

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 20-F

☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

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

For the fiscal year ended December 31, 2024

OR

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

OR

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

Date of event requiring this shell company report _____

For the transition period from _____ to _____

Commission File No.: 001-41760

ParaZero Technologies Ltd.

(Exact name of registrant as specified in its charter)

Translation of registrant's name into English: Not applicable

State of Israel

(Jurisdiction of incorporation or organization)

**1 Hatachana Street
Kfar Saba, 4453001, Israel**

(Address of principal executive offices)

Boaz Shetzer

Chief Executive Officer

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

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

Title of each class to be registered	Trading Symbol(s)	Name of each exchange on which each class is to be registered
Ordinary Shares, par value NIS 0.02 per share	PRZO	The Nasdaq Stock Market LLC

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

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

Number of outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2024: 12,817,092 ordinary shares.

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

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act of 1934. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 during the preceding 12 months. Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company.

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Emerging Growth Company ☒

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act. ☐

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

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

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

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

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

U.S. GAAP ☒

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

Other ☐

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. ☐
Item 17 ☐ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company. Yes ☐ No ☒

TABLE OF CONTENTS

	Page
<u>INTRODUCTION</u>	iii
<u>EMERGING GROWTH COMPANY STATUS</u>	iii
<u>CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS</u>	iv
<u>MARKET, INDUSTRY, AND OTHER DATA</u>	vi
 <u>PART I</u>	 1
ITEM 1. <u>IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u>	1
ITEM 2. <u>OFFER STATISTICS AND EXPECTED TIMETABLE</u>	1
ITEM 3. <u>KEY INFORMATION</u>	1
A. <u>[Reserved]</u>	1
B. <u>Capitalization and Indebtedness</u>	1
C. <u>Reasons for the Offer and Use of Proceeds</u>	1
D. <u>Risk Factors</u>	1
ITEM 4. <u>INFORMATION ON THE COMPANY</u>	31
A. <u>History and Development of the Company</u>	31
B. <u>Business Overview</u>	31
C. <u>Organizational Structure</u>	44
D. <u>Property, Plants and Equipment</u>	44
ITEM 4A. <u>UNRESOLVED STAFF COMMENTS</u>	44
ITEM 5. <u>OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	45
A. <u>Operating Results</u>	46
B. <u>Liquidity and Capital Resources</u>	50
C. <u>Research and Development, Patents and Licenses</u>	52
D. <u>Trend Information</u>	52
E. <u>Critical Accounting Estimates</u>	52
ITEM 6. <u>DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	53
A. <u>Directors and Senior Management</u>	53
B. <u>Compensation</u>	56
C. <u>Board Practices</u>	58
D. <u>Employees</u>	68
E. <u>Share Ownership</u>	68
F. <u>Disclosure of Registrant's Action to Recover Erroneously Awarded Compensation</u>	71
ITEM 7. <u>MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>	71
A. <u>Major Shareholders</u>	71
B. <u>Related Party Transactions</u>	73
C. <u>Interests of Experts and Counsel</u>	73
ITEM 8. <u>FINANCIAL INFORMATION</u>	73
A. <u>Consolidated Statements and Other Financial Information</u>	73
B. <u>Significant Changes</u>	74
ITEM 9. <u>THE OFFER AND LISTING</u>	74
A. <u>Offer and Listing Details</u>	74
B. <u>Plan of Distribution</u>	74
C. <u>Markets</u>	74
D. <u>Selling Shareholders</u>	74
E. <u>Dilution</u>	74
F. <u>Expenses of the Issue</u>	74

ITEM 10.	<u>ADDITIONAL INFORMATION</u>	74
A.	<u>Share Capital</u>	74
B.	<u>Articles of Association</u>	74
C.	<u>Material Contracts</u>	75
D.	<u>Exchange Controls</u>	75
E.	<u>Taxation</u>	75
F.	<u>Dividends and Paying Agents</u>	83
G.	<u>Statement by Experts</u>	83
H.	<u>Documents on Display</u>	83
I.	<u>Subsidiary Information</u>	83
J.	<u>Annual Report to Security Holders</u>	83
ITEM 11.	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	83
ITEM 12.	<u>DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	84
<u>PART II</u>		85
ITEM 13.	<u>DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	85
ITEM 14.	<u>MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u>	85
ITEM 15.	<u>CONTROLS AND PROCEDURES</u>	85
ITEM 16.	<u>[RESERVED]</u>	86
ITEM 16A.	<u>AUDIT COMMITTEE FINANCIAL EXPERT</u>	86
ITEM 16B.	<u>CODE OF ETHICS</u>	87
ITEM 16C.	<u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	87
ITEM 16D.	<u>EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>	87
ITEM 16E.	<u>PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u>	88
ITEM 16F.	<u>CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT</u>	88
ITEM 16G.	<u>CORPORATE GOVERNANCE</u>	88
ITEM 16H.	<u>MINE SAFETY DISCLOSURE</u>	89
ITEM 16I.	<u>DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS</u>	89
ITEM 16J.	<u>INSIDER TRADING POLICIES</u>	90
ITEM 16K.	<u>CYBERSECURITY</u>	90
<u>PART III</u>		91
ITEM 17.	<u>FINANCIAL STATEMENTS</u>	91
ITEM 18.	<u>FINANCIAL STATEMENTS</u>	91
ITEM 19.	<u>EXHIBITS</u>	91
<u>SIGNATURES</u>		94

INTRODUCTION

Unless the context otherwise requires, references in this annual report on Form 20-F, or this Annual Report, to the “Company,” “Parazero,” “we,” “us,” “our” and other similar designations refer to Parazero Technologies Ltd. All references to “ordinary shares” are to our ordinary shares, par value NIS 0.02.

The financial statements were prepared in accordance with generally accepted accounting principles in the United States, or GAAP.

Unless otherwise indicated, or the context otherwise requires, references in this Annual Report to financial and operational data for a particular year refer to the fiscal year of our Company ended December 31 of that year.

Our reporting currency and functional currency is the U.S. dollar. In this Annual Report, “NIS” means New Israeli Shekel, and “\$,” “US\$” and “U.S. dollars” mean United States dollars.

EMERGING GROWTH COMPANY STATUS

We qualify as an “emerging growth company,” as defined in the U.S. Jumpstart Our Business Startups Act of 2012, or JOBS Act, and we may take advantage of certain exemptions, including exemptions from various reporting requirements that are otherwise applicable to public traded entities that do not qualify as emerging growth companies. These exemptions include:

- not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act; and
- not being required to comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor’s report providing additional information about the audit and the financial statements (i.e., an auditor discussion and analysis).

Section 107 of the JOBS Act also provides that an emerging growth company can take advantage of the extended transition period provided in Section 13(a) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, for complying with new or revised accounting standards. This means that an “emerging growth company” can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to take advantage of the extended transition period to comply with new or revised accounting standards and to adopt certain of the reduced disclosure requirements available to emerging growth companies. As a result of the accounting standards election, we will not be subject to the same implementation timing for new or revised accounting standards as other public companies that are not emerging growth companies which may make comparison of our financials to those of other public companies more difficult. In addition, the information that we provide in this annual report may be different than the information you may receive from other public companies in which you hold equity interests.

We will remain an emerging growth company until the earliest of: (i) the last day of the first fiscal year in which our annual gross revenues exceed \$1.235 billion; (ii) the last day of the fiscal year following the fifth anniversary of the date of our initial public offering; (iii) the date that we become a “large accelerated filer” as defined in Rule 12b-2 under the Exchange Act, which would occur if the aggregate worldwide market value of our ordinary shares, including ordinary shares represented by warrants, held by non-affiliates is at least \$700 million as of the last business day of our most recently completed second fiscal quarter; or (iv) the date on which we have issued more than \$1.0 billion in non-convertible debt securities during any three-year period.

TRADEMARKS

All trademarks or trade names referred to in this Annual Report on Form 20-F are the property of their respective owners. Solely for convenience, the trademarks and trade names in this Annual Report on Form 20-F are referred to without the ® and ™ symbols, but such references should not be construed as any indicator that their respective owners will not assert, to the fullest extent under applicable law, their rights thereto. We do not intend the use or display of other companies' trademarks and trade names to imply a relationship with, or endorsement or sponsorship of us by, any other companies.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information included or incorporated by reference in this Annual Report on Form 20-F may be deemed to be "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and other securities laws. Forward-looking statements are often characterized by the use of forward-looking terminology such as "aim," "anticipate," "assume," "believe," "contemplate," "continue," "could," "due," "estimate," "expect," "goal," "intend," "may," "objective," "plan," "predict," "potential," "positioned," "seek," "should," "target," "will," "would," or other similar words, but are not the only way these statements are identified.

These forward-looking statements may include, but are not limited to, statements relating to our objectives, plans and strategies, statements that contain projections of results of operations or of financial condition, expected capital needs and expenses, statements relating to the research, development, completion and use of our products, and all statements (other than statements of historical facts) that address activities, events or developments that we intend, expect, project, believe or anticipate will or may occur in the future.

Forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties. We have based these forward-looking statements on assumptions and assessments made by our management in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe to be appropriate.

Important factors that could cause our actual results to differ materially from any future results expressed or implied by the forward-looking statements. Many factors could cause our actual activities or results to differ materially from the activities and results anticipated in forward-looking statements, including, but not limited to, the factors summarized below:

- our limited of operating history;
- our current and future capital requirements and our belief that our existing cash will be sufficient to fund our operations for more than one year from the date that the financial statements are issued;
- our ability to obtain necessary regulatory approvals from the U.S. Federal Aviation Administration or other governmental agencies, or limitations put on the use of small unmanned aerial systems ("UASs") in response to public privacy concerns;
- our ability to manufacture, market and sell our products and to generate revenues;
- our ability to maintain our relationships with key partners and grow relationships with new partners;

- our ability to maintain or protect the validity of our U.S. and other patents and other intellectual property;
- our ability to launch and penetrate markets in new locations and new market segments;
- our ability to retain key executive members and hire additional personnel;
- our ability to maintain and expand intellectual property rights;
- interpretations of current laws and the passages of future laws;
- our ability to achieve greater regulatory compliance needed in existing and new markets;
- the overall demand for drone safety systems and counter unmanned aerial systems (“C-UAS”);
- our ability to achieve key performance milestones in our planned operational testing;
- our ability to establish adequate sales, marketing and distribution channels;
- our ability to maintain the listing of our ordinary shares on Nasdaq;
- security, political and economic instability in the Middle East that could harm our business, including due to the current security situation in Israel;
- acceptance of our business model by investors; and
- those factors referred to in “Item 3.D. Risk Factors,” “Item 4. Information on the Company,” and “Item 5. Operating and Financial Review and Prospects,” as well as in this Annual Report on Form 20-F generally.

These statements are only current predictions and are subject to known and unknown risks, uncertainties, and other factors that may cause our or our industry’s actual results, levels of activity, performance, or achievements to be materially different from those anticipated by the forward-looking statements. We discuss many of these risks in this Annual Report on Form 20-F in greater detail under the heading “Risk Factors” and elsewhere in this Annual Report on Form 20-F. You should not rely upon forward-looking statements as predictions of future events.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. Except as required by law, we are under no duty to update or revise any of the forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this Annual Report on Form 20-F.

MARKET, INDUSTRY AND OTHER DATA

Market data and certain industry data and forecasts used throughout this Annual Report on Form 20-F were obtained from sources we believe to be reliable, including market research databases, publicly available information, reports of governmental agencies, and industry publications and surveys. We have relied on certain data from third party sources, including industry forecasts and market research, which we believe to be reliable based on our management's knowledge of the industry. While we are not aware of any misstatements regarding the industry data presented in this Annual Report on Form 20-F, our estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed under the heading "Risk Factors" and elsewhere in this Annual Report on Form 20-F.

Statements made in this Annual Report on Form 20-F concerning the contents of any agreement, contract or other document are summaries of such agreements, contracts or documents and are not a complete description of all of their terms. If we filed any of these agreements, contracts or documents as exhibits to this Report or to any previous filing with the Securities and Exchange Commission, or SEC, you may read the document itself for a complete understanding of its terms.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. [Reserved]

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

You should carefully consider the risks described below, together with all of the other information in this Annual Report on Form 20-F. The risks and uncertainties described below are those material risk factors, currently known and specific to us, that we believe are relevant to an investment in our securities. Additional risks and uncertainties not currently known to us or that we now deem immaterial may also harm us. If any of these risks materialize our business, results of operations or financial condition could suffer, and the price of our ordinary shares could decline substantially.

Summary Risk Factors

Our business is subject to numerous risks and uncertainties, including those highlighted in the section titled “Risk Factors” below. These risks include, among others, the following:

Risks Related to Our Financial Condition and Capital Requirements

- We are an early commercialization stage company and have a limited operating history on which to assess the prospects for our business, have incurred significant losses since the date of our inception, and anticipate that we will continue to incur significant losses until we are able to successfully commercialize our products.
- We have not generated any significant revenue from the sale of our current products and may never be profitable.
- We expect that we will need to raise substantial additional capital before we can expect to become profitable from sales of our products. This additional capital may not be available on acceptable terms, or at all. Failure to obtain this necessary capital when needed may force us to delay, limit or terminate our product development efforts or other operations.

Risks Related to Our Business and Industry

- The Company expects to incur substantial research and development costs and devote significant resources to identifying and commercializing new products and services, which could significantly reduce its profitability and may never result in revenue to the Company.
- The Company's adoption of new business models could fail to produce any financial returns.
- The Company will be affected by operational risks and may not be adequately insured for certain risks.
- The Company operates in evolving markets, which makes it difficult to evaluate the Company's business and future prospects.
- The Company operates in a competitive market.
- The markets in which the Company competes are characterized by rapid technological change.
- Failure to obtain necessary regulatory approvals from the FAA or other governmental agencies, or limitations put on the use of small UAS in response to public privacy concerns, may prevent us from expanding the sales of our drone solutions to commercial and industrial customers in the United States.
- We are subject to governmental regulation and other legal obligations in jurisdictions outside of the U.S., and our actual or perceived failure to comply with such obligations could adversely affect our business and operating results.
- Failure to make competitive technological advances will put us at a disadvantage and may lead to negative operational and financial outcome.
- If we fail to offer high-quality products or customer service, our business and reputation could suffer.
- Our products and certain projects have lengthy sales cycles that make it difficult to plan our expenses and forecast results.
- The Company's commercial opportunity could be reduced if our competitors develop and commercialize products or services that offer better performance or are more cost-effective to use than our products or services.
- 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.
- If critical components or raw materials used to manufacture the Company's products become scarce or unavailable, then the Company may incur delays in manufacturing and delivery of its products, which could damage its business.
- Significant disruptions of our information technology systems or breaches of our data security could adversely affect our business.
- The Company relies on its business partners, and they may be given access to sensitive and proprietary information in order to provide services and support to the Company's teams.
- Our planned international operations will expose us to additional market and operational risks, and failure to manage these risks may adversely affect our business and operating results.

Risks Related to Our Intellectual Property

- If we are unable to obtain and maintain effective intellectual property rights for our products, we may not be able to compete effectively in our markets.
- Intellectual property rights of third parties could adversely affect our ability to commercialize our products, and we might be required to litigate or obtain licenses from third parties in order to develop or market our product candidates. Such litigation or licenses could be costly or not available on commercially reasonable terms.

Risks Related to the Ownership of Our Ordinary Shares

- Sales of a substantial number of our ordinary shares in the public market, including resale of the shares issued to the selling shareholders, by our existing shareholders could cause our share price to fall.
- The market price for our ordinary shares may be volatile or may decline regardless of our operating performance.

Risks Related to Our Incorporation, Location and Operations in Israel

- Our headquarters, research and development and other significant operations are located in Israel, and, therefore, our results may be adversely affected by political, economic and military instability in Israel.
- We are exposed to fluctuations in currency exchange rates.

General Risk Factors

- Raising additional capital or the issuance of additional equity securities would cause dilution to our existing shareholders and may affect the rights of existing shareholders or the market price of our ordinary shares.
- Sales of a substantial number of our ordinary shares in the public market by our existing shareholders could cause our share price to fall.

Risks Related to Our Financial Condition and Capital Requirements

We are an early commercialization stage company and have incurred significant losses since the date of our inception, and anticipate that we will continue to incur significant losses until we are able to successfully commercialize our products.

We are an early commercialization stage company and have incurred net losses since our inception in 2013, including net losses of \$11,054,230 and \$3,771,379 for the years ended December 31, 2024 and 2023, respectively. As a result, we had accumulated losses of \$29,477,287 as of December 31, 2024.

We have devoted substantially all of our financial resources to develop our products. We have financed our operations primarily through the issuance of equity securities, including convertible securities and loans. The amount of our future net losses will depend, in part, on completing the development of our products, the rate of our future expenditures and our ability to obtain funding through the issuance of our securities, strategic collaborations or grants. We expect to continue to incur significant losses until we are able to successfully commercialize our products. We anticipate that our expenses will increase substantially if and as we:

- continue the development of our products;
- establish a sales, marketing, distribution and technical support infrastructure to commercialize our products;

- seek to identify, assess, acquire, license, and/or develop other products and subsequent generations of our current products;
- seek to maintain, protect, and expand our intellectual property portfolio;
- seek to attract and retain skilled personnel; and
- create additional infrastructure to support our operations as a public company and our product development and planned future commercialization efforts.

We have not generated any significant revenue from the sale of our current products and may never be profitable.

We are an early commercialization stage company and we have not yet generated any significant revenue since our inception. Our ability to generate revenue and achieve profitability depends on our ability to successfully complete the development of, and to commercialize, our products. Our ability to generate future revenue from product sales depends heavily on our success in many areas, including but not limited to:

- completing development of our products;
- establishing and maintaining supply and manufacturing relationships with third parties that can provide adequate (in amount and quality) products to support market demand for our products;
- launching and commercializing products, either directly or with a collaborator or distributor;
- addressing any competing technological and market developments;
- identifying, assessing, acquiring and/or developing new products;
- negotiating favorable terms in any collaboration or other arrangements into which we may enter;
- maintaining, protecting and expanding our portfolio of intellectual property rights, including patents, trade secrets and know-how; and
- attracting, hiring and retaining qualified personnel.

We expect that we will need to raise substantial additional capital before we can expect to become profitable from sales of our products. This additional capital may not be available on acceptable terms, or at all. Failure to obtain this necessary capital when needed may force us to delay, limit or terminate our product development efforts or other operations.

We expect that we will require substantial additional capital to commercialize our products. In addition, our operating plans may change as a result of many factors that may currently be unknown to us, and we may need to seek additional funds sooner than planned. Our future capital requirements will depend on many factors, including but not limited to:

- the scope, rate of progress, results and cost of product development, and other related activities;
- the cost of establishing commercial supplies of our products;
- the cost and timing of establishing sales, marketing, and distribution capabilities; and
- the terms and timing of any collaborative and other arrangements that we may establish.

Any additional fundraising efforts may divert our management from their day-to-day activities, which may adversely affect our ability to develop and commercialize our products. In addition, we cannot guarantee that future financing will be available in sufficient amounts or on terms acceptable to us, if at all. Moreover, the terms of any financing may adversely affect the holdings or the rights of our shareholders and the issuance of additional securities, whether equity or debt, by us, or the possibility of such issuance, may cause the market price of our ordinary shares to decline. The incurrence of indebtedness could result in increased fixed payment obligations, and we may be required to agree to certain restrictive covenants, such as limitations on our ability to incur additional debt, limitations on our ability to acquire, sell or license intellectual property rights and other operating restrictions that could adversely impact our ability to conduct our business. We could also be required to seek funds through arrangements with collaborative partners or otherwise at an earlier stage than otherwise would be desirable, and we may be required to relinquish rights to some of our technologies or products or otherwise agree to terms unfavorable to us, any of which may have a material adverse effect on our business, operating results and prospects. Even if we believe that we have sufficient funds for our current or future operating plans, we may seek additional capital if market conditions are favorable or if we have specific strategic considerations.

If we are unable to obtain funding on a timely basis, we may be required to significantly curtail, delay or discontinue one or more of our research or development programs or the commercialization of our products or be unable to expand our operations or otherwise capitalize on our business opportunities, as desired, which could materially affect our business, financial condition and results of operations.

Risks Related to Our Business and Industry

The Company expects to incur substantial research and development costs and devote significant resources to identifying and commercializing new products and services, which could significantly reduce its profitability and may never result in revenue to the Company.

The Company's future growth depends on penetrating new markets, adapting existing products to new applications and introducing new products and services that achieve market acceptance. The Company plans to incur substantial research and development costs as part of its efforts to design, develop and commercialize new products and services and enhance its existing products. The Company believes that there are significant opportunities in a number of business areas. Because the Company accounts for research and development costs as operating expenses, these expenditures will adversely affect its earnings in the future. Further, the Company's research and development programs may not produce successful results, and its new products and services may not achieve market acceptance, create any additional revenue or become profitable, which could materially harm the Company's business, prospects, financial results and liquidity.

The Company's adoption of new business models could fail to produce any financial returns.

Forecasting the Company's revenues and profitability for new business models is inherently uncertain and volatile. The Company's actual revenues and profits for its business models may be significantly less than the Company's forecasts. Additionally, the new business models could fail for one or more of the Company's products or services, resulting in the loss of Company's investment in the development and infrastructure needed to support the new business models, and the opportunity cost of diverting management and financial resources away from more successful businesses.

The Company will be affected by operational risks and may not be adequately insured for certain risks.

