contractual provisions, and non-disclosure and assignment-of-intellectual property agreements with our employees, independent contractors, consultants and companies with which we conduct business) to establish and protect our A.I. technology, intellectual property and proprietary rights, trade secrets, databases, and our brand.

We have registered Actelis Networks as a service trademark in the United States, and we are the registered holder of the domain name Actelis.com that includes “Actelis Networks, Inc.”. We also have 16 registered patents in the United States; 3 registered patents in Europe, 1 registered patent in Mexico, 1 registered patent in Indonesia, one pending application in the United States and one pending application in Europe, all of which in the general area of high-speed carrier class Ethernet service and transport over bonded VDSL2, G.SHDSL as well as Fiber covering various aspects of our technology. While we continue to consult with counsel on the advisability to seek patent protection of some of our algorithms, we rely heavily on trade secrets to protect our intellectual property around our technology. While we continue to consult with counsel on the advisability to seek patent protection of some of our algorithms, we rely heavily on trade secrets to protect our intellectual property around our technology.

Without accounting for any potential patent term adjustments or extensions or other forms of exclusivity with respect to our U.S. issued patents, three patents expire between 2025 and 2026, five expire between 2027 and 2030, and 8 expire between 2031 and 2038. Any patent issuing from the pending WIPO patent application will begin to expire in 2041. With respect to our European patents, 1 European patent is expected to expire between 2024 and 2026, and 2 European patent are expected to expire between 2027 and 2038. Our Mexican patent is expected to expire in 2026 and our Indonesian patent is expected to expire in 2028.

We continue to maintain our intellectual property and confidential business information in a number of ways. For instance, we have a policy of requiring all employees and consultants to execute confidentiality agreements upon the commencement of an employment or consulting relationship with us. Our employee agreements also require relevant employees to assign to us all rights to any inventions made or conceived during their employment with us in accordance with applicable law. In addition, we have a policy of requiring individuals and entities with which we discuss potential business relationships to sign non-disclosure agreements. Lastly, our agreements with clients include confidentiality and non-disclosure provisions.

Corporate Information

We were incorporated in Delaware in 1998. We completed our initial public offering on May 17, 2023 and our common stock is currently listed on the Nasdaq Global Select Market under the symbol “ASNS.” Our principal executive offices are located at 4039 Clipper Court, Fremont, CA 94538, and our telephone number is (510)-545-1040.

Available Information

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), are filed with the U.S. Securities and Exchange Commission (the “SEC”). We are subject to the informational requirements of the Exchange Act and file or furnish reports, proxy statements, and other information with the SEC. Such reports and other information filed by us with the SEC are available free of charge on the SEC’s website at www.sec.gov. or on our website at <https://actelis.com> when such reports are available on the SEC’s website. We use our website as a means of disclosing material non-public information and for complying with our disclosure obligations under Regulation FD. The contents of the websites referred to above are not incorporated into this filing.

Item 1A. Risk Factors

Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with all of the other information in this Annual Report, before deciding to invest in our common stock. The risks and uncertainties described below may not be the only ones we face. If any of the risks actually occur, our business, results of operations, financial condition and prospects could be harmed. In that event, the trading price of our common stock could decline, and you could lose part or all of your investment. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations.

Summary Risk Factors

Our business is subject to numerous risks and uncertainties that you should consider before investing in our company. You should carefully consider all of the risks described more fully in the section titled “Risk Factors” in this Annual Report on page 23, before deciding to invest in our common stock. If any of these risks actually occurs, our business, financial condition and results of operations would likely be materially adversely affected. These key risks, include, but are not limited to, the following:

Risks Related to Our Business

- We have a history of net losses, may incur substantial net losses in the future, and may not achieve or sustain profitability or growth in future periods. If we cannot achieve and sustain profitability, our business, financial condition, and operating results will be adversely affected.
- We have negative cash flow from our operations and, given our projected funding needs, our ability to generate positive cash flow is uncertain.
- 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.
- Our financial condition raises substantial doubt as to our ability to continue as a going concern.
- Unfavorable global economic or political conditions could adversely affect our business, financial condition or results of operations.
- Prolonged inflation rates could negatively impact our revenues and profitability if increases in the prices of our products or a decrease in customer spending results in lower sales.
- We may need to raise additional capital to meet our business requirements in the future, and such capital raising may be costly or difficult to obtain and could dilute our stockholders’ ownership interests.
- Our indebtedness could adversely affect our ability to raise additional capital to fund operations, limit our ability to react to changes in the economy or our industry and prevent us from meeting our financial obligations.
- To support our business growth, in the past years we increased our focus on serving certain IoT verticals, while continuing to serve our existing Telco customers. This change in our strategy may make it more difficult to evaluate our business growth and future prospects, and may increase the risk that we will not be successful in our plans.
- We may have ineffective sales and marketing efforts.

- We outsource our product manufacturing and are dependent on our key manufacturers, and on our component and OEM suppliers. We are susceptible to problems, and have encountered problems in the past, in connection with procurement, decreasing quality, reliability, and protectability.
- Demand for our products and solutions may not grow or may decline.
- Our gross margins may not increase or may deteriorate.
- Changes in the price and availability of our raw materials and shipping could be detrimental to our profitability.
- Expanding our operations and marketing efforts to meet expected growth may impact profitability if actual growth is less than expected.
- If our internal Company cyber-security measures are breached or fail and unauthorized access is obtained to our IT environment, we may incur significant losses of data, which we may not be able to recover and may experience a delay in our ability to conduct our day-to-day business.
- We provide cyber security features as part of our products that may not completely prevent information security breaches, and our products are installed in live customer environments and may be compromised by cyber-attacks and damage customer assets.
- We depend on key information systems and third-party service providers.
- We depend on our management team and other key employees, and the loss of one or more of these employees or an inability to attract and retain highly skilled employees could adversely affect our business.
- We may face the effects of increased competition and rapid technological changes.
- Our results of operations are likely to fluctuate from quarter to quarter and year to year, which could adversely affect the trading price of our common stock.
- The loss of one or more of our significant customers, or any other reduction in the amount of revenue we derive from any such customer, would adversely affect our business, financial condition, results of operations and growth prospects.
- Our business, operating results and growth rates may be adversely affected by current or future unfavorable economic and market conditions and adverse developments with respect to financial institutions and associated liquidity risk.

Risks Related to Protecting Our Technology and Intellectual Property

- Claims by others that we infringe their intellectual property could force us to incur significant costs or revise the way we conduct our business.
- Our patents and proprietary technology may be challenged or disputed.
- Any failure to protect our intellectual property rights could impair our ability to protect our proprietary technology and our brand.
- The lives of our patents may not be sufficient to effectively protect our products and business.

Risks Related to Managing Our Business Operations in Israel

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

- Actelis Israel received Israeli government grants for certain of our research and development activities, the terms of which require us to pay royalties and satisfy specified conditions in order to manufacture products and transfer technologies outside of Israel. If we fail to satisfy these conditions, we may be required to pay penalties and refund grants previously received.
- We may be adversely affected by fluctuations in the currency exchange rate of the Israeli Shekel.
- Unanticipated changes in our effective tax rate and additional tax liabilities, including those resulting from our international operations or the implementation of new tax rules, could harm our future results.

Risks Related to our Common Stock

- The requirements of being a public company may strain our resources, divert management's attention, and affect our ability to attract and retain executive management and qualified board members.
- If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results or prevent fraud. As a result, our shareholders could lose confidence in our financial and other public reporting, which would harm our business and the trading price of our common stock.

RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with all of the other information in this Annual Report, before deciding to invest in our common stock. The risks and uncertainties described below may not be the only ones we face. If any of the risks actually occur, our business, results of operations, financial condition and prospects could be harmed. In that event, the trading price of our common stock could decline, and you could lose part or all of your investment. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations.

Risks Related to Our Business

We have a history of net losses, may incur substantial net losses in the future, and may not achieve or sustain profitability or growth in future periods. If we cannot achieve and sustain profitability, our business, financial condition, and operating results will be adversely affected.

We have incurred net losses in recent years, and we may not achieve or maintain profitability in the future. We experienced a net loss of \$4.4 million and \$6.3 million in the years ended December 31, 2024 and 2023, respectively. As a result, we had an accumulated deficit of \$44 million as of December 31, 2024. We cannot predict when or whether we will reach or maintain profitability.

We may also increase our operating expenses in the future as we continue to invest for our future growth, including expanding our research and development function to drive further development of our platform, expanding our sales and marketing activities, developing the functionality to expand into adjacent markets, and reaching customers in new geographic locations, which will negatively affect our operating results if our total revenues do not increase. In addition to the anticipated costs to grow our business, we also expect to incur significant additional legal, accounting, and other expenses as a newly public company. These efforts and additional expenses may be more costly than we expect, and we cannot guarantee that we will be able to increase our revenues to offset our operating expenses. Any failure to increase our revenues or to manage our costs as we invest in our business would prevent us from achieving or maintaining profitability.

There is no guaranty that we will be able to generate the revenue necessary to support our cost structure or obtain the level of financing necessary for our operations.

We have incurred significant losses and negative cash flows from operations and incurred losses of \$ 4.4 million and \$6.3 million for the years ended December 31, 2024 and 2023, respectively. During the years ended December 31, 2024 and 2023, we had negative cash flows from operations of \$6.5 million and \$6.6 million, respectively. As of December 31, 2024, our accumulated deficit was \$ 44 million. We have funded our operations to date through equity and debt financing and have cash on hand (including short term bank deposits and restricted cash equivalents) of \$2.3 million and long-term restricted cash and cash equivalents and restricted bank deposits of \$0.2 million as of December 31, 2024. We monitor our cash flow projections on a current basis and take active measures to obtain the funding it requires to continue our operations. However, these cash flow projections are subject to various uncertainties concerning their fulfilment such as the ability to increase revenues by attracting and expanding its customer base or reducing cost structure. If we will not succeed in generating sufficient cash flow or completing additional financing, then it will need to execute a cost reduction plan that has been prepared. Our transition to profitable operations is dependent on generating a level of revenue adequate to support our cost structure. We expect to fund operations using cash on hand, through operational cash flows and raising additional proceeds. There are no assurances, however, 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 its operations.

Furthermore, we may continue to incur negative cash flow from operating and investing activities for the foreseeable future as we expect to incur research and development, sales and marketing, and general and administrative expenses and make capital expenditures in our efforts to increase our sales. Our business also will at times require significant amounts of working capital to support our growth of additional platforms. An inability to generate positive cash flow from operating activities for the near term may adversely affect our ability to raise needed capital for our business on reasonable terms, or at all, diminish supplier or customer willingness to enter into transactions with us, and have other adverse effects that may decrease our long-term viability. There can be no assurance that we will achieve positive cash flow in the near future or at all.

Our financial condition raises substantial doubt as to our ability to continue as a going concern.

Our consolidated financial statements have been prepared assuming that we will continue to operate as a going concern. These events and conditions, along with other matters, indicate that a material uncertainty exists that may cast significant doubt on our ability to continue as a going concern. This going concern determination could materially limit our ability to raise additional funds through the issuance of equity or debt securities or otherwise. Further financial statements may include an explanatory paragraph with respect to our ability to continue as a going concern. There can be no assurance that we will succeed in generating sufficient revenues from our product sales to continue our operations as a going concern. If funds are not available to us, we may be required to delay, reduce the scope of, or eliminate research or development plans for, or commercialization efforts with respect to our products. This may raise substantial doubts about our ability to continue as a going concern.

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 in compliance with 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.

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.

Unfavorable global economic or political conditions could adversely affect our business, financial condition or results of operations.

Our business is susceptible to general conditions in the global economy and in the global financial markets. A global financial crisis or a global or regional political disruption has caused, and could in the future cause, extreme volatility in the capital and credit markets. A severe or prolonged economic downturn, including a recession, the currently prolonged inflationary economic environment, continued rising interest rates, debt and equity market fluctuations, diminished liquidity and credit availability, increased unemployment rates, decreased investor and consumer confidence, supply chain challenges, natural catastrophes, the effects of climate change, regional and global conflicts and terrorist attacks or political disruption or turmoil could result in a variety of risks to our business, including weakened demand for our product candidates or any future product candidates, if approved, and our ability to raise additional capital when needed on acceptable terms, if at all. A weak or declining economy or political disruption could also strain our manufacturers or suppliers, possibly resulting in supply disruption, or cause our customers to delay making payments for our potential products. Any of the foregoing could materially and adversely affect our business, financial condition, results of operations and prospects, and we cannot anticipate all of the ways in which the political or economic climate and financial market conditions could adversely impact our business.

Prolonged inflation rates could negatively impact our revenues and profitability if increases in the prices of our products or a decrease in customer spending results in lower sales which would adversely affect our business, results of operations and financial condition.

Inflation rates, particularly in the United States, have increased in 2022 through 2024 at levels not seen in years in many countries where our customers reside. Continued and increased inflation may result in decreased demand for our products and services, increased operating costs (including our labor costs), reduced liquidity, and limitations on our ability to access credit or otherwise raise debt and equity capital. In addition, the United States Federal Reserve has raised, and may again raise, interest rates in response to concerns about inflation. Increases in interest rates, especially if coupled with reduced government spending and volatility in financial markets, may have the effect of further increasing economic uncertainty and heightening these risks. In an inflationary environment, we may be unable to raise the sales prices of our products at or above the rate at which our costs increase, which could have a material and adverse effect on our business, results of operations and financial condition. Accordingly, the U.S. dollar has strengthened against foreign currencies as a result of the United States Federal Reserve's actions to lower inflation, which is affecting our business partners, where they sell local currency to the end-user of our products and services.

We may need to raise additional capital to meet our business requirements in the future, and such capital raising may be costly or difficult to obtain and could dilute our stockholders' ownership interests.

In order for us to pursue our business objectives, we may need to raise additional capital, which additional capital may not be available on reasonable terms or at all. Any additional capital raised through the sale of equity or equity-backed securities may dilute our shareholders' ownership percentages and could also result in a decrease in the market value of our equity securities. The terms of any securities issued by us in future capital transactions may be more favorable to new investors, and may include preferences, superior voting rights and the issuance of warrants or other derivative securities, which may have a further dilutive effect on the holders of any of our securities then outstanding. In addition, we may incur substantial costs in pursuing future capital financing, including investment banking fees, legal fees, accounting fees, securities law compliance fees, printing and distribution expenses and other costs. We may also be required to recognize non-cash expenses in connection with certain securities we issue, such as convertible notes and warrants, which may adversely impact our financial condition.

Our indebtedness could adversely affect our ability to raise additional capital to fund operations, limit our ability to react to changes in the economy or our industry and prevent us from meeting our financial obligations.

On December 2, 2020, we entered into a loan agreement with Migdalor, or the Migdalor Loan, for a loan of up to approximately \$6.0 million. As of the date of this report, we have fully repaid the loan principal, and have an interest outstanding balance of \$111,000.

In February 2024, we entered into a new credit line facility from an Israeli bank of up to \$1.5 million (the "Credit Line"). The Credit Line is secured by customer invoices and will incur interest at a Federal SOFR rate plus 5.5%. The Credit Line has been extended under February 1, 2026. The current balance outstanding is approximately \$574,000.

We may raise additional debt in the future in order to extend the financing we need in ways that are less or non-dilutive vs. equity fund raising. Such debt funding may increase the burden on our cash flow, make us subject to interest accruing overtime which will affect our profitability as well as our ability to fund our operations.

To support our business growth, in the past years we increased our focus on serving certain IoT verticals, while continuing to serve our existing Telco customers. This change in our strategy may make it more difficult to evaluate our business growth and future prospects, and may increase the risk that we will not be successful in our plans.

Since our inception, our business was focused on serving Telcos for enterprises and residential customers. Our products and solutions have been deployed with more than 100 telecommunication service providers worldwide, in enterprise, residential and mobile base station connectivity applications. In recent years, as we have further developed our technology and rolled out additional products, we turned our focus on serving the IoT markets. Our operations are focused on our fast-growing IoT business, while maintaining our commitment to our existing Telco customers. A portion of our revenue continues to be derived from our existing Telco customers. For the years ended December 31, 2024 and December 31, 2023, our Telco customers in the aggregate increased by 1% from approximately 27% of our revenues in the year ended December 31, 2023, to 28% in the year ended December 31, 2024.

Our change in strategy and our efforts to serve the IoT verticals that we have focused on may prove more expensive than we currently anticipate, or may require longer development and deployment times, and we may not succeed in fully penetrating such IoT verticals, or at all.

We may have ineffective sales and marketing efforts.

Our sales and marketing efforts to drive growth may be ineffective as we try to win new deals either directly with end-user customers, or indirectly through business partners, distributors, system integrators or value-add resellers. These ineffective efforts may cause us to miss our planned growth and harm our financial results.

We outsource our product manufacturing and are dependent on our key manufacturers, and on our component and OEM suppliers. We are susceptible to problems, and have encountered problems in the past, in connection with procurement, decreasing quality, reliability, and protectability.

Our devices are assembled by using fully manufactured parts, the manufacturing of which has been fully outsourced, and we have no direct control over the manufacturing processes of our products. We outsource procurement and manufacturing activities to certain key manufacturers and certain component and OEM suppliers.

We also purchase unique components and products from suppliers who are exclusively able to fulfill such supply. We may lose some or all of these relationships, or have a material weakness in negotiating favorable terms, or such unique components have or may be declared end-of-life which may require product design changes. Such circumstances have hurt our profitability in the past, and may hurt our profitability in the future, and negatively affect our ability to deliver our product on time to customers.

Our lack of control in our manufacturing process due to the fact that we outsource our product manufacturing may increase quality or reliability risks and could limit our ability to quickly increase or decrease production rates. If necessary, switching production to other or additional subcontractors will entail a material cost and a temporary decrease in our productivity. Our manufacturing process has been disrupted in the past, and may be disrupted in the future, by various factors, including but not limited to shipping delays, bottlenecks resulting from raw materials specific shortages, quality problems or a decrease in quality, manpower shortages by the manufacturers or political unease that would trigger the closure of a facility or financial insolvency.

Furthermore, a supplier may discontinue production of a particular part for any number of reasons, which may require us to purchase a large inventory of such discontinued parts in order to ensure that a continuous supply of such parts remains available to our customers. Such “end-of-life” parts purchases could result in significant expenditures by us in a particular period, and ultimately any unused parts may result in a significant inventory write-off, either of which could have an adverse impact on our financial condition and results of operations for the applicable periods. Additionally, in case any part embedded in our products is no longer available, we may be required to redesign such product in order to enable usage of alternative parts, or be forced to announce end-of-life of such product. Refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” for additional information on supply constraints related to the COVID-19 pandemic.

Demand for our products and solutions may not grow or may decline.

We may experience a reduction in customer demand as a result of either of competition from other companies, technological changes required by our target markets, or disruptions of existing and new customer relationships. Such demand reduction will prevent us from realizing our planned growth.

Our gross margins may not increase or may deteriorate.

If our gross margins do not increase as planned or deteriorate, it will be harder for us to achieve profitability, which could substantially impact our business and ability to carry on operations if other financing sources are not secured on satisfactory terms. Our gross margins may deteriorate as a result of either reductions of customers price points, increases in product component and manufacturing costs, or unfavorable changes in the mix between more and less profitable customers and/or products.

Changes in the price and availability of our raw materials and shipping could be detrimental to our profitability.

Chipsets, electronic and mechanical components are significant components of our products. Over the past few years, the prices and availability of electronic and mechanical components have been fluctuating and may continue to evolve unpredictably in the future.

Furthermore, our products are assembled with various contract manufacturers located in Israel and in Taiwan. We have experienced instances of limited supply of certain raw materials and shipping delays, which resulted in extended lead times, increased shipping costs and higher-than-usual backlogs. Economic and political circumstances may negatively affect the price and availability of raw materials, shipping and availability of assembly capacity of contract manufacturers.

We may have previously agreed to set prices with our customers and any changes in supply costs may decrease our margin and directly affect profitability. If prices increase, supply interruptions, shipping delays, or shortages of materials continue to occur, it could have a negative effect on revenues and earnings.

Expanding our operations and marketing efforts to meet expected growth may impact profitability if actual growth is less than expected.

To meet expected growth, we plan to expand operations, including additional hiring, advertising, and promotion. If actual growth is less than expected, it would negatively impact our ability to become profitable, which would require we raise additional capital if required, which may not be available on favorable terms, or at all, which would impact our ability to carry on operations.

If our internal company cyber-security measures are breached or fail and unauthorized access is obtained to our IT environment, we may incur significant losses of data, which we may not be able to recover and may experience a delay in our ability to conduct our day-to-day business.

As cybersecurity attacks continue to evolve and increase, our cyber-security measures and our IT environment could be penetrated or compromised by internal and external parties' intent on extracting confidential information, disrupting business processes, corrupting information, or looking to force the Company to pay a ransom. These risks could arise from external parties or from acts or omissions of internal or service provider personnel. Such unauthorized access could disrupt our business and could result in the loss of assets, litigation, remediation costs, damage to our reputation and failure to retain or attract customers following such an event, which could adversely affect our business.

Cyber attackers update their methods frequently. Sometimes cyberattacks are unrecognizable at the time of their occurrence and even long after. In addition, cyber incidents can occur as a result of non-technological failures, like human error or malicious acts. In some cases, information security incidents at our customers or suppliers can also lead to information security incidents in our information systems. For these reasons, we cannot guarantee that the safeguards taken by us and the safeguards we will take in the future will completely prevent information security incidents or damages that may result from them as detailed above.

We provide cyber security features as part of our products that may not completely prevent information security breaches, and our products are installed in live customer environments and may be compromised by cyber-attacks and damage customer assets.

Our products include cyber-security features such as data-traffic encryption that are engineered to protect our customers' data and environment. Cyber-attacks become more sophisticated and evolve quickly, and these features may fail to protect our customers as intended and fail at preventing information security breaches. We plan to offer new cyber security products and features which we will either develop internally, obtain from partnerships with third-parties, or through acquisitions in the future. These planned new cyber-security products and features may fail to protect our customers as intended and not prevent information security breaches.

Our products are installed in live customer network environments, and may be subject to cyber-attacks seeking access to our customers networks through our products. Those cyber-attack attempts may take advantage of vulnerabilities of our products within the networks, vulnerabilities that may be known or unknown to us.

Our products and services include information systems and digital data of various types, including data kept by our employees, suppliers, and customers (and their own customers). In recent years there has been an increase in the frequency and severity of cyber incidents (including cybercrime). This trend is expected to continue in the future and even worsen, despite all the defense mechanisms employed against it. Cyber events can lead to unauthorized access, unauthorized disclosure, misuse, disruption, deletion, or modification of the Company and its customer assets, data, and processing, as well as disrupting day-to-day operations, computing services, and significantly slowing them down and even disabling information systems.

In the event of damage caused by such cyber-attacks, we may suffer negative consequences, such as disruption of the Company's and/or our customers' activities, disruption of or disabling information systems, theft of our and/or our customers' data, or damage to its reputation thus affecting clients' trust in the Company, and potentially exposing it to lawsuits. In such cases, our business results may be severely harmed.

We depend on key information systems and third-party service providers.

We depend on key information systems to transact our business accurately and efficiently. These systems and services are vulnerable to interruptions or other failures resulting from, among other things, natural disasters, terrorist attacks, software, equipment or digital failures, processing errors, computer viruses, other security issues or supplier defaults. Security, backup, and disaster recovery measures may not be adequate or implemented properly to avoid such disruptions or failures. Any disruption or failure of these systems or services could cause substantial errors, processing inefficiencies, security breaches, inability to use the systems or process transactions, loss of customers or other business disruptions, all of which could negatively affect our business and financial performance.

We depend on our management team and other key employees, and the loss of one or more of these employees or an inability to attract and retain highly skilled employees could adversely affect our business.

Our future success depends, in part, on our ability to continue to attract and retain highly skilled personnel. The loss of the services of any of our key personnel, the inability to attract or retain qualified personnel, or delays in hiring required personnel, particularly in engineering and sales, may seriously and adversely affect our business, financial condition and results of operations. Although we have entered into employment or consulting agreements with our personnel, their employment is generally for no specific duration.

Our future performance also depends on the continued services and continuing contributions of our senior management team, which includes Tuvia Barlev, our Chief Executive Officer, to execute on our business plan and to identify and pursue new opportunities and product innovations. The loss of services of our senior management team, particularly our Chief Executive Officer, could significantly delay or prevent the achievement of our development and strategic objectives, which could adversely affect our business, financial condition and results of operations.

We may face the effects of increased competition and rapid technological changes.

The industry in which we are engaged is subject to rapid and significant technological change. There can be no assurance that our systems can be upgraded to meet future innovations which will be required to meet our customer's requirements, or that new technologies will be adopted successfully by us, or existing technologies will not be improved, which would render the offerings obsolete or non-competitive. Companies we compete with enjoy significant competitive advantages, including greater name recognition; greater financial, technical, and service resources; established networks; additional product offerings; and greater resources for product development and sales and marketing.

There can be no assurance that other established networking technology companies, any of which would likely have greater resources than us, will not enter the market. In addition, new competitors may enter the marketplace and/or begin offering networking technology products and solutions and in channels similar to or competing with ours. Such competition may reduce demand for our products and impact the growth prospects and ability to achieve profitability, which may require us to raise new capital, which may not be available on favorable terms, or at all, and that would impair our ability to carry on operations.

We cannot assure you that we will be able to compete successfully against any of these competitors. Our failure to compete successfully with our competitors could harm our business.

We are dependent on skilled human capital.

Our ability to innovate and execute its business plans is dependent on the ability to hire, replace, and train skilled personnel. The employment market suffers from shortages of candidates, and such shortages may continue in future years, causing delays and preventing us from executing our plans.

Our results of operations are likely to fluctuate from quarter to quarter and year to year, which could adversely affect the trading price of our common stock.

Our results of operations, including our revenue, cost of revenue, gross margin, operating expenses, cash flow, and deferred revenue, have fluctuated from quarter to quarter and year to year in the past and may continue to vary significantly in the future so that period-to-period comparisons of our results of operations may not be meaningful. Accordingly, our financial results in any one quarter should not be relied upon as indicative of future performance. Our quarterly financial results may fluctuate as a result of a variety of factors, many of which are outside of our control, may be difficult to predict, and may not fully reflect the underlying performance of our business. Factors that may cause fluctuations in our quarterly financial results include:

- our ability to attract new customers and increase revenue from our existing customers;
- the loss of existing customers;
- customer satisfaction with our products, solutions, platform capabilities and customer support;
- mergers and acquisitions or other factors resulting in the consolidation of our customer base;

- mix of our revenue;
- our ability to gain new partners and retain existing partners;
- fluctuations in share-based compensation expense;
- decisions by potential customers to purchase competing offerings or develop in-house technologies and solutions as alternatives to our offerings;
- changes in the spending patterns of our customers;
- the amount and timing of operating expenses related to the maintenance and expansion of our business and operations, including investments in research and development, sales and marketing, and general and administrative resources;
- network outages;
- developments or disputes concerning our intellectual property or proprietary rights, our products and services, or third-party intellectual property or proprietary rights;
- negative publicity about our company, our offerings or our partners, including as a result of actual or perceived breaches of, or failures relating to, privacy, data protection or data security;
- the timing of expenses related to the development or acquisition of technologies or businesses and potential future charges for impairment of goodwill from acquired companies;
- general economic, industry, and market conditions;
- the impact of pandemics, such as the COVID-19 pandemic, or any other, epidemic, outbreak of infectious disease or other global health crises on our business, the businesses of our customers and partners and general economic conditions;
- the impact of political uncertainty or unrest;
- changes in our pricing policies or those of our competitors;
- fluctuations in the growth rate of the markets that our offerings address;
- seasonality in the underlying businesses of our customers, including budgeting cycles, purchasing practices and usage patterns;
- the business strengths or weakness of our customers;
- our ability to collect timely on invoices or receivables;
- the cost and potential outcomes of future litigation or other disputes;
- future accounting pronouncements or changes in our accounting policies;
- our overall effective tax rate, including impacts caused by any reorganization in our corporate tax structure and any new legislation or regulatory developments;
- our ability to successfully expand our business in the United States and internationally;
- fluctuations in foreign currency exchange rates; and

- the timing and success of new products and solutions introduced by us or our competitors, or any other change in the competitive dynamics of our industry, including consolidation among competitors, customers or partners.