The Company will be affected by a number of operational risks and the Company may not be adequately insured for certain risks, including labor disputes, catastrophic accidents, fires, blockades or other acts of social activism, changes in the regulatory environment, impact of non-compliance with laws and regulations and natural phenomena, such as inclement weather conditions, floods, earthquakes and ground movements. There is no assurance that the foregoing risks and hazards will not result in damage to, or destruction of, the Company's technologies, personal injury or death, environmental damage, adverse impacts on the Company's operation, costs, monetary losses, potential legal liability and adverse governmental action, any of which could have an adverse impact on the Company's future cash flows, earnings and financial condition. Also, the Company may be subject to or affected by liability or sustain loss for certain risks and hazards against which the Company cannot insure or which the Company may elect not to insure because of the cost. This lack of insurance coverage could have an adverse impact on the Company's future cash flows, earnings, results of operations and financial condition.

The Company operates in evolving markets, which makes it difficult to evaluate the Company's business and future prospects.

The Company's products are sold in rapidly evolving markets. The commercial unmanned aerial vehicle, or UAV, market is in early stages of customer adoption. In addition, the C-UAS market continues to evolve as geopolitical events that utilized C-UASs evolve. Accordingly, the Company's business and future prospects may be difficult to evaluate. The Company cannot accurately predict the extent to which demand for its products and services will increase, if at all. The challenges, risks and uncertainties frequently encountered by companies in rapidly evolving markets could impact the Company's ability to do the following:

- generate sufficient revenue to reach and maintain profitability;
- acquire and maintain market share;
- achieve or manage growth in operations;
- develop and renew contracts;
- attract and retain additional engineers and other highly-qualified personnel;
- successfully develop and commercially market new products;
- adapt to new or changing policies and spending priorities of governments and government agencies; and
- access additional capital when required and on reasonable terms.

If the Company fails to successfully address these and other challenges, risks and uncertainties, its business, results of operations and financial condition would be materially harmed.

The Company operates in a competitive market.

The Company faces competition and new competitors will continue to emerge throughout the world. Services offered by the Company's competitors may take a larger share of consumer spending than anticipated, which could cause revenue generated from the Company's products and services to fall below expectations. It is expected that competition in these markets will intensify.

If competitors of the Company develop and market more successful products or services, offer competitive products or services at lower price points, or if the Company does not produce consistently high-quality and well-received products and services, revenues, margins, and profitability of the Company will decline.

The Company's ability to compete effectively will depend on, among other things, the Company's pricing of services and equipment, quality of customer service, development of new and enhanced products and services in response to customer demands and changing technology, reach and quality of sales and distribution channels and capital resources. Competition could lead to a reduction in the rate at which the Company adds new customers, a decrease in the size of the Company's market share and a decline in its customers. Examples include but are not limited to competition from other companies in the UAV industry.

The markets in which the Company competes are characterized by rapid technological change, which requires the Company to develop new products and product enhancements in an agile manner, and could render the Company's existing products obsolete.

Continuing technological changes in the market for the Company's products could make its products less competitive or obsolete, either generally or for particular applications. The Company's future success will depend upon its ability to develop and introduce a variety of new capabilities and enhancements to its existing product and service offerings, as well as introduce a variety of new product offerings, to address the changing needs of the markets in which it offers products. Delays in introducing new products and enhancements, the failure to choose correctly among technical alternatives or the failure to offer innovative products or enhancements at competitive prices may cause existing and potential customers to purchase the Company's competitors' products.

If the Company is unable to devote adequate resources to develop new products or cannot otherwise successfully develop new products or enhancements that meet customer requirements on a timely basis, its products could lose market share, its revenue and profits could decline, and the Company could experience operating losses.

Under applicable employment laws, we may not be able to enforce covenants not to compete and therefore may be unable to prevent our competitors from benefiting from the expertise of some of our former employees.

We generally enter into non-competition agreements with our employees. These agreements prohibit our employees from competing directly with us or working for our competitors or clients for a limited period after they cease working for us. We may be unable to enforce these agreements under the laws of the jurisdictions in which our employees work and it may be difficult for us to restrict our competitors from benefiting from the expertise that our former employees or consultants developed while working for us. For example, 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 that 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.

Failure to obtain necessary regulatory approvals from the FAA, the Israeli Defense Export Control Agency within the Israeli Ministry of Defense, or DECA, or other governmental agencies, or limitations put on the use of small UAS in response to public privacy concerns, may prevent us from expanding the sales of our drone solutions to commercial and industrial customers in the United States.

The regulation of small UAS for commercial use in the United States is undergoing substantial change and the ultimate treatment is uncertain. In 2006, the FAA issued a clarification of its existing policies stating that in order to engage in commercial use of small UAS in the U.S. National Airspace System, a public operator must obtain a COA from the FAA or fly in restricted airspace. The FAA's COA approval process requires that the public operator certify the airworthiness of the aircraft for its intended purpose, that a collision with another aircraft or other airspace user is extremely improbable, that the small unmanned aircraft system complies with appropriate cloud and terrain clearances and that the operator or spotter of the small unmanned aircraft system is generally within one half-mile laterally and 400 feet vertically of the small unmanned aircraft system while in operation. Furthermore, the FAA's clarification of existing policy stated that the rules for radio-controlled hobby aircraft do not apply to public or commercial use of small UAS.

On February 14, 2012, the FAA Modernization and Reform Act of 2012 was enacted, establishing various deadlines for the FAA to allow expanded use of small UAS for both public and commercial applications. On June 21, 2016, the FAA released its final rules regarding the routine use of certain small UAS (under 55 pounds) in the U.S. National Airspace System pursuant to the act, or the Part 107 Rules. The Part 107 Rules, which became effective in August 2016, provided safety regulations for small UAS conducting non-recreational operations and contain various limitations and restrictions for such operations, including a requirement that operators keep UAS within visual-line-of-sight and prohibiting flights over unprotected people on the ground who are not directly participating in the operation of the UAS. On December 28, 2020, the FAA announced final rules requiring remote identification of drones and allowing operators of small drones to fly over people and at night under certain conditions. We cannot assure you that any final rules enacted in furtherance of the FAA's announced proposals will result in the expanded use of our solutions by commercial and industrial entities in the United States. In addition, there exists public concern regarding the privacy implications of U.S. commercial use of small UAS from foreign UAS manufacturers. This concern has included calls to develop explicit written policies and procedures establishing usage limitations. We cannot assure you that the response from regulatory agencies, customers and privacy advocates to these concerns will not delay or restrict the adoption of small UAS by the commercial use markets.

We may be subject, both directly and indirectly, to the adverse impact of existing and potential future government regulation of our products, technology, operations and markets. For example, the marketing and export of defense related equipment, services, 'know-how' are subject to DECA's regulation under the Defense Export Control Law, 5766-2007, or the Export Control Law and, collectively, Israeli Trade Control Laws, which impact our operations, for example by limiting our ability to sell, export, or otherwise transfer our products or technology, or to release controlled technology to non-Israeli companies. We may not be able to retain licenses and other authorizations required under the applicable Israeli Trade Control Laws. The failure to satisfy the requirements under the Israeli Trade Control Laws, including the failure or inability to obtain necessary licenses or qualify for license exceptions, could delay or prevent the development, production, export, import, and/or in-country transfer of our products and technology, which could adversely affect our revenues and profitability.

Failure to obtain necessary regulatory approvals from civil aviation authorities, or CAAs, or limitations put on the use of small UAV in response to public privacy concerns, may prevent the Company from expanding sales of its small UAV to non-military customers in various global regions, and may prevent the Company from testing or operating its aircraft and/or expanding its sales which could have an adverse impact on the Company's business, prospects, results of operations and financial condition.

We are subject to governmental regulation and other legal obligations in jurisdictions outside of the U.S., and our actual or perceived failure to comply with such obligations could adversely affect our business and operating results.

The regulatory framework for drone safety issues worldwide is rapidly evolving and is likely to remain uncertain for the foreseeable future. Our products are subject to a variety of laws and regulations, including regulation by various government agencies, such as the FAA, and foreign bodies and agencies such as Transport Canada, the European Union Aviation Safety Agency, or EASA, and the Civil Aviation Agency of Israel. The use of our products is also subject to certain authorization, certification and compliance requirements that vary depending on the jurisdiction in which our products are used. See "Item 4B. Business Overview — Government Regulation" for additional information.

We also expect that there will continue to be new proposed laws, regulations and industry standards concerning drone safety in the United States, Canada, the European Union and other jurisdictions, and we cannot yet determine the impact of such future laws, regulations and standards may have on our business. Changes in the regulatory laws and regulations may require the Company to adapt new regulations with respect to technology, business, and operation, therefore it may result in a loss of revenues for the Company. We expect that existing laws, regulations and standards may be interpreted differently in the future. Compliance with any new obligations imposed by government bodies and agencies depends in part on how particular regulators interpret and apply them. If we fail to comply with these obligations or if regulators assert that we have failed to comply with these obligations, we may be subject to certain fines, sanctions, or other penalties, as well as litigation. Further, it could hinder the Company's ability to retain existing customers and attract new customers, particularly if our products were perceived to be less compliant than our competitors' products, which would have a material adverse impact on the Company's prospects.

Additionally, many foreign countries and governmental bodies, including the European Union, India and numerous other jurisdictions in which we operate or conduct our business, have laws and regulations concerning the collection, use, processing, storage and deletion of personal information obtained from their residents or by businesses operating within their jurisdiction that may be implicated by the use of our products. These laws and regulations often are more restrictive than those in the United States and heightened concerns over privacy and data protection may lead to restrictions that make the use of our products more difficult. In addition to government regulation, privacy advocates and industry groups may propose new and different self-regulatory standards that may apply to us. See "Item 4B — Business Overview — Government Regulation" for additional information.

Future laws, regulations, standards and other obligations, as well as changes in the interpretation of existing laws, regulations, standards and other obligations could make incorporating our solutions into drones and using our products more difficult, which could decrease demand for our products, require us to restrict our business operations, increase our costs and impair our ability to maintain and grow our customer base and increase our revenue. Any inability to adequately address safety and privacy concerns, even if unfounded, or comply with applicable laws, regulations, policies, industry standards, contractual obligations or other legal obligations could result in additional cost and liability to us, damage our reputation, inhibit sales, and adversely affect our business and operating results.

We are subject to Israeli and U.S. government inquiries and investigations, including periodic audits of costs that we determine are reimbursable under U.S. government contracts.

Under the Export Control Law, the Israeli Ministry of Defense and DECA have various audit and supervision powers to ensure compliance with the Export Control Law, to which violations are subject to criminal and administrative penalties. We are also required to submit periodic reports to DECA, and to maintain and retain records as to the information and documents pertaining to defense export transactions conducted.

U.S. government agencies, including the Defense Contract Audit Agency and the Defense Contract Management Agency, routinely audit government contractors. These agencies review our performance under contracts, cost structure and compliance with applicable laws, regulations and standards, as well as the adequacy of and our compliance with our internal control systems and policies. Any costs found to be misclassified or inaccurately allocated to a specific contract will be deemed non-reimbursable, and to the extent already reimbursed, must be refunded. Any inadequacies in our systems and policies could result in withholds on billed receivables, penalties and reduced future business. Furthermore, if any audit, inquiry or investigation uncovers improper or illegal activities, we could be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines and suspension or debarment from doing business with the U.S. government. We also could suffer reputational harm if allegations of impropriety were made against us, even if such allegations are later determined to be false.

We are subject to governmental export and import and marketing controls in Israel and in the United States that could subject us to liability in the event of non-compliance or impair our ability to compete in international markets.

We are also subject to U.S. and Israeli export control and economic sanctions laws, which prohibit the delivery and sale of certain products to embargoed or sanctioned countries, governments and persons. Our products could be exported to these sanctioned targets by our channel partners despite their contractual undertakings and any such export could have negative consequences, including government investigations, penalties and reputational harm.

In addition, we are subject to defense-related export controls. For example, currently certain of our products are subject to supervision under the Export Control Law. Under the Export Control Law, an Israeli company may not conduct “defense marketing activity” without a defense marketing license from the Israeli Ministry of Defense, and may be subject to a requirement to obtain a specific license from the Israeli Ministry of Defense for any export of defense related products and/or knowhow. The definition of defense marketing activity is broad and includes any marketing of “defense equipment,” “defense knowhow” or “defense services” outside of Israel, which includes “dual-use goods and technology,” (material and equipment intended in principle for civilian use and that can also be used for defensive purposes, such as certain of our products) that is specified in the list of Goods and Dual-Use Technology annexed to the Wassenaar Arrangement on Export Controls for Conventional Arms and Dual-Use Goods and Technologies, if intended for defense use only, or is specified under Israeli legislation. “Dual-use goods and technology” will be subject to control by the Israeli Ministry of Economy if intended for civilian use only.

We could be subject to liability in the event of non-compliance or impair our ability to compete in international markets (including, if we fail to submit periodic reports to DECA or to maintain and retain records as to the information and documents pertaining to defense export transactions conducted.

Furthermore, any change in export or import regulations, economic sanctions or related legislation, shift in the enforcement or scope of existing regulations, or change in the countries, governments, persons or technologies targeted by such regulations, could result in decreased use of our products by, or in our decreased ability to export or sell our products to, existing or potential customers with international operations. Any decreased use of our products or limitation on our ability to export or sell our products would likely adversely affect our business, financial condition and results of operations.

Failure to make competitive technological advances will put us at a disadvantage and may lead to negative operational and financial outcome.

The Company is focused on the development and application of drone technologies. Technology markets, by their very nature, are continually evolving. Particularly, the market of drone technologies may become increasingly competitive. To succeed, the company will need to research and develop enhancements to its existing suite of products and services, as well as new products and services that are suitable for existing applications of drone technology and new applications that might not yet exist.

There is no guarantee that the Company’s research and development activities will meet the changing needs of its customer markets. At the same time, products and technologies developed by others may render the Company’s products and technology obsolete or non-competitive which could materially adversely affect the business, operating results and financial prospects of the Company.

If we fail to offer high-quality products or customer service, our business and reputation could suffer.

The Company believes global branding is critical for the long-term success of the Company's business. We will continue to differentiate ourselves from our competitors through our commitment to a high-quality products and customer experience. Accordingly, high-quality products and customer service are important for the growth of our business and any failure to maintain such standards, or a related market perception, could affect our ability to sell products and services to existing and prospective customers.

Negative commentary or complaints may have a damaging impact on the Company's ability to achieve its business objectives. Further, as the Company's business model is based on recurring revenue arising from technology users and customers, poor user experiences may result in loss of customers, adverse publicity, litigation, regulatory enquiries and reduction of use of the Company's products.

Our products and certain projects have lengthy sales cycles that make it difficult to plan our expenses and forecast results.

The Company primarily markets its products and services to original equipment manufacturers, or OEMs, which are usually characterized by long sales cycles. Accordingly, the sales cycle can be long, and it can take months and years to close significant transactions, whilst remaining subject to changes in regulatory environments and customers' budgets. More specifically, the Company may incur costs in connection with its marketing activities with potential customers that may not be recovered.

The Company mitigates these risks through its diversified business model and client base to ensure that it has a mix of ongoing revenue, whilst also building its commercial position in the commercial drone industry. However, the effectiveness of such mitigation efforts is difficult to predict.

The Company's commercial opportunity could be reduced if our competitors develop and commercialize products or services that offer better performance or are more cost-effective to use than our products or services.

The markets in which the Company operates are particularly competitive due to the lucrative nature of the contracts and contacts available within the commercial and industrial drone industries. The performance of the Company could be adversely affected if existing or new competitors reduce their market share through technology development, marketing and increased product or technology offerings or through price reduction for alternatives.

The Company may be subject to the risks associated with future acquisitions.

As part of the Company's overall business strategy, the Company may pursue select strategic acquisitions that would provide additional product or service offerings, additional industry expertise, and a stronger industry presence in both existing and new jurisdictions. Any such future acquisitions, if completed, may expose the Company to additional potential risks, including risks associated with: (a) the integration of new operations, services and personnel; (b) unforeseen or hidden liabilities; (c) the diversion of resources from the Company's existing business and technology; (d) potential inability to generate sufficient revenue to offset new costs; (e) the expenses of acquisitions; or (f) the potential loss of or harm to relationships with both employees and existing users resulting from its integration of new businesses. In addition, any proposed acquisitions may be subject to regulatory approval.

The Company's inability to retain management and key employees could impair the future success of the Company.

The Company's future success depends substantially on the continued services of its executive officers and its key development personnel. If one or more of its executive officers or key development personnel were unable or unwilling to continue in their present positions, the Company might not be able to replace them easily or at all. In addition, if any of its executive officers or key employees joins a competitor or forms a competing company, the Company may lose experience, know-how, key professionals and staff members as well as business partners. These executive officers and key employees could develop drone technologies that could compete with and take customers and market share away from the Company.

The Company may not be able to successfully manage its planned growth and expansion.

We expect to continue to make investments in our products in development and our products that we have started to commercialize. We expect that our annual operating expenses will continue to increase as we invest in business development, marketing, research and development, manufacturing and production infrastructure, and develop customer service and support resources for future customers. Failure to expand operational and financial systems timely or efficiently may result in operating inefficiencies, which could increase costs and expenses to a greater extent than we anticipate and may also prevent us from successfully executing our business plan. We may not be able to offset the costs of operation expansion by leveraging the economies of scale from our growth in negotiations with our suppliers and contract manufacturers. Additionally, if we increase our operating expenses in anticipation of the growth of our business and this growth falls short of our expectations, our financial results will be negatively impacted.

If our business grows, we will have to manage additional product design projects, materials procurement processes, and sales efforts and marketing for an increasing number of products, as well as expand the number and scope of our relationships with suppliers, distributors and end customers. If the Company fails to manage these additional responsibilities and relationships successfully, we may incur significant costs, which may negatively impact our operating results. Additionally, in our efforts to be first to market with new products with innovative functionality and features, we may devote significant research and development resources to products and product features for which a market does not develop quickly, or at all. If we are not able to predict market trends accurately, the Company may not benefit from such research and development activities, and our results of operations may suffer.

As our future development and commercialization plans and strategies develop, we expect to need additional managerial, operational, sales, marketing, financial and legal personnel. Our management may need to divert a disproportionate amount of its attention away from our day-to-day activities and devote a substantial amount of time to managing these growth activities. In particular, a period of significant growth in the number of personnel could place a strain upon the Company's management systems and resources. We may not be able to effectively manage the expansion of our operations, which may result in weaknesses in our infrastructure, operational mistakes, loss of business opportunities, failure to deliver and timely deliver our products to customers, loss of employees and reduced productivity among remaining employees. Our expected growth could require significant capital expenditures and may divert financial resources from other projects, such as the development of additional new products.

The Company's future will depend in part on the ability of its officers and other key employees to implement and improve financial and management controls, reporting systems and procedures on a timely basis and to expand, train, motivate and manage its workforce. The Company's current and planned personnel, systems, procedures and controls may be inadequate to support its future operations. If our management is unable to effectively manage our growth, our expenses may increase more than expected, our ability to generate and/or grow revenue could be reduced, and we may not be able to implement our business strategy.

The Company faces uncertainty and adverse changes in the economy.

Adverse changes in the economy could negatively impact the Company's business. Future economic distress may result in a decrease in demand for the Company's products, which could have a material adverse impact on the Company's operating results and financial condition. Uncertainty and adverse changes in the economy could also increase costs associated with developing and publishing products, increase the cost and decrease the availability of sources of financing, and increase the Company's exposure to material losses from bad debts, any of which could have a material adverse impact on the financial condition and operating results of the Company.

The Company's operating results and financial condition may fluctuate.

Even if the Company is successful in marketing its products to the market, its operating results and financial condition may fluctuate from quarter to quarter and year to year and are likely to continue to vary due to several factors, many of which will not be within the Company's control. If the Company's operating results do not meet the guidance that we provide to the marketplace or the expectations of securities analysts or investors, the market price of the ordinary shares will likely decline. Fluctuations in the Company's operating results and financial condition may be due to several factors, including those listed below and those identified throughout this "Risk Factors" section:

- the degree of market acceptance of our products and services;

- the mix of products and services that we sell during any period;
- long sale cycles;
- changes in the amount that we spend to develop, acquire or license new products, technologies or businesses;
- changes in the amounts that we spend to promote our products and services;
- changes in the cost of satisfying our warranty obligations and servicing our installed base of systems;
- delays between our expenditures to develop and market new or enhanced systems and consumables and the generation of sales from those products;
- development of new competitive products and services by others;
- difficulty in predicting sales patterns and reorder rates that may result from a multi-tier distribution strategy associated with new product categories;
- litigation or threats of litigation, including intellectual property claims by third parties;
- changes in accounting rules and tax laws;
- changes in regulations and standards;
- the geographic distribution of our sales;
- our responses to price competition;
- general economic and industry conditions that affect end-user demand and end-user levels of product design and manufacturing;
- changes in interest rates that affect returns on our cash balances and short-term investments;
- changes in dollar-shekel exchange rates that affect the value of our net assets, future revenues and expenditures from and/or relating to our activities carried out in those currencies; and
- the level of research and development activities by our company.

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 ordinary shares 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.

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, 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.

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.

If critical components or raw materials used to manufacture the Company's products become scarce or unavailable, then the Company may incur delays in manufacturing and delivery of its products, which could damage its business.

The Company obtains hardware components, various subsystems and systems from a limited group of suppliers. The Company does not have long-term agreements with any of these suppliers that obligate it to continue to sell components, subsystems, systems or products to the Company. The Company's reliance on these suppliers involves significant risks and uncertainties, including whether its suppliers will provide an adequate supply of required components, subsystems or systems of sufficient quality, will increase prices for the components, subsystems or systems and will perform their obligations on a timely basis.

In addition, certain raw materials and components used in the manufacture of the Company's products are periodically subject to supply shortages, and its business is subject to the risk of price increases and periodic delays in delivery. In particular, a number of the Company's product designs incorporate a parachute which the Company sources from a limited number of suppliers. Similarly, the market for electronic components is subject to cyclical reductions in supply. If the Company is unable to obtain components from third-party suppliers in the quantities and of the quality that it requires, on a timely basis and at acceptable prices, then it may not be able to deliver its products on a timely or cost-effective basis to its customers, which could cause customers to terminate their contracts with the Company, increase the Company's costs and seriously harm its business, results of operations and financial condition. Moreover, if any of the Company's suppliers become financially unstable, then it may have to find new suppliers. It may take several months to locate alternative suppliers, if required, or to redesign the Company's products to accommodate components from different suppliers. The Company may experience significant delays in manufacturing and shipping its products to customers and incur additional development, manufacturing and other costs to establish alternative sources of supply if the Company loses any of these sources or is required to redesign its products. The Company cannot predict if it will be able to obtain replacement components within the time frames that it requires at an affordable cost, if at all.

The Company's products may be subject to recall or return.

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, safety concerns, packaging issues and inadequate or inaccurate labeling disclosure. If any of the Company's equipment were to be recalled due to an alleged product defect, safety concern or for any other reason, the Company could be required to incur unexpected expenses of the recall and any legal proceedings that might arise in connection with the recall. The Company may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management time and attention. Additionally, product recalls may lead to increased scrutiny of the Company's operations by regulatory agencies, requiring further management time and attention and potential legal fees, costs and other expenses.

If the Company releases defective products or services, its operating results could suffer.

Products and services designed and released by the Company involve extremely complex software programs and physical products, which are difficult to develop and distribute. While the Company has quality controls in place to detect and prevent defects in its products and services before they are released, these quality controls are subject to human error, overriding, and reasonable resource constraints. Therefore, these quality controls and preventative measures may not be effective in detecting and preventing defects in the Company's products and services before they have been released into the marketplace. In such an event, the Company could be required, or decide voluntarily, to suspend the availability of the product or services, which could significantly harm its business and operating results.

The Company's products and services are complex and could have unknown defects or errors, which may give rise to legal claims against the Company, diminish its brand or divert its resources from other purposes.

The Company's products rely on complex avionics, sensors, user-friendly interfaces and tightly integrated, electromechanical designs to accomplish their missions. Despite testing, the Company's products have contained defects and errors and may in the future contain defects, errors or performance problems when first introduced, when new versions or enhancements are released or even after these products have been used by the Company's customers for a period of time. These problems could result in expensive and time-consuming design modifications or warranty charges, delays in the introduction of new products or enhancements, significant increases in the Company's service and maintenance costs, exposure to liability for damages, damaged customer relationships and harm to the Company's reputation, any of which could materially harm the Company's results of operations and ability to achieve market acceptance. In addition, increased development and warranty costs could be substantial and could significantly reduce the Company's operating margins.

As a manufacturer of UAV products, and with aircraft and aviation sector companies under increased scrutiny, claims could be brought against us if use or misuse of one of our UAV products causes, or merely appears to have caused, personal injury or death. In addition, defects in our products may lead to other potential life, health and property risks, the results of which could significantly damage the Company's reputation and support for its UAV products in general. The existence of any defects, errors or failures in the Company's products or the misuse of the Company's products could also lead to product liability claims or lawsuits against it. Any claims against the Company, regardless of their merit, could severely harm the Company's financial condition and strain its management and other resources. The Company anticipates these risks will grow as use of its UAVs in domestic airspace and urban areas increases. The Company's UAV test systems also have the potential to cause injury, death or property damage if they are misused, malfunction or fail to operate properly due to unknown defects or errors.

Although the Company maintains insurance policies, it cannot provide any assurance that this insurance will be adequate to protect the Company from all material judgments and expenses related to potential future claims or that these levels of insurance will be available in the future at economical prices or at all. In particular, we are unable to predict if we will be able to obtain or maintain product liability insurance for any products that may be approved for marketing. A successful product liability claim could result in substantial cost to the Company. Even if the Company is fully insured as it relates to a particular claim, the claim could nevertheless diminish the Company's brand and divert management's attention and resources, which could have a negative impact on the Company's business, financial condition and results of operations.

Shortfalls in available external research and development funding could adversely affect the Company.

The Company depends on its research and development activities to develop the core technologies used in its UAV products and for the development of the Company's future products. A portion of the Company's research and development activities can depend on funding by commercial companies and the Israeli government. Israeli government and commercial spending levels can be impacted by a number of variables, including general economic conditions, specific companies' financial performance and competition for Israeli government funding. Any reductions in available research and development funding could harm the Company's business, financial condition and operating results.

Negative consumer perception regarding the Company's products could have a material adverse effect on the demand for the Company's products and the business, results of operations, financial condition and cash flows of the Company.

The Company believes the UAV industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the products used. Consumer perception of these products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the use of UAV. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other publicity will be favorable to the UAV market. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Company's products and the business, results of operations, financial condition and cash flows of the Company. The dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on the Company, the demand for the Company's products, and the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding the safety, the efficacy, and quality of UAV based surveys in general, or the Company's products specifically, could have a material adverse effect.

If the Company fails to successfully promote its product brand, this could have a material adverse effect on the Company's business, prospects, financial condition and results of operations.

The Company believes that brand recognition is an important factor to its success. If the Company fails to promote its brands successfully, or if the expenses of doing so are disproportionate to any increased net sales it achieves, it would have a material adverse effect on the Company's business, prospects, financial condition and results of operations. This will depend largely on the Company's ability to maintain trust, be a technology leader, and continue to provide high-quality and secure technologies, products and services. Any negative publicity about the Company or its industry, the quality and reliability of the Company's technologies, products and services, the Company's risk management processes, changes to the Company's technologies, products and services, its ability to effectively manage and resolve customer complaints, its privacy and security practices, litigation, regulatory activity, and the experience of sellers and buyers with the Company's products or services, could adversely affect the Company's reputation and the confidence in and use of the Company's technologies, products and services. Harm to the Company's brand can arise from many sources, including; failure by the Company or its partners to satisfy expectations of service and quality; inadequate protection of sensitive information; compliance failures and claims; litigation and other claims; employee misconduct; and misconduct by the Company's partners, service providers, or other counterparties. If the Company does not successfully maintain a strong and trusted brand, its business could be materially and adversely affected.

The Company may be subject to electronic communication security risks.

A significant potential vulnerability of electronic communications is the security of transmission of confidential information over public networks. Anyone who is able to circumvent the Company's security measures could misappropriate proprietary information or cause interruptions in its operations. The Company may be required to expend capital and other resources to protect against such security breaches or to alleviate problems caused by such breaches.

The Company's business could be adversely affected if its consumer protection and data privacy practices are not perceived as adequate or there are breaches of its security measures or unintended disclosures of its consumer data.

The rate of privacy law-making is accelerating globally and interpretation and application of consumer protection and data privacy laws in Israel, the United States and elsewhere are often uncertain, contradictory and in flux. As business practices are being challenged by regulators, private litigants and consumer protection agencies around the world, it is possible that these laws may be interpreted and applied in a manner that is inconsistent with the Company's data and/or consumer protection practices. This could result in increased litigation, government or court-imposed fines, judgments or orders requiring that the Company change its practices, which could have an adverse effect on its business and reputation. Complying with these various laws could cause the Company to incur substantial costs or require it to change its business practices in a manner adverse to its business.

Significant disruptions of our information technology systems or breaches of our data security could adversely affect our business.

A significant invasion, interruption, destruction or breakdown of the Company's information technology systems and/or infrastructure by persons with authorized or unauthorized access could negatively impact our business and operations. The Company could also experience business interruption, information theft and/or reputational damage from cyber-attacks, which may compromise our systems and lead to data leakage either internally or at our third-party providers. The Company's systems are expected to be the target of malware and other cyber-attacks. Although we have invested in measures to reduce these risks, we cannot assure you that these measures will be successful in preventing compromise and/or disruption of our information technology systems and related data.

The Company relies on its business partners, and they may be given access to sensitive and proprietary information in order to provide services and support to the Company's teams.

The Company does not rely on licensing partners and licensees but instead relies on sale, collaboration and other arrangements with third-party service providers, vendors and development partners that purchase the Company's products and then seek regulatory approval for the combined use of their drones with the Company's products. The Company has no licensing agreements or arrangements with, and does not receive any royalty payments from, any parties, except for one license agreement for the out-license of software previously developed by the Company for the production of its hardware, which has generated an immaterial amount of revenue. In some cases, third parties are given access to sensitive and proprietary information in order to provide services and support to the Company. These third parties may misappropriate the Company's information and engage in unauthorized use of it. The failure of these third parties to provide adequate services and technologies, or the failure of the third parties to adequately maintain or update their services and technologies, could result in a disruption to the Company's business operations. Further, disruptions in the financial markets and economic downturns may adversely affect the Company's business partners and they may not be able to continue honoring their obligations to the Company. Alternative arrangements and services may not be available to the Company on commercially reasonable terms or the Company may experience business interruptions upon a transition to an alternative partner or vendor. If the Company loses one or more significant business partners, the Company's business could be harmed.

Executive officers and directors may have rights to indemnification from the Company, including pursuant to directors' and officers' liability insurance policies, that will survive termination of their agreements.

Our planned international operations will expose us to additional market and operational risks, and failure to manage these risks may adversely affect our business and operating results.

We expect to derive a substantial percentage of our sales from international markets. Accordingly, we will face significant operational risks from doing business internationally, including:

- fluctuations in foreign currency exchange rates;
- potentially longer sales and payment cycles;
- potentially greater difficulties in collecting accounts receivable;
- potentially adverse tax consequences;
- reduced protection of intellectual property rights in certain countries, particularly in Asia and South America;
- difficulties in staffing and managing foreign operations;
- laws and business practices favoring local competition;
- costs and difficulties of customizing products for foreign countries;
- compliance with a wide variety of complex foreign laws, treaties and regulations;

- an outbreak of a contagious disease, such as coronavirus, which may cause us, third party vendors and manufacturers and/or customers to temporarily suspend our or their respective operations in the affected city or country;
- tariffs, trade barriers and other regulatory or contractual limitations on our ability to sell or develop our products in certain foreign markets; and
- being subject to the laws, regulations and the court systems of many jurisdictions.

Further, international trade conflicts could have negative consequences on the demand for our products and services outside Israel. Other risks of doing business internationally include political and economic instability in the countries of our customers and suppliers, changes in diplomatic and trade relationships and increasing instances of terrorism worldwide. Some of these risks may be affected by Israel's overall political situation. See "Item 3D. — Risk Factors — Risks Related to Our Incorporation, Location and Operations in Israel" for further information.

The Company's failure to manage the market and operational risks associated with its international operations effectively could limit the future growth of the Company's business and adversely affect our operating results.

Scrutiny of sustainability and environmental, social, and governance, or 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 Our Intellectual Property

If we are unable to obtain and maintain effective intellectual property rights for our products, we may not be able to compete effectively in our markets.

Historically, we have relied on patents, trade secret protection and confidentiality agreements to protect the intellectual property related to our technologies and products. Our success depends in large part on our ability to obtain and maintain patent and other intellectual property protection in the United States and in other countries with respect to our proprietary technology and new products.

We have sought to protect our proprietary position by filing patent applications in Israel, the United States and in other countries, with respect to our novel technologies and products, which are important to our business. Patent prosecution is expensive and time consuming, and we may not be able to file and prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner. It is also possible that we will fail to identify patentable aspects of our research and development output before it is too late to obtain patent protection.

Our patent portfolio consists of an aggregate of twenty four (24) patents and patent applications, as described in "Item 4.B — Business Overview — Intellectual Property". We cannot offer any assurances about which, if any, patent applications will issue, the breadth of any such patent or whether any issued patents will be found invalid and unenforceable or will be threatened by third parties. Any successful opposition to these patents or any other patents owned by or licensed to us after patent issuance could deprive us of rights necessary for the successful commercialization of any new products that we may develop.

Further, there is no assurance that all potentially relevant prior art relating to our patent applications has been found, which can invalidate a patent or prevent a patent from issuing from a pending patent application. Even if patents do successfully issue, and even if such patents cover our products, third parties may challenge their validity, enforceability, or scope, which may result in such patents being narrowed, found unenforceable or invalidated. Furthermore, even if they are unchallenged, our patent applications and any future patents may not adequately protect our intellectual property, provide exclusivity for our new products, or prevent others from designing around our claims. Any of these outcomes could impair our ability to prevent competition from third parties, which may have an adverse impact on our business.

If we cannot obtain and maintain effective patent rights for our products, we may not be able to compete effectively, and our business and results of operations would be harmed.

Intellectual property rights of third parties could adversely affect our ability to commercialize our products, and we might be required to litigate or obtain licenses from third parties in order to develop or market our product candidates. Such litigation or licenses could be costly or not available on commercially reasonable terms.

It is inherently difficult to conclusively assess our freedom to operate without infringing on third party rights. Our competitive position may be adversely affected if existing patents or patents resulting from patent applications issued to third parties or other third-party intellectual property rights are held to cover our products or elements thereof, or our manufacturing or uses relevant to our development plans. In such cases, we may not be in a position to develop or commercialize products or our product candidates unless we successfully pursue litigation to nullify or invalidate the third-party intellectual property right concerned or enter into a license agreement with the intellectual property right holder, if available on commercially reasonable terms. There may also be pending patent applications that if they result in issued patents, could be alleged to be infringed by our new products. If such an infringement claim should be brought and be successful, we may be required to pay substantial damages, be forced to abandon our new products or seek a license from any patent holders. No assurances can be given that a license will be available on commercially reasonable terms, if at all.

It is also possible that we have failed to identify relevant third-party patents or applications. For example, U.S. patent applications filed before November 29, 2000 and certain U.S. patent applications filed after that date that will not be filed outside the United States remain confidential until patents issue. Patent applications in the United States and in most of the other countries are published approximately 18 months after the earliest filing for which priority is claimed, with such earliest filing date being commonly referred to as the priority date. Therefore, patent applications covering our new products or platform technology could have been filed by others without our knowledge. Additionally, pending patent applications which have been published can, subject to certain limitations, be later amended in a manner that could cover our platform technologies, our new products or the use of our new products. Third party intellectual property right holders may also actively bring infringement claims against us. We cannot guarantee that we will be able to successfully settle or otherwise resolve such infringement claims. If we are unable to successfully settle future claims on terms acceptable to us, we may be required to engage in or continue costly, unpredictable and time-consuming litigation and may be prevented from or experience substantial delays in pursuing the development of and/or marketing our new products. If we fail in any such dispute, in addition to being forced to pay damages, we may be temporarily or permanently prohibited from commercializing our new products that are held to be infringing. We might, if possible, also be forced to redesign our new products so that we no longer infringe the third party's intellectual property rights. Any of these events, even if we were ultimately to prevail, could require us to divert substantial financial and management resources that we would otherwise be able to devote to our business.

Patent policy and rule changes could increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of any issued patents.

Changes in either the patent laws or interpretation of the patent laws in the United States and other countries may diminish the value of any patents that may issue from our patent applications or narrow the scope of our patent protection. The laws of foreign countries may not protect our rights to the same extent as the laws of the United States. Publications of discoveries in the scientific literature often lag behind the actual discoveries, and patent applications in the United States and other jurisdictions are typically not published until 18 months after filing, or in some cases not at all. We therefore cannot be certain that we were the first to file the invention claimed in our owned and licensed patent or pending applications, or that we or our licensor were the first to file for patent protection of such inventions. Assuming all other requirements for patentability are met, in the United States prior to March 15, 2013, the first to make the claimed invention without undue delay in filing is entitled to the patent, while outside the United States, the first to file a patent application is entitled to the patent. Since March 15, 2013, the United States has moved to a first to file system. Changes to the way patent applications will be prosecuted could increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of any issued patents, all of which could have a material adverse effect on our business and financial condition.

We may be involved in lawsuits to protect or enforce our intellectual property, which could be expensive, time consuming, and unsuccessful.

Competitors may infringe our intellectual property. If we were to initiate legal proceedings against a third party to enforce a patent covering one of our new products, the defendant could counterclaim that the patent covering our product candidate is invalid and/or unenforceable. In patent litigation in the United States, defendant counterclaims alleging invalidity and/or unenforceability are commonplace. Grounds for a validity challenge could be an alleged failure to meet any of several statutory requirements, including lack of novelty, obviousness, or non-enablement. Grounds for an unenforceability assertion could be an allegation that someone connected with prosecution of the patent withheld relevant information from the United States Patent and Trademark Office, or USPTO, or made a misleading statement, during prosecution. The validity of U.S. patents may also be challenged in post-grant proceedings before the USPTO. The outcome following legal assertions of invalidity and unenforceability is unpredictable.

Derivation proceedings initiated by third parties or brought by us may be necessary to determine the priority of inventions and/or their scope with respect to our patent or patent applications or those of our licensors. An unfavorable outcome could require us to cease using the related technology or to attempt to license rights to it from the prevailing party. Our business could be harmed if the prevailing party does not offer us a license on commercially reasonable terms. Our defense of litigation or interference proceedings may fail and, even if successful, may result in substantial costs and distract our management and other employees. In addition, the uncertainties associated with litigation could have a material adverse effect on our ability to raise the funds necessary to continue our research programs, license necessary technology from third parties, or enter into development partnerships that would help us bring our new products to market.

Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation. There could also 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 material adverse effect on the price of our ordinary shares.

We may be subject to claims challenging the inventorship of our intellectual property.

We may be subject to claims that former employees, collaborators or other third parties have an interest in, or right to compensation, with respect to our current patent and patent applications, future patents or other intellectual property as an inventor or co-inventor. For example, we may have inventorship disputes arise from conflicting obligations of consultants or others who are involved in developing our products. Litigation may be necessary to defend against these and other claims challenging inventorship or claiming the right to compensation. If we fail in defending any such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights, such as exclusive ownership of, or right to use, valuable intellectual property. Such an outcome could have a material adverse effect on our business. Even if we are successful in defending against such claims, litigation could result in substantial costs and be a distraction to management and other employees.

We may not be able to protect our intellectual property rights throughout the world.

Filing, prosecuting, and defending patents on products, as well as monitoring their infringement in all countries throughout the world would be prohibitively expensive, and our intellectual property rights in some countries can be less extensive than those in the United States. In addition, the laws of some foreign countries do not protect intellectual property rights to the same extent as federal and state laws in the United States.

A substantial part of the commercial success of the Company will depend on its ability to maintain, establish and protect its intellectual property assets, maintain trade secret protection, register copyrights and trademarks, and operate without infringing the proprietary rights of third parties. Our patent portfolio consists of an aggregate of twenty four (24) patents and patent applications, as described in “Item 4.B. — Business Overview — Intellectual Property.” We cannot assure investors that any of our currently pending or future patent applications will result in issued patents and we cannot predict how long it will take for such patent applications to issue as patents. There is a further risk that the claims of each patent application, as filed, may change in scope during examination by the patent offices. Further, if and where a patent is granted, there can be no guarantee that such patent will be valid or enforceable or that the patent will be granted in other jurisdictions.

Competitors may use our technologies in jurisdictions where we have not obtained patent protection to develop their own products and may also export otherwise infringing products to territories where we have patent protection, but enforcement is not as strong as that in the United States. These products may compete with our products. Future patents or other intellectual property rights may not be effective or sufficient to prevent them from competing.

Many companies have encountered significant problems in protecting and defending intellectual property rights in foreign jurisdictions. The legal systems of certain countries, particularly certain developing countries, do not favor the enforcement of patents, trade secrets, and other intellectual property protection, which could make it difficult for us to stop the marketing of competing products in violation of our proprietary rights generally. Proceedings to enforce our patent rights in foreign jurisdictions, whether or not successful, could result in substantial costs and divert our efforts and attention from other aspects of our business, could put our future patents at risk of being invalidated or interpreted narrowly and our patent applications at risk of not issuing and could provoke third parties to assert claims against us. We may not prevail in any lawsuits that we initiate, and the damages or other remedies awarded, if any, may not be commercially meaningful. Accordingly, our efforts to monitor and enforce our intellectual property rights around the world may be inadequate to obtain a significant commercial advantage from intellectual property that we develop or license.

We may become subject to claims for remuneration or royalties for assigned service invention rights by our employees, which could result in litigation and adversely affect our business.

A significant portion of our intellectual property has been developed by our employees in the course of their employment for us. Under the Israeli Patent Law, 5727-1967, or the Patent Law, inventions conceived by an employee during the scope of his or her employment with a company are regarded as “service inventions,” which belong to the employer, absent an agreement between the employee and employer providing otherwise. The Patents Law also provides that if there is no agreement between an employer and an employee determining whether the employee is entitled to receive consideration for service inventions and on what terms, this will be determined by the Israeli Compensation and Royalties Committee, or the Committee, a body constituted under the Patents Law. Case law clarifies that the right to receive consideration for “service inventions” can be waived by the employee and that in certain circumstances, such waiver does not necessarily have to be explicit. The Committee will examine, on a case-by-case basis, the general contractual framework between the parties, using interpretation rules of the general Israeli contract laws. Further, the Committee has not yet determined one specific formula for calculating this remuneration, but rather uses the criteria specified in the Patents Law. Although we generally enter into agreements with our employees pursuant to which such individuals assign to us all rights to any inventions created during and as a result of their employment with us, we may face claims demanding remuneration in consideration for assigned inventions. As a consequence of such claims, we could be required to pay additional remuneration or royalties to our current and/or former employees, or be forced to litigate such monetary claims (which will not affect our proprietary rights), which could negatively affect our business.