The impact of one or more of the foregoing or other factors may cause our results of operations to vary significantly. Such fluctuations make forecasting more difficult and could cause us to fail to meet the expectations of investors and securities analysts, which could cause the trading price of our common stock to fall substantially, resulting in the loss of all or part of your investment, and subject us to costly lawsuits, including securities class action suits.

The loss of one or more of our significant customers, or any other reduction in the amount of revenue we derive from any such customer, would adversely affect our business, financial condition, results of operations and growth prospects.

Our future success is dependent on our ability to establish and maintain successful relationships with a diverse set of customers.

We currently derive a significant portion of our revenue from a limited number of our customers. For the years ended December 31, 2024 and December 31, 2023, our top ten customers in the aggregate accounted for approximately 74% and 66% of our revenues.

We expect to continue to derive a significant portion of our revenue from a limited number of customers in the future and, in some cases, the portion of our revenue attributable to individual customers may increase. The loss of one or more significant customers or a reduction in the amount of revenue we derive from any such customer could significantly and adversely affect our business, financial condition and results of operations. Customers may choose not to renew their contracts or may otherwise reduce the breadth of the offerings which they purchase for any number of reasons. We are also subject to the risk that any such customer will experience financial difficulties that prevent them from making payments to us on a timely basis or at all.

Our business, operating results and growth rates may be adversely affected by current or future unfavorable economic and market conditions and adverse developments with respect to financial institutions and associated liquidity risk.

Our business depends on the economic health of the global economies. If the conditions in the global economies remain uncertain or continue to be volatile, or if they deteriorate, including as a result of the impact of military conflict, such as the security situation in the Middle East, Russia and Ukraine, terrorism or other geopolitical events, our business, operating results and financial condition may be materially adversely affected. Economic weakness, inflation and increases in interest rates, limited availability of credit, liquidity shortages and constrained capital spending have at times in the past resulted, and may in the future result, in challenging and delayed sales cycles, slower adoption of new technologies and increased price competition, and could negatively affect our ability to forecast future periods, which could result in an inability to satisfy demand for our products and a loss of market share.

Our operations would be particularly vulnerable to potential interruptions in the supply of certain critical materials and metals, such as neon gas and palladium, which are used in semiconductor manufacturing. Any interruption to semiconductor chip supply could significantly impact our ability to receive the components and timely roll-out of our operations. Furthermore, any potential increase in geopolitical tensions in Asia, particularly in the Taiwan Strait, could also significantly disrupt existing semiconductor chip manufacturing and increase the prospect of an interruption to the semiconductor chip supply across the world. A significant portion of the world's semiconductor manufacturing is in Taiwan, and similar geopolitical tensions there could create further supply chain disruptions, which could result in further delays for our products' components.

The world's largest semiconductor chip manufacturer is located in Taiwan and a large part of equipment and materials, is manufactured in, and imported from, Taiwan. A setback to the current state of relative peace and stability in the region could compromise existing semiconductor chip production and have downstream implications for our company. We are continuing to monitor the situation in Ukraine, the Middle East and globally, and assessing its potential impact on our business.

In addition, increases in inflation raise our costs for commodities, labor, materials and services and other costs required to grow and operate our business, and failure to secure these on reasonable terms may adversely impact our financial condition. Additionally, increases in inflation, geopolitical developments and global supply chain disruptions, have caused, and may in the future cause, global economic uncertainty and uncertainty about the interest rate environment, which may make it more difficult, costly or dilutive for us to secure additional financing. A failure to adequately respond to these risks could have a material adverse impact on our financial condition, results of operations or cash flows.

There can be no assurance that future credit and financial market instability and a deterioration in confidence in economic conditions will not occur. Our general business strategy may be adversely affected by any such economic downturn, liquidity shortages, volatile business environment or continued unpredictable and unstable market conditions. If the current equity and credit markets deteriorate, or if adverse developments are experienced by financial institutions, it may cause short-term liquidity risk and also make any necessary debt or equity financing more difficult, more costly, more onerous with respect to financial and operating covenants and more dilutive. Failure to secure any necessary financing in a timely manner and on favorable terms could have a material adverse effect on our growth strategy, financial performance and stock price and could require us to alter our operating plans. In addition, there is a risk that one or more of our service providers, financial institutions, manufacturers, suppliers and other partners may be adversely affected by the foregoing risks, which could directly affect our ability to attain our operating goals on schedule and on budget.

The effects of health pandemics, such as the global COVID-19 pandemic could have an adverse impact on our business, financial condition and results of operations.

In December 2019, a novel coronavirus disease, or COVID-19, was first reported and on March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. The widespread health crisis is adversely affecting the broader economies, financial markets and overall demand environment for many of our products.

Our operations and the operations of our suppliers, channel partners and customers were disrupted to varying degrees by a range of external factors related to the COVID-19 pandemic, some of which are not within our control. Many governments imposed, and may yet impose, a wide range of restrictions on the physical movement of people in order to limit the spread of COVID-19. The COVID-19 pandemic has had, and likely will continue to have, an impact on the attendance and productivity of our employees, and those of our channel partners or customers, resulting in negative impacts to our results of operations and overall financial performance. We suffered delays in realization of certain new orders from our customers, delay in testing of some of our new technologies in customer premises and difficulty conducting business development activities in an effective way (face-to-face). Additionally, COVID-19 has resulted in delays in non-residential construction, non-crisis-related IT purchases and project completion schedules in general, all of which can negatively impact our results in both current and future periods.

The duration and extent of any future epidemic or pandemic such as the COVID 19 pandemic depends on future developments that cannot be accurately predicted at this time, such as the severity and transmission rate of the virus, the extent and effectiveness of containment actions, the effects of measures enacted by policy makers and central banks around the globe, and the impact of these and other factors on our employees, customers, channel partners and suppliers. If we are not able to respond to and manage the impact of such events effectively, our business will be affected.

Our performance is affected by general economic and political conditions and taxation policies.

The success of our activities may be affected by general economic and market conditions, like interest rates, currency exchange rate fluctuations, availability of credit, inflation rates, economic uncertainty, changes in laws, and United States and international political circumstances. Unexpected volatility or illiquidity could impair profitability or result in losses.

We may be adversely affected by the political and economic situation in the U.S., Europe and a number of countries in Asia.

The U.S. communications market is directly affected by economic developments in the U.S. economy. The European and Asian communications market is similarly reliant on political and economic stability in those regions. Changing trends in these markets may lead to a decrease in investments and a delay in projects, which could harm our business. To reduce our sensitivity to market changes, we operate in a large number of different vertical markets and territories.

Our business could be adversely impacted by changes in laws, regulations and tariffs related to government contracts.

Federal or state government bodies or agencies have in the past adopted, and may in the future adopt, laws or regulations affecting the use of the Internet as a commercial medium. Legislators, regulators, or government bodies or agencies may also make legal or regulatory changes or interpret or apply existing laws or regulations that relate to government contracts. Changes in these laws, regulations or interpretations could require us to modify our platform in order to comply with these changes, to incur substantial additional costs or divert resources that could otherwise be deployed to grow our business, or expose us to unanticipated civil or criminal liability, among other things.

We are subject to laws and regulations worldwide, changes to which could increase our costs and individually or in the aggregate adversely affect our business.

We are subject to laws and regulations affecting our domestic and international operations in a number of areas. These U.S. and foreign laws and regulations affect our activities including, but not limited to, in areas of labor, health and safety, tax, import and export requirements, foreign exchange controls and cash repatriation restrictions, data privacy requirements, anti-competition, and environmental.

Compliance with these laws, regulations and similar requirements may be onerous and expensive, and they may be inconsistent from jurisdiction to jurisdiction, further increasing the cost of compliance and doing business. Any such costs, which may rise in the future as a result of changes in these laws and regulations or in their interpretation, could individually or in the aggregate make our products and services less attractive to our customers, delay the introduction of new products in one or more regions, or cause us to change or limit our business practices. We have implemented policies and procedures designed to ensure compliance with applicable laws and regulations, but there can be no assurance that our employees, contractors, or agents will not violate such laws and regulations or our policies and procedures.

Scrutiny of sustainability and environmental, social, and governance (“ESG”) initiatives could increase our costs or otherwise adversely impact our business.

Public companies have recently faced scrutiny related to ESG practices and disclosures from certain investors, capital providers, shareholder advocacy groups, other market participants and other stakeholder groups. Such scrutiny may result in increased costs, enhanced compliance or disclosure obligations, or other adverse impacts on our business, financial condition or results of operations. If our ESG practices and reporting do not meet investor or other stakeholder expectations, we may be subject to investor or regulator engagement regarding such matters. Our failure to comply with any applicable ESG rules or regulations could lead to penalties and adversely impact our reputation, access to capital and employee retention. Such ESG matters may also impact our third-party contract manufacturers and other third parties on which we rely, which may augment or cause additional impacts on our business, financial condition, or results of operations.

Risks Related to Protecting Our Technology and Intellectual Property

Claims by others that we infringe their intellectual property could force us to incur significant costs or revise the way we conduct our business.

Our competitors protect their proprietary rights by means of patents, trade secrets, copyrights, trademarks and other intellectual property. We have not conducted an independent review of patents and other intellectual property issued to third parties, who may have patents or patent applications relating to our proprietary technology. We may receive letters from third parties alleging, or inquiring about, possible infringement, misappropriation, or violation of their intellectual property rights. Any party asserting that we infringe, misappropriate, or violate proprietary rights may force us to defend ourselves, and potentially our customers, against the alleged claim. These claims and any resulting lawsuit, if successful, could subject us to significant liability for damages or interruption or cessation of our operations. Any such claims or lawsuit could:

- be time-consuming and expensive to defend, whether meritorious or not;
- require us to stop providing products or services that use the technology that infringes the other party's intellectual property;
- divert the attention of our technical and managerial resources;
- require us to enter into royalty or licensing agreements with third-parties, which may not be available on terms that we deem acceptable;
- prevent us from operating all or a portion of our business or force us to redesign our products, services or technology, which could be difficult and expensive and may make the performance or value of our product or service offerings less attractive;
- subject us to significant liability for damages or result in significant settlement payments; or
- require us to indemnify our customers.

Furthermore, during the course of litigation, confidential information may be disclosed in the form of documents or testimony in connection with discovery requests, depositions or trial testimony. Disclosure of our confidential information and our involvement in intellectual property litigation could materially adversely affect our business. Some of our competitors may be able to sustain the costs of intellectual property litigation more effectively than we can because they have substantially greater resources. In addition, any litigation could significantly harm our relationships with current and prospective customers. Any of the foregoing could disrupt our business and have a material adverse effect on our business, operating results and financial condition.

Our patents and proprietary technology may be challenged or disputed.

We hold certain patent and trade secret rights relating to various aspects of our technologies, which are of material importance to the Company and its future prospects. Any patents we have obtained or do obtain may be challenged by re-examination or otherwise invalidated or eventually found unenforceable. Both the patent application process and the process of managing patent disputes can be time consuming and expensive. Competitors may attempt to challenge or invalidate our patents or may be able to design alternative techniques or devices that avoid infringement of our patents or develop products with functionalities that are comparable to ours. In the event a competitor infringes upon our patent or other intellectual property rights, litigation to enforce our intellectual property rights or to defend our patents against challenge, even if successful, could be expensive and time consuming and could require significant time and attention from our management. We may not have sufficient resources to enforce our intellectual property rights or to defend our patents against challenges from others.

Any failure to protect our intellectual property rights could impair our ability to protect our proprietary technology and our brand.

Our success and ability to compete depend largely upon our intellectual property. To date, we have 16 registered patents in the United States; 3 registered patents in Europe, 1 registered patent in Mexico, 1 registered patent in Indonesia, one pending application in the United States and one pending application in Europe, all of which in the general area of high-speed carrier class Ethernet service and transport over bonded VDSL2, G.SHDSL as well as Fiber covering various aspects of our technology. We take reasonable steps to protect our intellectual property, especially when working with third parties. However, the steps we take to protect our intellectual property rights may be inadequate. For example, other parties, including our competitors, may independently develop similar technology, duplicate our services, or design around our intellectual property and, in such cases, we may not be able to assert our intellectual property rights against such parties. Further, our contractual arrangements may not effectively prevent disclosure of our confidential information or provide an adequate remedy in the event of unauthorized disclosure of our confidential information, and we may be unable to detect the unauthorized use of, or take appropriate steps to enforce, our intellectual property rights.

We make business decisions about when to seek patent protection for a particular technology and when to rely upon trade secret protection, and the approach we select may ultimately prove to be inadequate. Even in cases where we seek patent protection, there is no assurance that the resulting patents will effectively protect every significant feature of our technology or provide us with any competitive advantages. Moreover, we cannot guarantee that any of our pending patent application will issue or be approved. The United States Patent and Trademark Office and various foreign governmental patent agencies also require compliance with a number of procedurals, documentary, fee payment, and other similar provisions during the patent application process and after a patent has issued. There are situations in which noncompliance can result in abandonment or lapse of the patent, or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. If this occurs, our competitors might be able to enter the market, which would have a material adverse effect on our business. Effective trademark, copyright, patent, and trade secret protection may not be available in every country in which we conduct business. Further, intellectual property law, including statutory and case law, in the United States and other countries, is constantly developing, and any changes in the law could make it harder for us to enforce our rights.

In order to protect our intellectual property rights, we may be required to spend significant resources to monitor and protect these rights. Litigation brought to protect and enforce our intellectual property rights could be costly, time-consuming, and distracting to management and could result in the impairment or loss of portions of our intellectual property. Furthermore, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims, and countersuits attacking the validity and enforceability of our intellectual property rights. An adverse determination of any litigation proceedings could put our intellectual property at risk of being invalidated or interpreted narrowly and could put our related pending patent applications at risk of not issuing. Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation particularly in the US, there is a risk that some of our confidential or sensitive information could be compromised by disclosure in the event of litigation. In addition, during the course of litigation, there could be public announcements of the results of hearings, motions or other interim proceedings or developments. If securities analysts or investors perceive these results to be negative, it could have a substantial adverse effect on the price of our common stock. Negative publicity related to a decision by us to initiate such enforcement actions against a client or former client, regardless of its accuracy, may adversely impact our other client relationships or prospective client relationships, harm our brand and business, and could cause the market price of our common stock to decline. Our failure to secure, protect, and enforce our intellectual property rights could adversely affect our brand and our business.

The lives of our patents may not be sufficient to effectively protect our products and business.

Patents have a limited lifespan. In the United States, if all maintenance fees are paid timely, the natural expiration of a patent is generally 20 years after its first effective nonprovisional filing date. Although various extensions may be available, the life of a patent, and the protection it affords, is limited. Given the amount of time required for the development, testing and regulatory review of new product candidates, patents protecting such candidates might expire before or shortly after such product candidates are commercialized. Even if patents covering our product candidates are obtained, once the patent life has expired for a product, we may be open to competition from biosimilar or generic medications. As a result, our patent portfolio may not provide us with sufficient rights to exclude others from commercializing product candidates similar or identical to ours. Our patents issued as of March 20, 2025 will expire on dates ranging from September 25, 2025 to October 31, 2038, subject to any patent extensions that may be available for such patents. More specifically, the following patents will expire over the next three years: US7606315, US7613235, EP1943827, EP3459181, GB2556826, MX279453, US7587042, IDP0030744.

In addition, although upon issuance in the United States a patent's life can be increased based on certain delays caused by the USPTO, this increase can be reduced or eliminated based on certain delays caused by the patent applicant during patent prosecution. A patent term extension based on regulatory delay may be available in the United States. However, only a single patent can be extended for each marketing approval, and any patent can be extended only once, for a single product. Moreover, the scope of protection during the period of the patent term extension does not extend to the full scope of the claim, but instead only to the scope of the product as approved. Laws governing analogous patent term extensions in foreign jurisdictions vary widely, as do laws governing the ability to obtain multiple patents from a single patent family. Additionally, we may not receive an extension if we fail to exercise due diligence during the testing phase or regulatory review process, apply within applicable deadlines, fail to apply prior to expiration of relevant patents or otherwise fail to satisfy applicable requirements. If we are unable to obtain patent term extension or restoration, or the term of any such extension is less than we request, the period during which we will have the right to exclusively market our product will be shortened and our competitors may obtain approval of competing products following our patent expiration and may take advantage of our investment in development and clinical trials by referencing our clinical and preclinical data to launch their product earlier than might otherwise be the case, and our revenue could be reduced, possibly materially. If we do not have sufficient patent life to protect our products, our business and results of operations will be adversely affected.

We may not be able to adequately defend against piracy of intellectual property in foreign jurisdictions.

Considerable research is being performed in countries outside of the United States, and a number of potential competitors are located in these countries. The laws protecting intellectual property in some of those countries may not provide adequate protection to prevent our competitors from misappropriating our intellectual property. Several of these potential competitors may be further along in the process of product development and also operate large, company-funded research and development programs. As a result, our competitors may develop more competitive or affordable products, or achieve earlier patent protection or product commercialization than we are able to achieve. Competitive products may render any products that we develop obsolete.

Risks Related to Managing Our Business Operations in Israel

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) and Hezbollah (an Islamist militia and political group in Lebanon).

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, the result of which is uncertain.

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.

In connection with the Israeli security cabinet's declaration of war against Hamas and possible hostilities with other organizations, several hundred thousand Israeli military reservists were drafted to perform immediate military service.

As of the date of this Annual Report, 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 Annual Report, 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.

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.

Actelis Israel received Israeli government grants for certain of our research and development activities, the terms of which require us to pay royalties and satisfy specified conditions in order to manufacture products and transfer technologies outside of Israel. If we fail to satisfy these conditions, we may be required to pay penalties and refund grants previously received.

Our wholly owned subsidiary, Actelis Israel, which manages our research and development efforts, has been financed in part through royalty-bearing grants in an aggregate amount of approximately \$14 million (plus accrued interest), received from the Israeli Innovation Authority (formerly known as the Office of the Chief Scientist of the Israeli Ministry of Economy), or the IIA, as of December 31, 2024. We are committed to pay royalties at a rate of 3% on revenues up to the total amount of grants received, linked to the U.S. dollar and bearing interest at an annual rate of LIBOR applicable to U.S. dollar deposits.

We are further required to comply with the requirements of the Israeli Encouragement of Industrial Research, Development and Technological Innovation Law, 5744-1984 (formerly known as the Law for Encouragement of Research and Development in the Industry, 1984), as amended, and related regulations, or the Research Law, with respect to those past grants. When a grantee company develops know-how, technology or products using IIA grants, the terms of these grants and the Research Law restrict the transfer or license of such know-how, and the transfer of manufacturing or manufacturing rights of such products, technologies or know-how outside of Israel, without the prior approval of the IIA. Therefore, the discretionary approval of an IIA committee would be required for any transfer or license to third parties inside or outside of Israel of Actelis Israel's know how or for the transfer outside of Israel of manufacturing or manufacturing rights related to those aspects of such technologies. We may not receive those approvals. Furthermore, the IIA may impose certain conditions on any arrangement under which it permits us to transfer technology or development outside of Israel.

The transfer or license of IIA-supported technology or know-how outside of Israel and the transfer of manufacturing of IIA-supported products, technology or know-how outside of Israel may involve the payment of significant amounts, depending upon the value of the transferred or licensed technology or know-how, our research and development expenses, the amount of IIA support, the time of completion of the IIA-supported research project and other factors. These restrictions and requirements for payment may impair our ability to sell, license or otherwise transfer our technology assets outside of Israel or to outsource or transfer development or manufacturing activities with respect to any product or technology outside of Israel. Furthermore, the consideration available to our shareholders in a transaction involving the transfer outside of Israel of technology or know-how developed with IIA funding (such as a merger or similar transaction) may be reduced by any amounts that we are required to pay to the IIA.

There are costs and difficulties inherent in managing cross-border business operations.

Managing a business, operations, personnel or assets in another country is challenging and costly. Any management that we may have (whether based abroad or in the United States) may be inexperienced in cross-border business practices and unaware of significant differences in accounting rules, legal regimes, and labor practices. Even with a seasoned and experienced management team, the costs and difficulties inherent in managing cross-border business operations, personnel, and assets can be significant (and much higher than in a purely domestic business) and may negatively impact our financial and operational performance.

Employment and other material contracts we have with our Israeli employees are governed by Israeli laws. Our inability to enforce or obtain a remedy under these agreements could adversely affect our business and financial condition.

All employees were asked to sign employment agreements that contain confidentiality, non-compete and assignment of intellectual property provisions. The employment agreements with our employees in Israel are governed by Israeli laws. The system of laws and the enforcement of existing laws and contracts in Israel may not be as certain in implementation and interpretation as in the United States, leading to a higher than usual degree of uncertainty as to the outcome of any litigation. Our inability to enforce or obtain a remedy under any of these or future agreements could adversely affect our business and financial condition. Delay with respect to the enforcement of particular rules and regulations, including those relating to intellectual property, customs, tax, and labor, could also cause serious disruption to operations abroad and negatively impact our results.

Israeli courts have required employers seeking to enforce non-compete undertakings of a former employee to demonstrate that the competitive activities of the former employee will harm one of a limited number of material interests of the employer which have been recognized by the courts, such as the secrecy of a company's confidential commercial information or the protection of its intellectual property. If we cannot demonstrate that such interests will be harmed, we may be unable to prevent our competitors from benefiting from the expertise of our former employees or consultants and our ability to remain competitive may be diminished.

In addition, Chapter 8 of the Israeli Patents Law, 5727-1967, or the Patents Law, deals with inventions made in the course of an employee's service and during his or her term of employment, whether or not the invention is patentable, or service inventions. Section 134 of the Patents Law sets forth that if there is no agreement which explicitly determines whether the employee is entitled to compensation for the service inventions and the extent and terms of such compensation, such determination will be made by the Compensation and Rewards Committee, a statutory committee of the Israeli Patents Office. As a result, it is unclear if, and to what extent, our research and development employees may be able to claim compensation with respect to our future revenues. Such claims, if successfully asserted, could adversely affect our results of operations and profitability.

We may be adversely affected by fluctuations in the currency exchange rate of the Israeli Shekel.

We compute a significant number of expenses in Israeli Shekels, both expenses from employees and suppliers. Our customers buy our products priced in US dollars or Euros. The strengthening of the shekel against the dollar and the euro could erode our profitability.

Unanticipated changes in our effective tax rate and additional tax liabilities, including those resulting from our international operations or the implementation of new tax rules, could harm our future results.

We are subject to income taxes in the United States and Israel. Our domestic and international tax liabilities are subject to the allocation of expenses in differing jurisdictions and complex transfer pricing regulations administered by taxing authorities in various jurisdictions. Tax rates in the jurisdictions in which we operate may change as a result of factors outside of our control or relevant taxing authorities may disagree with our determinations as to the income and expenses attributable to specific jurisdictions. In addition, changes in tax and trade laws, treaties or regulations, or their interpretation or enforcement, have become more unpredictable and may become more stringent, which could materially adversely affect our tax position.

Forecasting our estimated annual effective tax rate is complex and subject to uncertainty, and there may be material differences between our forecasted and actual effective tax rate. Our effective tax rate could be adversely affected by changes in the mix of earnings and losses in countries with differing statutory tax rates, certain non-deductible expenses, the valuation of deferred tax assets and liabilities, adjustments to income taxes upon finalization of tax returns, changes in available tax attributes, decision to repatriate non-U.S. earnings for which we have not previously provided for U.S. taxes, and changes in federal, state, or international tax laws and accounting principles.

Finally, we may be subject to income tax audits throughout the world. An adverse resolution of one or more uncertain tax positions in any period could have a material impact on our results of operations or financial condition for that period.

Risks Related to our Common Stock

The requirements of being a public company may strain our resources, divert management's attention, and affect our ability to attract and retain executive management and qualified board members.

As a public company, we are subject to the reporting requirements of the Exchange Act, the listing standards of Nasdaq and other applicable securities rules and regulations. The requirements of these rules and regulations will continue to increase our legal, accounting, and financial compliance costs, make some activities more difficult, time-consuming, and costly, and place significant strain on our personnel, systems, and resources. For example, the Exchange Act requires, among other things, that we file annual, quarterly, and current reports with respect to our business and results of operations. As a result of the complexity involved in complying with the rules and regulations applicable to public companies, our management's attention may be diverted from other business concerns, which could harm our business, results of operations, and financial condition.

We also expect that being a public company and these new rules and regulations will make it more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit committee and compensation committee, and qualified executive officers.

As a result of disclosure of information in filings required of a public company, our business and financial condition is more visible, which may result in an increased risk of threatened or actual litigation, including by competitors and other third parties. If such claims are successful, our business and results of operations could be harmed, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and harm our business, results of operations, and financial condition.

The individuals who now constitute our senior management team have limited experience managing a publicly-traded company and limited experience complying with the increasingly complex laws pertaining to public companies. Our senior management team may not successfully or efficiently manage our transition to a public company that is subject to significant regulatory oversight and reporting obligations.

We are an “emerging growth company,” and our compliance with the reduced reporting and disclosure requirements applicable to “emerging growth companies” may make our common stock less attractive to investors.

We are an “emerging growth company,” as defined in the JOBS Act, and we have elected to take advantage of certain exemptions and relief from various reporting requirements that are applicable to other public companies that are not “emerging growth companies.” These provisions include, but are not limited to: requiring only two years of audited financial statements and only two years of related selected financial data and management’s discussion and analysis of financial condition and results of operations disclosures; being exempt from compliance with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act; being exempt from any rules that could be adopted by the Public Company Accounting Oversight Board requiring mandatory audit firm rotations or a supplement to the auditor’s report on financial statements; being subject to reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements; and not being required to hold nonbinding advisory votes on executive compensation or on any golden parachute payments not previously approved.

In addition, while we are an “emerging growth company,” we will not be required to comply with any new financial accounting standard until such standard is generally applicable to private companies. As a result, our financial statements may not be comparable to companies that are not “emerging growth companies” or elect not to avail themselves of this provision.

We may remain an “emerging growth company” until as late as December 31, 2027, the fiscal year-end following the fifth anniversary of the completion of our IPO, though we may cease to be an “emerging growth company” earlier under certain circumstances, including if (1) we have more than \$1.07 billion in annual net revenues in any fiscal year, (2) we become a “large accelerated filer,” with at least \$700 million of equity securities held by non-affiliates as of the end of the second quarter of that fiscal year or (3) we issue more than \$1.0 billion of non-convertible debt over a three-year period.

The exact implications of the JOBS Act are still subject to interpretations and guidance by the SEC and other regulatory agencies, and we cannot assure you that we will be able to take advantage of all of the benefits of the JOBS Act. In addition, investors may find our common stock less attractive to the extent we rely on the exemptions and relief granted by the JOBS Act. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may decline or become more volatile.

If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results or prevent fraud. As a result, our shareholders could lose confidence in our financial and other public reporting, which would harm our business and the trading price of our common stock.

As a public company, we are subject to significant requirements for enhanced financial reporting and internal controls. The process of designing and implementing effective internal controls is a continuous effort that requires us to anticipate and react to changes in our business and the economic and regulatory environments and to expend significant resources to maintain a system of internal controls that is adequate to satisfy our reporting obligations as a public company. In addition, we are required, pursuant to Section 404, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting in the second annual report following the completion of our IPO. This assessment will need to include disclosure of any material weaknesses identified by our management in our internal control over financial reporting. A material weakness is a deficiency or combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company’s annual and interim financial statements will not be detected or prevented on a timely basis.

The rules governing the standards that must be met for our management to assess our internal control over financial reporting are complex and require significant documentation, testing, and possible remediation. Testing and maintaining internal controls may divert our management’s attention from other matters that are important to our business. Once we are no longer an “emerging growth company,” or a “smaller reporting company,” our auditors will be required to issue an attestation report on the effectiveness of our internal controls on an annual basis.

In the course of preparing the financial statements that are included in this Annual Report, management has determined that a material weakness exists within the internal control over financial reporting. The material weakness identified relates to lack of a sufficient number of finance personnel to allow for adequate segregation of duties. We concluded that the material weakness in our internal control over financial reporting occurs because as a newly public company, we do not have the necessary business processes, systems, personnel, and related internal controls necessary to satisfy the accounting and financial reporting requirements of a public company.

We may not be able to fully remediate the identified material weakness until the steps described above have been completed and our internal controls have been operating effectively for a sufficient period of time.

As previously disclosed, during the years ended December 31, 2022 and December 31, 2023, we identified a material weakness in the design and operation of our internal control over financial reporting in connection with the preparation of our financial statements.

Although as of December 31, 2024, the material weaknesses in our internal control over financial reporting had been remediated, there can be no assurance that we will not suffer from other material weaknesses or significant deficiencies in the future. If we fail to maintain effective internal controls over financial reporting in the future, such failure could result in a material misstatement of our annual or quarterly financial statements that would not be prevented or detected on a timely basis and which could cause investors and other users to lose confidence in our financial statements, limit our ability to raise capital and have a negative effect on the trading price of our ordinary shares. Additionally, failure to remediate the material weakness or otherwise maintain effective internal controls over financial reporting may also negatively impact our operating results and financial condition, impair our ability to timely file our periodic and other reports with the SEC, subject us to additional litigation and regulatory actions and cause us to incur substantial additional costs in future periods relating to the implementation of remedial measures.

In the future, it is possible that additional material weaknesses or significant deficiencies may be identified that we may be unable to remedy before the requisite deadline for these reports. Our ability to comply with the annual internal control reporting requirements will depend on the effectiveness of our financial reporting and data systems and controls across our company. Any weaknesses or deficiencies or any failure to implement new or improved controls, or difficulties encountered in the implementation or operation of these controls, could harm our operating results and cause us to fail to meet our financial reporting obligations, or result in material misstatements in our consolidated financial statements, which could adversely affect our business and reduce our stock price.

If we are unable to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404, our independent registered public accounting firm may not issue an unqualified opinion. If we are unable to conclude that we have effective internal control over financial reporting, investors could lose confidence in our reported financial information, which could have a material adverse effect on the trading price of our common stock. Failure to remedy any material weakness in our internal control over financial reporting, or to implement or maintain other effective control systems required of public companies, could also restrict our future access to the capital markets.

If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results or prevent fraud. As a result, stockholders could lose confidence in our financial and other public reporting, which would harm our business and the trading price of our common stock.

Effective internal controls over financial reporting are necessary for us to provide reliable financial reports and, together with adequate disclosure controls and procedures, are designed to prevent fraud. Any failure to implement required new or improved controls, or difficulties encountered in their implementation could cause us to fail to meet our reporting obligations. In addition, any testing by us conducted in connection with Section 404, or any subsequent testing by our independent registered public accounting firm, may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses or that may require prospective or retroactive changes to our financial statements or identify other areas for further attention or improvement. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our stock.

We will be required to disclose changes made in our internal controls and procedures on a quarterly basis and our management will be required to assess the effectiveness of these controls annually, beginning with our second annual report on Form 10-K. In addition, our independent registered public accounting firm will be required to attest to the effectiveness of our internal controls over financial reporting pursuant to Section 404, however they will not be required to do so for so long as we are an emerging growth company. We could be an emerging growth company for up to five years (i.e., until December 31, 2027). An independent assessment of the effectiveness of our internal controls over financial reporting could detect problems that our management's assessment might not. Undetected material weaknesses in our internal controls over financial reporting could lead to restatements of our financial statements and require us to incur the expense of remediation.

Our disclosure controls and procedures may not prevent or detect all errors or acts of fraud.

We are subject to certain reporting requirements of the Exchange Act. Our disclosure controls and procedures are designed to reasonably assure that information required to be disclosed by us in reports we file or submit under the Exchange Act is accumulated and communicated to management, recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. We believe that any disclosure controls and procedures or internal controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by an unauthorized override of the controls. Accordingly, because of the inherent limitations in our control system, misstatements or insufficient disclosures due to error or fraud may occur and not be detected.

An active trading market may not develop for our securities.

Our common stock is listed on the Nasdaq Capital Market. However, we cannot predict the extent to which investor interest in our Company will lead to the development of an active trading market in our common stock or how liquid that market might become. If such a market does not develop or is not sustained, it may be difficult for you to sell your shares of common stock at the time you wish to sell them, at a price that is attractive to you, or at all.

The trading market for our common stock in the future could be subject to wide fluctuations in response to several factors, including, but not limited to:

- actual or anticipated variations in our results of operations;
- our ability or inability to generate revenues or profit;
- the number of shares in our public float; and
- increased competition.

Furthermore, our stock price may be impacted by factors that are unrelated or disproportionate to our operating performance. These market fluctuations, as well as general economic, political, and market conditions, such as recessions, interest rates or international currency fluctuations may adversely affect the market price of our common stock. Additionally, moving forward we anticipate having a limited number of shares in our public float, and as a result, there could be extreme fluctuations in the price of our common stock.

Our issuance of additional capital stock in connection with financings, acquisitions, investments, our 2015 Equity Incentive Plan, or otherwise will dilute all other stockholders.

In the future, we may need to raise additional capital through equity and debt financings in order to fund our operations. If we raise capital through equity financings in the future, that will result in dilution to all other stockholders. We also expect to grant equity awards to employees, directors, and consultants under our 2015 Equity Incentive Plan. As part of our business strategy, we may acquire or make investments in complementary companies, products, or technologies and issue equity securities to pay for any such acquisition or investment. Any such issuances of additional capital stock may cause stockholders to experience significant dilution of their ownership interests and the per-share value of our common stock to decline.

We do not intend to pay dividends on our common stock and, consequently, the ability of common stockholders to achieve a return on investment will depend on appreciation, if any, in the price of our common stock.

You should not rely on an investment in our common stock to provide dividend income. We do not plan to declare or pay any dividends on our capital stock in the foreseeable future. Instead, we intend to retain any earnings to finance the operation and expansion of our business. Any credit agreements, which we may enter into with institutional lenders, may restrict our ability to pay dividends. Whether we pay cash dividends in the future will be at the discretion of our board of directors and will be dependent upon our financial condition, results of operations, capital requirements and any other factors that the board of directors decides is relevant. Therefore, any return on your investment in our capital stock must come from increases in the fair market value and trading price of the capital stock.

Future sales of our common stock, or the perception that future sales may occur, may cause the market price of our common stock to decline, even if our business is doing well.

Sales of substantial amounts of our common stock in the public market, or the perception that these sales may occur, could materially and adversely affect the price of our common stock and could impair our ability to raise capital through the sale of additional equity securities.

Our amended and restated certificate of incorporation, or the Charter, authorizes us to issue up to 42,803,774 shares consisting of 30,000,000 shares of common stock with a par value of US\$0.0001 per share, 2,803,774 shares of non-voting common stock with a par value of US\$0.0001 per share and 10,000,000 shares of preferred stock with a par value of US\$0.0001 per share. As of December 31, 2024, we have 8,513,181 outstanding shares of common stock and no outstanding shares of preferred stock.

In addition, as of such date, approximately 98,932 shares of common stock are issuable upon the exercise of outstanding stock options and the vesting of restricted stock units. Moreover, as of that date, approximately 99,298 shares of our common stock are available for future grants under our stock incentive plan and for future purchase under our employee stock purchase plan. In addition, as of such date, up to \$1.3 million of shares of common stock are issuable pursuant to our ATM Program with HCW.

Sales of a substantial number of shares of our common stock in the public market, or the perception that such sales may occur, could depress the market price of our common stock.

The market price of our common stock may be volatile and may decline regardless of our operating performance, and you may lose all or part of your investments.

The market price of our common stock may fluctuate significantly in response to numerous factors, many of which are beyond our control, including:

- overall performance of the equity markets and/or publicly listed technology companies;
- actual or anticipated fluctuations in our net revenues or other operating metrics;
- changes in the financial projections we provide to the public or our failure to meet these projections;
- failure of securities analysts to initiate or maintain coverage of us, changes in financial estimates by any securities analysts who follow our company, or our failure to meet the estimates or the expectations of investors;
- the economy as a whole and market conditions in our industry;
- political and economic stability in Israel;
- exchange rate fluctuations between U.S. dollars and Israeli New Shekel;
- rumors and market speculation involving us or other companies in our industry;
- announcements by us or our competitors of significant innovations, acquisitions, strategic partnerships, joint ventures, or capital commitments;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;

- lawsuits threatened or filed against us;
- recruitment or departure of key personnel;
- other events or factors, including those resulting from war, incidents of terrorism, or responses to these events; and
- the expiration of contractual lock-up or market standoff agreements.

In addition, extreme price and volume fluctuations in the stock markets have affected and continue to affect many technology companies' stock prices. Often, their stock prices have fluctuated in ways unrelated or disproportionate to the companies' operating performance. In the past, securities action litigation has often been brought against a Company following a decline in the market price of its securities. This risk is especially relevant for us because technology companies have experienced significant stock price volatility in recent years. If we face such litigation, it could result in substantial costs and a diversion of management's attention and resources, which could harm our business.

A possible "short squeeze" due to a sudden increase in demand of our common stock that largely exceeds supply may lead to price volatility in our common stock.

Investors may purchase our common stock to hedge existing exposure in our common stock or to speculate on the price of our common stock. Speculation on the price of our common stock may involve long and short exposures. To the extent aggregate short exposure exceeds the number of shares of our common stock available for purchase in the open market, investors with short exposure may have to pay a premium to repurchase our common stock for delivery to lenders of our common stock. Those repurchases may in turn, dramatically increase the price of our common stock until investors with short exposure are able to purchase additional common stock to cover their short position. This is often referred to as a "short squeeze." A short squeeze could lead to volatile price movements in our common stock that are not directly correlated to the performance or prospects of our common stock and once investors purchase the shares of common stock necessary to cover their short position the price of our common stock may decline.

If securities or industry analysts do not publish research, or publish inaccurate or unfavorable research, about our business, our stock price and trading volume could decline.

The trading market for our common stock will depend, in part, on the research and reports that securities or industry analysts publish about us or our business. Securities and industry analysts do not currently, and may never, publish research on our company. If no securities or industry analysts commence coverage of our company, the trading price for our common stock would likely be negatively impacted. In the event securities or industry analysts initiate coverage, if one or more of the analysts who cover us downgrade our stock or publish inaccurate or unfavorable research about our business, our stock price would likely decline. In addition, if our operating results fail to meet the forecast of analysts, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, demand for our common stock could decrease, which might cause our stock price and trading volume to decline.

Provisions in our charter documents and under Delaware law could make an acquisition of our company more difficult, limit attempts by our stockholders to replace or remove our current board of directors and limit the market price of our common stock.

Provisions in our amended and restated certificate of incorporation, or the Charter, and bylaws, or the Bylaws, may have the effect of delaying or preventing a change of control or changes in our management. Our Charter and Bylaws, include provisions that:

- permit the board of directors to establish the number of directors and fill any vacancies and newly-created directorships;

- classify our board of directors is classified into three classes of directors with staggered three-year terms and stockholders will only be able to remove directors from office for cause; and
- provide that the board of directors is expressly authorized to make, alter, or repeal our Bylaws.

Moreover, Section 203 of the Delaware General Corporation Law, or the DGCL, may discourage, delay, or prevent a change in control of our company. Section 203 imposes certain restrictions on mergers, business combinations, and other transactions between us and holders of 15% or more of our common stock.

Our Charter provides that derivative actions brought on our behalf, actions against our directors, officers, employees or agent for breach of fiduciary duty and certain other actions may be brought only in the Court of Chancery in the State of Delaware and the stockholders shall be deemed to have consented to this choice of forum provision, which may have the effect of discouraging lawsuits against our directors, officers, other employees or agents.

Our Charter provides that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for (a) any derivative action or proceeding brought on our behalf, (b) any action asserting a claim of breach of a fiduciary duty owed by, or other wrongdoing by, any current or former director, officer, stockholder, employee or agent of the Company to the Company or the Company's stockholders, (c) any action asserting a claim against us or any current or former director, officer, stockholder, employee or agent of the Corporation arising pursuant to any provision of the DGCL, or our Company's Certificate of Incorporation or Bylaws, (d) any action to interpret, apply, enforce or determine the validity of the Company's Certificate of Incorporation or Bylaws, (e) any action asserting a claim governed by the internal affairs doctrine or (f) any action asserting an "internal corporate claim" as that term is defined in Section 115 of the General Corporation Law. The federal district courts of the United States of America shall be the exclusive forum for the resolution of any complaint, claim or proceeding asserting a cause of action arising under the Exchange Act or the Securities Act. Furthermore, Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all suits brought to enforce any duty or liability created by the Securities Act or the rules and regulations thereunder.

Stockholders cannot waive compliance with the federal securities laws and the rules and regulations thereunder. Any person or entity purchasing or otherwise acquiring or holding any interest in shares of our capital stock shall be deemed to have notice of and consented to the forum provision in our Charter.

The choice-of-forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with the Company or its directors, officers or other employees, and may result in increased costs to a stockholder who has to bring a claim in a forum that is not convenient to the stockholder, which may discourage such lawsuits. Although under Section 115 of the DGCL, exclusive forum provisions may be included in a company's certificate of incorporation, the enforceability of similar forum provisions in other companies' certificates of incorporation or bylaws has been challenged in legal proceedings, and it is possible that a court could find these types of provisions to be inapplicable or unenforceable. If a court were to find the exclusive forum provision of our Charter inapplicable or unenforceable with respect to one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could materially and adversely affect our business, financial condition and results of operations and result in a diversion of the time and resources of our management and board of directors.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 1C. CYBERSECURITY.

Risk management and strategy

We have developed and maintain a cybersecurity risk management program that focuses primarily on securing and safeguarding computer systems, networks, cloud services, business applications, and data and that is integrated in our overall risk management strategy and framework. We have implemented protocols to protect against cyber threats and ensure the containment and security of sensitive business data, including ongoing security reviews of critical systems, continuous monitoring of event data, and employee training programs, which processes are aligned with our overall business and operational goals and strategies. Our risk assessment occurs on an ongoing basis and covers identification of risks that could act against the company's objectives as well as specific risks related to a compromise to the security of data.

We engage a third-party to provide operational support for cybersecurity risks. This forms a critical part of our risk management strategy, facilitating effective management and mitigation of risks, and ensuring adherence to applicable regulatory and industry standards.

Overall, we believe that we have established a robust framework for confidentiality, integrity, and availability of information, adhering to relevant security standards, practices, and compliance requirements. In addition, we maintain insurance to help protect against risks associated with cybersecurity threats. As of the date of this report, we do not believe that any risks from cybersecurity threats have materially affected, or are reasonably likely to materially affect, us, including our business strategy, results of operations, or financial condition. However, despite our efforts, we cannot eliminate all risks from cybersecurity threats, or provide assurances that we have not experienced an undetected cybersecurity incident. For more information about these risks, please see "Item 1.A – Risk Factors – Risks Related to Our Business Operations – If our internal company cyber-security measures are breached or fail and unauthorized access is obtained to our IT environment, we may incur significant losses of data, which we may not be able to recover and may experience a delay in our ability to conduct our day-to-day business" in this Annual Report.

Governance

Our board of directors provides oversight of our cybersecurity program and helps guide our strategy for managing cybersecurity risks in the context of our overall risk management system. Our cybersecurity program is managed by our Deputy Chief Executive Officer and Chief Financial Officer and our external IT team, who are responsible for leading enterprise-wide cybersecurity execution, protocols, framework, standards and processes. Our Deputy Chief Executive Officer and Chief Financial Officer has extensive operational responsibility for IT, of more than seven years, and he manages our external IT team,

The Deputy Chief Executive Officer and Chief Financial Officer reports to our board of directors, as well as our Chief Executive Officer and other members of senior management as appropriate.

ITEM 2. PROPERTIES.

We lease our facility in California, which consists of approximately 3,000 square feet of office, lab and warehouse space. Our lease expires in October 2025.

We also lease an office and lab facility in Petach-Tikva, Israel consisting of approximately 13,500 square feet serving our R&D personnel, operations and administration as well as our EMEA and APAC sales team. Our lease expires in December 2025. We intend to reduce our real estate footprint as much as possible by moving to a smaller space in Petach-Tikva, Israel in order to reduce costs.

We believe our facilities are sufficient to meet our current needs and that suitable space will be available as and when needed. We do not own any real property.

ITEM 3. LEGAL PROCEEDINGS.

We are not currently a party to any material legal proceedings.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock began trading on the Nasdaq Capital Market under the symbol "ANAS" on May 13, 2022. Prior to that time, there was no public market for our common stock.

Stockholders

As of March 21, 2025, we had 8,513,181 outstanding shares of common stock outstanding, including treasury shares, no outstanding shares of preferred stock, and approximately 51 holders of record of our outstanding shares of common stock. A significant number of shares of our common stock are held in either nominee name or street name brokerage accounts, and consequently, we are unable to determine the total number of beneficial owners of our common stock.

Dividends

To date, we have not paid cash dividends on our common stock and do not plan to pay such dividends in the foreseeable future. Our Board will determine our future dividend policy on the basis of many factors, including results of operations, capital requirements, and general business conditions. Dividends, under the Delaware General Corporation Law, may only be paid from our net profits or surplus. To date, we have not had a fiscal year with net profits and, subject to a valuation by the Board of the present value of the Company's assets, do not have surplus.

Unregistered Sales of Equity Securities

We have previously disclosed all sales of securities without registration under the Securities Act of 1933, as amended (the "Securities Act").

Repurchases of Equity Securities by the Issuer and Affiliated Purchasers

During the year ended December 2024, the Company did not make any repurchases of its shares of common stock.

ITEM 6. [RESERVED]

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements and related notes and other financial information appearing elsewhere in this Annual Report on Form 10-K. Some of the information contained in this discussion and analysis or set forth elsewhere in this Annual Report on Form 10-K, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties. As a result of many factors, including those factors set forth in "Part I, Item 1A - Risk Factors" section of this Annual Report on Form 10-K, our actual results could differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Overview

We are a market leader in cyber-hardened, rapid-deployment networking solutions for wide-area IoT applications including federal, state and local government, ITS, military, utility, rail, telecom (notably in multi-dwelling units) and campus applications. Additionally, through our "Cyber Aware Networking" initiative, we provide an AI-based cyber monitoring and protection software-based system for all edge devices, enhancing network security and resilience and operational continuity.

Our unique portfolio of hybrid fiber, environmentally hardened aggregation switches, high density Ethernet devices, advanced management software and AI-based cyber-security offering, unlocks the hidden value of essential networks and the devices they connect, delivering a safe and cyber-aware connectivity for rapid, cost-effective deployment.

Our networking solutions use a combination of newly deployed fiber infrastructure and existing copper and coaxial lines which our patented technology can upgrade to Fiber-grade to jointly create what we believe to be a highly cost-effective, secure and quick-to-deploy network. Our patent protected hybrid-fiber networking solutions deliver excellent communication over fiber to locations that may be easy to reach with new fiber. However, for locations that are difficult, or too costly to reach with fiber, we can upgrade existing copper or coax lines to deliver cyber-hardened, high-speed connectivity without needing to replace the existing infrastructure with new fiber. We believe that such hybrid fiber networking solutions have distinct advantages in most real-life installations, while providing significant budget savings and accelerating deployment of modern IoT networks. Based on our experience, most IoT projects have challenging, hard to reach with fiber locations which may significantly increase such projects' timeline and budgets. We believe that our solutions can provide connectivity over either fiber, copper or coax with speeds of up to multi-Gigabit communication, while supporting Fiber-grade reliability and quality.

A primary focus of ours is to provide our customers with a cyber-secure network solution. We currently offer Triple-Shield protection of data delivered with coding, scrambling and encryption of the network traffic. We also provide secure, encrypted access to our network management software, and are working to further enhance system-level and device-level software protection.

Our IoT cyber-security software solution implements AI to monitor, identify vulnerabilities and threats, offers or implements automatically AI generated plans addressing such exposures and constant reporting of all such activities, for the sake of documentation and compliance. This solution comes with the network itself, and uses the network traffic to become cyber-aware of the risks imminent to the IoT devices that are connected to that network.

When high speed, long reach, reliable and secure connectivity is required, network operators usually resort to using wireline communication over physical communication lines such as fiber, coax and copper, rather than wireless communication that is more limited in performance, reliability, reach and security. However, new fiber wireline infrastructure is costly to deploy, involves lengthy civil works to install, and, based on our internal calculations, often accounts for more than 50% of total cost of ownership (ToC) and time to deploy wide-area IoT projects.

Providing new fiber connectivity to hard-to-reach locations is especially costly and time-consuming, often requiring permits for boring, trenching, and right-of-way, sometimes done over many miles. Connecting such hard-to-reach locations may cause significant delays and budget overruns in IoT projects. Our solutions aim to solve these challenges by instantly enhancing performance of such existing copper and coax infrastructure to fiber-grade performance, through the use of advanced signal processing a unique, patented network architecture, without the need to run new fiber to hard-to-reach locations; thus, effectively accelerating deployment of many IoT projects, as we estimate, sometimes from many months to only days. The result for the network owner is a hybrid network that optimizes the use of both new Fiber (where available) as well as upgraded, fiber-grade copper and coax that is now modernized, digitized and cyber-hardened. This unique hybrid network approach is making IoT projects often significantly more affordable, fast to deploy and predictable to plan and budget. The same is correct in multi-dwelling unit buildings where the wiring from the roof (in case of a wireless based connectivity) or from the basement in case of a wired connectivity to the building. In such cases we utilize existing in-building wiring, preventing the need for brand-new ones and enables multi-gigabit connectivity to each apartment or suite.

In addition, our solutions can also provide power over existing copper and coax lines to remotely power up network elements and IoT components connected to them (like cameras, small cell and Wi-Fi base stations sensors etc.). Connecting power lines to millions of IoT locations can be costly and very time consuming as well (similar to data connectivity, for the same reason-need for civil works). By offering the ability to combine power delivery over the same existing copper and coax lines that we use for high-speed data, we believe our solutions are solving yet another important challenge in connecting hard-to-reach locations. We believe that combining communication and power over the same existing lines is particularly important to help connect many fifth generation, or 5G, small cells and Wi-Fi base stations, as high cost of connectivity and power is often slowing their deployment.

Since our inception, our business was focused on serving telecommunication service providers, also known as Telcos, to provide connectivity for enterprises and residential customers. Our products and solutions have been deployed with more than 100 telecommunication service providers worldwide, in enterprise, residential and mobile base station connectivity applications. In recent years, as we have further developed our technology and introduced additional products, we turned our focus on serving the wide-area IoT, federal and DoD markets, as well as MDUs, and introduced, in 2024, our cyber-aware networking solutions for IoT markets as well.

Our operations are focused on our fast-growing IoT, federal and DoD markets, while maintaining our commitment to our existing Telco customers, and particularly MDUs. In 2024, we introduced new product offering, some of which could serve both the IoT markets and our Telco customers.

In August 2024, we announced signing a strategic partnership with an advanced cybersecurity provider to develop and deliver a novel, AI-Powered SaaS offering, under Actelis' 'Cyber Aware Networking' initiative. This software, designed as an intelligence layer integrated into Actelis' networking devices, leverages the network's power and proximity to IoT devices to monitor and protect physical assets such as cameras, sensors, and other devices at the edge, enabling corrective actions before issues propagate throughout the network.

We derive a majority of our revenues from our existing and new IoT (including federal and DoD) customers. For the years ended December 31, 2024 and December 31, 2023, our IoT customers in the aggregate accounted for approximately 72% and 73% of our revenues, respectively.

We derive a significant portion of our revenues from a limited number of our customers. For the years ended December 31, 2024 and December 31, 2023, our top ten customers in the aggregate accounted for approximately 74% and 66% of our revenues.

In December 2020, we entered into the Migdalor Loan, for a loan of up to approximately \$6.0 million. In February 2024, we performed a partial early repayment of Migdalor Loan in the amount of 2.0 million NIS (approximately \$550,000). During April and May 2024, we made an additional partial early repayment of Migdalor loan in the amount of NIS 10.9 million (approximately \$2.9 million).

In May 2024, we signed an amendment to the agreement with Migdalor, pursuant to which the remaining \$470,000 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 until February 2025. In addition, we are obligated to issue Migdalor warrants to acquire common stock of the Company for up to \$150,000, based on a share price as of February 8, 2024.

As of the date of this report, we have fully repaid the loan principal, and we have an interest outstanding balance of \$111,000.

In February 2024, we entered into the Credit Line, which increased our operating liquidity while not increasing our total debt, as we will perform an early repayment of our existing debt using our restricted cash in a similar amount. The Credit Line is secured by customer invoices and incurs interest at a Federal SOFR rate plus 5.5%. The Credit Line has been extended under February 1, 2026.

The Credit Line balance drawn is examined every month and adjusted up to every three months, and the repayment of the Credit Line will be made up to every three months subject to the expiration of the financing period for the invoices that were financed. We may refinance newly issued invoices at any time up to the Credit Line limit and subject to the terms of the Credit Line. As of December 31, 2024, we used \$0.8 million of the Credit Line, and the current balance outstanding is approximately \$529,000.

Results of Operations

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

	Year ended December 31	
	2024	2023
	(dollars in thousands)	
Revenues	7,760	5,606
Cost of revenues	3,490	3,706
Gross profit	4,270	1,900
Research and development expenses	2,383	2,702
Sales and marketing, net	2,639	3,030
General and administrative	3,169	3,531
Other Income, net	(163)	-
Operating loss	(3,758)	(7,363)
Interest expenses	(618)	(766)
Other financial income (expense), net	2	1,843
Net Comprehensive Loss for the year	(4,374)	(6,286)

Year Ended December 31, 2024, Compared to Year Ended December 31, 2023

Revenues

Our revenues for the year ended December 31, 2024 amounted to \$7.8 million, compared to \$5.6 million for the year ended December 31, 2023. The increase was primarily attributable to increase of sales in North America region, it is primarily attributable to an increase of 134% of revenues generated from North America and a decrease of 42% and 61% of revenues generated from Europe, the Middle East and Africa respectively compared to last year.

Cost of Revenues

Our cost of revenues for the year ended December 31, 2024, amounted to \$3.5 million compared to \$3.7 million for the year ended December 31, 2023. The decrease from the corresponding period was primarily attributable to the change in regional mix of revenue of an increase in North America revenues, which are more profitable, and a decrease in Europe, Middle East and Africa revenues which are less profitable as well as indirect costs not increasing significantly with revenues growing.

Research and Development Expenses

Our research and development expenses for the year ended December 31, 2024, amounted to \$2.4 million compared to \$2.7 million for the year ended December 31, 2023. The decrease is primarily attributable to cost reduction measures taken.

Sales and Marketing Expenses

Our sales and marketing expenses for the year ended December 31, 2024, amounted to \$2.6 million compared to \$3.0 for the year ended December 31, 2023. The decrease was mainly due to cost reduction measures taken.

General and Administrative Expenses

Our general and administrative expenses for the year ended December 31, 2024, amounted to \$3.2 million compared to \$3.5 million for the year ended December 31, 2023. The decrease was mainly due to cost reduction measures taken.

Other Income

Our Other Income for the year ended December 31, 2024, amounted to approximately \$160,000, compared to none for the year ended December 31, 2023. The increase is driven by a government grant from the State of Israel associated with the Iron Swords war, received during the second quarter of 2024.

Operating Loss

Our operating loss for the year ended December 31, 2024, was \$3.8 million, compared to an operating loss of \$7.4 million for the year ended December 31, 2023. The decrease was mainly due to the increase in revenues, improved gross margin due to regional revenue mix, and cost reduction measures taken, reducing operating expenses.

Financial Expenses (income), Net

Our financial expenses, net for the year ended December 31, 2024, was approximately \$620,000 of interest expense compared to \$1.1 million (including approximately \$800,000 in interest expenses) for the year ended December 31, 2023. The increase is mainly due to financial income in the prior year from bank deposits, increase due to warrant valuation and exchange rate differences not repeated in current period.

Net Loss

Our net loss for the year ended December 31, 2024 was \$4.4 million, compared to a net loss of \$6.3 million for the year ended December 31, 2023. This decrease was primarily due to the increase in revenues, improved gross margin due to regional revenue mix, and cost reduction measures taken, reducing operating expenses, partially offset by financial income in the prior year not repeating itself.

Non-GAAP Financial Measures

(U.S. dollars in thousands)	Year Ended December 31, 2024	Year Ended December 31, 2023
Revenues	\$ 7,760	\$ 5,606
GAAP net loss	(4,374)	(6,286)
Interest Expense	618	766
Other financial (expense) income, net	(2)	(1,843)
Tax Expense	103	78
Fixed asset depreciation expense	26	27
Stock based compensation	337	377
Research and development, capitalization	-	444
Other one-time costs and expenses/(income)	(189)	371
Non-GAAP Adjusted EBITDA	(3,481)	(6,066)
GAAP net loss margin	(56.37)%	(112.14)%
Adjusted EBITDA margin	(44.86)%	(108.20)%

Use of Non-GAAP Financial Information

Non-GAAP Adjusted EBITDA, Adjusted EBITDA margin are Non-GAAP financial measures. Their most directly comparable financial measures prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) are GAAP net loss and GAAP net loss margin. 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.