Risks Related to the Ownership of Our Ordinary Shares

The market price for our ordinary shares may be volatile or may decline regardless of our operating performance.

The market price of our ordinary shares may be highly volatile and may fluctuate or decline substantially as a result of a variety of factors, many of which are beyond our control, including:

- actual or anticipated changes or fluctuations in our results of operations;
- the guidance we may provide to analysts and investors from time to time, and any changes in, or our failure to perform in line with, such guidance;
- announcements by us or our competitors of new offerings or new or terminated contracts, commercial relationships or capital commitments;

- industry or financial analyst or investor reaction to our press releases, other public announcements, and filings with the SEC;
- rumors and market speculation involving us or other companies in our industry;
- future sales or expected future sales of our ordinary shares;
- investor perceptions of us and the industries in which we operate;
- price and volume fluctuations in the overall stock market from time to time;
- changes in operating performance and stock market valuations of other technology companies generally, or those in our industry in particular;
- failure of industry or financial analysts to maintain coverage of us, the issuance of new or updated reports or recommendations by any analysts who follow our company, or our failure to meet the expectations of investors;
- actual or anticipated developments in our business or our competitors' businesses or the competitive landscape generally;
- litigation involving us, other companies in our industry or both, or investigations by regulators into our operations or those of our competitors;
- developments or disputes concerning our intellectual property or proprietary rights or our solutions, or third-party intellectual or proprietary rights;
- announced or completed acquisitions of businesses or technologies, or other strategic transactions by us or our competitors;
- actual or perceived breaches of, or failures relating to, privacy, data protection or data security;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- actual or anticipated changes in our management or our board of directors;
- general economic conditions and slow or negative growth of our target markets; and
- other events or factors, including those resulting from war, incidents of terrorism or responses to these events.

Furthermore, the stock market has experienced extreme volatility that in some cases has been unrelated or disproportionate to the operating performance of particular companies. These and other factors may cause the market price and demand for our ordinary shares to fluctuate substantially, which may limit or prevent investors from readily selling their shares and may otherwise negatively affect the liquidity of our ordinary shares. In addition, in the past, when the market price of a stock has been volatile, holders of that stock have sometimes instituted securities class action litigation against the company that issued the stock. If any of our shareholders were to bring a lawsuit against us, we could incur substantial costs defending the lawsuit. Such a lawsuit could also divert the time and attention of our management from our business.

We have never paid, and we currently do not intend to pay dividends.

We have never declared or paid any cash dividends on our ordinary shares. We currently intend to retain any future earnings to finance operations and to expand our business and, therefore, do not expect to pay any cash dividends in the foreseeable future. As a result, capital appreciation, if any, of our ordinary shares will be investors' sole source of gain for the foreseeable future. In addition, Israeli law may limit our declaration or payment of dividends and may subject our dividends to Israeli withholding taxes.

The JOBS Act allows us to postpone the date by which we must comply with some of the laws and regulations intended to protect investors and to reduce the amount of information we provide in our reports filed with the SEC, which could undermine investor confidence in our company and adversely affect the market price of our ordinary shares.

For so long as we remain an “emerging growth company” as defined in the JOBS Act, we intend to take advantage of certain exemptions from various requirements that are applicable to public companies that are not “emerging growth companies” including:

- the provisions of the Sarbanes-Oxley Act requiring that our independent registered public accounting firm provide an attestation report on the effectiveness of our internal control over financial reporting;
- Section 107 of the JOBS Act, which provides that an “emerging growth company” can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933, as amended, or the Securities Act, for complying with new or revised accounting standards. This means that an “emerging growth company” can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to delay such adoption of new or revised accounting standards. As a result of this adoption, our financial statements may not be comparable to companies that comply with the public company effective date; and
- any rules that may be adopted by the Public Company Accounting Oversight Board requiring mandatory audit firm rotation or a supplement to the auditor’s report on the financial statements.

We intend to take advantage of these exemptions until we are no longer an “emerging growth company.” We will remain an emerging growth company until the earlier of (1) the last day of the fiscal year (a) following the fifth anniversary of the date of our first sale of equity securities pursuant to an effective registration statement under the Securities Act, (b) in which we have total annual gross revenue of at least \$1.235 billion, or (c) in which we are deemed to be a large accelerated filer, which means the market value of our ordinary shares that is held by non-affiliates exceeds \$700 million as of the prior December 31, and (2) the date on which we have issued more than \$1.0 billion in non-convertible debt during the prior three-year period.

We cannot predict if investors will find our ordinary shares less attractive because we may rely on these exemptions. If some investors find our ordinary shares less attractive as a result, there may be a less active trading market for our ordinary shares, and our market prices may be more volatile and may decline.

As a “foreign private issuer” we are permitted to and follow certain home country corporate governance practices instead of otherwise applicable SEC and Nasdaq requirements, which may result in less protection than is accorded to investors under rules applicable to domestic U.S. issuers.

Our status as a foreign private issuer also exempts us from compliance with certain SEC laws and regulations and certain regulations of the Nasdaq Stock Market, or Nasdaq, including the proxy rules, the short-swing profits recapture rules, and certain governance requirements such as independent director oversight of the nomination of directors and executive compensation. In addition, we are not required, under the Exchange Act, to file current reports and financial statements with the SEC as frequently or as promptly as U.S. domestic companies whose securities are registered under the Exchange Act and we are generally exempt from filing quarterly reports with the SEC. Also, although regulations promulgated under the Israeli Companies Law, 5759-1999, or the Companies Law, requires us to disclose the annual compensation of our five most highly compensated senior officers on an individual basis, this disclosure is not as extensive as that required of a U.S. domestic issuer. For example, the disclosure required under Israeli law would be limited to compensation paid in the immediately preceding year without any requirement to disclose option exercises and vested stock options, future pension benefits or potential payments upon termination or a change of control. Furthermore, as a foreign private issuer, we are also not subject to the requirements of Regulation FD (Fair Disclosure) promulgated under the Exchange Act.

These exemptions and leniencies will reduce the frequency and scope of information and protections to which you are entitled as an investor.

The determination of foreign private issuer status is made annually on the last business day of an issuer’s most recently completed second fiscal quarter and, accordingly, the next determination will be made with respect to us on June 30, 2025. In the future, we would lose our foreign private issuer status if a majority of our shareholders, directors or management are U.S. citizens or residents and we fail to meet additional requirements necessary to avoid loss of foreign private issuer status. The regulatory and compliance costs to us under U.S. securities laws as a U.S. domestic registrant may be significantly higher.

We may be a “passive foreign investment company,” or PFIC, for U.S. federal income tax purposes in the current taxable year or may become one in any subsequent taxable year. There generally would be negative tax consequences for U.S. taxpayers that are holders of our ordinary shares (as defined below) if we are or were to become a PFIC.

We would be classified as a passive foreign investment company, or PFIC, for any taxable year if, after the application of certain look-through rules, either: (i) 75% or more of our gross income for such year is “passive income” (as defined in the relevant provisions of the Internal Revenue Code of 1986, as amended, or the Code), or (ii) 50% or more of the value of our assets (generally determined on the basis of a quarterly average) during such year is attributable to assets that produce or are held for the production of passive income. For these purposes, cash and other assets readily convertible into cash or that do or could generate passive income are categorized as passive assets, and the value of goodwill and other unbooked intangible assets is generally taken into account. Passive income generally includes, among other things, rents, dividends, interest, royalties, gains from the disposition of passive assets and gains from commodities and securities transactions. For purposes of this test, we will be treated as owning a proportionate share of the assets and earning a proportionate share of the income of any other corporation of which we own, directly or indirectly, at least 25% (by value) of the stock. Based on our market capitalization and the composition of our income, assets and operations, we believe that we were not a PFIC for the year ended December 31, 2024 and we do not expect to be a PFIC for United States federal income tax purposes for the current taxable year or in the foreseeable future. However, this is a factual determination that must be made annually after the close of each taxable year. Moreover, the value of our assets for purposes of the PFIC determination may be determined by reference to the public price of our ordinary shares, which could fluctuate significantly. In addition, it is possible that the Internal Revenue Service may take a contrary position with respect to our determination in any particular year, and therefore, there can be no assurance that we will not be classified as a PFIC in the current taxable year or in the future. Certain adverse consequences of PFIC status may be alleviated if a U.S. Holder (as defined below) makes a “mark to market” election or an election to treat us as a qualified electing fund, or QEF. These elections would result in an alternative treatment (such as mark-to-market treatment) of our ordinary shares. It is not expected that a U.S. Holder will be able to make a QEF election because we do not intend to provide U.S. Holders with the information necessary to make a QEF election. Certain adverse U.S. federal income tax consequences could apply to a U.S. Holder (as defined in “Certain Material U.S. Federal Income Tax Considerations”) if we are treated as a PFIC for any taxable year during which such U.S. Holder holds our ordinary shares. U.S. Holders should consult their tax advisors about the potential application of the PFIC rules to their investment in our ordinary shares. For further discussion, see “Item 10.E—Additional Information—Taxation—Certain Material U.S. Federal Income Tax Considerations—Passive Foreign Investment Companies.”

If a United States person is treated as owning at least 10% of our ordinary shares, such holder may be subject to adverse U.S. federal income tax consequences.

If a United States person is treated as owning (directly, indirectly, or constructively) at least 10% of the value or voting power of our ordinary shares, such person may be treated as a “United States shareholder” with respect to each controlled foreign corporation, or CFC, in our group (if any). Because our group includes a U.S. subsidiary, certain of our non-U.S. subsidiaries will be treated as CFCs (regardless of whether or not we are treated as a CFC). A United States shareholder of a CFC may be required to report annually and include in its U.S. taxable income its pro rata share of “Subpart F income,” “global intangible low-taxed income,” and investments in U.S. property by CFCs, regardless of whether we make any distributions. An individual that is a United States shareholder with respect to a CFC generally would not be allowed certain tax deductions or foreign tax credits that would be allowed to a United States shareholder that is a U.S. corporation. Failure to comply with these reporting obligations may subject a United States shareholder to significant monetary penalties and may prevent the statute of limitations with respect to such shareholder’s U.S. federal income tax return for the year for which reporting was due from starting. We cannot provide any assurances that we will assist investors in determining whether we are or any of our non-U.S. subsidiaries is treated as CFC or whether any investor is treated as a United States shareholder with respect to any such CFC or furnish to any United States shareholders information that may be necessary to comply with the aforementioned reporting and tax paying obligations. The United States Internal Revenue Service has provided limited guidance on situations in which investors may rely on publicly available information to comply with their reporting and tax paying obligations with respect to foreign-controlled CFCs. A United States investor should consult its advisors regarding the potential application of these rules to an investment in our ordinary shares.

We may be subject to securities litigation, which is expensive and could divert management attention.

In the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may be the target of this type of litigation in the future. Litigation of this type could result in substantial costs and diversion of management's attention and resources, which could seriously hurt our business. Any adverse determination in litigation could also subject us to significant liabilities.

If securities or industry analysts do not publish or cease publishing research or reports about us, our business or our market, or if they adversely change their recommendations or publish negative reports regarding our business or our shares, our share price and trading volume could decline.

The trading market for our ordinary shares will be influenced by the research and reports that industry or securities analysts may publish about us, our business, our market or our competitors. We do not have any control over these analysts and we cannot provide any assurance that analysts will cover us or provide favorable coverage. If any of the analysts who may cover us adversely change their recommendation regarding our shares, or provide more favorable relative recommendations about our competitors, our share price would likely decline. If any analyst who may cover us were to cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our share price or trading volume to decline.

An active trading market for our ordinary shares may not be sustained.

An active public trading market for our ordinary shares may not be sustained. The lack of an active market may impair your ability to sell your ordinary shares at the time you wish to sell them or at a price that you consider reasonable. The lack of an active market may also reduce the fair value of your ordinary shares. An inactive market may also impair our ability to raise capital to continue to fund operations by selling ordinary shares and may impair our ability to acquire other companies or technologies by using our ordinary shares as consideration.

Future sales of substantial amounts of our ordinary shares in the public markets, or the perception that such sales might occur, could reduce the price that our ordinary shares might otherwise attain.

Future sales of a substantial number of shares of our ordinary shares in the public market, particularly sales by our directors, executive officers and significant shareholders, or the perception that these sales could occur, could adversely affect the market price of our ordinary shares and may make it more difficult for you to sell your ordinary shares at a time and price that you deem appropriate.

In addition, we intend to register the offer and sale of all ordinary shares that we may issue from time to time under our equity compensation plans. Once we register these shares, they will be freely tradable in the public market, subject to the volume limitations under Rule 144 of the Securities Act in the case of our affiliates and the lock-up agreements or market stand-off provisions agreed with the representative of the underwriters in connection with our initial public offering in July 2023.

Risks Related to Our Incorporation, Location and Operations in Israel

Our headquarters, research and development and other significant operations are located in Israel, and, therefore, our results may be adversely affected by political, economic and military instability in Israel including the recent war with Hamas and other terrorist organizations from the Gaza Strip.

Our executive offices and research and development facilities are located in Israel. In addition, all of our key employees, officers and directors are residents of Israel. Accordingly, political, geopolitical, economic and military conditions in Israel may directly affect our business. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its neighboring Arab countries, Hamas (an Islamist terrorist militia and political group that controls the Gaza strip), Hezbollah (an Islamist terrorist militia and political group based in Lebanon) and other terrorist organizations active in the region. These conflicts have involved missile strikes, hostile infiltrations and terrorism against civilian targets in various parts of Israel, which have negatively affected business conditions in Israel. Any hostilities involving Israel or the interruption or curtailment of trade between Israel and its trading partners could negatively affect business conditions in Israel in general and our business in particular, and adversely affect our product development, operations and results of operations. Ongoing and revived hostilities or other Israeli political or economic factors, such as, an interruption of operations at the Tel Aviv airport or the nautical routes, could prevent or delay shipments of our components or products.

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.

Since the commencement of these events, there have been continued hostilities along Israel's northern border with the Hezbollah terror organization), with Iran, the Houthis in Yemen and on other fronts with various extremist groups in the region, such as 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. However, we cannot predict if and to what extent this ceasefire will remain in effect or upheld. It is possible that hostilities with Iran, Hezbollah, the Houthis and terrorist groups in Syria will escalate, and that other terrorist organizations, including Palestinian military organizations in the West Bank, will join the hostilities. Iran, who launched direct attacks on Israel involving drones and missiles, is also believed to have a strong influence among extremist groups in the region, such as Hamas in Gaza, Hezbollah in Lebanon, the Houthis 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. Any hostilities, armed conflicts, terrorist activities involving Israel or the interruption or curtailment of trade between Israel and its trading partners, or any political instability in the region could adversely affect business conditions and our results of operations and could make it more difficult for us to raise capital and could adversely affect the market price of our ordinary shares. An escalation of tensions or violence might result in a significant downturn in the economic or financial condition of Israel, which could have a material adverse effect on our operations in Israel and our business. Parties with whom we do business have sometimes declined to travel to Israel during periods of heightened unrest or tension, forcing us to make alternative arrangements when necessary in order to meet our business partners face to face. In addition, the political and security situation in Israel may result in parties with whom we have agreements involving performance in Israel claiming that they are not obligated to perform their commitments under those agreements pursuant to force majeure provisions in such agreements.

Since the war broke out on October 7, 2023, our operations have not been adversely affected by this situation, and we have not experienced disruptions to our business operations. As such, our product and business development activities remain on track. However, the intensity and duration of Israel's current war against Hamas is difficult to predict at this stage, as are such war's economic implications on our business and operations and on Israel's economy in general. If the ceasefire declared collapse or a new war commences or hostilities expand to other fronts our operations may be adversely affected.

Any armed conflicts, terrorist activities or political instability in the region could adversely affect business conditions, could harm our results of operations and the market price of our Ordinary Shares, and could make it more difficult for us to raise capital. Parties with whom we do business may sometimes decline to travel to Israel during periods of heightened unrest or tension, forcing us to make alternative arrangements when necessary, in order to meet our business partners face to face. Several countries, principally in the Middle East, still restrict doing business with Israel and Israeli companies, and additional countries may impose restrictions on doing business with Israel and Israeli companies if hostilities in Israel or political instability in the region continues or increases. Similarly, Israeli companies are limited in conducting business with entities from several countries. For instance, in 2008, the Israeli legislature passed a law forbidding any investments in entities that transact business with Iran.

Our commercial insurance does not cover losses that may occur as a result of an event associated with the security situation in the Middle East. Although the Israeli government has in the past covered the reinstatement value of certain damages that were caused by terrorist attacks or acts of war, we cannot assure you that this government coverage will be maintained or, if maintained, will be sufficient to compensate us fully for damages incurred. Any losses or damages incurred by us could have a material adverse effect on our business.

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

Our operations may be disrupted as a result of the obligation of management or key personnel to perform military service.

As of the date hereof, we currently have 22 full-time employees, including four members of senior management, one of whom is engaged as a service provider, all of whom are located in Israel. Certain of our employees and consultants in Israel, including members of our senior management, may be obligated to perform military reserve duty generally until they reach the age of 40 (or older, for officers or other citizens who hold certain positions in the Israeli armed forces reserves) and, in the event of a military conflict, may be called to active duty. In response to increases in terrorist activity, there have been periods of significant call-ups of military reservists. It is possible that there will be similar large-scale military reserve duty call-ups in the future. Our operations could be disrupted by the absence of a significant number of our officers, directors, employees and consultants. 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.

We are exposed to fluctuations in currency exchange rates.

Our functional currency is the U.S. dollar and our revenue and expenses are primarily denominated in U.S. dollars, with the exception of a portion of our operating expenses that consists of employee salaries and lease payments on our Israeli facilities, which are incurred in NIS. Therefore, we are exposed to currency exchange fluctuations in other currencies, particularly in NIS and the risks related thereto. As a result, we are affected by foreign currency exchange fluctuations through both translation risk and transaction risk. Thus, we are exposed to the risks that: (a) the NIS may appreciate relative to the dollar; (b) the NIS devalue relative to the dollar; (c) the inflation rate in Israel may exceed the rate of devaluation of the NIS; or (d) the timing of such devaluation may lag behind inflation in Israel. In any such event, the dollar cost of our operations in Israel would increase and our dollar-denominated results of operations would be adversely affected. Our operations also could be adversely affected if we are unable to effectively hedge against currency fluctuations in the future.

Provisions of Israeli law and our amended and restated articles of association may delay, prevent or otherwise impede a merger with, or an acquisition of, our company, which could prevent a change of control, even when the terms of such a transaction are favorable to us and our shareholders.

Israeli corporate law regulates mergers, requires tender offers for acquisitions of shares above specified thresholds, requires special approvals for transactions involving directors, officers or significant shareholders and regulates other matters that may be relevant to such types of transactions. For example, a merger may not be consummated unless at least 50 days have passed from the date on which a merger proposal is filed by each merging company with the Israel Registrar of Companies and at least 30 days have passed from the date on which the shareholders of both merging companies have approved the merger. In addition, a majority of our securities' holders must approve a merger. Moreover, a tender offer for all of a company's issued and outstanding shares can only be completed if the acquirer receives positive responses from the holders of at least 95% of the issued share capital. Completion of the tender offer also requires approval of a majority of the offerees that do not have a personal interest in the tender offer, unless, following consummation of the tender offer, the acquirer would hold at least 98% of the company's outstanding shares. Furthermore, the shareholders, including those who indicated their acceptance of the tender offer, may, at any time within six months following the completion of the tender offer, claim that the consideration for the acquisition of the shares does not reflect their fair market value, and petition an Israeli court to alter the consideration for the acquisition accordingly, unless the acquirer stipulated in its tender offer that a shareholder that accepts the offer may not seek such appraisal rights, and the acquirer or the company published all required information with respect to the tender offer prior to the tender offer's response date.

Israeli tax considerations also may make potential transactions unappealing to us or to our shareholders whose country of residence does not have a tax treaty with Israel exempting such shareholders from Israeli tax. See "Item 10E — Taxation — Israeli Tax Considerations and Government Programs" for additional information.

It may be difficult to enforce a judgment of a United States court against us and our officers and directors in Israel or the United States or to serve process on our officers and directors.

We were incorporated in Israel. All of our executive officers and directors reside outside of the United States, and all of our assets and most of the assets of these persons are located outside of the United States. Therefore, a judgment obtained against us, or any of these persons, including a judgment based on the civil liability provisions of the U.S. federal securities laws, may not be collectible in the United States and may not necessarily be enforced by an Israeli court. It also may be difficult to affect service of process on these persons in the United States or to assert U.S. securities law claims in original actions instituted in Israel. As a result of the difficulty associated with enforcing a judgment against us in Israel, you may not be able to collect any damages awarded by either a United States or foreign court.

Our amended and restated articles of association provide that, unless we consent to an alternate forum, the federal district courts of the United States shall be the exclusive forum of resolution of any claims arising under the Securities Act.