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 described above 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 types of expenses included in these adjustments, provides valuable insight to our financial performance. Adjusted results should be considered only in conjunction with results reported according to GAAP.

The non-GAAP financial measures are presented for supplemental informational purposes only. They should not be considered a substitute for financial information presented in accordance with GAAP, and may be different from similarly-titled non-GAAP measures used by other companies. A reconciliation is provided above for each non-GAAP financial measure to the most directly comparable financial measure stated in accordance with GAAP. Investors are encouraged to review the related GAAP financial measures and the reconciliation of these non-GAAP financial measures to their most directly comparable GAAP financial measures.

<i>(U.S. dollars in thousands)</i>	For the year ended	
	December 31	
	2024	2023
Revenues	\$ 7,760	\$ 5,606
Non-GAAP Adjusted EBITDA	(3,481)	(6,066)
As a percentage of revenues	(44.86)%	(108.20)%

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. We also received proceeds of \$15.4 million, net of underwriting discounts and commissions and other offering costs of \$1.0 million, following our IPO in May 2022. In May and December 2023, proceeds of \$4.6 million, net of underwriting discounts and commissions and other offering costs of \$0.4 million, were also received following our private placements.

On June 5, 2024, we entered into an inducement agreement with a certain holder of certain of our existing warrants to purchase up to an aggregate of 999,670 shares of our common stock originally issued on May 8, 2023, with a five and one-half year term, at an exercise price of \$2.75 per share (the “May 2023 Warrants”).

Pursuant to the inducement agreement, the holder agreed to exercise for cash its May 2023 Warrants to purchase an aggregate of 999,670 shares of our common stock at an exercise price of \$2.75 per share, in consideration of our agreement to issue new common stock purchase warrants (the “June 2024 Warrants”), as described below, to purchase up to an aggregate of 1,999,340 shares of our common stock, at an exercise price of \$2.00 per share.

H.C. Wainwright & Co., LLC (the “Placement Agent”) acted as our exclusive placement agent in connection with the June 2024 Warrant Inducement. In connection with the June 2024 Warrant Inducement, we issued to certain designees of the Placement Agent warrants (the “June 2024 Placement Agent Warrants”) to purchase up to 69,977 shares of common stock (representing 7.0% of the Existing Warrants being exercised), which have the same terms as the June 2024 Warrants, except that the Placement Agent Warrants have an exercise price equal to \$3.4375 per share (125% of the exercise price of the May 2023 Warrants). The June 2024 Warrants were immediately exercisable from the date of issuance, until five and one-half year anniversary of such date for 999,670 of the June 2024 Warrants, and until twenty four months anniversary of such date for the remaining 999,670 of the June 2024 Warrants. The Placement Agent Warrants are immediately exercisable from the date of issuance, until the five and one-half year anniversary of such date. The closing of the June 2024 Warrant Inducement occurred on June 6, 2024.

On June 30, 2024, we entered into an inducement letter with a holder of our June 2024 Warrants, to purchase up to an aggregate of 999,670 shares of the June 2024 Warrants, originally issued on June 6, 2024, with a twenty-four month term, at an exercise price of \$2.00 per share.

Pursuant to the inducement letter, the holder agreed to exercise for cash its warrants to purchase an aggregate of 999,670 shares of our common stock at an exercise price of \$2.00 per share, in consideration of our agreement to issue new common stock purchase warrants (the “July 2024 Warrants”), as described below, to purchase up to an aggregate of 1,999,340 shares of our common stock (the “July 2024 Warrant Shares”), at an exercise price of \$1.75 per share.

We engaged the Placement Agent to act as our exclusive placement agent in connection with the July 2024 Warrant Inducement. In connection with the July 2024 Warrant Inducement, we issued to certain designees of the Placement Agent warrants (the “July 2024 Placement Agent Warrants”) to purchase up to 69,977 shares of common stock (representing 7.0% of the Existing Warrants being exercised), which have the same terms as the July 2024 Warrants, except that the Placement Agent Warrants have an exercise price equal to \$2.50 per share (125% of the exercise price of the June 2024 Warrants). The July 2024 Warrants were immediately exercisable from the date of issuance, until twenty four months anniversary of such date. The July 2024 Placement Agent Warrants are immediately exercisable from the date of issuance, until the five and one-half year anniversary of such date. The closing of the July 2024 Warrant Inducement occurred on July 2, 2024.

In September 2024, we entered into the ATM Agreement with HCW pursuant to which we may offer and sell, at our option, up to \$3.4 million of our shares of common stock through an at-the-market equity program under which HCW agreed to act as sales agent. As of the date of this report, we have sold 2,472,850 of our shares of common stock for total gross proceeds of approximately \$3.4 million under the ATM program. As of the date of this filing and so long as our public float remains below \$75.0 million, we are subject to limitations pursuant to General Instruction I.B.6 of Form S-3, which limits the amount we can offer to up to one-third of our public float during any trailing 12-month period.

We have incurred significant losses and negative cash flows from operations and net loss was \$4.4 million and \$6.3 million for the years ended December 31, 2024, and December 31, 2023, respectively. During the years ended December 31, 2024, and December 31, 2023, we had negative cash flows from operations of \$6.5 million and \$6.6 million, respectively.

As of December 31, 2024, our accumulated deficit was \$44 million. We have funded our operations to date through equity and debt financing and have cash on hand (including short term bank deposits and restricted cash equivalents) of \$2.3 million and long-term restricted cash and cash equivalents and restricted bank deposits of \$0.2 million as of December 31, 2024. We monitor our cash flow projections on a current basis and take active measures to obtain the funding it requires to continue our operations. However, these cash flow projections are subject to various uncertainties concerning their fulfillment such as the ability to increase revenues by attracting and expanding its customer base or reducing cost structure. If we are not successful in generating sufficient cash flow or completing additional financing, including debt refinancing which shall release restricted cash, then we will need to execute a new cost reduction plan in addition to previous cost reduction plans that were executed so far. Our transition to profitable operations is dependent on generating a level of revenue adequate to support our cost structure. 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 consolidated financial statements. These conditions raise substantial doubt as to our ability to continue as a going concern. These consolidated financial statements have been prepared assuming that we will continue as a going concern and do not include any adjustments that might result from the outcome of this uncertainty.

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, and cannot generate significant recurring revenues, profit and cash flow provided by operating activity, 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, inflation, economic uncertainty, as well as the war between Russia and the Ukraine and Israel, Hamas and Hezbollah, has resulted in, and may continue to result in, significant disruption of global financial markets, reducing our ability to access capital. If we are unable to raise additional funds when desired, our business, financial condition and results of operations could be adversely affected.

Cash Flows

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

<u>(U.S. dollars in thousands)</u>	Year Ended December 31, 2024	Year Ended December 31, 2023
Net cash used in operating activities (including the effect of exchange rate changes on cash and cash equivalents and restricted cash)	\$ (6,538)	\$ (6,346)
Net cash provided by investing activities	197	3,821
Net cash provided by financing activities	3,093	3,761
Net change in cash	<u>\$ (3,248)</u>	<u>\$ 1,236</u>

As of December 31, 2024, we had cash, cash equivalents, and restricted cash of \$2.3 million compared to \$5.5 million of cash, cash equivalents and restricted cash as of December 31, 2023.

Cash used in operating activities (including the effect of exchange rate changes on cash and cash equivalents and restricted cash) amounted to \$6.5 million for the year ended December 31, 2024, compared to \$6.3 million for the year ended December 31, 2023. The decrease in cash used in operating activities was mainly due to cost reduction measures taken.

Net cash provided by investing activities was \$197,000 for the year ended December 31, 2024, compared to cash provided by investing activities of \$3.8 million for the year ended December 31, 2023. The increase from the corresponding period was mainly due to the reduction in short-term bank deposits.

Net cash provided by financing activities was \$3.1 million for the year ended December 31, 2024, compared to \$3.8 million for the year ended December 31, 2023. The decrease is related to the repayment of long-term loan, offset by funds raised from an investor warrant exercise. See notes 2 to the condensed consolidated financial statements

Critical Accounting Policies and Estimates

Management's discussion and analysis of our financial condition and results of operations is based on the audited consolidated financial statements which are included elsewhere in this report. The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, the disclosure of assets and liabilities at the date of the financial statements, and the reported amounts of revenues, costs and expenses during the reporting period.

Actelis bases its estimates primarily on historical and anticipated operations, market and customer trends and feedback, financial factors and indicators (for example, interest rates, volatility of market share price etc.), product quality and manufacturing expectations, and various other assumptions that it believes are reasonable under the circumstances, including assumptions as to future events.

Management considers accounting estimates to be critical if both (i) the nature of the estimate or assumption is material due to the levels of subjectivity and judgment involved, and (ii) the impact within a reasonable range of outcomes of the estimate and assumption is material to the Actelis financial condition.

Management believes the following addresses the most critical accounting policies and estimates, which are those that are most important to the portrayal of our financial condition and results of operations and require management's most difficult, subjective and complex judgments.

Critical judgement and estimates

Critical judgement and estimates have been used primarily in estimating revenues the fair value of our financial instruments (for example, warrants, notes and stock options), as well as the estimate of future usage of existing inventory to determine the net value of our inventory (see notes in financial statements).

Estimating the fair value of financial instruments such as warrants, notes and stock options are influenced by assessments of our future financial performance. Such assessments are forward-looking in nature and therefore subject to significant uncertainty. Estimating the value of net inventory is also influenced by assessments of future usage of such inventory which is also forward looking in nature and therefore subject to significant uncertainty.

Marketable securities

Marketable securities consist of debt securities. We elected the fair value option to measure and recognize our investments in debt securities in accordance with ASC 825, Financial Instruments as we manage our portfolio and evaluates the performance on a fair value basis. Changes in fair value, realized gains and losses on sales of marketable securities, are reflected in the statements of operation as finance expense (income), net.

We use the Black-Scholes pricing model for estimating the fair value of Marketable securities. The Black-Scholes pricing model requires us to make certain assumptions including the fair value of our underlying common stock, the expected term, the expected stock price volatility, the risk-free interest rates and the expected dividend yield of our common stock. The critical assumption is the Expected volatility, Because our common stock has limited publicly traded history, we estimate the expected volatility from the historical volatility of selected public companies with comparable characteristics to us, including similarity in size, lines of business, market capitalization and revenue and financial leverage. We determine the expected volatility assumption using the frequency of daily historical prices of comparable public companies' common stock for a period equal to the expected term of the Marketable securities. We periodically assess the comparable companies and other relevant factors used to measure expected volatility. The determination of warrants' liability is inherently uncertain and subjective and involves the application of valuation models and assumptions requiring the use of judgment. Had we made different assumptions, our Changes in fair value related to warrants, for the year ended December 31, 20234 may have been materially different.

Inventory

Inventories are stated at the lower of cost (cost is determined on a weighted average cost method) or net realizable value. We regularly evaluate the carrying value of our inventories in order to identify obsolete or excess inventory based on estimates of future demand for our products to support future sales and service and we use information of historical usage and our short and long-term pipeline of opportunities. We also assess the product volume requirement for replacement and repair of products in order to serve our installed base during and post warranty periods. If our demand forecast for specific products is greater than actual demand and we fail to reduce purchasing and manufacturing output accordingly, we could be required to write off inventory beyond the current reserve, which would negatively impact our gross margin. When, based on such evaluation, factors indicate that impairment has occurred, we impair the inventories' carrying value.

Revenue recognition

The Company's products consist of hardware and embedded software that function together to deliver the product's essential functionality. The embedded software is essential to the functionality of the Company's products. The Company's products are generally sold with a two-year warranty for repairs or replacements of the product in the event of damage or failure during the term of the support period, which is accounted for as a standard warranty. Services relating to repair or replacement of hardware beyond the standard warranty period are offered under renewable, fee-based contracts and include telephone support, remote diagnostics and access to on-site technical support personnel.

The Company also offers its customers other management software. The Company sells its other non-embedded software either as perpetual or as term-based licenses.

The Company provides, to certain customers, software updates that it chooses to develop, which the Company refers to as unspecified software updates, and enhancements related to the Company's management software through support service contracts. The Company also offers its customers product support services which include telephone support, remote diagnostics and access to on-site technical support personnel.

The Company's customers are comprised of end-users, resellers, system integrators and distributors.

The Company follows five steps to record revenue: (i) identify the contract with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) it satisfies its performance obligations.

Performance obligations promised in a contract are identified based on the goods or services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the good or service either on its own or together with other resources that are readily available from third parties or from the Company, and are distinct in the context of the contract, whereby the transfer of the goods or services is separately identifiable from other promises in the contract.

The transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring goods or services to the customer. The Company's contracts do not include additional discounts once the product price is set, right of returns, significant financing components or any forms of variable consideration.

The Company uses the practical expedient and does not assess the existence of a significant financing component when the difference between payment and revenue recognition is less than a year. The Company's service period is for one or more years and is paid for either up front or on a quarterly basis.

Some of our contracts with customers include multiple performance obligations, and we make estimates and judgments to allocate the transaction price to each performance obligation based on an observable or estimated standalone selling price ("SSP"). The SSP is the price, or estimated price, of the software or service when sold on a standalone basis. We consider our evaluation of SSP to be a critical accounting estimate.

An observable price of a good or service sold separately provides the best evidence of SSP. However, in many situations, SSP will not be readily observable, but must still be estimated using reasonably available information. We have observable standalone selling prices of our management software, of our hardware products including the embedded software within, and our services offerings and their costs, and therefore use historical transaction data on a standalone basis, our pricing models, along with our judgment, to establish SSP ranges for each of these elements. As such, the establishment of SSP of our hardware, management software, maintenance and other services, and directly impact the amount of revenues recognized, and therefore also impacts the overall timing of revenue recognition.

We review and analyze the SSP ranges we have from time to time but no more than annually, which have not changed in 2024. In the future, SSP for our software and services could be impacted by various factors, including potential changes in our pricing practices, customer demand for our products and services, and various market or economic conditions. However, we consider the risk of significant volatility in our established SSP to be small given our historical transaction experience and internal processes to monitor SSP ranges on an ongoing basis and work with management in the event a trend that could impact the future ranges is detected.

Accounting standards updates not yet adopted

Please see Note 2 (dd) to our consolidated financial statements included elsewhere in this prospectus for information.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

ACTELIS NETWORKS, INC.

2024 CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Actelis Networks, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Actelis Networks, Inc. and its subsidiary (the “Company”) as of December 31, 2024 and 2023, and the related consolidated statements of comprehensive loss, of mezzanine equity and shareholders’ equity and of cash flows for the years then ended, including the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1b to the consolidated financial statements, the Company has incurred recurring losses and negative cash flows from operating activities and has an accumulated deficit as of December 31, 2024. These circumstances raise substantial doubt about its ability to continue as a going concern. Management’s plans in regard to these matters are also described in Note 1b. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

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

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

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

/s/ Kesselman & Kesselman

Certified Public Accountants (Isr.)

A member firm of PricewaterhouseCoopers International Limited

Tel Aviv, Israel

March 24, 2025

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

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

Assets	Note	December 31	
		2024	2023
CURRENT ASSETS:			
Cash and cash equivalents		1,967	620
Restricted cash equivalents		300	1,565
Short-term deposits		-	197
Trade receivables, net of allowance for credit losses of \$168 as of December 31, 2024, and December 31, 2023.		1,616	664
Inventories	3	2,436	2,526
Prepaid expenses and other current assets, net of allowance for doubtful debts of \$181 and \$144 as of December 31, 2024, and December 31, 2023, respectively	4	584	340
TOTAL CURRENT ASSETS		6,903	5,912
NON-CURRENT ASSETS:			
Property and equipment, net	5	38	61
Prepaid expenses		492	592
Restricted cash and cash equivalents		-	3,330
Restricted bank deposits		91	94
Severance pay fund		205	238
Operating lease right of use assets	6	410	918
Long-term deposits		86	78
TOTAL NON-CURRENT ASSETS		1,322	5,311
TOTAL ASSETS		8,225	11,223

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

	Note	December 31	
		2024	2023
Liabilities, Mezzanine Equity and shareholders' equity			
CURRENT LIABILITIES:			
Credit lines	8	774	-
Current maturities of long-term loans	8	-	1,335
Trade payables		982	1,769
Deferred revenues		246	389
Employee and employee-related obligations		688	737
Accrued royalties	9	673	1,062
Current maturities of operating lease liabilities	6	415	498
Other current liabilities	7	805	1,122
TOTAL CURRENT LIABILITIES		4,583	6,912
NON-CURRENT LIABILITIES:			
Long-term loans, net of current maturities	8	150	3,154
Deferred revenues		92	71
Operating lease liabilities, net of current maturities		6	405
Accrued severance		229	270
Other long-term liabilities		180	23
TOTAL NON-CURRENT LIABILITIES		657	3,923
TOTAL LIABILITIES		5,240	10,835
COMMITMENTS AND CONTINGENCIES	9		
MEZZANINE EQUITY			
Redeemable Convertible Preferred Stock \$0.0001 par value, 10,000,000 authorized as of December 31, 2024 and December 31, 2023. None issued and outstanding as of December 31, 2024 and December 31, 2023.		-	-
Warrants to Placement Agent	11d	228	159
SHAREHOLDERS' EQUITY :	11		
Common stock, \$0.0001 par value: 30,000,000 shares authorized; 7,623,159 and 3,007,745 shares issued and outstanding as of December 31, 2024, and December 31, 2023, respectively.		1	1
Non-voting common stock, \$0.0001 par value: 2,803,774 shares authorized; No shares issued and outstanding as of December 31, 2024, and December 31, 2023.		-	-
Additional paid-in capital		46,818	39,916
Accumulated deficit		(44,062)	(39,688)
TOTAL SHAREHOLDERS' EQUITY		2,757	229
TOTAL LIABILITIES, MEZZANINE EQUITY AND SHAREHOLDERS' EQUITY		8,225	11,223

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

ACTELIS NETWORKS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(U. S. dollars in thousands except for share and per share amounts)

	<u>Note</u>	<u>Year ended December 31</u>	
		<u>2024</u>	<u>2023</u>
REVENUES	14	7,760	5,606
COST OF REVENUES		3,490	3,706
GROSS PROFIT		<u>4,270</u>	<u>1,900</u>
OPERATING EXPENSES:			
Research and development expenses		2,383	2,702
Sales and marketing expenses		2,639	3,030
General and administrative expenses		3,169	3,531
Other Income		(163)	-
TOTAL OPERATING EXPENSES		<u>8,028</u>	<u>9,263</u>
OPERATING LOSS		(3,758)	(7,363)
Interest expenses		(618)	(766)
Other financial income, net	15	2	1,843
NET COMPREHENSIVE LOSS FOR THE YEAR		<u>(4,374)</u>	<u>(6,286)</u>
Net loss per share attributable to common shareholders – basic and diluted	13	\$ (0.85)	\$ (2.61)
Weighted average number of common stocks used in computing net loss per share – basic and diluted		<u>5,146,049</u>	<u>2,412,717</u>

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

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

	Warrants To Placement Agent	Redeemable Convertible Preferred Stock	Common Stock		Non-voting Common Stock		Additional paid-in capital	Accumulated deficit	Total shareholder's equity
	Amount	Amount	Number of shares	Amount	Number of shares	Amount			
BALANCE AS OF JANUARY 1, 2023	-	-	1,737,986	1	-	-	36,666	(33,402)	3,265
CHANGES DURING THE YEAR ENDED DECEMBER 31, 2023:									
Exercise of options into common stock	-	-	32,009	*	-	-	-	-	-
Share based compensation	-	-	-	-	-	-	377	-	377
Repurchase of common stock	-	-	(7,920)	*	-	-	(50)	-	(50)
Issuance of common stock and pre-funded warrants upon private placement, net of underwriting commissions and other offering costs	159	-	491,000	*	-	-	2,609	-	2,609
Exercise of pre-funded warrants into common stock	-	-	754,670	*	-	-	*	-	*
Reclassification of warrants from liabilities to equity (see note (11(d)))	-	-	-	-	-	-	314	-	314
Net comprehensive loss for the year	-	-	-	-	-	-	-	(6,286)	(6,286)
BALANCE AS OF DECEMBER 31, 2023	159	-	3,007,745	1	-	-	39,916	(39,688)	229
Share Based Compensation	-	-	-	-	-	-	337	-	337
Vesting of RSUs	-	-	28,228	*	-	-	(*)	-	-
Warrant to lender	-	-	-	-	-	-	84	-	84
Issuance of common stock, net of offering costs (note 11f)	-	-	1,594,850	*	-	-	1,938	-	1,938
Exercise of Pre funded warrants into common stock (Note 11b)	-	-	970,187	*	-	-	-	-	-*
Warrant inducement agreement, net of offering costs (Note 11e)	27	-	999,670	*	-	-	1,951	-	1,951
Warrant inducement agreement, net of offering costs (Note 11d)	42	-	999,670	*	-	-	2,560	-	2,560
Exercise of options into common stock	-	-	22,809	*	-	-	32	-	32
Net comprehensive loss for the year	-	-	-	-	-	-	-	(4,374)	(4,374)
BALANCE AS OF DECEMBER 31, 2024	228	-	7,623,159	1	-	-	46,818	(44,062)	2,757

* Represents an amount less than \$1 thousand.

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

ACTELIS NETWORKS, INC.
CONOSOLIDATED STATEMENTS OF CASH FLOWS
U.S. DOLLARS IN THOUSANDS

	Year ended December 31	
	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss for the year	(4,374)	(6,286)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	26	27
Changes in fair value related to warrants to lenders and investors	(8)	(1,658)
Warrant issuance costs	-	223
Inventory write-downs	101	239
Exchange rate differences	67	(460)
Share-based compensation	337	377
Interest expenses	(91)	295
Changes in operating assets and liabilities:		
Trade receivables	(952)	2,370
Net change in operating lease assets and liabilities	26	19
Inventories	(11)	(1,585)
Prepaid expenses and other current assets	(143)	357
Long term prepaid expenses	-	(100)
Trade payables	(787)	(25)
Deferred revenues	(122)	(188)
Other current liabilities	(580)	(172)
Other long-term liabilities	(38)	(10)
Net cash used in operating activities	<u>(6,549)</u>	<u>(6,577)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Short term deposit	198	1,418
Long- term deposit	-	(56)
Proceeds from restricted long term bank deposits	-	4,827
Deposit of restricted long-term bank deposits	-	(2,810)
Restricted short term bank deposit	-	451
Purchase of property and equipment	(1)	(9)
Net cash provided by investing activities	<u>197</u>	<u>3,821</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of options	32	-
Proceeds from credit line with bank, net	774	-
Proceeds from issuance of common stocks	2,063	-
Offering cost from issuance of common stocks	(125)	-
Proceeds from warrant inducement agreement	5,248	-
Proceeds from issuance of common stocks, pre-funded warrants and warrants	*	5,000
Underwriting commissions and other offering costs	(668)	(420)
Repurchase of common stock	-	(50)
Early repayment of long-term loan	(4,038)	-
Repayment of long-term loan	(193)	(769)
Net cash provided by financing activities	<u>3,093</u>	<u>3,761</u>
Effect of exchange rate changes on cash and cash equivalents and restricted cash	11	231
INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(3,248)	1,236
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF YEAR	5,515	4,279
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF YEAR	<u>2,267</u>	<u>5,515</u>
RECONCILIATION OF CASH, CASH EQUIVALENTS AND RESTRICTED CASH:		
Cash and cash equivalents	<u>1,967</u>	<u>620</u>
Restricted cash equivalents, current	<u>300</u>	<u>1,565</u>
Restricted cash and cash equivalents, non-current	<u>-</u>	<u>3,330</u>
Total cash, cash equivalents and restricted cash	<u>2,267</u>	<u>5,515</u>

ACTELIS NETWORKS, INC.
CONOSOLIDATED STATEMENTS OF CASH FLOWS (continued)
U.S. DOLLARS IN THOUSANDS

	Year ended December 31	
	2024	2023
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	624	431
SUPPLEMENTARY INFORMATION ON INVESTING AND FINANCING ACTIVITIES NOT INVOLVING CASH FLOWS:		
Right of use assets obtained in exchange for new operating lease liabilities	-	702
Issuance costs of common stock, pre-funded warrants and warrants	-	159
Reclassification of warrants from liability to equity upon amendment to private placement agreement (see Note 11(d))	-	314
Issuance costs of the Warrant inducement agreement	2,651	-
Warrant to lender	84	-

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

ACTELIS NETWORKS, INC.
NOTES TO 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 comprehensive loss was \$4,374 and \$6,286 for the years ended December 31, 2024, and December 31, 2023, respectively. During the years ended December 31, 2024, and December 31, 2023, the Company had negative cash flows from operations of \$6,549 and \$6,577 respectively. As of December 31, 2024, the Company’s accumulated deficit was \$44 million. The Company has funded its operations to date through equity and debt financing and has cash on hand (including restricted cash equivalents) of \$2.3 million and long-term restricted bank deposits of \$91 and long term deposit of \$86 as of December 31, 2024. 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. Additionally, the Company experienced significant growth in its revenues and gross margin from 2023 to 2024 while reducing its cost structure. However, these cash flow projections are subject to various uncertainties concerning their fulfillment 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 13, 2024, and again on October 1, 2024, Iran carried out drone and missile strikes against Israel, to which Israel responded.

The conflicts in both Lebanon as well as Gaza are in a state of cease fire under accords signed between the parties. Recently, the accord has been broken. However, the duration and intensity of the ongoing conflicts in Gaza, Northern Israel, Lebanon, and the broader region remain uncertain. As of the signing date, our operations and financial results have not been significantly impacted, though, as of March 24, 2025, two of our employees has 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, 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. The company was 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.

Additionally, on May 20, 2024, Nasdaq notified the Company that it was not in compliance with the minimum bid price requirements under Nasdaq Listing Rule 5550(a)(2), which requires the Company's common stock to maintain a minimum bid price of \$1.00 per share. On June 20, 2024, the Company received a letter from Nasdaq stating that, for 10 consecutive business days from June 5, 2024, to June 28, 2024, the closing bid price of its common stock had been at or above \$1.00 per share. Accordingly, the Company has regained compliance with Nasdaq Listing Rule 5550(a)(2), and Nasdaq considers the prior bid price deficiency matter closed.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

a. Basis of Presentation

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

b. Use of estimates in preparation of financial statements

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The Company evaluates on an ongoing basis its assumptions, including those related to Fair value 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, judgment, 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 liabilities at the dates of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

c. Functional currency

The currency of the primary economic environment in which the operations of the Company and its Subsidiary are conducted is the U.S. dollar (" \$" or "dollar"). Therefore, the functional currency of the Company and its Subsidiary is the dollar. In determining the appropriate functional currency to be used, the Company reviewed factors relating to sales, costs and expenses, financing activities and cash flows.

Transactions and balances denominated in dollars are presented at their original amounts. Non-dollar transactions and balances have been re-measured to dollars in accordance with the provisions of ASC 830-10-20, "Foreign Currency Translation". All transaction gains and losses from re-measurement of monetary balance sheet items denominated in non-dollar currencies are reflected in the statement of comprehensive loss as Other financial income, net, as appropriate.

d. Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. Intercompany transactions and balances have been eliminated upon consolidation.

e. Cash and cash equivalents

The Company considers all highly liquid investments with an original maturity of three months or less at the time of purchase to be cash equivalents. Cash equivalents are carried at cost, which approximates their fair value.

f. Restricted cash and cash equivalents and restricted deposits

Restricted cash and cash equivalents consists of cash and cash equivalents held in restricted accounts, classified as current or non-current based on the expected timing of the disbursement. Restricted deposits consist of deposits held in restricted deposit bank accounts including deposits held as collateral for guarantees to third parties and others, classified as current or non-current based on the expected timing of the disbursement.

g. Treasury Shares

Treasury shares represent ordinary shares repurchased by the Company that are no longer outstanding and are held by the Company. Treasury shares are presented as a reduction of shareholders' equity, at their cost to the Company. The treasury shares have no rights.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

h. Trade Receivables, net

Trade receivables are recorded at the invoiced amount, are mostly unsecured and do not bear interest. Accounts receivable have been reduced by an allowance for credit losses. The Company estimates 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.

On this basis, management has determined that an allowance for credit losses of \$168 as of December 31, 2024, and December 31, 2023.