Our amended and restated articles of association provide that, unless we consent in writing to the selection of an alternative forum, the federal district courts of the United States shall be the exclusive forum for the resolution of any claims arising under the Securities Act, or Federal Forum Provision. While the Federal Forum Provision does not restrict the ability of our shareholders to bring claims under the Securities Act, nor does it affect the remedies available thereunder if such claims are successful, we recognize that it may limit shareholders' ability to bring a claim in the judicial forum that they find favorable and may increase certain litigation costs which may discourage the filing of claims under the Securities Act against us, our directors and officers. Although we believe this exclusive forum provision benefits us by providing increased consistency in the application of U.S. federal securities laws in the types of lawsuits to which they apply, the exclusive forum provision may limit a shareholder's ability to bring a claim in a judicial forum of its choosing for disputes with us or any of our directors, shareholders, officers or other employees, which may discourage lawsuits with respect to such claims against us and our current and former directors, shareholders, officers or other employees. Our shareholders will not be deemed to have waived our compliance with the U.S. federal securities laws and the rules and regulations thereunder as a result of our exclusive forum provision. Further, the enforceability of similar forum provisions (including exclusive federal forum provisions for actions, suits, or proceedings asserting a cause of action arising under the Securities Act) in other companies' organizational documents and similar agreements has been challenged in legal proceedings, and there is uncertainty as to whether courts would enforce the exclusive forum provision in our amended and restated articles of association. In the event a court finds the exclusive forum provision contained in our amended and restated articles of association to be unenforceable or inapplicable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could harm our results of operations.

Our amended and restated articles of association provide that unless we consent otherwise, the competent courts of Tel Aviv, Israel shall be the sole and exclusive forum for substantially all disputes between us and our shareholders under the Companies Law and the Israeli Securities Law, which could limit our shareholders' ability to bring claims and proceedings against, as well as obtain a favorable judicial forum for disputes with, us and our directors, officers and other employees.

Our amended and restated articles of association provide that, unless we consent in writing to the selection of an alternative forum, the competent courts of Tel Aviv, Israel shall be the exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of fiduciary duties owed by any of our directors, officers or other employees to us or our shareholders or (iii) any action asserting a claim arising pursuant to any provision of the Companies Law or the Israeli Securities Law. This exclusive forum provision is intended to apply to claims arising under Israeli law and would not apply to claims brought pursuant to the Securities Act or the Exchange Act or any other claim for which U.S. federal courts would have exclusive jurisdiction. Such exclusive forum provision in our amended and restated articles of association does not relieve us of our duties to comply with U.S. federal securities laws and the rules and regulations thereunder, and shareholders will not be deemed to have waived our compliance with these laws, rules and regulations. This exclusive forum provision may limit a shareholder's ability to bring a claim in a judicial forum of its choosing for disputes with us or our directors, officers or other employees, which may discourage lawsuits against us and our directors, officers and other employees.

Political relations could limit our ability to sell or buy internationally.

We could be adversely affected by the interruption or reduction of trade between Israel and its trading partners. Several countries, companies and organizations still restrict business with the State of Israel and with Israeli companies and continue to participate in a boycott of Israeli companies. Foreign government defense export policies towards Israel could also make it more difficult for us to obtain the export authorizations necessary for our activities. See “Item 3D — Risk Factors — Risks Related to Our Business and Industry” for further information. These restrictive laws and policies may have an adverse impact on our operating results, financial conditions or the expansion of our business. Similarly, Israeli corporations are limited in conducting business with entities from several countries.

Your rights and responsibilities as a shareholder will be governed by Israeli law, which differs in some material respects from the rights and responsibilities of shareholders of U.S. companies.

The rights and responsibilities of the holders of our ordinary shares are governed by our amended and restated articles of association and by Israeli law. These rights and responsibilities differ in some material respects from the rights and responsibilities of shareholders in typical U.S.-based corporations. In particular, a shareholder of an Israeli company has certain duties to act in good faith and fairness toward the company and other shareholders and to refrain from abusing its power in the company, including, among other things, in voting at the general meeting of shareholders on certain matters, such as an amendment to the company’s articles of association, an increase of the company’s authorized share capital, a merger of the company, and approval of related party transactions that require shareholder approval. In addition, a shareholder who is aware that it possesses the power to determine the outcome of a shareholder vote or to appoint or prevent the appointment of a director or executive officer in the company has a duty of fairness toward the company with regard to such vote or appointment. There is limited case law available to assist us in understanding the nature of this duty or the implications of these provisions. These provisions may be interpreted to impose additional obligations on holders of our ordinary shares that are not typically imposed on shareholders of U.S. corporations.

Certain elements of our research and development activities and programs were supported by Israeli governmental grants. The terms of such grants require us to pay royalties for the applicable products, some of which were sold or are in the process of selling. We may be required to pay penalties in addition to repayment of the grants to satisfy specified conditions in order to manufacture products and transfer technologies outside of Israel.

Our research and development efforts relating to our products have been financed in part through royalty-bearing grants in an aggregate amount of approximately \$748,000 received from the Israel Innovation Authority, or the IIA, as of December 31, 2024, none of which were received during the most recent fiscal year ended. As of the same date, our contingent liabilities regarding IIA grants received by us were in an aggregate amount of \$603,000. With respect to the royalty-bearing grants, we are committed to pay royalties at a rate of 3% to 3.5% on sales proceeds from our products that were developed, in whole or in part, under IIA programs up to the total amount of grants received, linked to the U.S. dollar and bearing interest. Until December 31, 2024, the interest was calculated at a rate based on an annual application of the London Interbank Offered Rate, or the LIBOR, applicable to U.S. dollar deposits, however, pursuant to the latest IIA regulations, as of January 1, 2024, IIA grants received after June 30, 2017, shall bear interest calculated at a rate based on an annual application of the Secured Overnight Financing Rate, or SOFR, or at an alternative rate published by the Bank of Israel, plus approximately 0.72%. We believe that this change would not have material impact on our results or our financial position or results in operations.

Regardless of any royalty payment, we are further required to comply with the requirements of the Israeli Encouragement of Research, Development and Industrial Initiative Technology Law, 5744-1984, as amended, and related regulations, or the Research Law, with respect to those past grants. When a company develops know-how, technology or products using IIA grants, the terms of these grants and the Research Law restrict the transfer of such know-how, and the transfer of manufacturing or manufacturing rights of such products, technologies or know-how outside of Israel, without the prior approval of the IIA. Therefore, the discretionary approval of an IIA committee would be required for any transfer to third parties inside or outside of Israel of know-how or 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 out of Israel.

The transfer of IIA-supported technology or know-how outside of Israel may involve the payment of significant amounts, depending upon the value of the transferred 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 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.

Changes to applicable tax laws and regulations or exposure to additional income tax liabilities could affect our future business and profitability.

We are an Israeli company and thus subject to Israeli corporate income tax as well as other local taxes applicable to our operations. New local laws and policy relating to taxes, whether in Israel or in any of the jurisdictions in which we operate, may have an adverse effect on our future business and profitability. Further, existing applicable tax laws, statutes, rules, regulations or ordinances could be interpreted, changed, modified or applied adversely to us or our subsidiaries.

General Risk Factors

Raising additional capital or the issuance of additional equity securities would cause dilution to our existing shareholders and may affect the rights of existing shareholders or the market price of our ordinary shares.

We may seek additional capital through a combination of private and public equity offerings, debt financings and collaborations and strategic arrangements. To the extent that we raise additional capital through the issuance of equity or convertible debt securities, your ownership interest will be diluted, and the terms may include liquidation or other preferences that adversely affect your rights as a holder of our ordinary shares.

In addition, our authorized share capital consists of 200,000,000 ordinary shares, par value NIS 0.02 per share. As of the date of this Annual Report on Form 20-F, we had 16,679,631 ordinary shares issued and outstanding. As of the date of this Annual Report, we also had warrants to purchase 2,290,828 ordinary shares outstanding, options to purchase 603,054 ordinary shares outstanding (of which the grant of options to purchase 15,131 ordinary shares are subject to the approval of our shareholders), none of which are currently fully vested and 1,560,165 restricted share units, or RSUs (of which the grants of 587,286 RSUs are subject to the approval of our shareholders) outstanding, none of which are currently fully vested. Our Board may issue, or reserve for issuance, an additional 178,866,322 ordinary shares, which includes 947,317 ordinary shares that are reserved and available for future awards under our Global Share Incentive Plan (2022), which might dilute your holdings substantially.

To the extent that ordinary shares are issued or options and warrants are exercised, holders of our ordinary shares will experience dilution. In addition, in the event of any future issuances of equity securities or securities convertible into or exchangeable for ordinary shares, holders of our ordinary shares may experience dilution. We also consider from time to time various strategic alternatives that could involve issuances of additional ordinary shares, including but not limited to acquisitions and business combinations, but do not currently have any definitive plan to enter into any such transaction.

Sales of a substantial number of our ordinary shares in the public market by our existing shareholders could cause our share price to fall.

Sales of a substantial number of our ordinary shares in the public market, or the perception that these sales might occur, could depress the market price of our ordinary shares and could impair our ability to raise capital through the sale of additional equity securities. We are unable to predict the effect that sales may have on the prevailing market price of our ordinary shares.

If securities or industry analysts do not publish or cease publishing research or reports about us, our business or our market, or if they adversely change their recommendations or publish negative reports regarding our business or ordinary shares, our ordinary shares price and trading volume could decline.

The trading market for our ordinary shares will be influenced by the research and reports that industry or securities analysts may publish about us, our business, our market or our competitors. We do not have any control over these analysts and we cannot provide any assurance that analysts will cover us or provide favorable coverage. If any of the analysts who may cover us adversely change their recommendation regarding our ordinary shares, or provide more favorable relative recommendations about our competitors, our ordinary shares price would likely decline. If any analyst who may cover us were to cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our ordinary shares price or trading volume to decline.

We incur significant costs as a result of operating as a public company, and our management is required to devote substantial time to new compliance initiatives.

As a public company whose ordinary shares are listed in the United States, we incur significant legal, accounting and other expenses that we did not incur as a private company. We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, the other rules and regulations of the Securities and Exchange Commission, or SEC, and the rules and regulations of The NASDAQ Stock Market, or NASDAQ, and provisions of the Companies Law that apply to public companies such as us. The expenses that are required in order to be a public company are material, and compliance with the various reporting and other requirements applicable to public companies require considerable time and attention of management. For example, the Sarbanes-Oxley Act and the rules of the SEC and national securities exchanges have imposed various requirements on public companies, including requiring establishment and maintenance of effective disclosure and financial controls. Our management and other personnel need to devote a substantial amount of time to these compliance initiatives. These rules and regulations will continue to increase our legal and financial compliance costs and will make some activities more time-consuming and costly. For example, we expect these rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits on coverage or incur substantial costs to maintain the same or similar coverage. The impact of these events could also make it more difficult for us to attract and retain qualified personnel to serve on our board of directors, our board committees, or as executive officers.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective internal control over financial reporting and disclosure controls and procedures. In particular, we must perform system and process evaluation and testing of our internal control over financial reporting to allow management to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act, beginning as early as our annual report on Form 20-F for the fiscal year ended December 31, 2024. In addition, we are required to have our independent registered public accounting firm attest to the effectiveness of our internal control over financial reporting beginning with our annual report on Form 20-F following the date on which we are no longer an emerging growth company. Our compliance with Section 404 of the Sarbanes-Oxley Act will require that we incur substantial accounting expense and expend significant management efforts. While we have appointed an internal auditor, we will need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge. If we are not able to comply with the requirements of Section 404 in a timely manner, the market price of our shares could decline and we could be subject to sanctions or investigations by NASDAQ, the SEC or other regulatory authorities, which would require additional financial and management resources.

Our ability to successfully implement our business plan and comply with Section 404 requires us to be able to prepare timely and accurate financial statements. We expect that we will need to continue to improve existing, and implement new operational and financial systems, procedures and controls to manage our business effectively. Any delay in the implementation of, or disruption in the transition to, new or enhanced systems, procedures or controls, may cause our operations to suffer and we may be unable to conclude that our internal control over financial reporting is effective and to obtain an unqualified report on internal controls from our auditors as required under Section 404 of the Sarbanes-Oxley Act. This, in turn, could have an adverse impact on trading prices for our ordinary shares and could adversely affect our ability to access the capital markets.

We have identified a material weakness in our internal control over financial reporting, and we may not be able to successfully implement remedial measures.

We have identified control deficiencies in our financial reporting process that constitute a material weakness related to lack segregation of duties as of December 31, 2024.

Management has implemented corrective actions to address this issue, including improving the segregation of duties and enhancing our controls to ensure the accuracy of our financial reporting within account processes, and systems, documentation to evidence the operation of controls, procedures and approvals, periodic user access reviews, assessment of controls of financially significant vendors, written policies and procedures for accounting, IT and financial reporting and record keeping. We continue to improve its internal controls over financing, and has engaged outside consultants, experts in the controls and procedures over financial reporting, and internally, we have reviewed and improved these processes. In light of the remediation occurring, our internal controls are expected to be effective in the 2025. Except for additional personnel costs and the costs of our third-party service providers, we do not expect to incur any material costs related to our remediation plan. See “Item 5.E—Operating and Financial Review and Prospects—Critical Account Estimates—Internal Control Over Financial Reporting.” However, we cannot assure you that these measures may fully address the material weaknesses in our internal control over financial reporting or that we may conclude that they have been fully remediated.

Further, there can be no assurance that we will not suffer from other material weaknesses or significant deficiencies in the future. If we fail to remediate these material weaknesses or fail to otherwise 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.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

We are an Israeli corporation based in Israel and were incorporated on June 30, 2013, under the name ParaZero Ltd. On September 6, 2018, our name was changed to ParaZero Israel Ltd., and on November 4, 2018, our name was changed to our current name, ParaZero Technologies Ltd. Our principal executive offices are located at 1 Hatachana Street, Kfar Saba, 4453001, Israel. Our telephone number in Israel is +972-50-275-3666. Our website address is www.parazero.com. The information contained on our website and available through our website is not incorporated by reference into and should not be considered a part of this Annual Report, and the reference to our website in this Annual Report is an inactive textual reference only.

We have incurred net losses since our inception, including net losses of \$11,054,230 and \$3,771,379 for the years ended December 31, 2024 and 2023, respectively. As a result, we had accumulated losses of \$29,477,287 as of December 31, 2024. We anticipate that we will continue to incur significant losses for the foreseeable future as our operating expenses and capital expenditures increase substantially due to our continued investment in research and development as well as in sales and marketing activities and as we hire additional employees over the coming years.

B. Business Overview

Overview

We are an aerospace company specializing in safety systems for commercial UAS and C-UAS solutions for the Defense and Homeland Security, or HLS, markets. Our expertise lies in designing, developing, and delivering what we believe to be best-in-class autonomous parachute safety systems for commercial UAS, along with cutting-edge proprietary technologies tailored for defense and HLS applications.

Our company was founded by a group of aviation professionals and veteran drone operators, to address the drone industry’s challenges and needs. Our goals are to enable the commercial drone industry to realize its greatest potential through increasing safety, mitigating operational risk, and enabling regulatory compliance and to develop high-end, cutting-edge solutions based on our proprietary technology for defense end users.

Commercial UAS are either navigated manually with a remote control or operated automatically by software. UAS have been in widespread use in the military for surveillance and long-range attack purposes and have also been used for weather monitoring and search and rescue operations. As developments in the mobile industry have enabled manufacturers to decrease the size, weight, and cost of batteries and cameras, the drone industry has expanded beyond its largely military-based origins and scale for commercial and civil government use cases. Increased automation of drones and a global concern for sustainability have also driven demand. UAS have become an integral workflow tool among a myriad of global industries and have a wide array of commercial applications, such as photography, agriculture, package delivery, first response/public safety, surveying, construction site monitoring, and infrastructure inspection. As demand and use cases for commercial UAS have increased, so too have concerns over UAS safety, and we believe our safety solutions place us in a strong position to take advantage of the developing market and regulatory frameworks, which are increasingly recognizing parachute recovery systems as effective forms of risk mitigation for expanded operational approvals across an increasing number of global regions.

Our unique, patented technology enables parachute deployment on UAS in a fraction of a second using an autonomous computer paired with a ballistic parachute launcher. We believe that we have created a new benchmark in UAS safety with low altitude parachute deployment capabilities and high levels of reliability. Globally, our solutions have proven critical to enabling commercial drone operations over populated areas and beyond-visual-line-of-sight (BVLOS), which require prior approval from CAAs, including those in the U.S., Europe, Canada, Israel, Brazil, Singapore, Australia, and more. These authorizations facilitate new business opportunities and applications for expanded UAS operations worldwide, thus enhancing the value proposition of our solutions for our global customers.

The rapid adoption of UAS technologies in recent years has also introduced significant security challenges. UAS technology is now easily accessible not only to militaries around the world but also to non-state entities, criminal organizations, and individuals with malicious intent.

After years of saving numerous unmanned and manned aerial systems, we applied our innovative, patent-protected technology in order to lead the battle against hostile drones. We believe that our technology solutions leverage a distinct technology portfolio protected by global patents that were developed over the course of more than a decade. We believe that this technology portfolio enables us to effectively counteract various threats posed by drones by rapidly developing bespoke C-UAS solutions for key clientele. Recent international conflicts have highlighted the extensive use of drones in various attacks and the critical necessity to counteract these strikes promptly with minimal damage as well as deliver critical supplies in high-risk operational zones. We have commenced development of dedicated solutions based on our technology.

For both the defense-HLS and commercial markets we are also engaged in developing our proprietary precision airdrop system, called DropAir. This system is designed to transform drone-based logistical support by enabling precise and secure delivery of supplies in challenging environments. By leveraging our renowned parachute technology, DropAir offers a cutting-edge solution to support military forces and emergency responders operating in high-risk zones with limited ability to land. The DropAir solution can support precise airdrop for troops in the field, para-military forces working on site and first responders.

We have a global distribution footprint and have forged partnerships all around the world, including the United States, Europe, Canada, South Korea and Latin America. We sell our drone safety systems as off-the-shelf solutions, as well as perform integrations with OEMs, offering customized, bespoke safety solutions for a large variety of aerial platforms, including multi-rotor, fixed wing, vertical take-off and landing (VTOL) heavy lift, and urban air mobility. Our technology has been sold to and used by some of the world's top companies and organizations, including drone companies such as LIFT Aircraft, Airobotics, SpeedBird Aero and Doosan Corporation and other leading and known brands and entities such as CNN, the New York Times, Hensel Phelps, Verizon Media (Skyward), Fox Television Station, the Chicago Police Department and Fortis Construction.

Our Solutions

Our unique, patented technology is divided into two segments: commercial and defense-HLS applications.

Commercial:

For the commercial UAS market, the SafeAir System is designed to mitigate the risk of UAS flight over people and in urban areas in order to enable compliance with regulations and expand operators' flight envelope.

The SafeAir system is a smart parachute system that monitors UAS flight in real time, identifies critical failures and autonomously triggers a parachute in the event of an emergency. The system contains a flight termination system, a black-box to enable post-flight analysis, and a warning buzzer to alert people of a falling drone. In addition to being fully autonomous, the SafeAir system includes a separate remote control for manual parachute deployment capability. The SafeAir System meets the requirements of the most stringent standards related to UAS parachutes.

SafeAir Solution Portfolio

SafeAir Mavic 2



Autonomous parachute system designed for the DJI Mavic 2 series,
Compliance and certification: ASTM F3322
Total weight: 165 grams.
Minimum safe altitude: 19.11 meters.
Average descent rate: 3.93 meters per second.
Approximate impact energy: 8.2 Joules.

SafeAir Mavic 3



Autonomous parachute system designed for the DJI Mavic 3 Series
Compliance and certification: ASTM F3322, CE Class C5, EASA MoC 2511/2512
Total weight: 185 grams.
Minimum safe altitude: 40.96 meters
Average descent rate: 4.11 meters per second.
Approximate impact energy: 9.1 Joules.

SafeAir Anzu Raptor



Autonomous parachute system designed for the Anzu Raptor series (a DJI alternative for the US market)
Compliance and certification: ASTM F3322
Total weight: 185 grams.
Minimum safe altitude: 40.96 meters
Average descent rate: 4.11 meters per second.
Approximate impact energy: 9.1 Joules.

SafeAir M-300 Pro



Autonomous parachute system designed for the DJI Matrice 300 series
Compliance and certification: ASTM F3322, CE Class C5, DVR for MoC 2511 and 2512
Total weight: 900 grams.
Minimum safe effective altitude: 30.39 meters.
Average descent rate: 4.41 meters per second.
Approximate impact energy: 87.5 joules.

SafeAir 350 Pro



Autonomous parachute system designed for the DJI Matrice 350 series
Compliance and certification: ASTM F3322, CE Class C5, DVR for MoC 2511 and 2512
Total weight: 900 grams.
Minimum safe effective altitude: 30.39 meters.
Average descent rate: 4.41 meters per second.
Approximate impact energy: 87.5 joules.

SafeAir VIEX



Autonomous parachute system designed for the Airobotics VIEX drone-in-a-box platform.
ASTM F3322-18 certification assisted Airobotics in securing their type certificate from the FAA.

SafeAir eVTOL



Parachute system for up to 770 pounds. Installed primarily on manned platforms (air taxis, urban air mobility) such as the LIFT HEXA, an all-electric vertical takeoff and landing (eVTOL) single-passenger multicopter. Combines an independent flight termination system, smart computer, and highly effective parachute to prevent loss of control.

Custom Integrations



Generic parachute system for up to 440 pounds. Designed for multicopters, fixed wing aircrafts, and VTOLs. Installed on various OEM platforms, such as Doosan Mobility Innovation (South Korea) and Speedbird Aero (Brazil)

Defense and Homeland Security:

For the defense-HLS markets we offer the DefendAir technology and the DropAir Precision Airdrop System.

As small, lethal drones are being utilized around the world with tremendous effectiveness and are reshaping the balance of the battlefield they are raising demand for counter-UAS systems. C-UAS technology encompasses a wide range of solutions that allow users to detect, classify, and mitigate drones and unmanned aerial vehicles. This includes everything from camera systems and specialist drone detection radars to net guns and cyber takeover systems.

Our **DefendAir** technology can be added as a modular component to different C-UAS System layouts, including:

- **DefendAir Drone/FPV:** a drone-mounted net interception system providing last-mile defense. This solution enables high-speed pursuit of targets, providing enhanced flexibility and precision in countering aerial threats. The system's adaptability allows it to be mounted on a wide range of drone platforms, including first person view drone platforms, ensuring optimal performance in various operational scenarios while not replacing jamming and spoofing solutions, but complementing them with a non-explosive solution that is suitable for urban environments.
- **Personal DefendAir Gun:** an innovative, lightweight, and portable system designed to enhance the safety of infantry units at the platoon/squad level. The system includes a personal net launcher that can be carried as part of a combat vest, providing soldiers with an effective and easy-to-use tool for neutralizing hostile UASs at close range. Its lightweight design ensures mobility and flexibility while maintaining operational safety due to its non-explosive mechanism, minimizing the probable damage to surrounding personnel. This cutting-edge solution empowers ground forces with rapid, efficient drone mitigation capabilities during missions.

Our **DropAir** precision airdrop technology is in late stages of development. The most recent field test involved multiple drone airdrops of blood units for combat medical teams in a high-risk operational zone. The system's innovative parachute mechanism deploys the parachute at a low, pre-defined altitude above the ground, ensuring minimal drift and a highly accurate landing. The test results demonstrated the resilience of blood units during the airdrop process, meeting stringent requirements for sensitive payloads. Based on the success of this phase, we plan to advance the DropAir into the next stage of development, which is aimed at addressing complex operational scenarios.

Milestones

The market for safety systems for commercial drones is rapidly evolving and subject to regulatory frameworks around the world that are in various stages of development and sophistication. We have played a key role, as a leader in parachute safety systems, in the development of both the technology and regulations around safe UAS operations.

The global C-UAS market has been evolving rapidly. In the past two years and we invested in research and development of our C-UAS technology and solutions to answer these needs. We also recognized high demand by defense end users for solutions based on our parachute technology such as our DropAir system developed specifically for defense end users.

Below are some key technological, testing, and regulatory milestones that we have been involved in for these two market segments:

On October 1, 2018, we announced that the first ever Federal Aviation Administration (FAA) waiver for flight over people with a parachute safety system was granted to a UAS operator using the ParaZero SafeAir system on a DJI Phantom 4. The operator was Botlink, a drone software and hardware technology company based in North Dakota, who utilized the waiver to perform missions for local law enforcement and to generate media content as part of the FAA's UAS Integration Pilot Program (UASIPP), a program founded in 2017 to help the FAA create regulations to enable the safe and secure integration of drones into the national airspace system.

On July 11, 2019, we announced that four additional waivers for operations over people were granted by the FAA to operators using the ParaZero SafeAir for the Phantom 4s and Mavic 2s. These waivers had historically been difficult to secure and we believe that the rapid pace at which they were granted to operators using the SafeAir system demonstrated the scalability and availability of our solutions. By July of 2020, we were able to announce that 100 organizations in the U.S. had secured FAA operational waivers granting flight over populated areas using drones fitted with our SafeAir system parachute technology.

On August 12, 2020 Speedbird Aero, a Latin American drone delivery company, announced that it had received regulatory approval from Brazil's National Civil Aviation Agency (ANAC) to operate two experimental drone delivery routes in Brazil. Speedbird Aero operates a fleet of proprietary delivery drones throughout Brazil and other countries, each with an integrated ParaZero parachute recovery system. Speedbird Aero became the first company in Latin America to win regulatory approval for a drone delivery operation. We began a multi-phase integration project with Speedbird Aero in June of 2021 and, using our SafeAir system, Speedbird Aero now regularly offers on-demand multimodal delivery services in partnership with multiple global organizations.

In November of 2021, we completed ASTM testing and compliance for the SafeAir system for the DJI M200 & DJI M300, two leading enterprise drone platforms, further expanding the options for operators to apply for regulatory approvals using our solutions.

In May 2023, we were selected and partnered by Jetson, an eVTOL and commercial UAS manufacturer, to develop parachute safety systems for Jetson's personal electric aerial vehicle, the Jetson ONE.

In October 2023, we announced that the Australian Civil Aviation Safety Agency authorized drones to operate over populated area and near people when using our safety systems, the first such authorization of its kind in Australia. The approval was obtained by our Australian regional partner, OVRL, whose tailored safety case and Specific Operations Risk Assessment application helped facilitate the landmark approval, now paving the way for all organizations throughout Australia to benefit from similar operational approvals

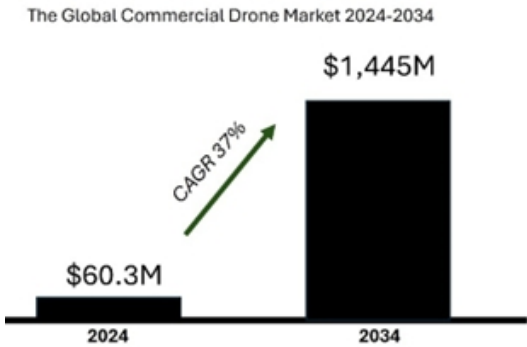
In January 2024, we announced that we facilitated one of our customers in obtaining the first-ever light uncrewed aircraft system operator certificate, or LUC, in Denmark. The LUC is an organizational approval certificate granted by the EASA, which is an agency of the European Union with responsibility for civil aviation safety, that allows for cross-border operations throughout the European Union without additional approvals required, enabling flight operations to be self-authorized by the LUC holder anywhere throughout EASA member states. Additionally, the LUC holder may operate a variety of UAS platforms under one single approval, offering a quantum change in the efficiency of drone aerial services, while maintaining safe operating conditions. Our SafeAir parachute system was utilized throughout the LUC application process to enable a broader range of advanced flight permissions, including operations over people, considered to be a highly sought-after flight permission.

In February 2024, we announced that we expanded our collaboration with Vayu Aerospace Corporation, or Vayu, a US-based drone manufacturer. Over the past two year, we had previously worked with Vayu in order to enhance safety solutions for Vayu’s commercial and military vertical take-off and landing aircraft. Through the new collaboration, we will customize our SafeAir system to be integrated at the design stage of Vayu’s G-1MKII VTOL aircraft. We and Vayu also have performance-based regulatory compliance testing and validation planned for the near future to unlock a range of use cases for Vayu’s global customers.

In November 2024 we announced that we received a Design Verification Report (DVR) approval from EASA, for the SafeAir M-300 Pro and SafeAir M-350 Pro parachute safety kits. This approval adds to ParaZero’s portfolio of previously granted approvals from the Federal Aviation Administration, alongside additional territories. The EASA DVR confirms that our SafeAir M-300/ M-350 Pro parachute systems comply with key safety requirements, enabling drone operators to enhance their operational scope under the Specific Operations Risk Assessment (SORA) process.

In January 2025, we successfully launched a pilot program utilizing our DropAir precision airdrop system in a high-risk operational zone. The program, conducted in collaboration with a leading drone company, demonstrates the system’s ability to deliver critical blood transfusions rapidly and safely, significantly reducing the time needed to save lives in emergency situations.

Industry Overview and Market Challenges



According to Precedence Research, the global commercial drone market size was valued at \$60.37 billion in 2024 and is expected to reach \$1.445 billion by 2034. The market is expected to grow at a compound annual growth rate (CAGR) of 37% from 2024 to 3034.

Drones are used for multiple applications ranging from filmmaking to emergency response. Additionally, these devices are witnessing a high demand in the real estate and construction sector owing to their ability to survey lands, provide continuous and precise project notifications, improve safety and prevent dangerous incidents on construction sites. Business use cases for drones have witnessed considerable growth over the past few years. Market participants such as drone manufacturers and software solution providers are constantly engaged in designing, testing, and improving solutions for various markets.

Full commercial operations of drones over populated areas are not likely to materialize without a regulator-approved safety solution. ParaZero is a leader in this market with smart sensing, best-in-class low altitude deployment, and drone management capabilities, and our technology can be fitted across virtually all drones, enabling advanced safety and data retention capabilities.

Regarding the C-UAS market and our potential in this market, according Research and Markets, the anti-drone (C-UAS) market was valued at \$2.71 billion in 2024, and is projected to reach \$11.12 billion by 2030, growing at a CAGR of 26.53%. One of the reasons for the expected growth in this market was by governings making strategic investments in anti-drone systems. These investments were part of broader efforts to combat the use of drones in military operations, security threats, and terrorism-related activities.

Regarding our DropAir precision airdrop technology, according to Statista by 2030, the global drone delivery market is projected to generate over \$4.9 billion in revenue.

Consumer vs. Commercial Drones

The civilian drone industry can generally be divided into two primary groups: consumer and commercial. Various types of consumer drones can be legally purchased over the internet or in retail stores in a range of prices. Consumer drones are mostly used for fun and recreational hobbyist photography and have seen major widespread growth globally. Commercial or enterprise drones are generally more expensive, heavier and are designed to carry costly payloads such as high-end cameras. These types of drones typically require pilot training and certification. Examples of commercial drone use include: (a) search and rescue — with the ability to cross tough terrain with ease, drones can be everywhere any time, providing law enforcement, fire fighters and medical teams with rapid response capabilities; (b) security — authorities use drones to protect people during various emergencies, help coordinate a variety of security operations and to preserve evidence; (c) infrastructure inspections — many systems such as power lines, wind turbines and pipelines can be checked by drones, allowing businesses to get accurate information quickly, safely and efficiently and avoid putting their workers in potentially dangerous situations such as working on high power lines or climbing wind turbines; (d) surveillance — drones allow recording and monitoring from the sky and are therefore suitable for monitoring public events, protests or any suspicious activities without being heard or seen; (e) science and research — drones assist scientists in their research by observing different occurrences in nature or a particular environment from the sky. For example, drones are used to safely document the archaeological excavations in nuclear accidents (measuring contamination), in glacier surveillance and to observe volcanic eruptions; (f) aerial photography and video — with a drone that is equipped with a high-definition camera, high quality/definition photos can be taken that were previously only possible with helicopters; (g) surveying and GIS (mapping) — using multi-spectral cameras and laser scanners, drones are able to create high-quality 3D maps. With these capabilities, drones can be used for remote sensing, surveying and mapping, photogrammetry, precision agriculture, etc.; also deliver lightweight packages such as medication, small e-commerce purchases and much more; and (h) construction — drones can provide valuable insight and management capabilities to contractors and architects by allowing them to efficiently check the status of the building process. In short, the uses and potential uses for drones are rapidly increasing as is the number of drones being utilized around the world, with a corresponding increase in associated issues such as regulation, licensing and safety.

Drone Safety Incidents and Threats

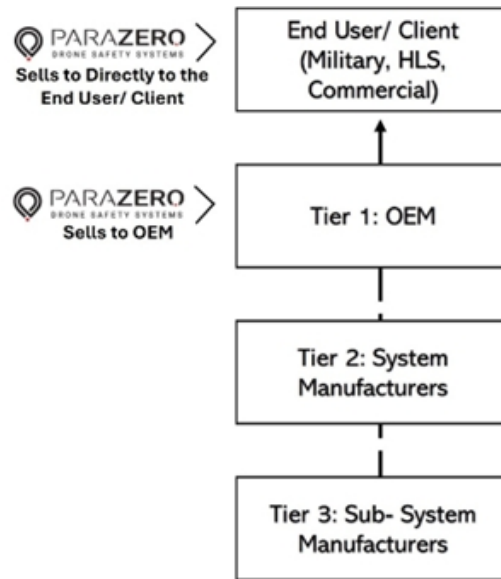
Commercial drones offer significant value to private industry and the public sector and are flying in ever-increasing numbers in the skies. As the global utilization of drones grows at an increasing rate, we expect the number of safety incidents to increase as well. Drones routinely experience mid-flight emergencies, including electrical system failures, bird strikes, excessive angular breach or altitude loss, etc., and can fall out of the sky and can be part of safety incidents such as collisions with other flying objects or structures. For example, the EASA reported that in 2023 a total of 12 UAS accidents and serious incidents happened.

Advancement in drone technology has created threats on defense forces, national security and critical infrastructure through the use of advanced drones. Such drones, while being armed, are capable of attacks. Such incidents have reportedly increased in recent years, and hence security threats have led governments to think of anti-drone technologies. The increasing use of military and non-military drones for attacks on defense and civilian infrastructure and establishments as well as the use of drones for criminal activity, like smuggling, has necessitated the need for counter drone technology.

The utilization of UAS has become a global security concern, transcending geographic and conflict boundaries. According to recent research by Chávez and Swed, over 65 criminal, insurgent or terrorist organizations now possess the capability to deploy drones. This broad adoption underscores the pivotal role drones play in modern warfare and security breaches.

Business Strategy

We are implementing a multi-tiered business model to increase flexibility in the market and to encourage broad adoption of our products. A portion of our defense and commercial solutions are sold directly to OEMs, which usually are characterized by long sales cycles and in the commercial drone market are also original design manufacturers, or ODMs. Defense OEMs are usually the solution provider for the end users. Our direct interaction with OEMs enables us to work with them from the design stage, providing for seamless integration of our solutions into their products. We also market our solutions directly to clients via direct sales, resellers and an online store.



Marketing Strategy

In the commercial market, our primary efforts are in creating co-marketing partnerships and working directly with distributors and resellers. Our approach of market education and explaining the benefits of using our technology allows us to expand exposure to our technology even before the regulatory environment requires or provides regulatory benefit(s) to drone operators and manufacturers that have implemented a safety measure capability.

For selling our defense and commercial solutions, our core marketing activities include monthly press releases, monthly blog posts, regular social media posts and re-shares on LinkedIn, Facebook, Instagram, Twitter and YouTube, attending roadshows and exhibitions on a regular basis, continuously searching for co-marketing partnerships with OEMs and distributors, video and photo content creation, marketing collateral with e-folders for distributors and website updates.

Competition

The markets in which we operate are particularly competitive due to the lucrative nature of the contracts and contacts available within the commercial and industrial drone industries. The industry is also characterized by rapidly advancing technologies and new systems introduced to the market. In the commercial parachute market for commercial drones as well as for the precise airdrop market, we face competition mainly from, but not limited to, Drone Rescue Systems, Fruity Chutes, Opale Paramodels, Dronavia, AVSS, and Galaxy GRS.

In the C-UAS market we face competition mainly from, but not limited to, Dronesield, DroneCatcher, Elbit Systems, Rafael, IAI, Raytheon, Zen Technologies, DeTect, Drone Defense and Dedrone.

Future Applications

We intend to develop additional applications for drones utilizing our technological capabilities and deep familiarity and expertise in the drone market. These future applications include:

1. Introducing next-generation electronics that fully support urban air mobility and manned UAS applications (such as air taxis and other personal transportation and delivery solutions). By leveraging the experience we have accumulated over the years in designing smart autonomous solutions, we intend to build the next-generation hardware from the ground up, with cutting-edge technologies such as real-time, AI-based decision making with continuous learning capabilities and revolutionary design concepts that will potentially improve the reliability and performance of the hardware.

2. Developing an AI-based predictive maintenance and profiling suite to provide valuable insights for drone operators and OEMs. By employing advanced big data and machine learning techniques, end-users can receive alerts and notifications regarding the behavior of their platform(s). This will allow for preventive measures before a critical issue arises, thus providing an additional layer of safety, which is particularly important for air taxis and other manned applications.
3. Monetizing collected data by offering various complementary data-based solutions for end-users and OEMs, including advanced safety features, debriefing, and fleet management capabilities. By connecting the system to the cloud continuously, we believe that we will be able to provide users with analytics and data at a scope previously unavailable.
4. Fully integrating the system's real-time telemetry and statuses into smart city infrastructure, providing valuable data on air traffic, hazards, air pollution, and weather conditions in real-time. Utilizing the advanced sensing capabilities of the system, we believe that we will be able to generate an accurate high-resolution environmental picture that can be monetized as a data provider for municipalities and other clients in the smart urban landscape (such as emergency services).
5. Expanding OEM offerings with additional integration and testing services, further simplifying the overall system integration process and providing a one-stop-shop holistic solution for OEMs to design, integrate and certify their platforms in accordance with regulatory requirements. By leveraging our lab and field experience, along with our vast regulatory knowledge, OEMs that usually focus on the implementation of their platforms, rather than considering external requirements, can gain significant value by improving their offerings and reducing time to market.
6. Developing a solution for navigating the platform after parachute deployment to land in safe areas to further reduce the chance for hazards on the ground. Based on proprietary IP, we believe that the system will generate a continuous ground situational awareness picture and in accordance shall navigate the platform in case of an emergency to a predefined safe area.
7. Completion of the development of our DropAir precision airdrop system toward operational readiness. We intend to expand our sales to different end users for different needs, weights and environmental conditions.
8. Completion of the development of our C-UAS technology towards operational readiness. We believe that our technology can be part of a full C-UAS systems that includes detection, radio and GPS jamming. We will be able to implement our solution on vehicles, stationary platforms and on personal weapons.

Government Regulation

The use of commercial drones is heavily regulated and, as is often the case with developing technologies, the regulation of the operation and flight of UAS around the world is lagging behind the industry's technological capabilities. Many countries and governments, such as the United States and the European Union, have developed regulations that prohibit the use of UAS in urban or populated environments, except in specific scenarios and/or with appropriate air and ground risk mitigation measures, including the use of parachutes.

Possessing the ability to safely and legally engage in operations over people and BVLOS is essential for the commercial drone services industry to realize its full potential, as many of the commercial UAS use cases, such as food delivery, medical delivery, photography and monitoring, occur in urban environments, and thus cannot be performed without these capabilities.

Drone operations are subject to a number of regulations specific to the jurisdictions in which our solutions are used. These regulations are typically the responsibility of a given drone operator to follow but may have a material effect on our business by either encouraging or discouraging the use of drones equipped with our safety solutions. The regulations that are most likely to have a material effect on our business are as follows:

United States — Federal Aviation Administration (FAA)

The drone industry is regulated in the United States by the FAA to ensure that drone related services meet safety and performance standards. The FAA prescribes standards and certification requirements for use of UAS for commercial and recreational purposes. The rule for operating UAS under 55 pounds in the U.S. national airspace is the FAA's Small UAS Rule (14 CFR Part 107). On April 21, 2021, the FAA's Operation of Unmanned Aircraft Systems Over People final rule (14 CFR Part 107 Subpart D) went into effect, allowing for routine drone operations over people under certain circumstances. Under these rules, the FAA categorizes UAS operations over people depending on the level of risk that the UAS presents to people on the ground. Parachute recovery systems mitigate ground risk in the event of an in-flight emergency by significantly reducing the kinetic energy of a falling aircraft.

Since 2019, hundreds of FAA §107.39 waivers have been granted for operations over people using SafeAir technology, including to organizations such as Hensel Phelps, the Chicago Police Department, Verizon Media, The New York Times and State Farm Insurance. These waivers allow small UAS which do not meet the four operational categories mentioned above to be flown over human beings.

Canada — Transport Canada (TC)

The Canadian drone industry is regulated by Transport Canada, and drone operations must follow the rules set out in the Canadian Aviation Regulations, Part IX. The current regulations set forth three broad categories for remotely piloted aircraft systems (RPAS), which are largely based on weight and intended operation: (i) small RPAS in basic operations; (ii) small RPAS in advanced operations; and (iii) all other RPAS.

Small RPAS are defined as RPAS that weigh between 250 grams and 25 kilograms, must be registered with Transport Canada, must be marked with a registration number prior to flying and may not be flown at an altitude higher than 400 feet above ground level. Small RPAS operations are considered basic if they are flown only (i) in uncontrolled airspace; (ii) more than 30 meters horizontally from and never directly above bystanders; and (iii) more than three nautical miles from a certified airport or military aerodrome and more than one nautical mile from a certified heliport. If any one of the proceeding conditions is not met, the operations are considered advanced and stricter licensing, certification and operational restrictions are imposed.

When operations fall outside the basic or advanced categories, such as flights beyond visual line-of-sight or drones that weigh more than 25 kilograms, an application for a special flight operations certificate (SFOC) must be submitted to the Minister of Transport. Once granted, the operations are limited to the specific purpose approved in the SFOC.

Parachute recovery systems with specific characteristics, such as autonomous and manual triggering capabilities, are approved by Transport Canada as a means for drone operators to obtain authorizations for operations over people.

The framework developed by Transport Canada also allows manufacturers or modifiers of RPAS to submit declarations that the RPAS can safely conduct certain advanced operations. These declarations offer a streamlined approach to receiving the requisite approvals from Transport Canada for advanced RPAS operations.

TC's RPAS operations over people segment is currently supported by the entire portfolio of ParaZero SafeAir off-the-shelf solutions: Mavic, M200, M300 and M350.

Israel

We may be subject, both directly and indirectly, to the adverse impact of existing and potential future government regulation of our products, technology, operations and markets. For example, the marketing and export of defense related equipment, services, 'know-how' are subject to DECA's regulation under the Export Control Law, collectively, Israeli Trade Control Laws, which impact our operations, for example by limiting our ability to sell, export, or otherwise transfer our products or technology, or to release controlled technology to non-Israeli companies.

We may not be able to retain licenses and other authorizations required under the applicable Israeli Trade Control Laws. The failure to satisfy the requirements under the Israeli Trade Control Laws, including the failure or inability to obtain necessary licenses or qualify for license exceptions, could delay or prevent the development, production, export, import, and/or in-country transfer of our products and technology, which could adversely affect our revenues and profitability.