Expenses for allowance for credit losses for the years ended December 31, 2024, and 2023 were 0 and \$43, respectively.

i. Inventories

Inventories are stated at a lower of cost or net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Inventory write-offs are provided to cover risks arising from slow-moving items, excess inventories, discontinued products, new products introduction and for market prices lower than cost. Any write-off is recognized in the consolidated statement of comprehensive loss as cost of revenues. In addition, if required, the Company records a liability for firm non-cancelable and unconditional purchase commitments with contract manufacturers for quantities in excess of the Company's future demands forecast consistent with its valuation of excess and obsolete inventory.

Cost is determined as follows:

Raw materials and finished products- using the weighted average cost method.

j. Property and equipment, net

Property and equipment are stated at cost less accumulated depreciation. Maintenance and repairs are expensed as incurred. Depreciation expense is calculated on a straight-line basis over the estimated useful lives of the related assets. The cost and related accumulated depreciation of assets sold or otherwise disposed of are removed from the accounts and the related gain or loss is reported in the statement of comprehensive loss.

The useful lives of the assets are as follows:

	<u>Years</u>
Computers, software and electronic equipment	Mainly 3
Office furniture and equipment	7
Leasehold improvements	By the shorter of lease term and the estimated useful life of the asset

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

k. Impairment of long-lived assets

The Company evaluates long-lived assets, such as property and equipment with finite lives, for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. The Company identifies impairment of long-lived assets when estimated undiscounted future cash flows expected to result from the use of the assets plus net proceeds expected from disposition of the assets, if any, are less than the carrying value of the assets. If the Company identifies an impairment, the Company reduces the carrying amount of the assets to their estimated fair value based on a discounted cash flow approach or, when available and appropriate, to comparable market values.

l. Revenue recognition

The Company follows five steps to record revenue: (i) identify the contract with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) it satisfies its performance obligations.

Performance obligations promised in a contract are identified based on the goods or services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the good or service either on its own or together with other resources that are readily available from third parties or from the Company, and are distinct in the context of the contract, whereby the transfer of the goods or services is separately identifiable from other promises in the contract.

The Company's customers are comprised of end-users, resellers, system integrators and distributors.

The transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring goods or services to the customer. The Company's contracts do not include additional discounts once the product price is set, right of returns, significant financing components or any forms of variable consideration.

The Company uses the practical expedient and does not assess the existence of a significant financing component when the difference between payment and revenue recognition is less than a year. The Company's service period is for one or more years and is paid for either up front or on a quarterly basis.

Sales of products

The Company's products consist of hardware and embedded software that work together to deliver the products' essential functionality. The embedded software is essential to the functionality of the Company's products. The Company's products are generally sold with a two-year warranty covering repairs or replacements in the event of damage or failure during the warranty period, which is accounted for as a standard warranty. Services related to the repair or replacement of hardware beyond the standard warranty period are offered under renewable, fee-based contracts and include telephone support, remote diagnostics, and access to on-site technical support personnel.

Most of the Company's contracts involve a single performance obligation (sales of the product with a standard warranty), and thus the entire transaction price is allocated to that single performance obligation. In some cases, the Company's product contracts also include services such as product support service. In these contracts, the Company has identified two performance obligations, which include the product and the support service. The Company allocates the transaction price to each performance obligation based on its relative standalone selling price within the total consideration of the contract.

Customers may request an extension period of the warranty for period ending, after the standard warranty's period stated in the contract. The extended warranty is a separate performance obligation since it is provided for a period that exceeds the standard two-year warranty and it is sold and negotiated separately with the customer.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

Sales of EMS software with related services

The Company also offers its customers EMS management software. The Company sells its other non-embedded software either as perpetual or as term-based licenses. The Company provides to certain customers (in term based licenses agreement and in some of the perpetual agreements) product support services which include telephone support, remote diagnostics and access to on-site technical support personnel.

For contracts that contain more than one identified performance obligation (primarily a term-based license for its management software together with related services), the stand-alone selling price of a term-based license, is based on a ratio from the relevant perpetual management software stand-alone selling price. The perpetual management software stand-alone selling price is established by taking into consideration available information such as historical selling prices of the perpetual license, geographic location, and market conditions.

The stand-alone selling price of the related service is based on the Company's best estimates of the price at which the Company would have sold the related service on a stand-alone basis.

The Company also, provides, to certain customers through the support service contracts, software updates that it chooses to develop, which the Company refers to as unspecified software updates, and enhancements related to the Company's management software.

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

Revenue from selling the Company's product and/or the software management (either as term-based or perpetual) is recognized at a point in time which is typically at the time of shipment of products to the customer or when the code is transferred, respectively. Revenue from services (e.g., product support service, software support service or extended warranty) is recognized on a straight-line basis over the service period, as a time-based measure of progress best reflects our performance in satisfying this performance obligation.

m. Cost of revenues

Cost of revenues includes cost of materials, costs associated with packaging, assembly and testing costs, as well as cost of personnel (including share-based compensation), shipping costs, inventory write down, royalties, costs of logistics and quality assurance, access to on-site technical support personnel as well as warranty expenses and other expenses associated with manufacturing support.

n. Basic and diluted net loss per share

Basic net loss per share is computed using the weighted average number of common shares, Pre-Funded Warrants to purchase shares of Common Stock for an exercise price of \$0.0001 which are exercisable immediately 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: (i) the exercise of options and non-vested RSUs granted under employee stock compensation plans, and the exercise of warrants using the treasury stock method; and (ii) the conversion of the warrants classified as liability, by adding to net loss the change in the fair value of the warrants and by adding the weighted average number of shares issuable upon assumed conversion of these warrants using the treasury stock method.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

o. 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 (see note 10) based on Level 3 inputs, and the warrants liability amounted is 0 as of December 31, 2024, and \$8 thousands as of December 31, 2023. The warrants liability are presented in the Other current liabilities in the accompanying consolidated balance sheets.

As of December 31, 2024, and 2023, the fair values of the Company's cash, cash equivalents, short and long-term deposits, Restricted bank deposits, trade receivables, trade payables, long-term loan and restricted cash approximated the carrying values of these instruments presented in the Company's consolidated balance sheets because of their nature.

p. Concentrations of credit risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents, restricted cash equivalents, trade receivables and Restricted bank deposits. Cash and cash equivalents and restricted cash 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 Governmental authorities such as municipalities, military and other federal agencies, enterprises and telecommunication operators, as well as the Company's reseller customers 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 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.

Management provides allowances based upon a specific review of all significant outstanding invoices, analysis of its historical collection experience, and current economic trends. If the historical data used to calculate the allowance for doubtful accounts does not reflect the Company's future ability to collect outstanding accounts receivable, additional provisions for doubtful accounts may be needed, and the future results of operations could be materially affected.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

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

1. Customer A- 1% and 30% of the Company Trade receivables balance as of December 31, 2024 and December 31, 2023 respectively.
2. Customer B- 5% and 11% of the Company Trade receivables balance as of December 31, 2024 and December 31, 2023 respectively.
3. Customer C- 3% and 11% of the Company Trade receivables balance as of December 31, 2024 and December 31, 2023 respectively.
4. Customer D- 39% and 0.1% of the Company Trade receivables balance as of December 31, 2024 and December 31, 2023 respectively.

See note 14 for details regarding the revenues from these customers.

The Company does not see any credit risk regarding this balance, as most of the remaining balance was paid off after the balance sheet date.

q. Warranty costs

The Company's products generally include a standard warranty of two years for product defects. The Company accrues for warranty at the time revenue is recognized. The Company's estimates of future warranty obligations may change due to product failure rates, material usage, and other rework costs incurred in correcting a product failure. In addition, specific warranty accruals may be recorded if unforeseen problems arise. The provision for warranty amounted to \$57 and \$47 as of December 31, 2024, and 2023, respectively. These provisions are included in "Other current liabilities" and "Other long-term liabilities" in the accompanying consolidated balance sheets.

r. Sales and marketing expenses

Sales and marketing expenses include such expenses for the company's sales teams, business development activities, sales engineering, and customer support.

s. Research and development costs

Research and development costs are expensed as incurred and include compensation for engineers, external services, and material costs associated with new product development, bug fixing and enhancement of current products.

t. Shipping and handling

The Company classifies shipping and handling charged to customers as revenues and classifies costs relating to shipping and handling as cost of revenues.

u. Government grants and related royalties

The Company is paying royalties to the government of Israel for funding received for research and development in the past. Royalties are calculated and paid at a rate of 3% of the applicable revenues. During 2024 and 2023, respectively, the Company incurred royalty expenses of \$229 and \$168, included within cost of revenues (see note 9). The Company has not applied for any new funding from the government of Israel for research and development during 2024.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

v. 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.

w. Income taxes

The Company accounts for income taxes in accordance with ASC 740, "Income Taxes" ("ASC 740"). ASC 740 prescribes the use of the asset and liability method whereby deferred tax assets and liability account balances are determined based on differences between the financial reporting and the tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value if it is more likely than not that a portion or all of the deferred tax assets will not be realized.

The Company implements a two-step approach to recognize and measure uncertain tax positions. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. The Company does not have any liabilities in any reported periods regarding uncertain tax positions.

Taxes which would apply in the event of disposal of investment in foreign subsidiary have not been taken into account in computing the deferred taxes, since the Company's intention is to hold, and not to realize the investment.

x. Employee related benefits:

Severance pay

The Company's liability for severance pay for its Israeli employees is calculated pursuant to the Israeli Severance Pay Law based on the most recent salary of the employees multiplied by the number of years of employment, as of the balance sheet date. Employees whose employment is terminated by the Company or who are otherwise entitled to severance pay in accordance with Israeli law or labor agreements are entitled to one month's salary for each year of employment or a portion thereof. The Company's liability for all of its Israeli employees is partly provided for by monthly deposits for insurance policies and the remainder by an accrual. The accrued value of these policies is recorded as an asset in the Company's consolidated balance sheet. Such deposits are not considered to be "plan assets" and are therefore included in "Severance pay fund" in the consolidated balance sheets.

During April and May 2008 (the "transition date"), the Company amended the contracts of most of its Israeli employees so that starting on the transition date, such employees are subject to Section 14 of the Severance Pay Law, 1963 ("Section 14") for severance pay accumulated in periods of employment subsequent to the transition date. Pursuant to Section 14, these employees are entitled to monthly deposits made by the Company on their behalf with insurance companies. These deposits are not recorded as an asset on the Company's balance sheet, and there is no liability recorded as the Company does not have a future obligation to make any additional payments. The Company's contributions to the defined contribution plans are charged to the consolidated statements of Comprehensive loss as and when the services are received from the Company's employees.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

For the Company's employees in Israel that began employment prior to Article 14, the Company calculates the liability for severance pay based on the most recent salary of these employees multiplied by the number of years of employment as of the Article 14 inception date. These liabilities are presented under "Accrued severance pay" in the Company's consolidated balance sheets.

The carrying value for the deposited funds for the Company's employees' severance pay for employment periods prior to the transition date includes profits and losses accumulated up to the balance sheet date.

The amounts of contribution plans expenses were approximately \$175 for each of the years ended December 31, 2024, and 2023.

The Company expects to contribute approximately \$175 in the year ending December 31, 2025, to insurance companies in connection with its contribution plans.

401(k) profit sharing plans

The Company offers its employees a savings plan in the United States that qualifies under Section 401(k) of the current Internal Revenue Code as a "safe harbor" plan. The Company must make a mandatory contribution to the 401(k) plan to satisfy certain nondiscrimination requirements under the Internal Revenue Code. This mandatory contribution is made to all eligible US based employees.

y. Share-based compensation

Share-based compensation expense for all share-based payment awards, including share options and restricted share units ("RSUs"), is determined based on the grant-date fair value. The Company recognizes these compensation costs net of actual forfeitures and recognizes compensation cost for all options on a straight-line basis over the requisite service period of the award, which is generally the option vesting term of four years and three years for the RSUs.

The Company accounts for share-based compensation arrangements with non-employees based on the estimated fair value of the equity instrument using the Black-Scholes option-pricing model. Compensation cost is recognized over the period that the services are provided, and the award is earned by the counterparty.

The Company follows ASC 718 to determine whether a share-based payment should be classified and accounted for as a liability award or equity award. All grants of share-based awards to employee classified as equity awards are recognized in the financial statements based on their grant date fair values which are calculated using the Black-Scholes Option-pricing model.

For options and RSU's with graded vesting, the Company has elected a fair-value-based measure of the entire award by using a single weighted-average expected term.

The Company records forfeitures for share-based payments awards as they occur.

Share-based compensation classified as mezzanine equity.

Share-based compensation subject to possible redemption are classified as mezzanine equity based on the guidance provided under ASC 480-10-S99-3A and SAB Topic 14E. See also Note 11d for additional information on share-based compensation granted to the underwriter in connection with an offering of common stocks and warrants.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

z. Warrants

Common stock warrants

The Company accounts for its warrants as either equity-classified or liability-classified instruments based on an assessment of the specific terms of the warrants and applicable authoritative guidance in Accounting Standards Codification (“ASC”) 480, “Distinguishing Liabilities from Equity” (“ASC 480”), and ASC 815, “Derivatives and Hedging” (“ASC 815”). The assessment considers whether the warrants are freestanding financial instruments pursuant to ASC 480, meet the definition of a liability pursuant to ASC 480, or meet all of the requirements for equity classification under ASC 815, including whether the warrants are indexed to the Company’s own common stock and whether the warrant holders could potentially require “net cash settlement” in a circumstance outside of the Company’s control, among other conditions for equity classification. See note 11.

Warrants issued in connection with obtaining loans and/or securing credit facilities.

Warrants issued in connection with obtaining a loan or securing a credit facility are considered deferred issuance costs. Deferred issuance costs for obtaining a loan are reflected as a deduction from the carrying amount of the related loan and are amortized using the effective interest method.

aa. Commitments and contingencies

The Company accounts for its contingent liabilities in accordance with ASC Topic 450, Contingencies (“ASC 450”). A provision is recorded when it is both probable that liability has been incurred and the amount of the loss can be reasonably estimated. With respect to legal matters, provisions are reviewed and adjusted to reflect the impact of negotiations, estimated settlements, legal rulings, advice of legal counsel and other information and events pertaining to a particular matter.

bb. Reverse stock split

On March 8, 2023, the Company’s Board of Directors approved an Reverse Stock Split in the ratio of ten-to-one. The Reverse Stock split became effective as of April 18, 2023.

The Company accounted for the Reverse Stock Splits on a retroactive basis. As a result, all common stock, Non-voting Common stock, redeemable Convertible Preferred stock, warrants, RSUs and options outstanding and exercisable for common stock, exercise prices and loss per share amounts have been adjusted, on a retroactive basis, for all periods presented in these consolidated financial statements and the applicable disclosures, to reflect such Reverse Stock Splits.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

cc. Leases

The Company determines if an arrangement is a lease at inception. Balances related to operating leases are included in operating lease right-of-use ("ROU") assets, Current maturities of operating leases liabilities and non-current operating leases liabilities in the consolidated balance sheets.

Leases primarily consist of real estate property and vehicles and are classified as operating leases with fixed payment terms. The Company determines if an arrangement is a lease, or contains a lease, at inception and records the leases upon lease commencement, which is the date when the underlying asset is made available for use by the lessor. Right-of-use ("ROU") assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease.

Lease expenses for the operating leases are recognized on a straight-line basis over the lease term and are included in operating expenses in the consolidated statements of operations and comprehensive loss. Options to extend or terminate the lease are taken into account when it is reasonably certain at the commencement date that such options will be exercised. The Company elected to apply for the short-term lease exemption for lease with a non-cancelable period of twelve months or less. Additionally, the Company has lease agreements with lease and non-lease components. On the commencement date, lease payments that include variable lease payments dependent on an index or a rate (such as the Consumer Price Index or a market interest rate), are initially measured using the index or rate at the commencement date. Such variable payments are recognized in the consolidated statements of operations and comprehensive loss in the period in which the event or condition that triggers the payment occurs. These variable payment amounts were not material to the consolidated financial statements for the periods presented.

The interest rate used to determine the present value of the future lease payments is the Company's incremental borrowing rate because the interest rate implicit in its leases is not readily determinable.

Sublease

In October 2021, the Company entered into a sublease agreement for its offices in the United States.

The Company applies the guidelines in ASC-842 regarding subleases, which state that the classification should be based on the underlying asset being subleased and concluded that the sublease is an operating lease where the Company is the Lessor.

The sublease income is recognized on a straight-line basis over the expected lease term less any allowances for doubtful collection of rent and is included in the operating expenses, net, in the Company's consolidated statements of comprehensive loss.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

dd. New Accounting Pronouncements

Recently adopted accounting pronouncements:

In November 2023, the FASB issued ASU 2023-07 “Segment Reporting: Improvements to Reportable Segment Disclosures.” This guidance expands public entities’ segment disclosures primarily by requiring disclosure of significant segment expenses that are regularly provided to the chief operating decision maker and included within each reported measure of segment profit or loss, an amount and description of its composition for other segment items, and interim disclosures of a reportable segment’s profit or loss and assets. Public entities with a single reportable segment are required to provide the new disclosures and all the disclosures required under ASC 280. The guidance is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted. The amendments are required to be applied retrospectively to all prior periods presented in an entity’s financial statements. Early adoption is permitted. This ASU did not have a material impact on the Company’s consolidated financial statements.

Recently issued accounting pronouncements, not yet adopted:

As an emerging growth company, the Jumpstart Our Business Startup Act (“JOBS Act”) allows the Company to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. The Company has elected to use this extended transition period under the JOBS Act. The adoption dates discussed below reflect this election.

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, 2026. 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.

NOTE 3 - INVENTORIES:

	December 31	
	2024	2023
	U.S. dollars in thousands	
Raw materials	1,521	757
Finished goods	915	1,769
	<u>2,436</u>	<u>2,526</u>

Inventory write-downs totaled \$101 and \$239 during the years ended December 31, 2024, and 2023 respectively.

NOTE 4 - PREPAID EXPENSES AND OTHER CURRENT ASSETS:

	December 31	
	2024	2023
	U.S. dollars in thousands	
Prepaid expenses	386	198
Governmental authorities	198	84
Other, net*	-	58
	<u>584</u>	<u>340</u>

* Prepaid expenses and other current assets are stated as net of allowances. The allowance for Prepaid expenses and other current assets is based on the Company's periodic assessment of the collectability of the accounts based on a combination of factors including the age of the balance, and the reasonability to use this asset. During 2024 and 2023, the Company recorded allowances for Prepaid expenses and other current assets in the amounts of \$181 and \$144, respectively.

NOTE 5 - PROPERTY AND EQUIPMENT, NET:

	December 31	
	2024	2023
	U.S. dollars in thousands	
Cost:		
Computer, software, and electronic equipment	8,587	8,583
Office furniture and equipment	872	872
Leasehold improvements	292	292
	<u>9,751</u>	<u>9,747</u>
Less: accumulated depreciation	<u>9,713</u>	<u>9,686</u>
Property and equipment, net	<u>38</u>	<u>61</u>

Depreciation expenses were \$26 and \$27 for the years ended December 31, 2024, and 2023, respectively.

NOTE 6 - LEASES:

- 1) The Company had an operating lease agreement for its facility in the United States, which expired on March 31, 2024. The Company did not exercise its 5-year extension option, which was initially excluded from the measurement of the ROU asset and the lease liability. The lease payments were denominated in USD.
- 2) On July 1, 2022, the Company entered into a new operating lease agreement for additional offices in the United States, which expires on September 30, 2025. The lease payments are denominated in USD.
- 3) On October 18, 2021, the Company entered into an agreement to sublease its facility to an unrelated third party in the United States. The sublease ended on March 31, 2024. The sublease was classified as an operating lease
- 4) The Company's Israeli subsidiary has an operating lease agreement for a facility in Israel, which was renewed on December 28, 2023, and expires on December 31, 2025. The lease payments are denominated in NIS and are indexed to the consumer price index.
- 5) The Company leases its motor vehicles under operating lease agreements.
- 6) The Company's Israeli subsidiary has an operating lease agreement for testing equipment in Israel, which expires on February 07, 2025. The lease payments are denominated in ILS.

Supplemental information related to leases is as follows:

	December 31, 2024	December 31, 2023
Operating leases:		
Operating lease right-of-use assets	\$ 410	\$ 918
Current Operating lease liabilities	\$ 415	\$ 498
Non-Current Operating lease liabilities	\$ 6	\$ 405
Total Operating lease liabilities	\$ 421	\$ 903

Other information:

	Year ended December 31, 2024	Year ended December 31, 2023
Cash paid for amounts included in the measurement of lease liabilities (cash paid in thousands)	\$ 568	\$ 478
Weighted Average Remaining Lease Term	1	1.80
Weighted Average Discount Rate	11.2%	10.2%

The lease costs components are as follows:

	Year ended December 31, 2024	Year ended December 31, 2023
Fixed payments	\$ 194	\$ 118
Variable payments that depend on an index or rate	373	359
Total lease cost	\$ 568	\$ 478

NOTE 6 – LEASES (continued):

Maturities of operating lease liabilities are as follows:

	December 31, 2024
2025	429
2026	6
Total operating lease payments	435
Less: imputed interest	(14)
Present value of lease liabilities	<u>\$ 421</u>

NOTE 7 - OTHER CURRENT LIABILITIES:

	December 31	
	2024	2023
	U.S. dollars in thousands	
Accrued expenses	744	955
Accrued standard warranty	43	24
Other	18	143
	<u>805</u>	<u>1,122</u>

NOTE 8 - 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 December 31, 2024, the total loan balance outstanding was \$150.

- b. On December 9, 2020, the Company signed a new loan agreement with an Israeli based financial institution (“Migdalar”) for a loan of up to 20 million NIS (“New Israeli Shekel”) (an amount of \$6,000). The Company received \$3,000 on December 2020, and additional \$2,000 in January 2021. The loan bears interest of 9.6% per annum. The interest shall first be paid in 12 payments starting February 1, 2021. Starting February 1, 2022, the loan principal and interest shall be repaid in 72 equal payments, plus a one-time interest payment after the 36th month.

As part of the loan agreement, the Company issued the New Lender warrants to acquire common stock in the amount of \$1,500.

In November 2021, the Company received additional funding in the amount of \$1,000 from Migdalar. The loan bears interest of 9.6% per annum. Starting February 1, 2022, the loan principal and interest shall be repaid in 72 equal monthly payments, plus a onetime interest payment after the 24th month. The Company increased the value of the warrant issued to Migdalar to \$1,800. Upon the consummation of the IPO, the Company converted all the above outstanding warrants issued to Migdalar into the Company’s common stock based on the contractual terms and conditions of the related warrant agreements.

The loan covenants (the “covenants”) include a debt to EBITDA minimum ratio or a coverage ratio of the loan by current assets.

NOTE 8 – LOANS (continued):

On December 21, 2022, pursuant to the terms of the loan agreement, the Company deposited \$2,000 to a Company-owned interest-bearing bank account, or the “designated account” (as defined in the agreement), to satisfy the required obligation associated with the loan agreement. An additional \$2,000 was deposited in the designated account during the year ended December 31, 2023, which was classified in Restricted cash equivalents in the condensed Consolidated Balance Sheet.

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 December 31, 2024, the total outstanding of the one-time interest payment was approximately \$0.2 million.

As of December 31, 2024, the Company was in compliance with the covenants of the Migdalor loan.

- c) On January 15, 2024, the Subsidiary entered into a credit agreement with Bank Mizrahi-Tefahot. The Credit Agreement provides for a \$1,500 credit facility available to be used by the Subsidiary (“New Credit Line”). Under the New Credit Line, which will be secured by the Subsidiary’s customer receivables, the Subsidiary will pay an annual fixed interest at a Federal SOFR rate plus 5.5% on any amount withdrawn under the New Credit Line.

Under the Credit Agreement, the Company is permitted to draw upon the New Credit Line for customer invoices that meet the following conditions:

- (a) Throughout the duration of the New Credit Line, the Company may present customer receivables and receive credit financing that does not exceed 80% of the aggregate amount of the open customer invoices securing the New Credit Facility; The credit financing is to be repaid within 90 days.
- (b) Customer invoices are payable within 90 days from the date of the Company’s monthly report to the Lender; and
- (c) No single customer of the Company may account for open customer invoices securing over 30% of the total borrowed amount under the New Credit Line.

The Credit Line balance drawn will be examined every month and adjusted up to every three months and Repayment of the Credit Line will be made up to every three months subject to the expiration of the financing period for the invoices that were financed. The Company may refinance newly issued invoices at any time up to the Credit Line limit and subject to the terms of the Credit Line.

As of December 31, 2024, the Subsidiary used \$774 of the credit line.

NOTE 9 - 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 December 31, 2024, 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. By December 31, 2024, the company had paid approximately \$400 which include one-time payment and two quarter installments. Additionally, the company is required to report and pay ongoing royalties starting from the first half of 2024

As of December 31, 2024, the Company had received approximately \$14,300 (approximately \$15,830 including interest) and repaid approximately \$10,621 in such grants.

During the years 2024 and 2023, the Company repaid amounts of \$400 and \$73, respectively.

As of December 31, 2024, and 2023, the Company had a liability to repay royalties in approximately \$839 and \$1062, respectively.

Royalties payable:

	Year ended December 31, 2024	Year ended December 31, 2023
Short Term – Accrued royalties	673	1,062
Long Term - Accrued royalties	166	-
Total royalties payable	839	1,062

NOTE 10 - WARRANTS:

The company has several types of warrants. The warrants classified as liability are presented in this note, and the equity warrants are presented under note 11.

- a. On August 24, 2016, the Company issued warrants to Comerica Bank (“Comerica”) for the purchase of 7,305 shares of the Company’s Series B Redeemable Preferred Stock at an exercise price of \$10.2672 per share contemporaneously with obtaining a loan from Comerica which was fully repaid in 2018 (the “Comerica Warrants”). The Comerica Warrants are exercisable at any time during the contract period which ends on August 24, 2026.

Additionally, in connection with the consummation of the IPO which occurred in May 2022, and the change of the type of the stock from redeemable preferred stock to common stock at conversion, the Company reassessed the Comerica Warrants. As part of the contractual terms and conditions of Comerica’s Warrants, a portion of the warrants are exercisable, as of the IPO date, into the Company’s common stock.

NOTE 10 – WARRANTS (continued):

The Company has evaluated whether the Comerica Warrants are still classified as liabilities and concluded that due to a change-of-control provision which may affect the exercise price or entitle Comerica to demand cash, instead of shares, to settle the warrants, Comerica's Warrants will continue to be classified as liabilities and will be exercisable into the Company's common shares. The Comerica Warrants are still outstanding as of December 31, 2024.

- b. On May 8, 2023, the Company completed a fund-raising round. Upon the consummation of the Offering and pursuant to an agreement entered into with the Holder and the underwriter, the Company issued warrants to purchase shares of Common Stock. Such warrants were classified as liabilities based on the terms of the underlying agreement. On September 30, 2023, these warrants were reclassified to equity due to an amendment to the warrants' agreements (for further details see also Note 11b). On June 6, 2024, these warrants were exercised pursuant to the inducement agreement, as described in notes 11d below.

NOTE 11 - SHAREHOLDERS' EQUITY:

- a. During January and February 2023, the Company purchased 7,920 shares of its common stock, for a total price of \$50. As of December Total of 10,690 common stock are held by the company as treasury shares.

b. Offering of common stocks and warrants May 2023:

On May 8, 2023, the Company completed a fund-raising round in a total gross amount of \$3,500 pursuant to which the Company agreed to issue and sell to Armistice Capital Master Fund Ltd. (the "Holder") in a private placement (the "Offering"):

1. 190,000 shares of the Company's common stock, \$0.0001 par value;
2. 754,670 pre-funded warrants (the "Pre-Funded Warrants") to purchase up to 754,670 shares of Common Stock for an exercise price of \$0.0001 which are exercisable (either physically or on net-cash basis at the Holder's discretion) immediately upon their issuance until their full exercise. Their exercise price is adjustable upon dilutive events (such as subsequent rights offerings, pro-rata distributions and stock dividends and splits). The Holder also has certain rights upon a fundamental transaction (as defined in the agreement) as specified in the agreement. The warrants were classified as equity pursuant to ASC 815-40. During July and August 2023, the Holder elected to exercise 754,670 of the pre-funded warrant. The total exercise price in the amount of \$0.0755 was paid in cash.
3. warrants to purchase up to 944,670 shares of Common Stock ("Common Warrants") for an exercise price of \$3.58 which are exercisable (physically or upon occurrence of certain events on net-cash basis at the Holder's discretion) immediately upon their issuance until November 8, 2028. Their exercise price is adjustable upon dilutive events (such as subsequent rights offerings, pro-rata distributions and stock dividends and splits). The Holder also possesses a right to receive any additional consideration that holders of common stocks may be entitled to upon a fundamental transaction (as defined in the agreement).