EU Regulations 2019/947 and 2019/945 set out EASA's regulatory framework for the operation of civil drones in Europe. Regulation (EU) 2019/947 defines three categories of civil drone operations: open, specific and certified.

The open category addresses lower-risk drone operations and does not require operational authorization before starting flight. The open category is subdivided into three subcategories, A1, A2 and A3, according to the weight of the drone, with each subcategory having its own set of requirements and restrictions.

The specific category addresses riskier drone operations and requires the drone operator to obtain authorization from the national competent authority before starting flight. To receive operational authorization, the drone operator must conduct a risk assessment. EASA has endorsed the Specific Operations Risk Assessment (SORA) as an acceptable means to demonstrate compliance and assess the operational risk of proposed drone operations within the specific category. SORA allows operators to utilize certain mitigating measures to reduce ground and air risk associated with the drone operation. Parachute systems effectively address SORA's ground risk mitigation element, known as M2 mitigation, due to the safety provided in the event of a critical in-flight failure.

EASA has defined certain Standard Scenarios, or STSs, for drone operations to simplify approvals for specific types of flights. These STSs are designed for operations that go beyond the limitations of the "open" category, but still follow pre-defined safety requirements. Currently, EASA has defined two STS:

1. STS-01 – Operations in VLOS over a controlled ground area in populated environments.
2. STS-02 – Operations in BVLOS with airspace observers in sparsely populated environments.

These STSs allow drone operators to conduct missions without applying for a full operational authorization. Drones classified under C5, such as the DJI Mavic 3E and M350 equipped with ParaZero's SafeAir Systems, are specifically designed to meet the technical and operational requirements of STS-01. The C5 marking ensures that a drone is equipped with necessary safety features for conducting standard scenario operations without additional mitigations.

The certified category addresses drone operations with the highest level of risk and requires the certification of the UAS, a licensed remote pilot and an operator approved by the competent authority. The EASA's approach to the certified category is similar to the approach used for manned aviation operations.

Grants for Research and Development

Under the Israeli Encouragement of Research, Development and Industrial Initiative Technology Law, 5744-1984, as amended, and the regulations promulgated thereunder, or the Research Law, research and development programs which meet certain specified criteria and are approved by the IIA's research committee are eligible for grants which are determined as a percentage of the project's expenditure, as determined by the IIA's research committee, in exchange for the payment of royalties from the revenues generated from the sale of products and related services developed, in whole or in part pursuant to, or as a result of, a research and development program funded by the IIA. The royalties are generally determined at a range of 3.0% to 6.0% of the project's revenues until the entire IIA grant is repaid, together with an annual interest. Until December 31, 2023, the interest was calculated at a rate based on the 12 months LIBOR Rate applicable to dollar deposits that was published on the first business day of each calendar year, however, pursuant to the latest IIA regulations, as of January 1, 2024, IIA grants received after June 30, 2017, shall bear interest calculated at a rate based on an annual application of the SOFR, or at an alternative rate published by the Bank of Israel, plus approximately 0.72%; and, for grants approved on or following January 1, 2024, the annual interest rate shall be the higher of (i) the 12 months SOFR interest rate plus 1%, or (ii) a fixed annual interest rate of 4%.

The terms of the Research Law also require that the manufacture of products developed with government grants be performed in Israel. The transfer of manufacturing activity outside Israel may be subject to the prior approval of the IIA (the approval of the IIA is not required for transfer of no more than 10% of the manufacturing capacity in the aggregate outside of Israel, though a notice must still be provided to the IIA in such case). Under the regulations of the Research Law, assuming we receive approval from the Chief Scientist to manufacture our IIA-funded products outside Israel, we may be required to pay increased royalties. The increase in royalties depends upon the manufacturing volume that is performed outside of Israel as follows:

Manufacturing Volume Outside of Israel	Royalties to the Chief Scientist as a Percentage of Grant
Up to 50%	120%
More than 50% and up to 90%	150%
More than 90%	300%

If the manufacturing is performed outside of Israel by us, the rate of royalties payable by us on revenues from the sale of products manufactured outside of Israel will increase by 1% over the regular rates. If the manufacturing is performed outside of Israel by a third party, the rate of royalties payable by us on those revenues will be equal to the ratio obtained by dividing the amount of the grants received from the Office of the Chief Scientist and our total investment in the project that was funded by these grants. Manufacturing outside of Israel will not affect the rate of royalties payable on revenues from the sale of products manufactured in Israel. A company requesting funds from the IIA also has the option of declaring in its IIA grant application an intention to perform part of its manufacturing outside of Israel, thus avoiding the need to obtain additional approval from the IIA. On January 6, 2011, the Research Law was amended to clarify that the potential increased royalties specified in the table above will apply even in those cases where the IIA approval for transfer of manufacturing outside of Israel is not required, namely when the volume of the transferred manufacturing capacity is less than 10% of total capacity or when the company received an advance approval from the IIA to manufacture abroad in the framework of its IIA grant application.

The know-how developed within the framework of the Chief Scientist plan may not be transferred to third parties outside Israel without the prior approval of the IIA's research committee chartered under the Research Law. The IIA approval to transfer know-how created, in whole or in part, in connection with an IIA-funded project to third party outside Israel where the transferring company remains an operating Israeli entity is subject to payment of a redemption fee to the IIA calculated according to a formula provided under the Research Law that is based, in general, on the ratio between the aggregate IIA grants to the company's aggregate investments in the project that was funded by these IIA grants, multiplied by the transaction consideration. The transfer of such know-how to a party outside Israel where the transferring company ceases to exist as an Israeli entity is subject to a redemption fee formula that is based, in general, on the ratio between the aggregate IIA grants to the total financial investments in the company, multiplied by the transaction consideration. According to the January 2011 amendment, the redemption fee in case of transfer of know-how to a party outside Israel will be based on the ratio between the aggregate IIA grants received by the company and the company's aggregate research and development expenses, multiplied by the transaction consideration. According to regulations promulgated following the 2011 amendment, the maximum amount payable to the IIA in case of transfer of know-how outside Israel shall not exceed 6 times the value of the grants received plus interest, and in the event that the receiver of the grants ceases to be an Israeli corporation such payment shall not exceed six times the value of the grants received plus interest, with a possibility to reduce such payment to up to three times the value of the grants received plus interest if the research and development activity remains in Israel for a period of three years after payment to the IIA.

Transfer of know-how within Israel is subject to an undertaking of the recipient Israeli entity to comply with the provisions of the Research Law and the regulations promulgated thereunder, including the restrictions on the transfer of know-how and the obligation to pay royalties, as further described in the Research Law and related regulations.

These restrictions may impair our ability to outsource manufacturing, engage in change of control transactions or otherwise transfer our know-how outside Israel and may require us to obtain the approval of the IIA for certain actions and transactions in advance and pay additional royalties to the IIA. In particular, any change of control and any change of ownership of our ordinary shares that would make a non-Israeli citizen or resident an "interested party," as defined in the Research Law, requires a prior written notice to the IIA in addition to any payment that may be required of us for transfer of manufacturing or know-how outside Israel. If we fail to comply with the Research Law, we may be subject to criminal charges.

Intellectual Property

We seek patent protection as well as other effective intellectual property rights for our products and technologies in the United States and internationally. Our policy is to pursue, maintain and defend intellectual property rights developed internally and to protect the technology, inventions and improvements that are commercially important to the development of our business.

Our patent portfolio consists of an aggregate of twenty four (24) patents and patent applications, as detailed in the following table.

Luzzatto Ref.	Country	Effective Date	Application No. Patent No.	Status	Title	Type
31225/CA/13-CIP	Canada	2020/09/16	3,151,165	Await	DAMAGE MITIGATING FOR AN AERIAL VEHICLE HAVING A DEPLOYABLE PARACHUTE	Patent
31225/CN/13	China	2014/10/22	201480058600.1 ZL 201480058600.1	Granted	APPARATUS AND METHOD FOR RAPID DEPLOYMENT OF A PARACHUTE	Patent
31225/DE/13-EP	Germany	2014/10/22	14855086.6 60 2014 083 159.1	Granted	OBJECT TO BE PARACHUTED AND METHOD FOR RAPID DEPLOYMENT OF A PARACHUTE	Patent
31225/EP/13	European Patent Office	2014/10/22	14855086.6 3060477	Granted	OBJECT TO BE PARACHUTED AND METHOD FOR RAPID DEPLOYMENT OF A PARACHUTE	Patent
31225/EP/13-CIP	European Patent Office	2020/09/16	20865241.2	Pend	DAMAGE MITIGATING FOR AN AERIAL VEHICLE HAVING A DEPLOYABLE PARACHUTE	Patent
31225/EP/13-CIP2	European Patent Office	2023/03/19	23774147.5	Await	DAMAGE MITIGATING APPARATUS AND METHOD	Patent
31225/FR/13-EP	France	2014/10/22	14855086.6 EP3060477	Granted	OBJECT TO BE PARACHUTED AND METHOD FOR RAPID DEPLOYMENT OF A PARACHUTE	Patent
31225/GB/13-EP	Great Britain	2014/10/22	14855086.6 EP3060477	Granted	OBJECT TO BE PARACHUTED AND METHOD FOR RAPID DEPLOYMENT OF A PARACHUTE	Patent
31225/HK/13	Hong Kong	2014/10/22	16113519.7 HK1225359	Granted	APPARATUS AND METHOD FOR RAPID DEPLOYMENT OF A PARACHUTE	Patent
31225/IL/13-CIP-np2	Israel	2020/09/16	291438	Pend	DAMAGE MITIGATING FOR AN AERIAL VEHICLE HAVING A DEPLOYABLE PARACHUTE	Patent
31225/IN/13-CIP	India	2020/09/16	202227020577	Await	DAMAGE MITIGATING FOR AN AERIAL VEHICLE HAVING A DEPLOYABLE PARACHUTE	Patent
31225/IN/13-CIP2	India	2023/03/19	202417078495	Await	DAMAGE MITIGATING APPARATUS AND METHOD	Patent
31225/mis/13	Israel	2013/10/24	229068	Granted	APPARATUS AND METHOD FOR RAPID DEPLOYMENT OF A PARACHUTE	Patent
31225/SG/13-CIP2	Singapore	2023/03/19	11202406524W	Await	DAMAGE MITIGATING APPARATUS AND METHOD	Patent
31225/SG/13-CIP-DIV1	Singapore	2020/09/16	10202402312Y	Await	DAMAGE MITIGATING FOR AN AERIAL VEHICLE HAVING A DEPLOYABLE PARACHUTE	Patent
31225/US/13	USA	2014/10/22	15/030,533 10,421,552	Granted	APPARATUS AND METHOD FOR RAPID DEPLOYMENT OF A PARACHUTE	Patent
31225/US/13-CIP	USA	2014/10/22	16/576,882 11,286,053	Granted	DAMAGE MITIGATING APPARATUS OPERABLE BY PRESSURIZED DEPLOYMENT OF A FABRIC	Patent
31225/US/13-CIP2	USA	22/10/2014	17/700,335	Allowed	AERIAL VEHICLE BASED DAMAGE AVOIDANCE SYSTEM INCLUDING SAFETY APPARATUS FOR MITIGATING DAMAGE TO NEARBY BYSTANDERS OR VEHICLES	Patent
31225/US/13-CIP2-CON	USA	2014/10/22	19/056,111	Await	AERIAL VEHICLE BASED DAMAGE AVOIDANCE SYSTEM INCLUDING SAFETY APPARATUS FOR MITIGATING DAMAGE TO NEARBY BYSTANDERS OR VEHICLES	Patent
34686/IL/16-ORP	Israel	2017/03/22	251342	Granted	METHOD AND SYSTEM FOR DECELERATING AND REDIRECTING AN AIRBORNE PLATFORM	Patent
34686/JP/16	Japan	2018/03/15	2019-551441 7097905	Granted	METHOD AND SYSTEM FOR DECELERATING AND REDIRECTING AN AIRBORNE PLATFORM	Patent
34686/SG/16	Singapore	2018/03/15	11201908488W	Granted	METHOD AND SYSTEM FOR DECELERATING AND REDIRECTING AN AIRBORNE PLATFORM	Patent
34686/US/16-CIP	USA	2018/03/15	18/527,975	Await	METHOD AND SYSTEM FOR DECELERATING AND REDIRECTING AN AIRBORNE PLATFORM	Patent
34686/WO/16-CIP	WO	2023/12/04	PCT/IL2024/051150	Pend	METHOD AND SYSTEM FOR DECELERATING AND REDIRECTING AN AIRBORNE PLATFORM	Patent

We have certain registered trademarks, tradenames and service marks, including “ParaZero,” “SafeAir,” “SmartAir,” “SmartAir Pro” and “TerminateAir.”

We also rely on trade secrets, know-how, and continuous innovation to develop and maintain our competitive position. We cannot be certain that patents will be granted with respect to any of our pending patent applications or with respect to any patent applications filed by us in the future, nor can we be sure that any of our existing patents or any patents granted to us in the future will be commercially useful in protecting our technology.

Our success depends, in part, on an intellectual property portfolio that supports future revenue streams and erects barriers to our competitors. We are maintaining and building our patent portfolio through filing new patent applications, prosecuting existing applications, and licensing and acquiring new patents and patent applications.

Despite these measures, any of our intellectual property and proprietary rights could be challenged, invalidated, circumvented, infringed or misappropriated. Intellectual property and proprietary rights may not be sufficient to permit us to take advantage of current market trends or otherwise to provide competitive one. For more information, see “Item 3D — Risk Factors — Risks Related to our Intellectual Property.”

Employees

As of the date hereof, we currently have 22 full-time employees, including four members of senior management, one of whom is engaged as a service provider. All of our employees and our service provider are located in Israel.

None of our employees are represented by labor unions or covered by collective bargaining agreements. We believe that we maintain good relations with all our employees. However, in Israel, we are subject to certain Israeli labor laws, regulations and national labor court precedent rulings, as well as certain provisions of collective bargaining agreements applicable to us by virtue of extension orders issued in accordance with relevant labor laws by the Israeli Ministry of Economy and which apply such agreement provisions to our employees even though they are not part of a union that has signed a collective bargaining agreement.

All of our employment agreements include employees’ undertakings with respect to non-competition and assignment to us of intellectual property rights developed in the course of employment and confidentiality. The enforceability of such provisions is subject to Israeli law.

Legal Proceedings

We are not currently subject to any material legal proceedings.

C. Organizational Structure

We currently have no subsidiaries.

D. Property, Plant and Equipment

Our corporate headquarters, which includes our offices and research and development facility, is located at 1 HaTahana Street, Menivim Tower, Kfar Saba 4453001 Israel, where we occupy approximately 6,340 square feet, plus an additional storage space of approximately 260 square feet and 12 parking spaces. On February 1, 2024, we entered into a three year lease agreement that commenced on March 15, 2024. Our monthly aggregate rental payment is NIS 71,000 (approximately \$19,575) plus VAT at the applicable rate required under Israeli law. At the end of the term, we have an option to extend the lease for an additional three years.

We consider that our new office space will be sufficient to meet our anticipated needs for the foreseeable future and is suitable for the conduct of our business.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and the related notes included elsewhere in this annual report. The discussion below contains forward-looking statements that are based upon our current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from these expectations due to inaccurate assumptions and known or unknown risks and uncertainties, including those identified in "Cautionary Note Regarding Forward-Looking Statements" and under "Item 3.D Risk Factors" elsewhere in this Annual Report. Our discussion and analysis for the two years ended December 31, 2023 can be found in our annual report on Form 20-F as filed with the SEC on March 21, 2024 (File No. 001-41760).

Overview

For more information regarding our business and operations, see the section entitled "Business Overview" above.

Recent Offerings

Registered Direct Offering – February 2025

On February 13, 2025, we closed a registered direct offering, or the RDO, with investors for the purchase and sale of (i) 2,518,182 of our ordinary shares and (ii) pre-funded warrants to purchase up to 300,000 ordinary shares at a purchase price of \$1.10 per ordinary share and \$1.09999 per pre-funded warrant. The pre-funded warrants were immediately exercisable at an exercise price of \$0.00001 per ordinary shares, subject to adjustment as set forth therein, and will not expire until exercised in full. The aggregate gross proceeds to us from the RDO were approximately \$3.1 million.

As of the date hereof, 200,000 pre-funded warrants have been exercised into 200,000 ordinary shares. We paid an aggregate of \$232,500 in placement agent fees and reimbursed the placement agent's actual out-of-pocket expenses up to \$55,000.

Private Placement – October 2023

On October 30, 2023, we closed a private placement transaction, or the PIPE, with certain accredited investors, or the Purchasers, for aggregate gross proceeds of approximately \$5.1 million, before deducting fees to the placement agent and other expenses payable by us.

As part of the PIPE, we issued units and pre-funded units, collectively, the Units, consisting of an aggregate of (i) 1,136,364 ordinary shares, (ii) 3,500,000 pre-funded warrants each to purchase one ordinary share, (iii) 4,636,364 series A warrants each to purchase one ordinary share, and (iv) series B warrants to purchase a maximum amount of 5,563,638 ordinary shares.

Each Unit consisted of (i) one Ordinary Share or pre-funded warrant, (ii) one series A warrant and (iii) one series B warrant. The purchase price was \$1.10 per Unit and \$1.095 per pre-funded Unit. The pre-funded warrants were immediately exercisable at an exercise price of \$0.005 per ordinary share and will not expire until exercised in full. The series A warrants were immediately exercisable, have an exercise price of \$1.10 per ordinary share (subject to customary adjustments and certain anti-dilution protection) and have a term of 5.5 years from the date of issuance.

The number of ordinary shares issuable under the series B warrant was subject to an adjustment determined by the trading price of the ordinary shares following the effectiveness of a resale registration statement, or the Resale Registration Statement, that we undertook to file on behalf the Purchasers, subject to a pricing floor of \$0.50 per ordinary share, such that the maximum number of ordinary shares underlying the series B warrants would be an aggregate of 5,563,638 ordinary shares.

Following the effectiveness of the Resale Registration Statement, on December 14, 2023, the number of ordinary shares underlying the series B warrants was adjusted to an aggregate amount of 140,373 ordinary shares, exercisable at an exercise price of \$0.005 per ordinary shares. In December 2023, we issued an aggregate of 2,885,174 ordinary shares upon the cashless exercise of pre-funded warrants and series B warrants by certain warrant holders.

As of the date hereof, 3,500,000 pre-funded warrants, 2,798,903 series A warrants and 140,373 series B warrants have been exercised into an aggregate of 6,416,693 ordinary shares for aggregate gross proceeds of approximately \$3.0 million.

Initial Public Offering – July 2023

On July 31, 2023, we closed our initial public offering of 1,950,000 ordinary shares at a public offering price of \$4.00 per ordinary share, for aggregate gross proceeds of \$7,800,000 prior to deducting underwriting discounts and other offering expenses.

Our ordinary shares began trading on the Nasdaq Capital Market under the ticker symbol “PRZO” on July 27, 2023.

A. Operating Results

Components of Operating Results

Sales

Revenue is recognized when (or as) control of the promised goods or services is transferred to the customer, and in an amount that reflects the consideration the Company is contractually due in exchange for those services or goods. 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) we satisfy our performance obligations.

The Company’s revenues consist of sales of drone safety systems with a one-year warranty, directly to customers via direct sales to system manufacturers, resellers and an online store. The payment terms are usually an advance payment through a credit card or a bank wire or 30 days credit upon delivery of the product for certain existing clients.

The Company recognizes revenue from the sale of its products at the point of time when control is transferred to its customers. Once the Company’s products have been physically delivered to the agreed location, the Company no longer has a physical holding but has a present right to receive payment without retaining any significant risks or benefits.

The Company’s products include warranties which require the Company to either replace or repair defective products during the warranty period if the products fail to comply with their described specifications. Such warranties are not accounted for as separate performance obligations and hence no revenue is allocated to them. Instead, a provision is made for the costs of satisfying the warranties.

Each transaction of a product sale (including a warranty) consists of one performance obligation.

The Company recognizes revenue from customization agreements at a point in time for agreements that consist of single combined performance obligation of design of services and supply of a customized product that is satisfied at a point in time once the prototype is delivered to the customer and can be integrated into its equipment.

With the commencement of development and customization contracts during year ended December 31, 2024, in which the performance obligation is satisfied over time, the Company measures the progress of the project using the input method based on the company’s efforts to satisfy the performance obligation.

Cost of Sales

Cost of sales consists primarily of expenses related to the purchase of materials of products sold, salary and related. It also consists of write down charges of obsolete inventory items, warranty on product sold and royalties to the IIA on sales.

The Government of Israel, through the IIA, encourages research and development projects by providing grants. We may receive grants from the IIA at the rates that range from 20% to 50% of the research and development expenses, as prescribed by the research committee of the IIA. Our research and development efforts relating to our product have been financed in part through royalty-bearing grants in an aggregate amount of approximately \$748,000 received from the IIA, as of December 31, 2024, none of which were received during the most recent fiscal year ended. As of the same date, our contingent liabilities regarding IIA grants received by us were in an aggregate amount of approximately \$602,000. With respect to the royalty-bearing grants we are committed to pay royalties at a rate of 3% to 3.5% on sales proceeds from our products that were developed in whole or in part using these IIA grants. For information regarding our obligations in connection with the grants received from the IIA under the Research Law, see “Item 5 — Operating and Financial Review and Prospects — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Government Grants and Related Royalties” below.

Operating expenses

Our current operating expenses consist of four components: (i) research and development expenses; (ii) sales and marketing expenses and (iii) general and administrative expenses and (iv) initial public offering expenses and financing expenses. Labor costs are the most significant component of operating expenses and consist of salaries including benefits.