The Company determined that the Common Warrants are not indexed to the Company's own stock and therefore are precluded from equity classification. The Common Warrants will be measured at fair value at inception and in subsequent reporting periods with changes in fair value recognized as financial income or expense as change in fair value of warrant liabilities in the period of change in the consolidated statements of comprehensive loss.

NOTE 11 - SHAREHOLDERS' EQUITY (continued):

The Common Warrants were recorded at fair value on May 8, 2023, at \$1,972 and were classified as a long-term liability on the Condensed Consolidated Balance Sheet, and the residual value allocated to the common stock and pre-funded warrants which were classified as equity.

On September 30, 2023, the Company and the Holder entered into a Common warrants amendment agreement (the "Amendment") to amend the Common warrants to purchase up to 944,670 shares of the Company's common stock, par value \$0.0001 issued to the Holder. The Amendment made certain adjustments to the definition of a "Fundamental Transaction" in Common Warrant agreement. Additionally, the Amendment increased the number of Common Warrants to include an additional 55,000 Common warrants and changed the exercise price of the Common Warrants to \$2.75.

The Company reclassified the Common warrants as equity based on the guidance provided under ASC 815-40, due to the adjustments stated in the amendment. As of the date of the amendment of the Common warrants, the fair value of the warrants was estimated at \$314.

Offering Costs related to May 2023 fund-raising round

Upon the consummation of the Offering and pursuant to an agreement entered into with H.C. Wainwright & Co., LLC (the "Underwriter"), the Company has paid in cash to the Underwriter (and the escrow agent) a total amount of \$291. The Company has also granted to the Underwriter upon the consummation of the Offering, warrants to purchase up to 66,127 of the Company's common stocks which carry the same terms as the common stock warrants, except for the exercise price which reflect 125% of the share price in the Offering (\$4.6313). The warrants are classified as mezzanine equity based on the guidance provided under ASC 480-10-S99-3A and SAB Topic 14. E.

As of the issuance date of the underwriter warrants, the fair value of the warrants was estimated at \$104.

c. Offering of common stocks and warrants December 2023

On December 20, 2023, the Company completed a fund-raising round in a total gross amount of \$1,500 pursuant to which the Company agreed to issue and sell to the Holder in December's private placement (the "Second Offering"):

- 1) 301,000 shares of the Company's common stock, \$0.0001 par value;
- 2) 970,187 pre-funded warrants (the "Pre-Funded Warrants") to purchase up to 970,187 shares of Common Stock for an exercise price of \$0.0001 which are exercisable (either physically or on a net-cash basis at the Holder's discretion) immediately upon their issuance until their full exercise. Their exercise price is adjustable upon dilutive events (such as subsequent rights offerings, pro-rata distributions and stock dividends and splits). The Holder also has certain rights upon a fundamental transaction (as defined in the agreement) as specified in the agreement. During June 2024, the Holder elected to exercise 970,187 of the pre-funded warrant. The total exercise price in the amount of \$0.097 was paid in cash.
- 3) warrants to purchase up to 1,271,187 shares of Common Stock ("Common Warrants") for an exercise price of \$1.18 which are exercisable (physically or upon occurrence of certain events on a net-cash basis at the Holder's discretion) immediately upon their issuance until June 20, 2029. Their exercise price is adjustable upon dilutive events (such as subsequent rights offerings, pro-rata distributions and stock dividends and splits). The Holder also possesses a right to receive any additional consideration that holders of common stocks may be entitled to upon a fundamental transaction (as defined in the agreement).

NOTE 11 - SHAREHOLDERS' EQUITY (continued):

In connection with the Second Offering, the Company also has agreed to amend the existing warrants to purchase up to an aggregate of 999,670 shares of the Company's common stock that were previously issued in May 2023 (and amended in September 2023) at an exercise price of \$2.75 per share, such that effective on the date of shareholder approval to amend the warrants, the amended warrants will have a reduced exercise price of \$1.18 per share. In the event that the Shareholder Approval is not obtained, the warrant amendment shall be null and void and the provisions of the existing warrants shall remain unchanged. The shareholder approval was not obtained until June 5, 2024, when the Company entered into a warrant inducement agreement with the Holder.

The common stock, pre-funded warrants and the warrants were classified as equity pursuant to ASC 815-40.

Offering Costs related to December 2023 fund-raising

Upon the consummation of the Second Offering and pursuant to an agreement entered into with H.C. Wainwright & Co., LLC (the "Underwriter"), the Company has paid in cash to the Underwriter (and the escrow agent) a total amount of \$129. The Company has also granted to the Underwriter upon the consummation of the Second Offering, warrants to purchase up to 88,983 of the Company's common stocks which carry the same terms as the common stock warrants described above (Note 11b.), except for the exercise price which reflect 125% of the share price in the Second Offering (\$1.475). The warrants are classified as mezzanine equity based on the guidance provided under ASC 480-10-S99-3A and SAB Topic 14. E.

As of the issuance date of the underwriter warrants, the fair value of the warrants was estimated at \$55. The valuation was based on a Black-Scholes option-pricing model, using an expected volatility of 57%, a risk-free rate of 3.86%, a contractual term of 5.5 years and a stock price at the issuance date of 1.18.

The total Second Offering costs in the amount of \$230 was recognized in equity.

d. Warrant Inducement Agreement June 2024:

On June 5, 2024, the Company entered into a warrant inducement agreement with the Holder (as defined in Note 11b above) regarding the Common Warrants to purchase up to an aggregate of 999,670 shares of the Company's common stock originally issued on May 8, 2023 at an exercise price of \$2.75 per share (the "Existing Warrants").

Pursuant to the inducement agreement, the Holder agreed to exercise for cash the Existing Warrants to purchase an aggregate of 999,670 shares of the Company's common stock at an exercise price of \$2.75 per share in consideration of the Company's agreement to issue new common stock purchase warrants, to purchase up to an aggregate of 1,999,340 shares of common stock (the "June Warrants") for an exercise price of 2.00\$ at a 1:1 exchange ratio.

As further consideration, the Holder agrees to pay \$0.125 cents per newly issued warrant outlined above for a total of \$249.

The June Warrants will be exercisable immediately upon issuance, half of which with a term of 5.5 years (the "5.5 Years June Warrants"), and the remaining with a term of 2 years (the "2 Years June Warrants") (physically or upon occurrence of certain events on a cashless basis at the Holder's discretion). Their exercise price and the number of shares issuable upon exercise is adjustable upon dilutive events (such as subsequent rights offerings, pro-rata distributions and stock dividends and splits). The Holder also possesses a right to receive any additional consideration that holders of common stocks may be entitled to upon a fundamental transaction (as defined in the agreement).

NOTE 11 - SHAREHOLDERS' EQUITY (continued):

Pursuant to the inducement agreement the Holder exercised the Existing Warrants for a total gross cash amount of approximately \$2,999, before deducting offering costs.

As of the issuance date of the June Warrants, the fair value of the warrants was estimated at \$1,451. The Company valuation was based using the Black-Scholes valuation model. The significant inputs into the Black-Scholes valuation model at the initial recognition date are as follows:

	5.5 Years June Warrants	2 Years June Warrants
Term	5.5 years	2 years
Dividend	-	-
Expected volatility	44.77%	44.77%
Risk-free rate	3.95%	4.28%
Stock price	\$ 1.97	\$ 1.97

In accordance with ASC Topic 815 guidance on equity classified warrant modifications, the incremental change in fair value of the induced warrants was accounted for as an additional equity issuance cost for the warrant inducement, which was recorded to additional paid-in capital. These warrants have not been exercised as of 31 December, 2024.

Offering Costs related to warrant inducement agreement June 2024:

Upon the consummation of the warrant inducement agreement and pursuant to an agreement entered into with H.C. Wainwright & Co., LLC (the "Underwriter"), the Company has paid in cash to the Underwriter (and the escrow agent) a total amount of \$331 and has paid other related issuance cost amounting to approximately \$66. The Company has also granted to the Underwriter upon the consummation of the warrant inducement, warrants to purchase up to 69,977 of the Company's common stocks which carry the same terms as the June Warrants described above, except for the exercise price which reflect 125% of the reduced exercise price of the Existing Warrants (\$3.4375). The warrants are classified as mezzanine equity based on the guidance provided under ASC 480-10-S99-3A and SAB Topic 14. E.

As of the issuance date of the underwriter warrants, the fair value of the warrants was estimated at \$42. The valuation was based on a Black-Scholes option-pricing model, using an expected volatility of 44.77% a risk-free rate of 3.95% contractual term of 5.5 years, and a stock price at the issuance date of \$1.97.

The total offering costs (including the inducement effects) in the amount of approximately \$1,890 was recognized in equity.

e. Warrant Inducement Agreement July 2024:

On June 30, 2024, the Company entered into a warrant inducement agreement with Holder (as defined in Note 11b above), to purchase up to an aggregate of 999,670 shares of the 2 Years June Warrants, originally issued on June 6, 2024 at an exercise price of \$2.00 per share (the "2 Years June Warrants"). The closing date of the June 30, 2024 Inducement Letter Agreement was on July 2, 2024.

NOTE 11 - SHAREHOLDERS' EQUITY (continued):

Pursuant to the inducement agreement, the holder agreed to exercise for cash the 2 Years June Warrants to purchase an aggregate of 999,670 shares of the Company's common stock at an exercise price of \$2.00 per share, in consideration of the Company's agreement to issue new common stock purchase warrants, to purchase up to an aggregate of 1,999,340 shares of common stock (the "July Warrants"), for an exercise price of \$1.75 at a 1:1 exchange ratio. As further consideration, the Holder agrees to pay \$0.125 cents per newly issued warrant outlined above for a total of \$250.

The July Warrants are exercisable immediately upon issuance, with a term of 2 years.

Their exercise price and the number of shares issuable upon exercise is adjustable upon dilutive events (such as subsequent rights offerings, pro-rata distributions and stock dividends and splits). The Holder also possesses a right to receive any additional consideration that holders of common stocks may be entitled to upon a fundamental transaction (as defined in the agreement).

Pursuant to the inducement agreement the Holder exercised the 2 Years June Warrants for a total gross cash amount of approximately \$2,249, before deducting offering costs.

As of the issuance date of the July Warrants, the fair value of the warrants was estimated at \$1,131. The Company valuation was based using the Black-Scholes valuation model. The significant inputs into the Black-Scholes valuation model at the initial recognition date are as follows:

2 year July Warrants:

	2 Years July Warrants
Term	2 years
Dividend	-
Expected volatility	61.60%
Risk-free rate	3.86%
Stock price	\$ 1.65

In accordance with ASC Topic 815 guidance on equity classified warrant modifications, the incremental change in fair value of the induced warrants was accounted for as an additional equity issuance cost for the warrant inducement, which was recorded to additional paid-in capital.

Offering Costs related to warrant inducement agreement July 2024:

Upon the consummation of the warrant inducement agreement and pursuant to an agreement entered into with H.C. Wainwright & Co., LLC (the "Underwriter"), the Company has paid in cash to the Underwriter (and the escrow agent) a total amount of \$271. The Company has also granted to the Underwriter upon the consummation of the warrant inducement, warrants to purchase up to 69,977 of the Company's common stocks which carry the same terms as the July Warrants described above, except for the exercise price which reflect 125% of the reduced exercise price of the June Warrants (\$2.50). The warrants are classified as mezzanine equity based on the guidance provided under ASC 480-10-S99-3A and SAB Topic 14. E.

As of the issuance date of the underwriter warrants, the fair value of the warrants was estimated at \$27. The valuation was based on a Black-Scholes option-pricing model, using an expected volatility of 61.60% a risk-free rate of 3.86% contractual term of 2 years, respectively, and a stock price at the issuance date of 1.65\$.

The total offering costs (including the inducement effects) in the amount of approximately \$1,429 was recognized in equity.

NOTE 11 - SHAREHOLDERS' EQUITY (continued):**Total outstanding warrants as of December 31, 2024, are as follow:**

	Number of warrants	Exercise price	Period left in years
Warrants May 2023	66,127	\$4.625	3.9
Warrants December 2023	1,360,170	\$1.18 - \$1.47	4.5
Warrants June 2024	1,069,647	\$2 - \$3.43	5.0
Warrants July 2024	2,069,317	\$2.5 - \$1.75	1.75
Other	36,792	\$10.27 - \$50	1.50 - 2.4
Outstanding as of December 31, 2024	4,602,053		

f. At the Market Offering Agreement:

On September 18, 2024, as a supplement to a shelf offering filed under an S-3 filing, 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.

On September 25, 2024, in connection with the execution of the ATM Agreement, the Company filed with the SEC a prospectus supplement (the "Prospectus Supplement") to the base prospectus contained in the 2024 Shelf Registration Statement, which Prospectus Supplement related to the offering of up to \$3.4 million of shares of the Company's common stock under the ATM Agreement.

During 2024, the company sold 1,594,850 shares of common stock under the ATM agreement for gross proceeds of approximately \$2.03 million. Total Offering cost related to ATM is \$0.13 million.

g. Stock repurchase program:

On November 17, 2022, the Company's Board of Directors authorized a stock repurchase program pursuant to which the Company intends to repurchase up to \$1.0 million of its outstanding common stock. The Board authorized the Company to purchase its common stock from time to time on a discretionary basis through open market or private transactions, through block trades, and pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended, and other applicable legal requirements.

NOTE 11 - SHAREHOLDERS' EQUITY (continued):

Repurchases under the share repurchase program will be made at management's discretion at prices management considers to be attractive and in the best interests of both the Company and its stockholders, subject to the availability of stock, general market conditions, the trading price of the stock, alternative uses for capital, and our financial performance. The repurchase program may be suspended, terminated, or modified at any time for any reason, including market conditions, the cost of repurchasing shares, the availability of alternative investment opportunities, liquidity, and other factors deemed appropriate. These factors may also affect the timing and amount of share repurchases. The repurchase program does not obligate us to purchase any particular number of shares.

During 2023, the Company purchased 7,920 shares of its common stock, for a total price of \$50

h. Share-based compensation:

On June 30, 2015, the Company adopted the 2015 Equity Incentive Plan ("the 2015 Plan").

Under the 2015 Plan, the Board of Directors approved the granting of Incentive Share Options, Non-statutory shares options, share appreciation rights, restricted share and restricted share units (RSU's) to employees, directors, and consultants. The exercise price of an option cannot be less than 100% of the fair market value of the underlying share of common stock on the date of grant for incentive share options (not less than 110% of the fair market value for shareholders owning more than 10% of all classes of share) as determined by the Board of Directors. The maximum option term is 10 years (five years for shareholders owning more than 10% of all classes of share). The 2015 Plan grants the Board of Directors the discretion to determine when the options granted become exercisable.

Pursuant to the current Section 102 of the Israeli Tax Ordinance, which came into effect on January 1, 2003, options and RSUs may be granted through a trustee (i.e., Approved 102 Options) or not through a trustee (i.e., Unapproved 102 Options). The Subsidiary elected to grant its options and RSU's through a trustee. As a result, the Subsidiary will not be allowed to claim as an expense for tax purposes in Israel the amounts credited to the employee as capital gains to the grantees, although it will generally be entitled to do so in respect of the salary income component (if any) of such awards when the related tax is paid by the employee.

NOTE 11 - SHAREHOLDERS' EQUITY (continued):

1) During the years ended December 31, 2024, and December 2023, the following awards were granted:

Award Type (2015 Plan)	Number of Awards in 2024	Number of Awards in 2023	Vesting Conditions	Expiration Date
Options	-	400	Over 4 years from grant date-25% every year (from the second year- 2.08% each month)	10th anniversary of Grant Date
RSU	-	45,100	Over 3 years from grant date	

2) A summary of the Company's share option activity under option plans is as follows:

	Number of Options	Weighted-Average Exercise Price	Weighted Average Remaining Contractual Life
Outstanding – January 1, 2024	87,764	\$ 3.63	4.11
Granted	-	\$ -	-
Exercised	(22,809)	\$ 0.96	-
Forfeited	(2,277)	\$ 9.58	-
Outstanding – December 31, 2024	62,678	\$ 4.38	3.4
Exercisable – December 31, 2024	59,721	\$ 3.56	2.7

No income tax benefit has been recognized relating to share-based compensation expense and no tax benefits have been realized from exercised share options.

As of December 31, 2024, the unrecognized compensation costs related to those unvested stock options are \$37, which are expected to be recognized over a weighted-average period of 1.2 years.

3) The following table summarize information as of December 31, 2024, regarding the number of ordinary shares issuable upon outstanding options and exercisable options:

Exercise price	Options outstanding as of December 31, 2024	Weighted average remaining contractual life (years)	Options exercisable as of December 31, 2024	Weighted average remaining contractual life (years)
0.64	24,586	0.61	24,586	0.61
1.06	25,936	3.6	25,936	3.60
1.48	400	8.71	200	8.71
5.78	4,000	5.98	2,500	4.79
13.62	3,894	6.41	3,830	6.41
40.00	3,862	7.69	2,669	7.67
	62,678		59,721	

NOTE 11 - SHAREHOLDERS' EQUITY (continued):

- 4) The following table summarize information as of December 31, 2023, regarding the number of ordinary shares issuable upon outstanding options and exercisable options:

Exercise price	Options outstanding as of December 31, 2023	Weighted average remaining contractual life (years)	Options exercisable as of December 31, 2023	Weighted average remaining contractual life (years)
0.64	30,309	1.61	30,309	1.61
1.06	43,461	4.44	43,402	4.43
1.48	400	9.71	100	9.71
5.78	5,500	8.96	1,750	8.96
13.62	3,894	7.41	2,524	7.41
40.00	4,200	8.72	1,979	8.72
	87,764		80,064	

The aggregate intrinsic value represents the total intrinsic value (the difference between the fair value of the Company's common shares on December 31, 2024 and the exercise price, multiplied by the number of options that would have been received by the option holders had all option holders exercised their options on such date) as of December 31, 2024, and December 31, 2023, was \$24 and \$17, respectively. The total intrinsic value of options exercised during the years ended December 31, 2024, and December 31, 2023, was \$32 and \$6, accordingly.

- 5) Share-based compensation expense for share options in the consolidated statements of comprehensive loss is summarized as follows:

	Year Ended December 31,	
	2024	2023
Cost of revenues	2	3
Research and development	4	23
Sales and marketing	2	11
General and administrative	6	11
Total Share-based compensation expense	14	48

NOTE 11 - SHAREHOLDERS' EQUITY (continued):

6) Restricted Stock Units (RSUs)

During 2024 and 2023, the Company issued RSUs to Directors, officers, consultants and employees.

The RSUs are vested over a three-year period.

The grant-date fair value of the RSUs granted was based on the Company's common stock price at the time of grant.

A summary of the Company's RSUs activity under option plans is as follows:

	Year ended December 31, 2024	
	Number of RSUs	Weighted- Average Grant Date Fair Value
RSUs outstanding at the beginning of the year	71,280	\$ 10.35
Granted during the year	-	
Vested during the year	(28,228)	8.44
Forfeited during the year	(6,798)	7.44
Outstanding at the end of the year	<u>36,254</u>	<u>\$ 12.38</u>

As of December 31, 2024, the unrecognized compensation cost related to unvested RSUs totaled to approximately \$461 and is expected to be expensed over a weighted-average recognition period of approximately 2 years.

Share-based compensation expense for RSUs in the consolidated statement of comprehensive loss is summarized as follows:

	Year Ended December 31	
	2024	2023
	U.S. dollars in thousands	
Cost of revenues	10	9
Research and development	18	53
Sales and marketing	36	47
General and administrative	259	220
Total Share-based compensation expense	<u>323</u>	<u>329</u>

As for the share-based compensation granted to the underwriter in connection with the offerings of common stocks and warrants, see Note 11e above.

NOTE 12 - INCOME TAXES:

- a. The Company and its Subsidiary are subject to U.S. and Israeli income tax laws.
- b. The US entity is subject to a federal income tax rate of 21% in 2019 and thereafter and State taxes of 9%. The Subsidiary is subject to ordinary corporate income tax rate of 23% in 2019 and thereafter.
- c. Carryforward tax losses:

As of December 31, 2024, the Company has net operating loss carry forwards of approximately \$2,966. In addition, the Company has loss carry forward of approximately \$4,410, which the Company did not perform a qualification test for and has certain doubts regarding their qualification, and therefore the Company has not recorded deferred tax assets due to these losses.

As of December 31, 2024, the Company's subsidiary has net operating loss carry forwards of approximately \$124.1 million. Net operating loss carry forwards relating to activity in Israel have an indefinite carry forward period.

Utilization of the U.S. federal and state net operating losses may be subject to a substantial limitation due to the change in ownership limitations provided by the Internal Revenue Code of 1986, as amended and similar to state provisions. The annual limitation may result in the expiration of the net operating losses and credits before their utilization.

- d. Loss before taxes on income are comprised as follows:

	Year Ended December 31	
	2024	2023
	U.S. dollars in thousands	
Domestic	(1,439)	82
Foreign Subsidiary	(2,935)	(6,368)
Total	(4,374)	(6,286)

- e. Reconciliation of the theoretical tax expense to actual tax expense:

The main reconciling item between the statutory tax rate of the Company and the effective rate is the provision for a full valuation allowance in respect of tax benefits from carry forward tax losses due to the uncertainty of the realization of such tax benefits.

- f. The Company's major tax jurisdictions are the United States and Israel. Due to unutilized net operating losses and research credits, the tax years from 2017 remain open and subject to examinations by the appropriate governmental agencies in the United States. For the Company's subsidiary, the tax years from 2018 and later remain open for examination by the tax authorities.
- g. The components of the Company's net deferred tax assets were as follows:

	Year Ended December 31	
	2024	2023
	U.S. dollars in thousands	
Deferred tax assets (liabilities):		
Loss carryforwards	29,299	28,746
Valuation allowance	(29,299)	(28,746)
Total net deferred tax assets	-	-

NOTE 12 - INCOME TAXES(continued):

The valuation allowance could be reduced or eliminated based on future earnings and future estimates of taxable income.

Changes in valuation allowance for deferred tax assets were as follows:

	Year Ended	
	December 31	
	2024	2023
	U.S. dollars in thousands	
Valuation allowance at beginning of year	28,746	27,932
Changes in valuation allowance	553	814
Valuation allowance at end of year	<u>29,299</u>	<u>28,746</u>

NOTE 13 - 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 4,602,053 shares underlying outstanding warrants, 62,678 shares underlying outstanding options, and 36,254 shares underlying outstanding RSUs for twelve months ended December 31, 2024, because the effect of their inclusion in the computation would be antidilutive.

Diluted loss per share excludes 1,047,589 shares underlying outstanding warrants, 90,377 shares underlying outstanding options, and 72,945 shares underlying outstanding RSUs for twelve months ended December 31, 2023, because the effect of their inclusion in the computation would be antidilutive.

The table below shows the reconciliation of the number of shares in the computation of basic and diluted loss per share attributable to common shareholders:

	Year Ended	
	December 31,	
	2024	2023
<u>Numerator:</u>		
Net loss	\$ (4,374)	\$ (6,286)
<u>Denominator:</u>		
Common shares outstanding used in computing net loss per share attributable to common shareholders	4,660,955	2,195,006
Pre-Funded warrants to purchase common shares	485,094	225,631
Repurchase of common stock	-	(7,920)
Weighted average number of shares used in computing basic and diluted net loss per share attributable to common shareholders	<u>5,146,049</u>	<u>2,412,717</u>
Net loss per share attributable to common shareholders – basic and diluted	<u>\$ (0.85)</u>	<u>\$ (2.61)</u>

NOTE 14 - ENTITY WIDE INFORMATION AND DISAGREGATED REVENUES:

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

a. Geographic information:

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

	Year Ended December 31	
	2024	2023
	U.S. dollars in thousands	
North America	6,084	2,524
Europe, the Middle East and Africa	1,472	2,570
Asia Pacific	204	512
	<u>7,760</u>	<u>5,606</u>

b. Revenues from contract liability:

	December 31, 2024	December 31, 2023
Opening balance	\$ 460	\$ 648
Revenue recognized that was included in the contract liability balance at the beginning of the period	(388)	(544)
Additions	<u>267</u>	<u>356</u>
Ending balance	<u>\$ 339</u>	<u>\$ 460</u>

As of December 31, 2024, the aggregate amount of the transaction price allocated to the remaining performance obligation is \$338, and the Company will recognize this revenue over the 12-18 months.

c. The Company's long-lived assets are located as follows:

Property and Equipment, net and Operating lease right of use assets

	December 31	
	2024	2023
	U.S. dollars in thousands	
Israel	407	788
North America	41	191
	<u>448</u>	<u>979</u>

NOTE 14 - ENTITY WIDE INFORMATION AND DISAGREGATED REVENUES (continued):

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

	Year Ended	
	December 31, 2024	
	%	Revenues
	U.S. dollars in thousands	
Customer B	19%	1,402
Customer D	29%	2,209

	Year Ended	
	December 31, 2023	
	%	Revenues
	U.S. dollars in thousands	
Customer B	16%	911
Customer D	10%	583

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

NOTE 15 - OTHER FINANCIAL INCOME, NET:

	Year Ended	
	December 31	
	2024	2023
	U.S. dollars in thousands	
Change in warrants' fair value	8	1,658
Exchange rates differences, net	72	313
Offering costs of warrants liabilities	-	(223)
Other	(78)	95
	2	1,843

NOTE 16 - SUBSEQUENT EVENTS

As described in Note 11(f), under the ATM Agreement, Wainwright may sell shares through transactions classified as "at the market" offerings, as defined in Rule 415 under the Securities Act, as amended, or through other legally permitted methods, including privately negotiated transactions.

On January 2, 2025, the Company sold 878,000 shares of common stock under the ATM Agreement, generating gross proceeds of approximately \$1.33 million. The related offering costs amounted to \$0.04 million. In addition, in March 2025, we increased the at-the-market equity program by an additional \$1.3 million.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation on Disclosure Controls and Procedures

We have conducted an 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 December 31, 2024, the end of the period covered by this Annual 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 Annual Report on Form 10-K.

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 December 31, 2024. 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 December 31, 2024.

Changes In Internal Control Over Financial Reporting

During the quarter and the year ended December 31, 2024, we have enhanced our internal control over financial reporting, according to the implementation plan that we presented on the previous annual report for the year ended December 31, 2023, including the continued documentation and testing of all of our internal controls, and the hiring of skilled financial resources to overcome our previously reported material weakness. As a result, as of December 31, 2024, we have now reported the effectiveness of our internal controls, and we no longer have the previously reported material weakness.

ITEM 9B. OTHER INFORMATION.

None.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The following table sets forth information regarding our executive officers and directors, including their ages as of the date of this Annual Report:

Name	Age	Position
Tuvia Barlev	63	Chief Executive Officer, Secretary and Chairman of the Board
Yoav Efron	56	Deputy Chief Executive Officer and Chief Financial Officer
Brett Harrison	60	Senior Vice President of Sales, Americas
Yaron Altit	55	Executive Vice President of Sales International.
Michal Winkler-Solomon	57	Vice President Marketing
Hemi Kabir	55	Vice President, Operations
Elad Domanovitz	46	Chief Technology Officer
Israel Niv ⁽¹⁾⁽²⁾⁽³⁾	71	Director
Niel Ransom ⁽¹⁾⁽²⁾⁽³⁾	75	Director
Julie Kunstler ⁽¹⁾⁽²⁾	69	Director
Gideon Marks ⁽¹⁾⁽²⁾⁽³⁾	69	Director

(1) Member of the Audit Committee

(2) Member of the Compensation Committee

(3) Member of Nominating and Corporate Governance Committee

Tuvia Barlev, Chief Executive Officer, Chairman of the Board, and Secretary

Mr. Barlev serves as our Chief Executive Officer and Secretary since January 2013 and has served as the Chairman of the Board since 2010. Previously, Mr. Barlev founded our company in 1998 and served as the Chief Executive Officer until January 2010. Mr. Barlev is a seasoned serial entrepreneur with more than 25 years of experience in high-technology leadership in military, telecommunications, e-commerce, Big Data and clean energy. Prior to joining Actelis, he was head of the R&D organization at Teledata (acquired by ADC in 1998), a global supplier of advanced digital loop carrier (DLC) equipment from 1996 to 1998. Previously, Mr. Barlev served as a senior research officer with the Israeli government, and he was also founder, Chairman/Acting CEO at companies including Superfish Inc., a leading provider of visual search technology, from 2007 to 2015; Leyden Energy, a leading supplier of breakthrough battery technology from 2010 to 2012; Adyounet Inc., provider of advanced direct marketing services over the Web from 2006 to 2009; and SafePeak LTD., provider of hot data acceleration platform for Big Data across the cloud from 2011 to 2012. Mr. Barlev holds BSC and MSEE degrees from Tel Aviv University, both Summa Cum Laude.

Yoav Efron, Deputy Chief Executive Officer and Chief Financial Officer

Mr. Efron serves as our Chief Financial Officer since January 2018, and as our Deputy Chief Executive Officer since May 2024. Mr. Efron is responsible for all financial aspects of our business and for strategy, as well as Information Technology and Human Resources. Prior to joining Actelis, Mr. Efron was the CFO of TriPlay Inc. and eMusic Inc., a B2C cloud media services company from 2012 to 2017. From 2010 to 2014, Mr. Efron was an entrepreneur in energy efficiency and from 1998 through 2010 worked at Avaya Inc., a Fortune 500 telecommunications company in various executive financial roles including Finance Director. Mr. Efron earned his bachelor's degree in economics and management from the Hebrew University of Jerusalem.

Elad Domanovitz, Chief Technology Officer

Dr. Domanovitz serves as our Chief Technologies Officer since April 2017, prior to that he served as director of technologies from 2014. Dr. Domanovitz brings extensive experience envisioning and developing Actelis' research capabilities. As Actelis' Chief Scientist, Dr. Domanovitz is responsible for driving Actelis' technology development and aligning it with the company's overall vision and worldwide go-to-market strategies. Dr. Domanovitz is also responsible for enriching the Actelis IT portfolio and he also actively participates in standards committees. Dr. Domanovitz joined Actelis in November 2005 and has since held several positions in the Algorithms and CTO groups. Dr. Domanovitz holds a Ph.D., MSc. and a BSc (cum laude) in Electrical Engineering from Tel Aviv University.

Eyal Aharon, VP R&D

Mr. Aharon serves as our Vice President of R&D since January 2018. Previously, Mr. Aharon served as our director of software engineering from 2011 through December 2017. Mr. Aharon brings extensive experience in Research and Development to Actelis, having over 20 years in the telecommunication industry. As Actelis' VP of R&D, Mr. Aharon is responsible for all current and strategic activities of the R&D group. Mr. Aharon joined Actelis in 2000 and has since held several positions within the R&D group. Prior to joining Actelis, he held several positions in ADC Teledata. Mr. Aharon holds a BA in Computer Science and Economics from Tel-Aviv University, and a Master's in Economics from Tel-Aviv University.

Michal Winkler-Solomon, VP Marketing

Ms. Winkler-Solomon serves as our Vice President of Marketing since March 2017 and prior as AVP of Product Marketing from March 2016. Ms. Winkler-Solomon has more than 20 years of Product Marketing and Product Management experience. Since joining Actelis in 2001, Ms. Winkler-Solomon has held Product Management, and Product Marketing positions, where she has been responsible for product specifications, positioning, and marketing of the company's industry-leading Ethernet in the First Mile product line.

Prior to Actelis, Ms. Winkler-Solomon held positions as Chief Technology Officer of BeConnected. Prior, Ms. Winkler-Solomon held positions as Product Manager of the Access Division at Telrad Telecommunications where she led Nortel Networks product development. Prior, Ms. Winkler-Solomon spent five years developing communication systems for the Israeli army. Ms. Michal Winkler-Solomon holds a B.Sc in Electrical Engineering from the Technion and an MBA from Tel Aviv University.

Yaron Altit, Executive Vice President, International Sales

Mr. Altit serves as our Vice President of International Sales since June 2017. Prior to joining us, Mr. Altit was self-employed from 2013 to 2017. Mr. Altit brings more than 25 years of experience to his position as Actelis' Executive Vice President International Sales business unit, including vast experience in sales management positions in the Telecom, Datacom, and control plane industries. In his role, Mr. Altit is responsible for all EMEA & APAC regions customer-facing functions, including sales, customer support, pre-sale engineering, business development and regional marketing. Mr. Altit held executive positions in several telecommunication companies, including management of Sales, Customer Support and Business Development at Schema, where he was the General Manager of EMEA Business unit. Previously, Mr. Altit held top sales management positions at Mindspeed Technologies. Mr. Altit was responsible for European and International sales at T-Soft (now Cramer Systems, an Amdocs OSS division). Mr. Altit studied towards a B.A. in Economics and Accounting at the Ramat Gan College.

Hemi Kabir, Vice President, Operations

Mr. Kabir serves as our Vice President of Operations since January 2015. With more than 20 years of experience in operations, supply chain and engineering, Mr. Kabir manages Actelis' Supply Chain, Purchasing, Quality Assurance and Operations Engineering departments, and is responsible for Actelis' operations including manufacturability, continuous improvement initiatives and cost-savings activities. Prior to joining Actelis, Mr. Kabir was head of Supply Chain management and purchasing at "Better place" Israel, where he was in charge of defining and managing the supply chain divisions. Mr. Kabir holds MBA degree from Heriot Watt University, BA degree in management from the Open University and Industrial practical engineering diploma from Israeli College of Management.

Brett Harrison, Senior Vice President of Sales, North Americas

Mr. Harrison brings more than 20 years of experience including sales leadership, strategy and business development in various technology fields such as communications and cyber security. Prior to joining the Company, since September 2023, Mr. Harrison was the President of Sage Holdings, LLC. From June 2020 until August 2023, Mr. Harrison was the RVP of Sales at Palo Alto Networks. From June 2019 until June 2020, Mr. Harrison served as the VP of North American Banking Service Sales at NCR Corporation. From January 2017 until June 2019, Mr. Harrison served as the VP of Telco Sales at Check Point Software Technologies. From October 2012 until January 2017, Mr. Harrison served as a Vice President of Sales at Avaya. From October 2002 until January 2012, Mr. Harrison served as the VP of Sales at the Company. Mr. Harrison holds a Bachelor of Science degree in Electronics from Chapman University.

Dr. Israel Niv, Director

Dr. Niv serves as a board member in our company since 2015. Dr. Niv serves on the board of Palo Alto University, Dealsum, and Attolight AG, and is an advisor to the Silicom Ventures investment group. Dr. Niv served as former Chairman of Femtronix inc. and as GM of Opal Inc. (formerly traded on Nasdaq). Dr. Niv has also founded Optonics, and served as CEO of DGC. Dr. Niv received a BSc in chemistry and a PhD in chemical physics from Ben-Gurion University of the Negev (Israel). Dr. Niv completed his postdoctoral work at the University of Southern California as a Weizmann Postdoctoral Fellow.

Niel Ransom, Director

Dr. Ransom, serves as a board member in our company since February 2025. Mr. Ransom is a seasoned professional with five decades of experience in the communications, networking, and venture capital. From 2018 to 2024, he was a Partner at Celesta Capital, a venture capital firm investing in and directing deep-tech startups. He served as a director of Radisys Corp (NASDAQ: RSYS) between August 2010 and June 2018, of Cyan, Inc (NYSE: CYNI) from June 2009 and August 2015, of AppliedMicro NASDAQ: AMCC) from July 2006 to August 2009, and of ECI Telecom (NASDAQ: ECIL) from June 2006 to September 2007. Mr. Ransom was a principal of Ransomshire Associates, Inc., an advisory firm he founded in 2005. He previously served as Chairman of Saguna Networks, a provider of MobileEdge computing solutions, and Chairman of Teknovus, a provider of fiber-to-the-home semiconductors. He served on the board of directors of Kbro (CATV service provider in Taiwan), CoreOptics (optical networking modules), Turin Networks (carrier ethernet equipment), Overture Networks (Broadband service optimization solutions), DesignArt Networks (semiconductors for mobile base stations), Capella Photonics (wavelength selective switch), OPNT (optical positioning navigation and timing), and Polatis (fiber switching systems). Previously, as worldwide Chief Technology Officer of Alcatel (telecommunications equipment provider) and a member of its Executive Committee, he was responsible for research, corporate strategy, intellectual property and R&D investment. Prior to that, he directed Alcatel's access and metro optical business in North America. Earlier in his career, he directed the Advanced Technology Systems Center at BellSouth and various development and applied research organizations in voice and data switching at Bell Laboratories. He holds a Ph.D. in electrical engineering from the University of Notre Dame, BSEE and MSEE degrees from Old Dominion University, and an MBA from the University of Chicago.

Julie Kunstler, Director

Ms. Kunstler serves as a board member in our company since February 2025. Ms. Kunstler is a seasoned professional with broad experience in the communications components, equipment, and software industry, having served as an executive, venture-fund investor, analyst, and board member. Since April 2024, Ms. Kunstler has been serving as an External Non-Executive Director for Ethernity Networks, a company traded on the London Stock Exchange. Previously, between November 2010 and April 2024, Ms. Kunstler worked at Omdia (a division of InformaTech), lastly holding the position of Chief Analyst for the Broadband Access Intelligence Service, covering the fixed broadband access industry ecosystem. Prior to her role at Omdia, between 2006 and 2010, Ms. Kunstler was the Vice President of Business Development at Teknovus, a venture-backed startup specializing in Passive Optical Network (PON) chip technology. Ms. Kunstler holds a Bachelor's degree from University of Cincinnati and an MBA degree from University of Chicago.

Gideon Marks, Director

Mr. Marks serves as a board member in our company since May 2024. Mr. Marks is a seasoned professional with over 35 years of experience in leading technology companies, specializing in financial, business, and corporate development roles. Mr. Marks has been serving as an advisory board member of Deepdub, Inc., a company specializing in dubbing and voice over localization, since July 2023, and as the co-founder of DogLog, an app that connects all aspects of a dog's life in one app, since January 2018. In addition, Mr. Marks has been serving as a mentor for Google for Startups Accelerator since January 2018. Mr. Marks' previous experience includes taking three companies public on Nasdaq as their Chief Financial Officer (Lanet Data Communications Ltd., Radcom Ltd. (Nasdaq: RDCM), and Silicom Ltd. (Nasdaq: SILC)), and successfully leading four others as their Chief Financial Officer (Radnet Inc., RealTime Image, Ltd., Adamind Ltd., and Net Optics, Inc.) to acquisitions. Mr. Marks holds a B.A. in Economics and an MBA Finance degree from Tel Aviv University in Israel.

Number and Terms of Office of Officers and Directors

Our board of directors has five members, at least three of whom will be deemed "independent" under SEC and Nasdaq rules.

Our officers are appointed by the board of directors and serve at the discretion of the board of directors, rather than for specific terms of office. Our board of directors is authorized to appoint persons to the offices set forth in our certificate of incorporation as it deems appropriate.

Tuvia Barlev had a right under the Stockholders Agreement to designate one director. Dr. Niv was initially elected by the holders of the majority of the Series A Preferred Stock. The Stockholders Agreement was terminated in connection with our IPO and going forward, each of the directors were appointed by the holders of the majority of our outstanding common stock pursuant to the provisions of our Certificate of Incorporation, with (i) directors in Class I, consisting of Gideon Marks and Julie Kunstler, to stand for election at the Annual Meeting to be held in 2026; (ii) directors in Class II, consisting of Niel Ransom, to stand for election at the annual meeting of stockholders to be held in 2027; and (iii) directors in Class III, consisting of Israel Niv and Tuvia Barlev, to stand for election at the annual meeting of stockholders to be held in 2025.

Our Company is governed by our Board. Currently, each member of our Board, other than Tuvia, is an independent director; and all standing committees of our Board of Directors are composed entirely of independent directors, in each case under Nasdaq's independence definition applicable to boards of directors. For a director to be considered independent, our Board of Directors must determine that the director has no relationship which, in the opinion of our Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. Members of the Audit Committee also must satisfy a separate SEC independence requirement, which provides that they may not accept directly or indirectly any consulting, advisory or other compensatory fee from us or any of our subsidiaries other than their directors' compensation. In addition, under SEC rules, an Audit Committee member who is an affiliate of the issuer (other than through service as a director) cannot be deemed to be independent. In determining the independence of members of the Compensation Committee, Nasdaq listing standards require our Board of Directors to consider certain factors, including, but not limited to: (1) the source of compensation of the director, including any consulting, advisory or other compensatory fee paid by us to the director, and (2) whether the director is affiliated with us, one of our subsidiaries or an affiliate of one of our subsidiaries. Under our Compensation Committee Charter, members of the Compensation Committee also must qualify as "outside directors" for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended, or the Code, and as "non-employee directors" for purposes of Rule 16b-3 under the Exchange Act. The independent members of the Board of Directors are Israel Niv, Julie Kunstler and Gideon Marks.

Committees of the Board of Directors

Our board of directors has an audit committee, a compensation committee and a nominating and corporate governance committee, each with its own charter that has been approved by the board. The anticipated composition and responsibilities of each committee are described below. Members will serve on these committees until their resignation or until otherwise determined by our board of directors. Upon our listing on The Nasdaq Capital Market, each committee's charter will be available under the Corporate Governance section of our website at www.actelis.com. The reference to our website address does not constitute incorporation by reference of the information contained at or available through our website, and you should not consider it to be a part of this Annual Report.

Audit Committee

The members of our audit committee are Gideon Marks, Israel Niv and Julie Kunstler, with Gideon Marks serving as Chairperson. The composition of our audit committee meets the requirements for independence under current Nasdaq listing standards and SEC rules and regulations. Each member of our audit committee meets the financial literacy requirements of Nasdaq listing standards. In addition, our board of directors has determined that Gideon Marks is an audit committee financial expert within the meaning of Item 407(d) of Regulation S-K under the Securities Act of 1933. The audit committee operates under a written charter that satisfies the applicable standards of the SEC and Nasdaq. The audit committee, among other things:

- reviews our consolidated financial statements and our critical accounting policies and practices;
- selects a qualified firm to serve as the independent registered public accounting firm to audit our consolidated financial statements;
- helps to ensure the independence and performance of the independent registered public accounting firm;
- discusses the scope and results of the audit with the independent registered public accounting firm and review, with management and the independent registered public accounting firm, our interim and year-end results of operations;
- pre-approves all audit and all permissible non-audit services to be performed by the independent registered public accounting firm;
- oversees the performance of our internal audit function when established;
- reviews the adequacy of our internal controls;
- develops procedures for employees to submit concerns anonymously about questionable accounting or audit matters;
- reviews our policies on risk assessment and risk management; and
- reviews related party transactions.

Compensation Committee

The members of our compensation committee are Israel Niv, Niel Ransom and Julie Kunstler, with Israel Niv serving as Chairperson. The composition of our compensation committee meets the requirements for independence under Nasdaq Capital Market listing standards and SEC rules and regulations. Each member of the compensation committee is also a non-employee director, as defined pursuant to Rule 16b-3 promulgated under the Exchange Act. The purpose of our compensation committee is to discharge the responsibilities of our board of directors relating to compensation of our executive officers. The compensation committee operates under a written charter that satisfies the applicable standards of the SEC and Nasdaq. The compensation committee, among other things:

- reviews, approves and determines, or make recommendations to our board of directors regarding, the compensation of our executive officers;
- administers our stock and equity incentive plans;
- helps to ensure the independence and performance of the independent registered public accounting firm;

- reviews and approves, or make recommendations to our board of directors regarding, incentive compensation and equity plans; and
- establishes and reviews general policies relating to compensation and benefits of our employees.

Nominating and Corporate Governance Committee

The members of our nominating and corporate governance committee are Niel Ransom, Israel Niv, and Gideon Marks, with Niel Ransom serving as Chairperson. The composition of our nominating and corporate governance committee meets the requirements for independence under Nasdaq listing standards and SEC rules and regulations. The nominating and corporate governance committee operates under a written charter that satisfies the applicable standards of the SEC and Nasdaq. The nominating and corporate governance committee, among other things:

- identifies, evaluates and selects, or make recommendations to our board of directors regarding, nominees for election to our board of directors and its committees;
- evaluates the performance of our board of directors and of individual directors;
- considers and make recommendations to our board of directors regarding the composition of our board of directors and its committees;
- reviews developments in corporate governance practices;
- oversees environmental, social and governance (ESG) matters;
- evaluates the adequacy of our corporate governance practices and reporting; and
- develops and make recommendations to our board of directors regarding corporate governance guidelines and matters.

Compensation Committee Interlocks and Insider Participation

None of our executive officers currently serves, and in the past year has not served, as a member of the compensation committee of any entity that has one or more executive officers serving on our board of directors.

Oversight of Risk Management

Risk is inherent with every business, and how well a business manages risk can ultimately determine its success. We face a number of risks, including economic risks, financial risks, legal and regulatory risks and others, such as the impact of competition. Management is responsible for the day-to-day management of the risks that we face, while our Board, as a whole and through its committees, has responsibility for the oversight of risk management. In its risk oversight role, our Board is responsible for satisfying itself that the risk management processes designed and implemented by management are adequate and functioning as designed. Our Board assesses major risks facing our Company and options for their mitigation in order to promote our stockholders' interests in the long-term health of our Company and our overall success and financial strength. A fundamental part of risk management is not only understanding the risks a company faces and what steps management is taking to manage those risks, but also understanding what level of risk is appropriate for us. The involvement of our full Board of Directors in the risk oversight process allows our Board to assess management's appetite for risk and also determine what constitutes an appropriate level of risk for our Company. Our Board regularly includes agenda items at its meetings relating to its risk oversight role and meets with various members of management on a range of topics, including corporate governance and regulatory obligations, operations and significant transactions, risk management, insurance, pending and threatened litigation and significant commercial disputes.

While our Board is ultimately responsible for risk oversight, various committees of our Board oversee risk management in their respective areas and regularly report on their activities to our entire Board. In particular, the Audit Committee has the primary responsibility for the oversight of financial risks facing our Company. The Audit Committee's charter provides that it will discuss our major financial risk exposures and the steps we have taken to monitor and control such exposures. Our Board has also delegated primary responsibility for the oversight of all executive compensation and our employee benefit programs to the Compensation Committee. The Compensation Committee strives to create incentives that encourage a level of risk-taking behavior consistent with our business strategy.

We believe the division of risk management responsibilities described above is an effective approach for addressing the risks facing our Company and that our Board's leadership structure provides appropriate checks and balances against undue risk taking.

Code of Business Conduct and Ethics

Our Board has adopted a code of ethical conduct that applies to our principal executive officer, principal financial officer and senior financial management. This code of ethical conduct is embodied within our Code of Business Conduct and Ethics, which applies to all persons associated with our Company, including our directors, officers and employees (including our principal executive officer, principal financial officer, principal accounting officer and controller). In order to satisfy our disclosure requirements under Item 5.05 of Form 8-K, we will disclose amendments to, or waivers of, certain provisions of our Code of Business Conduct and Ethics relating to our chief executive officer, chief financial officer, chief accounting officer, controller or persons performing similar functions on our website promptly following the adoption of any such amendment or waiver. The Code of Business Conduct and Ethics provides that any waivers of, or changes to, the code that apply to the Company's executive officers or directors may be made only by the Audit Committee. In addition, the Code of Business Conduct and Ethics includes updated procedures for non-executive officer employees to seek waivers of the code.

ITEM 11. EXECUTIVE COMPENSATION.

EXECUTIVE AND DIRECTOR COMPENSATION

The following table shows the total compensation awarded to, earned by, or paid to (1) the individual who served as our principal executive officer during fiscal year 2024 and 2023; and (2) our next most highly compensated executive officer who earned more than \$100,000 during fiscal year 2024 and were serving as executive officers as of December 31, 2024. We refer to these individuals in this Annual Report as our named executive officers.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Nonequity incentive plan compensation (\$)	Nonqualified deferred compensation earnings (\$)	All other compensation (\$)	Total (\$)
Tuvia Barlev, Chief Executive Officer and Chairman	2024	\$ 298,188		—	—	—	—	\$ 25,066	\$ 323,254
	2023	\$ 298,000	163,000	—	—	—	—	\$ 13,834	\$ 475,885
Yoav Efron Deputy Chief Executive Officer and Chief Financial Officer	2024	\$ 188,118		—	—	—	—	\$ 18,953	\$ 207,071
	2023	\$ 183,727	36,500	—	—	—	—	\$ 16,337	\$ 236,564
Bret Harrison, Senior Vice President of Sales, Americas	2024	\$ 150,000		—		\$ 77,368	—	\$ 33,083	\$ 100,930
	2023	\$ 67,213		\$ 6,030		\$ 11,231	—	\$ 16,457	\$ 260,451

Outstanding Equity Awards at Fiscal Year-End

The following table provides certain information concerning any common share purchase options, stock awards or equity incentive plan awards held by the executive officers named above at the fiscal year ended December 31, 2024.

Name	Option Awards				Stock Awards		Market Value of Shares of Stock That Have Not Vested (\$)
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Number of Shares of Stock That Have Not Vested (#)		
Tuvia Barlev Chief Executive Officer and Chairman	—	—	—	—	—	\$ —	—
Yoav Efron Chief Financial Officer	10,700 ⁽¹⁾	—	\$ 1.058	02/08/2028	—	—	—
	2,174 ⁽²⁾	—	\$ 13.616	05/27/2031	—	—	—
Bret Harrison Senior Vice President, Americas Sales	—	—	—	—	667 ⁽³⁾	\$ 560	2240
					2,667 ⁽⁴⁾		

(1) The option grant was vested in full on December 7, 2021.

(2) The options were granted May 27, 2021 and will vest in full by May 26, 2025.

(3) The RSUs vests annually in three equal tranches, with the first tranche vesting on September 14, 2023, the second tranche vesting on September 14, 2024, and the last tranche vesting on September 14, 2025.

(4) The RSUs vests annually in three equal tranches, with the first tranche vesting on December 12, 2024, the second tranche vesting on December 12, 2025, and the last tranche vesting on December 12, 2026.

Health, Welfare and Retirement Benefits

All of our named executive officers are eligible to participate in our employee benefit plans, including our medical, dental, and life and disability insurance plans, in each case on the same basis as all of our other employees. We provide a 401(k) plan to our employees, including our named executive officers, as discussed in the section below entitled “401(k) Plan.” Our employees in Israel are eligible to participate by law in the company’s retirement, training and health benefits.

401(k) Plan

We maintain a defined contribution employee retirement plan (“401(k) plan”), for our employees. Our named executive officers are also eligible to participate in the 401(k) plan on the same basis as our other employees. The 401(k) plan is intended to qualify as a tax-qualified plan under Section 401(k) of the Internal Revenue Code of 1986, as amended (“Code”), and is also intended to qualify as a safe harbor plan. During 2024, we made matching contributions of 100% of the amount of each participant’s contributions, up to 0.5% of each participant’s compensation. The 401(k) plan currently does not offer the ability to invest in our securities.

Employment Agreements

We have entered into written employment agreements with our executive officers. All of these agreements contain customary provisions regarding noncompetition, confidentiality of information and assignment of inventions. However, the enforceability of the noncompetition provisions may be limited under applicable law.

Chief Executive Officer

Employment Agreement with Mr. Tuvia Barlev

On February 15, 2015, we entered into an at-will employment agreement with Mr. Tuvia Barlev, which remains in effect as of the date of this Annual Report.

In May 2022, the Company approved an increase to Mr. Barlev’s salary, effective upon completion of the IPO, to \$300,000 with performance based variable payment of an additional \$260,000. In addition, Mr. Barlev received a performance based variable payment of \$125,000 following the IPO, and is entitled annually to receive \$500,000 of RSUs under the Company’s 2015 Plan. For the fiscal years of 2023 and 2024, Mr. Barlev was not granted these RSUs.

In May 2023, the Company approved an increase to Mr. Barlev’s salary to \$330,000, effective as of April 1, 2023. In addition, Mr. Barlev was granted an additional 27,500 RSUs, and a \$163,801 performance based variable payment for 2023. However, Mr. Barlev decided not to apply his approved salary increase. In addition, in September 2023 the board indefinitely delayed the grant of 27,500 RSUs to Mr. Barlev.

Mr. Barlev's employment agreement provides that he will be entitled to severance if we terminate his employment without "Cause" (as defined in the employment agreement), if he terminates his employment for "Good Reason" (as defined in the employment agreement), or following his death or permanent disability. In any event in which Mr. Barlev is entitled to severance pursuant to these provisions, we shall continue to pay Mr. Barlev his then-in-effect base salary and provide benefit continuation at our expense for a period of nine months from the date of termination of employment. Any severance payable to Mr. Barlev shall be payable in equal instalments in the same manner and in our regular payroll cycle as other salaried executive employees are paid.

Chief Financial Officer

Employment Agreements with Mr. Yoav Efron

In May 2024, Mr. Yoav Efron, who has been serving as our Chief Financial Officer since 2018, has been promoted to Deputy Chief Executive Officer, in addition to his current position as Chief Financial Officer.

In December 2017, we entered into an at will employment agreement with our Deputy Chief Executive Officer and Chief Financial Officer, Mr. Yoav Efron, and he entered into another, separate, at will employment agreement with our subsidiary. Both of these agreements remain in effect as of the date of this Annual Report.

In May 2022, the Company approved an increase to Mr. Efron's salary, effective upon completion of the IPO, to \$187,000 through both employment agreements (which the subsidiary agreement is effected by the currency exchange rates) with performance bonuses of an additional \$50,000. In addition, Mr. Efron received a one-time \$85,000 bonus upon completion of the IPO and is entitled annually to receive \$100,000 of RSUs. For the fiscal year of 2023, Mr. Efron was not granted these RSUs.

In May 2023, the Company approved an increase to Mr. Efron salary to \$205,000, effective as of April 1, 2023. In addition, Mr. Efron was granted an additional 5,500 RSUs, and a \$36,500 bonus for 2022. However, Mr. Efron decided not to apply his approved salary increase. In addition, in September 2023 the board indefinitely delayed the grant of 5,500 RSUs to Mr. Efron.

Mr. Efron employment agreements provide that that he will be entitled to severance if we terminate his employment without "Cause" (as defined in the employment agreements), if he terminates his employment for "Good Reason" (as defined in the employment agreements), we shall continue to pay Mr. Efron his then-in-effect base salary and provide benefit continuation at our expense for a period of nine months from the date of termination of employment following an acquisition of us. Any severance payable to Mr. Efron shall be payable in equal instalments in the same manner and in our regular payroll cycle as other salaried executive employees are paid.

Executive Vice President, International Sales

Employment Agreement, with Mr. Bret Harrison

On July 5, 2023, we entered into an at-will employment agreement with Mr. Bret Harrison, and of which remains in effect as of the date of this Annual Report. Mr. Harrison is entitled to a base salary of \$150,000 annually and an annual sales incentive target of \$150,000. Mr. Harrison is also subject to the company's benefits plans and is entitled subject to board of directors' approval to an annual restricted stock units (RSU) grant of 5,000 RSUs.

Either party shall be entitled to terminate the employment agreement by providing written notice to the other party.

Director Compensation

Our Board adopted a non-employee director compensation policy pursuant to which each of our directors who is not an employee or consultant of our company will be eligible to receive an annual cash retainer of \$10,000 for his or her service on our board of directors and an annual cash retainer of \$2,000 for his or her service on a committee of our board of directors, with the chairperson of each committee receiving an additional \$3,000 annually. Additionally, following the IPO, as compensation for serving on the Board at the time, Israel Niv and Joseph Moscovitz were each granted 2,500 RSUs, of which shall fully vest over 36 months, subject to each member's continued service on the Board. Furthermore, in connection with the IPO, on March 22, 2022, Compensation Committee of the Board approved, and thereafter, on May 2, 2023, the entire Board approved and ratified the annual issuance of RSUs worth \$100,000 at their time of their grant to the following then-members of the Board, Israel Niv and Joseph Moscovitz (the "Annual RSU Grants"). The Annual RSU Grants shall fully vest over 36 months, subject to each member's continued service on the Board, as compensation for serving on the Board. Each Annual RSU Grant will be subject to their availability under the Plan. The members of the Board did not receive any new grants of options during 2024.

Our directors are and will continue to be reimbursed by us for any out-of-pocket expenses incurred in connection with activities conducted on our behalf. The compensation of Mr. Barlev as a named executive officer is set forth in the section above; he does not receive any additional compensation for his service as the Chairman of the Board.

For the year ended 2024, our non-employee directors were compensated as follows in the table below:

Name	Year	Cash Fees Earned (\$)	RSU Awards (\$)	All Other Compensation (\$)	Total (\$)
Israel Niv	2024	\$ 19,000	—	\$ —	\$ 19,000
Dr. Naama Halevi-Davidov ⁽¹⁾	2024	\$ 7,125	—	\$ —	\$ 7,125
Joseph Moscovitz ⁽²⁾	2024	\$ 19,000	—	\$ —	\$ 19,000
Noemi Schmayer ⁽³⁾	2024	\$ 7,415	—	\$ —	\$ 7,415
Gideon Marks ⁽⁴⁾	2024	\$ 11,875	—	\$ —	\$ 11,875

(1) Ms. Halevi-Davidov departed the Company on May 9, 2024.

(2) Mr. Moscovitz departed the Company on February 1, 2025.

(3) Ms. Schmayer departed the Company on May 15, 2024.

(4) Mr. Marks joined the Company on May 15, 2024.

Director and Officer Liability Insurance

We have purchased following the IPO, and intend to review in May 2025, our director and officer liability insurance that provides financial protection for our directors and officers in the event that they are sued in connection with the performance of their services and also provides employment practices liability coverage, which insures for harassment and discrimination suits.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Except as specifically noted, the following table sets forth information with respect to the beneficial ownership of our Common Stock as of March 20, 2025 of:

- each of our directors and executive officers; and
- each person known to us to beneficially own 5% of our Common Stock on an as-converted basis.

The calculations in the table are based on 8,502,158 common shares issued and outstanding as of March 20, 2025, including treasury shares.

Beneficial ownership is determined in accordance with the rules and regulations of the SEC. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have included shares that the person has the right to acquire within 60 days, including through the exercise of any option, warrant or other right or the conversion of any other security. These shares, however, are not included in the computation of the percentage ownership of any other person.

Unless otherwise indicated, the address for each beneficial owner listed in the table below is c/o Actelis Networks, Inc., 4039 Clipper Court, Fremont, CA 94538.

Name of Beneficial Owner ⁽¹⁾	No. of Shares * Beneficially Owned	% of Class
Tuvia Barlev	178,768	2.1%
Yoav Efron ⁽²⁾	15,697	*
Eyal Aharon ⁽³⁾	4,771	*
Yaron Altit ⁽⁴⁾	4,800	*
Bret Harrison ⁽⁵⁾	3,334	*
Michal Winkler-Solomon ⁽⁶⁾	7,175	*
Hemi Kabir ⁽⁷⁾	4,552	*
Israel Niv ⁽⁸⁾	69,306	*
Elad Domanovitz ⁽⁹⁾	7,134	*
Gideon Marks	-	-
Julie Kunstler	-	-
Niel Ransom	-	-
All executive officers and directors as a group (12 persons)	292,203	3.3%
5% Stockholders		
Eli Sternheim ⁽¹⁰⁾	484,000	5.7%

* Less than 1%

(1) Unless otherwise noted, the business address of the following entities or individuals is 4039 Clipper Court, Fremont, CA 94538.

(2) Consists of (i) 2,823 shares of common stock held by Mr. Efron and (ii) 12,874 shares of common stock issuable upon the exercise of options, which are exercisable within 60 days from March 20, 2025.

(3) Includes (i) 1,567 shares of common stock held by Mr. Aharon and (ii) 3,204 shares of common stock issuable upon the exercise of options, which are exercisable within 60 days from March 20, 2025.

(4) Includes (i) 1,867 shares of common stock held by Mr. Altit and (ii) 2,933 shares of common stock issuable upon the exercise of options, which are exercisable within 60 days from March 20, 2025.

(5) Includes (i) 1,666 shares of common stock held by Mr. Harrison and (ii) 1,668 shares of common stock issuable upon the exercise of options, which are exercisable within 60 days from March 20, 2025.

(6) Includes (i) 816 shares of common stock held by Mr. Winkler-Solomon and (ii) 6,359 shares of common stock issuable upon the exercise of options, which are exercisable within 60 days from March 20, 2025.

(7) Includes (i) 1,967 shares of common stock held by Mr. Kabir and (ii) 2,585 shares of common stock issuable upon the exercise of options, which are exercisable within 60 days from March 20, 2025.

(8) Consists of (i) 45,856 shares of common stock held by The Niv Family Trust, for which the Reporting Person and his spouse serve as trustees; (ii) 13,939 shares of common stock held by Sharon Hava Niv 2015 Family Trust for which Mr. Niv and his spouse serve as trustee; (iii) 7,011 shares of common stock issuable upon the exercise of options, which are exercisable within 60 days from March 20, 2025.; and (iv) 2,500 RSUs.

(9) Includes (i) 1,400 shares of common stock held by Mr. Domanovitz and (ii) 5,734 shares of common stock issuable upon the exercise of options, which are exercisable within 60 days from March 20, 2025.

(10) Based on information provided to us by the shareholder.

Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth information as of December 31, 2024 with respect to our compensation plans under which equity securities may be issued.

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders:			
2015 Equity Incentive Plan ⁽¹⁾	52,527	\$ 2.36	99,298
Equity compensation plans not approved by security holders	—	—	—
Total	52,527	\$ 2.36	99,298

(1) The weighted average exercise price relates to the options only. RSUs were excluded as they have no exercise price.

2015 Equity Incentive Plan

The 2015 Equity Incentive Plan, or the Plan, was adopted by our Board, on May 10, 2015. The Plan provides for the grant of equity-based incentive awards to our employees, directors, and consultants in order to incentivize them to increase their efforts on behalf of our Company and to promote the success of our business.

Authorized Shares. As of the date of this Annual Report, there are 98,174 options to purchase shares of common stock reserved and available for grant under the Plan. Common stock subject to options granted under the Plan that expire or become unexercisable without having been exercised in full will become available again for future grant or sale under the Plan.

Administration. The Board, or a duly authorized committee of the Board, administers the Plan, or the Administrator. Under the Plan, the Administrator has the authority, subject to applicable law, to interpret the terms of the Plan and any award agreements or awards granted thereunder, designate recipients of awards, determine and amend the terms of awards, including the exercise price of an option award, the fair market value of a share, the time and vesting schedule applicable to an award or the method of payment for an award, accelerate or amend the vesting schedule applicable to an award, prescribe the forms of agreement for use under the Plan and take all other actions and make all other determinations necessary for the administration of the 2015 Plan.

The administrator also has the authority to approve the conversion, substitution, cancellation or suspension under and in accordance with the Plan of any or all awards, and the authority to modify outstanding awards unless otherwise provided by the terms of the Plan.

The administrator may adopt special appendices and/or guidelines and provisions for persons who are residing in or employed in, or subject to, the taxes of, any domestic or foreign jurisdictions, to comply with applicable laws, regulations, or accounting, listing or other rules with respect to such domestic or foreign jurisdictions.

Eligibility. The Plan provides for granting awards under various tax regimes, including, without limitation, in compliance with Section 102 of the Ordinance and Section 3(i) of the Ordinance and for awards granted to our United States employees or service providers, including those who are deemed to be residents of the United States for tax purposes, Section 422 of the Code and Section 409A of the Code.

Grants. All awards granted pursuant to the Plan will be evidenced by an award agreement. Award agreements need not be in the same form and may differ in the terms and conditions included therein. The award agreement will set forth the terms and conditions of the award, including the type of award, number of shares subject to such award, vesting schedule and conditions, the exercise price, if applicable, the date of expiration of the award, any special terms applying to such award (if any), including the terms of any country-specific or other applicable appendix, as determined by our board of directors.

Awards. The Plan provides for the grant of stock options, Nonstatutory Stock Options, Stock Appreciation Rights, Restricted Stock and Restricted Stock Units.

With respect to options granted under the Plan, unless otherwise determined by the administrator, and subject to the conditions of the Plan, options vest and become exercisable, if applicable, under the following schedule: 25% of the shares covered by the option on the first anniversary of the vesting commencement date determined by the administrator (and in the absence of such determination, the date on which such option was granted) and 6.25% of the shares covered by the option at the end of each subsequent three-month period thereafter over the course of the following three years; provided that the grantee remains continuously as an employee or provides services to our company and our affiliates throughout such vesting dates.

Each option will expire ten years from the date of the grant thereof, unless such shorter term of expiration is otherwise designated by the administrator or required by applicable law.

Options under the Plan may be exercised by providing our company with a notice of exercise and full payment of the exercise price for such shares underlying the option, if applicable, in such form and method as may be determined by the administrator and permitted by applicable law. An option may not be exercised for a fraction of a share. If the Company's shares are listed for trading on any securities exchange, and if the administrator so determines, all or part of the exercise price and any withholding taxes may be paid by the delivery of an irrevocable direction to a securities broker approved by our company to sell shares and to deliver all or part of the sales proceeds to our company or the trustee, or, the delivery of an irrevocable direction to pledge shares to a securities broker or lender approved by our company, as security for a loan, and to deliver all or part of the loan proceeds to our company, or such other method of payment acceptable to our company as determined by the administrator.

Transferability. Other than by will, the laws of descent and distribution or as otherwise provided under the Plan, the awards and shares granted under the 2015 Plan are not assignable or transferable, unless determined otherwise by the Administrator in which case such Award may only be transferred as permitted by Rule 701 of the Securities Act of 1933.

Termination of Relationship. In the event of termination of a grantee's employment or service with our company, all vested and exercisable options held by such grantee as of the date of termination may be exercised within ninety days after such date of termination, unless otherwise determined by the administrator, but in no event later than the date of expiration of the option as set forth in the award agreement. After such ninety-day period, all such unexercised options will terminate, and the shares covered by such options shall again be available for issuance under the Plan.

In the event of termination of a grantee's employment or service with our company or any of our affiliates due to such grantee's death or permanent disability, all vested and exercisable options held by such grantee as of the date of termination may be exercised by the grantee or the grantee's legal guardian, estate or by a person who acquired the right to exercise the options by bequest or inheritance, as applicable, within 12 months after such date of termination, unless otherwise provided by the administrator, but in no event later than the date of expiration of the option as set forth in the award agreement. Any options which are unvested as of the date of such termination or which are vested but not then exercised within the 12-month period following such date, will terminate and the shares covered by such options shall again be available for issuance under the Plan.

All restricted shares still subject to restriction under the applicable restriction period as set by the administrator in the applicable award agreement, lapsed will revert to the Company and again will become available for grant under the Plan.

Rights as a stockholder. Subject to terms of the Plan, a grantee shall have no rights as a stockholder of our company with respect to any shares covered by an award until the grantee shall have exercised the award and paid the exercise price therefor, if applicable, and becomes the record holder of the subject shares.

Transactions. Shares subject to an award, as well as the price per share covered by each outstanding award, shall be proportionately adjusted for any increase or decrease in the number of issued shares resulting from a share split, reverse share split, combination or reclassification of the shares, or any other increase or decrease in the number of issued shares effected without receipt of consideration by our company, provided, however, that the Administrator will make such adjustments to an Award required by Section 25102(o) of the California Corporations Code to the extent the Company is relying upon the exemption afforded thereby with respect to the Award.

In the event of a merger or Change in Control, each outstanding Award will be treated as the Administrator determines without a Participant's consent, including, without limitation, that either (i) Awards will be assumed, or substantially equivalent Awards will be substituted, by the acquiring or succeeding corporation (or an affiliate thereof) with appropriate adjustments as to the number and kind of shares and prices; (ii) upon written notice to a Participant, that the Participant's Awards will terminate upon or immediately prior to the consummation of such merger or Change in Control (subject to the provisions of the paragraph above); (iii) outstanding Awards will vest and become exercisable, realizable, or payable, or restrictions applicable to an Award will lapse, in whole or in part prior to or upon consummation of such merger or Change in Control, and, to the extent the Administrator determines, terminate upon or immediately prior to the effectiveness of such merger or Change in Control; (iv) (A) the termination of an Award in exchange for an amount of cash and/or property, if any, equal to the amount that would have been attained upon the exercise of such Award or realization of the Participant's rights as of the date of the occurrence of the transaction (and, for the avoidance of doubt, if as of the date of the occurrence of the transaction the Administrator determines in good faith that no amount would have been attained upon the exercise of such Award or realization of the Participant's rights, then such Award may be terminated by the Company without payment), or (B) the replacement of such Award with other rights or property selected by the Administrator in its sole discretion; or (v) any combination of the foregoing or other alternative not listed hereinabove. In taking any of the actions permitted under this subsection, the Administrator will not be obligated to treat all Awards, all Awards held by a Participant, or all Awards of the same type, similarly. In the event of liquidation or winding up of our company, the administrator will notify each Participant as soon as practicable prior to the effective date of such proposed transaction. To the extent it has not been previously exercised, an Award will terminate immediately prior to the consummation of such proposed action.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE.

During years ended December 31, 2024 and 2023, except for compensation arrangements described elsewhere herein and the transactions described below, we did not participate in any transaction, and we are not currently participating in any proposed transaction, or series of transactions, in which the amount involved exceeded the lesser of \$120,000 or one percent of the average of our total assets at year end for the last two completed fiscal years, and in which, to our knowledge, any of our directors, officers, five percent beneficial security holders, or any member of the immediate family of the foregoing persons had, or will have, a direct or indirect material interest.

Compensation arrangements for our named executive officers and directors are described in the section entitled "Executive and Director Compensation."

Related Party Transaction Policy

We adopted a formal, written policy that our executive officers, directors (including director nominees), holders of more than 5% of any class of our voting securities and any member of the immediate family of or any entities affiliated with any of the foregoing persons, are not permitted to enter into a related party transaction with us without the prior approval or, in the case of pending or ongoing related party transactions, ratification of our audit committee. For purposes of our policy, a related party transaction is a transaction, arrangement or relationship where we were, are or will be involved and in which a related party had, has or will have a direct or indirect material interest.

Certain transactions with related parties, however, are excluded from the definition of a related party transaction including, but not limited to:

- transactions involving the purchase or sale of products or services in the ordinary course of business, not exceeding \$20,000;
- transactions where a related party's interest derives solely from his or her service as a director of another entity that is a party to the transaction;
- transactions where a related party's interest derives solely from his or her ownership of less than 10% of the equity interest in another entity that is a party to the transaction; and
- transactions where a related party's interest derives solely from his or her ownership of a class of our equity securities and all holders of that class received the same benefit on a pro rata basis.

No member of the Audit Committee may participate in any review, consideration or approval of any related party transaction where such member or any of his or her immediate family members is the related party. In approving or rejecting the proposed agreement, our Audit Committee shall consider the relevant facts and circumstances available and deemed relevant by the Audit Committee, including, but not limited to:

- the benefits and perceived benefits to us;
- the materiality and character of the related party's direct and indirect interest;
- the availability of other sources for comparable products or services;
- the terms of the transaction; and
- the terms available to unrelated third parties under the same or similar circumstances.

In reviewing proposed related party transactions, the Audit Committee will only approve or ratify related party transactions that are in, or not inconsistent with, the best interests of us and our stockholders.

The transactions described below were consummated prior to our adoption of the formal, written policy described above, and therefore the foregoing policies and procedures were not followed with respect to the transactions. However, we believe that the terms obtained or consideration that we paid or received, as applicable, in connection with the transactions described were comparable to terms available or the amounts that would be paid or received, as applicable, in arm's-length transactions.

Policy for Approval of Related Party Transactions

We have adopted our Code of Ethics to avoid, wherever possible, all conflicts of interests, except under guidelines or resolutions approved by our Board (or the appropriate committee of our Board) or as disclosed in our public filings with the SEC. Under our Code of Ethics, conflict of interest situations will include any financial transaction, arrangement or relationship (including any indebtedness or guarantee of indebtedness) involving Actelis. Our Code of Ethics is filed as an exhibit to this Annual Report.

In addition, the Audit Committee of our Board adopted a charter, providing for the review, approval and/or ratification of “related party transactions,” which are those transactions required to be disclosed pursuant to Item 404 of Regulation S-K as promulgated by the SEC, by the Audit Committee. At its meetings, the Audit Committee shall be provided with the details of each new, existing, or proposed related party transaction, including the terms of the transaction, any contractual restrictions that the company has already committed to, the business purpose of the transaction, and the benefits of the transaction to the company and to the relevant related party. Any member of the committee who has an interest in the related party transaction under review by the committee shall abstain from voting on the approval of the related party transaction, but may, if so requested by the chairman of the committee, participate in some or all of the committee’s discussions of the related party transaction. Upon completion of its review of the related party transaction, the committee may determine to permit or to prohibit the related party transaction. Our Audit Committee will review on a quarterly basis all payments that were made by us to our sponsor, officers, or directors, or our or any of their affiliates.

These procedures are intended to determine whether any such related party transaction impairs the independence of a director or presents a conflict of interest on the part of a director, employee or officer.

The Board has determined that Israel Niv, Julie Kunstler, Niel Ransom and Gideon Marks are “independent” directors, as defined by the rules of the SEC and the Nasdaq rules and regulations.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table provides detail about fees for professional services rendered to us by our independent registered public accounting firm for the fiscal years ended December 31, 2024 and 2023.

	Fiscal Year Ended December 31, 2024	Fiscal Year Ended December 31, 2023
Audit fees (1)	\$ 241,516	\$ 255,938
Audit related fees (2)	51,000	39,463
Tax fees	29,685	15,571
All other fees	-	-
Total	\$ 322,201	\$ 310,972

Audit Fees. This category includes the audit of our annual financial statements, review of financial statements included in our quarterly reports on Form 10-Q and services that are normally provided by the independent registered public accounting firm in connection with engagements for those fiscal years. This category also includes advice on audit and accounting matters that arose during, or as a result of, the audit or the review of interim financial statements.

Audit-Related Fees. This category consists of assurance and related services by the independent registered public accounting firm that are reasonably related to the performance of the audit or review of our financial statements and are not reported above under “Audit Fees.” The services for the fees disclosed under this category include consultation regarding our correspondence with the SEC, review of registration statements and other accounting consulting.

Tax Fees. This category consists of professional services rendered for tax compliance and tax advice. The services for the fees disclosed under this category include tax return preparation and technical tax advice.

All Other Fees. This category consists of fees for other miscellaneous items.

Policy on Pre-Approval of Audit and Permissible Non-audit Services of Independent Auditors

Consistent with the SEC policies regarding auditor independence, our Board has responsibility for appointing, setting compensation and overseeing the work of the independent auditor. In recognition of this responsibility, our Board has established a policy to pre-approve all audit and permissible non-audit services provided by the independent auditor.

Prior to engagement of the independent auditor for the next year’s audit, management will submit an aggregate of services expected to be rendered during that year for each of the following four categories of services to the Board for approval.

PART IV

ITEM 15. EXHIBIT AND FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this report.

(1) Financial statements.

For a list of the consolidated financial statements included herein, see “Index to Consolidated Financial Statements” under Part I, Item 8 of this Annual Report on Form 10-K.

(2) Schedules.

No financial statement schedules have been submitted because they are not required or are not applicable or because the information required is included in the consolidated financial statements or the notes thereto.

(3) Exhibits.

(a) Exhibits.

Exhibit No.	Description
3.1	Form of the Twenty-Fourth Amended and Restated Certificate of Incorporation of the Registrant, dated May 2, 2023 (as filed as 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. (as filed as Exhibit 3.4 to the Company's Form S-1/A, filed on May 10, 2022)
4.1	Description of Securities (filed as Exhibit 4.1 to the Company's Form 10-K for the fiscal year ended December 31, 2023, filed on March 29, 2024)
4.2	Form of Representative's Warrant (as filed as Exhibit 4.1 to the Company's Form S-1/A, filed on May 2, 2022)
4.3	Form of Common Warrant (as filed as Exhibit 4.1 to the Company's Current Report on Form 8-K, filed on May 8, 2023)
4.4	Form of Pre-Funded Warrant (as filed as Exhibit 4.2 to the Company's Current Report on Form 8-K, filed on May 8, 2023)
4.5	Form of Placement Agent Warrant (as filed as Exhibit 4.3 to the Company's Current Report on Form 8-K, filed on May 8, 2023)
4.6	Form of Common Warrant (as filed as Exhibit 4.1 to the Company's Current Report on Form 8-K, filed on December 20, 2023)
4.7	Form of Pre-Funded Warrant (as filed as Exhibit 4.2 to the Company's Current Report on Form 8-K, filed on December 20, 2023)
4.8	Form of Placement Agent Warrant (as filed as Exhibit 4.3 to the Company's Current Report on Form 8-K, filed on December 20, 2023)
4.9	Form of Credit Agreement (as filed as Exhibit 4.1 to the Company's Current Report on Form 8-K, filed on February 14, 2024)
10.1	Lease by and between Actelis Networks Israel, Ltd. and Moshe Smucha, dated January 13, 2000 (as filed as Exhibit 10.2 to the Company's Form S-1/A, filed on May 2, 2022)
10.2	First Amendment to the Lease and Management Agreements from October 22, 2017, by and between Homerton Investments, Ltd. and Actelis Networks Israel Ltd., dated April 14, 2021 (as filed as Exhibit 10.3 to the Company's Form S-1/A, filed on May 2, 2022)
10.3+	Employment Agreement between Actelis Networks, Inc. and Mr. Tuvia Barlev dated February 15, 2015 (as filed as Exhibit 10.9 to the Company's Form S-1/A, filed on May 2, 2022)
10.4+	Offer letter between Actelis Networks, Inc. and Mr. Yoav Efron dated November 30, 2017 (as furnished as Exhibit 10.10 to the Company's Form S-1/A, filed on May 10, 2022)
10.5+	Employment Agreement between Actelis Networks Israel, Ltd. And Mr. Yoav Efron dated November 30, 2017 (as furnished as Exhibit 10.11 to the Company's Form S-1/A, filed on May 10, 2022)

10.6+	Consulting Agreement between Actelis Networks, Inc. and Barlev Enterprises dated February 20, 2015 (as furnished as Exhibit 10.12 to the Company's Form S-1/A, filed on May 10, 2022)
10.7+	Actelis Networks, Inc. 2015 Equity Incentive Plan (as filed as Exhibit 10.13 to the Company's Form S-1, filed on April 15, 2022)
10.8+	Amendment No. 1 to 2015 Equity Incentive Plan (as filed as Exhibit 10.14 to the Company's Form S-1, filed on April 15, 2022)
10.9	Senior Loan Agreement between Migdalar Business Investment Fund and Actelis Networks Israel, Ltd., dated December 2, 2020 (as filed as Exhibit 10.16 to the Company's Form S-1, filed on April 15, 2022)
10.10	Amendment Number 1 to Senior Loan Agreement between Migdalar Business Investment Fund and Actelis Networks Israel, Ltd., dated November 17, 2021 (as filed as Exhibit 10.17 to the Company's Form S-1, filed on April 15, 2022)
10.11	Securities Purchase and Loan Repayment Agreement between Actelis Networks, Inc. and Mr. Tuvia Barlev dated April 15, 2023 (as filed as Exhibit 10.18 to the Company's Form S-1, filed on April 15, 2023)
10.12	Form of Securities Purchase Agreement (as filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on May 8, 2023)
10.13	Form of Registration Rights Agreement (as filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, filed on May 8, 2023)
10.14	Form of Warrant Amendment (as filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, filed on December 20, 2023)
10.15	Form of Securities Purchase Agreement (as filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on December 20, 2023)
10.16	Form of Registration Rights Agreement (as filed as Exhibit 10.3 to the Company's Current Report on Form 8-K, filed on December 20, 2023)
10.17	Form of Credit Agreement (as filed as Exhibit 4.1 to the Company's Current Report on Form 8-K, filed on February 14, 2024)
10.18	Form of Fixed Lien Agreement (as filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on February 14, 2024)
10.19	Form of Inducement Letter (as filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on June 6, 2024)
10.20	Form of New Warrant (as filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, filed on June 6, 2024)
10.21	Form of Placement Agent Warrant (as filed as Exhibit 10.3 to the Company's Current Report on Form 8-K, filed in on June 6, 2024)
10.22	Form of Inducement Letter (as filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed in on July 2, 2024)
10.23	Form of New Warrant (as filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, filed in on July 2, 2024)
10.24	Form of Placement Agent Warrant (as filed as Exhibit 10.3 to the Company's Current Report on Form 8-K, filed in on July 2, 2024)
10.25	At the Market Offering Agreement by and between H.C. Wainwright & Co., LLC dated September 25, 2024 (as filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on September 25, 2024)
21.1	Subsidiaries of the Registrant (as filed as Exhibit 21.1 to the Company's Form S-1, filed on April 15, 2023)
23.1*	Consent of Kesselman & Kesselman, Certified Public Accountants (Isr.) a member firm of PricewaterhouseCoopers International Limited, independent registered accounting firm for the Company.
31.1*	Certification of the Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a)
31.2*	Certification of the Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a)
32.1*	Certification of the Chief Executive Officer required by Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. Section 1350
32.2*	Certification of the Chief Financial Officer required by Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. Section 1350
97.1	Actelis Networks, Inc. Executive Officer Clawback Policy (as filed as Exhibit 97.1 to the Company's Form 10-K, filed on March 26, 2024)
101.INS	Inline XBRL Instance Document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* Filed herewith

+ Management contract or compensatory plan or arrangement

ITEM 16. FORM 10-K SUMMARY

Not applicable

SIGNATURES

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

ACTELIS NETWORKS, INC.

/s/ Tuvia Barlev

Date: March 24, 2025

Tuvia Barlev
Chief Executive Officer and Director

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Tuvia Barlev</u> Tuvia Barlev	Chief Executive Officer, Secretary and Chairman of the Board (Principal Executive Officer)	March 24, 2025
<u>/s/ Yoav Efron</u> Yoav Efron	Chief Financial Officer and Deputy Chief Executive Officer (Principal Financial Officer and Principal Accounting Officer)	March 24, 2025
<u>/s/ Julie Kunstler</u> Julie Kunstler	Director	March 24, 2025
<u>/s/ Israel Niv</u> Israel Niv	Director	March 24, 2025
<u>/s/ Gideon Marks</u> Gideon Marks	Director	March 24, 2025
<u>/s/ Niel Ransom</u> Niel Ransom	Director	March 24, 2025

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-266657) and S-3 (No. 333-282199) and S-1 (No. 333-276425, No. 333-280434 and No. 333-281079) of Actelis Networks, Inc. of our report dated March 24, 2025 relating to the financial statements, which appears in this Form 10-K.

/s/ Kesselman & Kesselman
Certified Public Accountants (Isr.)
A member firm of PricewaterhouseCoopers International Limited

Tel-Aviv, Israel
March 24, 2025

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO SECURITIES EXCHANGE ACT OF 1934 RULES 13A-14(A) AND 15D-14(A), AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Tuvia Barlev certify that:

1. I have reviewed this Annual Report on Form 10-K of Actelis Networks, Inc. (the “registrant”);
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 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 evaluation; 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 (the registrant’s fourth fiscal quarter in the case of an annual report) 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 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: March 24, 2025

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

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO SECURITIES EXCHANGE ACT OF 1934 RULES 13A-14(A) AND 15D-14(A), AS
ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Yoav Efron, certify that:

1. I have reviewed this Annual Report on Form 10-K of Actelis Networks, Inc. (the “registrant”);
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 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 evaluation; 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 (the registrant’s fourth fiscal quarter in the case of an annual report) 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 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: March 24, 2025

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

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

This certification is furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350) and accompanies the Annual Report on Form 10-K (the "Form 10-K") for the fiscal year ended December 31, 2024, of Actelis Networks, Inc. (the "Company"). I, Tuvia Barlev, the Chief Executive Officer of the Company, certify that, based on my knowledge:

- (1) The Form 10-K fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods covered in this report.

Date: March 24, 2025

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

The foregoing certification is being furnished as an exhibit to the Form 10-K pursuant to Item 601(b)(32) of Regulation S-K and Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and, accordingly, is not being filed as part of the Form 10-K for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

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

This certification is furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350) and accompanies the Annual Report on Form 10-K (the "Form 10-K") for the fiscal year ended December 31, 2024 of Actelis Networks, Inc. (the "Company"). I, Yoav Efron, the Chief Financial Officer of the Company, certify that based on my knowledge:

- (1) The Form 10-K fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods covered in this report.

Date: March 24, 2025

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

The foregoing certification is being furnished as an exhibit to the Form 10-K pursuant to Item 601(b)(32) of Regulation S-K and Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and, accordingly, is not being filed as part of the Form 10-K for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.