Research and development expenses

Research and development expenses consist primarily of labor costs, subcontractors, material and costs associated with patent-related expenses. Costs are expensed as they are incurred.

We anticipate that our research and development expenses will increase in the future as we increase our development headcount and infrastructure to support our continued research and development programs and the potential commercialization of our products.

Sales and marketing expenses

Sales and marketing expenses consist primarily of labor costs and consultants.

General and administrative expenses

General and administrative expenses consist primarily of labor costs, professional service fees and facilities.

We anticipate that we will incur increased expenses related to audit, legal, regulatory and tax-related services associated with maintaining compliance with Nasdaq and SEC requirements, director and officer insurance premiums, director compensation, and other costs associated with being a public company.

Initial public offering expenses and financing expenses

Initial public offering expenses include the portion of IPO expenses attributable to the selling shareholders and includes direct, incremental expenses related to the preparation and filing of the registration statement on Form F-1 in connection with the IPO and resale of existing shares, such as legal, advisors and printing expenses.

Finance income and expenses

Finance income consists of interest received on short term deposits and finance expenses consist of changes in the fair value of convertible notes, changes in fair value of derivative warrant liability, interest expenses on a related party loan, and other finance expenses and income which mainly included currency exchange rate differences and bank charges.

Income Taxes

We have yet to generate taxable income in Israel. As of December 31, 2024, our net operating loss carryforwards for tax purposes were approximately \$27.9 million. We anticipate that we will continue to generate losses for the foreseeable future and that we will be able to carry forward these losses for tax purposes indefinitely to future taxable years. Accordingly, we do not expect to pay taxes in Israel until we have taxable income after the full utilization of our carry forward tax losses.

Results of Operations

Our results of operations have varied in the past and can be expected to vary in the future due to numerous factors. We believe that period-to-period comparisons of our operating results are not necessarily meaningful and should not be relied upon as indications of future performance.

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

Below is a summary of our results of operations for the periods indicated:

<i>(in USD, except share and per share data)</i>	Year Ended December 31,	
	2024	2023
Statements of Operations Data:		
Sales	932,154	620,508
Cost of sales	(873,861)	(476,610)
Gross profit	58,293	143,898
Research and development expenses	(2,143,353)	(636,801)
Sales and marketing expenses	(1,081,003)	(487,904)
General and administrative expenses	(2,400,000)	(1,472,872)
Initial public offering expenses	-	(345,925)
Operating loss	(5,566,063)	(2,799,604)
Change in fair value of convertible note	-	(504,976)
Change in fair value of derivative warrant liabilities	(5,688,891)	(277,600)
Issuance expenses attributable to derivative warrant liability	-	(247,129)
Interest expenses on related party loan	-	(152,745)
Other finance income, net	200,724	210,675
Net loss and comprehensive loss	(11,054,230)	(3,771,379)
Basic and diluted loss per share	(0.99)	(0.77)
Weighted average number of shares outstanding used in computing basic and diluted loss per share	11,129,978	4,891,071

Sales

Sales increased by \$311,646, or 50.2%, to \$932,154 for the year ended December 31, 2024, compared to \$620,508 for the year ended December 31, 2023. This increase was mainly attributed to that fact, that the company shifted towards sales to OEM integrations that contributed to a higher volume of sales rather than to the aftermarket segment. This shift is accompanied with recurring revenues.

Cost of sales

Cost of sales increased by \$397,251, or 83.3%, to \$873,861 for the year ended December 31, 2024, compared to \$476,610 for the year ended December 31, 2023. The increase was mainly due to the increase in the volume of sales during the year ended December 31, 2024 and an inventory write off of approximately \$114,680.

Research and development expenses

Research and development expenses increased by \$1,506,552, or 237%, to \$2,143,353 for the year ended December 31, 2024, compared to \$636,801 for the year ended December 31, 2023. The increase resulted mainly from labor costs of \$843,881 accompanied an increase in by materials and experiments costs of \$386,839.

Sales and marketing expenses

Sales and marketing expenses increased by \$593,099, or 121.6%, to \$1,081,003 for the year ended December 31, 2024, compared to \$487,904 for the year ended December 31, 2023. The increase resulted mainly from labor, professional services and more subcontractors' costs of \$449,788 accompanied an increase in by travel and conferences participation costs of \$122,288.

General and administrative expenses

General and administrative expenses increased by \$927,128, or 62.9%, to \$2,400,000 for the year ended December 31, 2024, compared to \$1,472,872 for the year ended December 31, 2023. The increase resulted mainly from professional services rendered after the IPO and costs associated with becoming a public company, including an increase in D&O insurance and certain filing services.

Initial public offering expenses

Initial public offering expenses sum-up to a total of \$nil and \$345,925 for the years ended December 31, 2024 and December 31, 2023 respectively. Fees attributable to the resale of existing securities that were offered together with newly issued shares in the IPO were recognized as initial public offering expenses within the statement of comprehensive loss.

Change in fair value of convertible notes

Fair value of SAFEs' discounted conversion upon completion of the IPO was a non-cash amount of \$504,796 for the year ended December 31, 2023 and the Company did not incur such expense for the year ended December 31, 2024. The convertible notes of \$1,514,928 were converted upon the consummation of the IPO at a discount of 25% on the IPO share price and is non-cash expense to reflect the discount and record the convertible notes at fair value prior to their conversion into 504,976 ordinary shares.

Changes of fair value of derivative warrant liability

In connection with the PIPE, the Company issued warrants that are classified as liabilities and were measured at fair value upon issuance and revalued as of December 31, 2024. Non-cash expenses of \$5,688,891 were recorded as the change in fair value for the year ended December 31, 2024 reflecting the change in the fair value of the outstanding warrants and warrants that were exercised during 2024.

Issuance expenses attributable to derivate warrant liability

The relative portion of the PIPE issuance expenses attributed to the derivate warrant liability was \$247,129 for the year ended December 31, 2023 and the Company did not incur such expense for the year ended December 31, 2024. The Company allocated the issuance expenses incurred in the PIPE on a proportionate basis between the liability and equity instruments issued.

Interest expenses on related party loan

The Company did not incur any interest expenses with respect to funding from a related party for the year ended December 31, 2024. For the year ended December 31, 2023, interest expenses with respect to funding from a related party was \$152,745 as the loan was repaid during 2023.

Other finance income, net

Other finance income, net was \$200,724 for the year ended December 31, 2024, compared to finance income, net of \$210,675 for the year ended December 31, 2023. Other finance income, net, primarily includes income from interest on deposits and exchange rate differences.

Net loss and comprehensive loss

Net loss and comprehensive loss increased by \$7,282,851, or 193%, to \$11,054,230 for the year ended December 31, 2024, compared to a net loss of \$3,771,379 for the year ended December 31, 2023. The increase was the result of an increase of mainly a non-cash item, changes in fair value of derivative warrant liabilities, along with an increase in operating expenses, as described above.

B. Liquidity and Capital Resources

We are in our early commercialization stage and do not generate significant revenue in this stage. Therefore, we have suffered recurring losses from operations and negative cash flows from operations since inception. Our operations have been funded substantially through issuances of our equity securities in public and private offerings, including in our initial public offering in July 2023 and our private placement in October 2023, loans from related parties, SAFEs and government grants for research and development projects received from the IIA. Considering the above, management expects that it will require additional financing in the future to fund its operations until it has generated significant revenues. As of December 31, 2024, we had approximately \$4.2 million in cash and cash equivalents.

We expect that our existing cash and cash equivalents as of December 31, 2024, together with anticipated revenue from existing customers pursuant to existing purchase orders, as well as projected revenue from new customers, will be sufficient to fund our current operations and satisfy our obligations through the end of the first quarter of 2026.

Our main expense over this period will be hiring more employees and other expenses associated with being a public company. We intend to evaluate our expenses during this period to determine whether we will need additional financing.

We expect that we will require additional capital to develop our next generation flight computer including algorithm optimization, artificial intelligence layer development and optical sensors input integration, as well as to commercialize our new product. In addition, our operating plans may change as a result of many factors that may currently be unknown to us, and we may need to seek additional funds sooner than planned. Our future capital requirements will depend on many factors, including:

- our ability to market and sell our products and to generate revenues;
- the progress and costs of our research and development activities;
- the costs of manufacturing our products;
- the costs of filing, prosecuting, enforcing and defending patent claims and other intellectual property rights;
- the potential costs of contracting with third parties to provide marketing and distribution services for us or for building such capacities internally; and
- the magnitude of our general and administrative expenses.

Until we can generate significant recurring revenues and profit, we expect to satisfy our future cash needs through debt or equity financings, through the utilization of our current financial resources and sales of our products. We cannot be certain that additional funding will be available to us when needed, on acceptable terms, if at all. If funds are not available, we may be required to delay, reduce the scope of, or eliminate research or development plans for commercialization efforts with respect to our products.

The table below presents our cash flows for the periods indicated:

<i>(in USD, except share data)</i>	Year Ended December 31,	
	2024	2023
Operating activities:	(4,889,222)	(2,938,300)
Investing activities	(148,739)	(25,757)
Financing activities	1,820,001	10,302,656
Net increase (decrease) in cash and cash equivalents	(3,249,539)	7,338,599

Operating Activities

Net cash used in operating activities of \$4,889,222 for the year ended December 31, 2024. Net cash used in operating activities for the year ended December 31, 2023, was \$2,938,300. The increase in the negative cash flow is mainly due to an increase in current operating losses during the period.

Investing Activities

Net cash used in investing activities increased by \$122,982 to \$148,739 for the year ended December 31, 2024, compared to \$25,757 for the year ended December 31, 2023, which is due to placing a restricted deposit and the purchase of computers and office equipment as a result of migrating into a new office space.

Financing Activities

Net cash provided by financing activities of \$1,820,001 for the year ended December 31, 2024, consisted of exercise of warrants A series. Net cash provided by financing activities of \$10,302,656 for the year ended December 31, 2023, consisted of funds received from the IPO and the PIPE completed in the period, in an aggregate amount net of issuance costs of \$10,802,656 and the receipt of a loan from a related party in the amount of \$245,000 and the repayment of a loan to a related party in the amount of \$745,000.

Government Grants and Related Royalties

We have developed drone safety systems, at least in part, with funds from IIA grants, and, accordingly, we would be obligated to pay these royalties on sales of the aforementioned products. Below is a description of our obligations in connection with the grants received from the IIA under the Research Law:

Local Manufacturing Obligation

As long as the manufacturing of our product candidates takes place in Israel and no technology funded with IIA grants is sold or out licensed to a non-Israeli entity, the maximum aggregate royalties paid would generally be up to the total amount of grants received, linked to the U.S. dollar and bearing interest. Until December 31, 2023, the interest was calculated at a rate based on an annual application of the LIBOR, applicable to U.S. dollar deposits, however, pursuant to the latest IIA regulations, as of January 31, 2024, IIA grants received after June 30, 2017, shall bear interest calculated at a rate based on an annual application of the SOFR, or at an alternative rate published by the Bank of Israel, plus approximately 0.72%.

We believe that this change would not have material impact on our results or our financial position.

Further, when a company develops know-how, technology or products using IIA grants, the terms of these grants and the Research Law restrict the transfer of such know-how, and the transfer of manufacturing or manufacturing rights of such products, technologies or know-how outside of Israel, without the prior approval of the IIA. Therefore, the discretionary approval of an IIA committee would be required for any transfer to third parties inside or outside of Israel of know-how or 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 out of Israel.

Under the terms of the Research Law, the products may be manufactured outside of Israel by us or by another entity only if prior approval is received from the IIA (such approval is not required for the transfer of up to 10% of the manufacturing capacity in the aggregate, in which case a notice must be provided to the IIA and not be objected to by the IIA within 30 days of such notice).

Know-How Transfer Limitation

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

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

Change of Control

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

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

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

C. Research and development, patents and licenses, etc.

For a description of our research and development programs and the amounts that we have incurred over the last two years pursuant to those programs, please see “Item 5. Operating and Financial Review and Prospects- A. Operating Results-Research and Development Expenses” and “Item 5. Operating and Financial Review and Prospects- A. Operating Results- Comparison of the year ended December 31, 2024 to the year ended December 31, 2023- Research and Development Expenses.”

D. Trend Information

Other than as disclosed in “Item 5. Operating and Financial Review and Prospectus—Components of Operating Results” and elsewhere in this Annual Report, we are not aware of any trends, uncertainties, demands, commitments or events for the period from January 1, 2024 to December 31, 2024 that are reasonably likely to have a material effect on our total revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial condition.

E. Critical Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Our management believes that the estimates, judgments and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

See Note 2 to the audited consolidated financial statements for the year ended December 31, 2024 for additional information regarding these and our other significant accounting policies.

Derivative Warrant Liabilities

The Company analyses warrants issued to determine whether they meet the classification as liabilities or equity under US GAAP. Derivative warrant liabilities are adjusted to reflect fair value at each reporting period, with any increase or decrease in the fair value recorded as finance expenses (income) in the statement of comprehensive loss. The Company uses a fair valuation specialist to estimate the value of these instruments using numerous iterations using the Black–Scholes option price model.

The key assumptions used in the models are the expected future volatility in the price of the Company’s shares, the expected life of the warrants and the probability of a future down-round adjustment event.

Stock Based Compensation

General and administrative, sales and marketing, and research and development expenses include stock-based compensation to the Company's employees and directors. Fair value of stock-option awards was determined using the Black-Scholes option pricing model, which requires a number of assumptions, of which the most significant are the expected share price, volatility, and the expected option term. Expected volatility was calculated based on comparable public companies in the same industry. The expected share option term is calculated for share options granted to employees and directors using the "simplified" method. The risk-free interest rate is based on the yield from U.S. treasury bonds with an equivalent term.

Internal Control Over Financial Reporting

In connection with the audit of our consolidated financial statements as of December 31, 2024, we identified control deficiencies in our financial reporting process that constitute a material weakness. The material weakness related to lack segregation of duties.

As defined in the standards established by the Public Company Accounting Oversight Board of the United States, a "material weakness" is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

Management has implemented corrective actions to address this issue, including improving the segregation of duties and enhancing our controls to ensure the accuracy of our financial reporting within account processes, and systems, documentation to evidence the operation of controls, procedures and approvals, periodic user access reviews, assessment of controls of financially significant vendors, written policies and procedures for accounting, IT and financial reporting and record keeping. We continue to improve its internal controls over financing, and has engaged outside consultants, experts in the controls and procedures over financial reporting, and internally, we have reviewed and improved these processes. In light of the remediation occurring, our internal controls are expected to be effective in the 2025. Except for additional personnel costs and the costs of our third-party service providers, we do not expect to incur any material costs related to our remediation plan. See "Item 5.E—Operating and Financial Review and Prospects—Critical Account Estimates—Internal Control Over Financial Reporting" and "Item 3.D—Risk Factors—Risks Related to Ownership of our Ordinary Shares— We have identified a material weakness in our internal control over financial reporting, and we may not be able to successfully implement remedial measures" for additional information.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

Executive Officers and Directors

The following table sets forth information regarding our executive officers and directors, including their ages as of March 21, 2025:

Name	Age	Position
Boaz Shetzer	45	Chief Executive Officer
Regev Livne	44	Chief Financial Officer
Yuval Gilad	39	Chief Product Officer
Oren Aviram	52	Vice President of Sales
Amitay Weiss	63	Chairman of the Board of Directors, Class I Director
Natan Israeli ⁽¹⁾	53	Class I Director
Dr. Roy Borochoy ⁽¹⁾	50	Class II Director
Tali Dinar	54	Class II Director
Moshe Revach ⁽¹⁾⁽²⁾⁽³⁾	49	Class III Director
Yigal Shtief ⁽¹⁾⁽²⁾⁽³⁾	72	Class III Director
Naama Falach Avrahamy ⁽¹⁾⁽²⁾⁽³⁾	45	Class II Director

(1) Independent director under applicable Nasdaq Capital Market and SEC rules, as affirmatively determined by our Board.

(2) Member of the audit committee.

(3) Member of the compensation committee.

Boaz Shetzer, Chief Executive Officer

Mr. Shetzer has served as our Chief Executive Officer since January 2022. Prior to that, Mr. Shetzer served as our General Manager from January 2021 to December 2021. Prior to that, Mr. Shetzer served as our Chief Operations Officer from January 2020 to December 2020. Prior to this role, Mr. Shetzer served as our Head of Product from August 2018 to January 2020. Before joining the company, Mr. Shetzer co-founded and served as the CEO of TypeIV, a startup in the digital health arena, from January 2017 to July 2018. Prior to that, Mr. Shetzer held the role of VP of Operations at Soluto, which was acquired by Asurion, LLC, from July 2011 to November 2015. Mr. Shetzer has substantial experience in the start-up and technology commercialization ecosystem. He also serves as a reserve Israeli Air Force Major where he flies a C-130, the Israeli Air Force tactical transportation plane. Mr. Shetzer holds a BSc., magna cum laude, in electrical and computer Engineering from the Ben-Gurion University, an M.B.A. from the Reichman University (IDC Herzliya) and is an honorary graduate of the Israeli Air Force Flight Academy.

Regev Livne, Chief Financial Officer

Mr. Livne has served as our Chief Financial Officer since December 2024. Mr. Livne has over 15 years of experience in executive finance roles across diverse industries ranging from early-stage startups to established international businesses. Prior to joining the Company, Mr. Livne served as the chief financial officer and chief operating officer of Innovpro, an Israel-based food technology company, since 2021, where he led the company's expansion into North America and managed relationships with strategic investors. From 2017 to 2021, Mr. Livne served as the chief financial officer of Votiro, a cyber security company, where he raised capital and supported the growth of the company into North America and Asia. From 2016 to 2017, Mr. Livne served as the chief financial officer of SCR Engineers Ltd. Prior to these roles, Mr. Livne held various positions in the finance departments of other companies, including "3M Attenti", where he supported the integration into 3M, and Dmatek Ltd., which was previously listed on the London Stock Exchange. He also served as a senior accountant at PricewaterhouseCoopers in Israel, where he audited a wide range of companies, including publicly traded and privately held companies. Mr. Livne is a Certified Public Accountant (CPA) in Israel and holds a Master's Degree in Finance and Management "as well as" a B.A. in Business Administration and Accounting, from the Israeli College of Management.

Yuval Gilad, Chief Product Officer

Mr. Gilad has served as our Chief Product Officer since November 2020. Prior to that he served as our R&D director from 2017 to 2020. Before joining ParaZero, Mr. Gilad was a senior product manager at mPrest systems, leading a multi-disciplinary air defense C4I project from 2014 to 2017. Prior to that, Mr. Gilad was a system engineer at System Design Solutions in 2013. Mr. Gilad was also a ground station and C2 system engineer for LEO imaging satellites from 2008 to 2012. Mr. Gilad is currently an MBA candidate at Reichman University (IDC Herzliya) and holds a BSc. degree in electrical and computer engineering from Ben-Gurion University.

Oren Aviram, Vice President of Sales

Mr. Aviram has served as our Vice President of Sales since 2016.. Mr. Aviram has over 15 years of experience in international sales and led sales and marketing for IAI - Israel Aerospace Industries, one of the world's largest manufacturers of aerial and astronautic systems from 2005 to 2016, where he was responsible for finalizing large contracts while leading both legal and financial negotiations around the globe. Mr. Aviram is an Israeli Air Force veteran and holds a B.A. in Political Science from the University of Haifa

Amitay Weiss, Chairman of the Board of Directors, Class I Director

Mr. Weiss has served as the Chairman of our board of directors since August 2023 and as a member of our Board since February 2022. He is currently serving as a chairman of the board of directors of SciSparc Ltd. (previously Therapix Biosciences Ltd.) (OTC:SPRCY) since August 2020, chairman of the board of directors of Clearmind Medicine Inc. (previously Cyntar Ventures Inc.) (CSE: CMND) since August 2019, chairman of the board of directors of Save Foods Inc. (Nasdaq: SVFD) since August 2020, chairman of the board of directors of Infimer Ltd. (TASE:INFR-M) since July 2021 and chairman of the board of directors of Automax Motors Ltd. (TASE: AMX) since March 2021. He has also served as a member of the board of directors of Upsellon Brands Holdings Ltd. (previously Chiron Ltd.) (TASE: UPSL) since June 2019, Jeffs' Brands Ltd. (Nasdaq: JFBR) since August 2022 and as an external director of Cofix Group Ltd. (TASE: CFCS) since August 2015. He previously served as chairman of the board of directors of Value Capital One Ltd. (previously P.L.T Financial Services Ltd.) (TASE:VALU) from April 2016 to February 2021, Matomy Media Group Ltd. (LSE:MTMY, TASE:MTMY.TA) from May 2020 to March 2021, as a director on the board of directors of Perihelion Capital Ltd (PCL.P:CVE) from June 2021 to September 2023 and Gix Internet Ltd. (previously Algomizer Ltd.) (TASE:GIX) from March 2019 to September 2022. He is now acting as Gix Internet Ltd.'s chief executive officer. In April 2016, Mr. Weiss founded Amitay Weiss Management Ltd., an economic consulting company, and now serves as its chief executive officer. Mr. Weiss holds a B.A in economics from New England College, M.B.A. in business administration and LL.B. from Ono Academic College, Israel. We selected Mr. Weiss to serve as a director because of his substantial business and management experience.

Natan Israeli, Class I Director

Mr. Israeli has served as our director since December 2024. Mr. Israeli has served as the Chief Customer Officer of Kaltura, Inc. (Nasdaq: KLTR) since November 2020 and as an executive officer since January 2024. Prior to joining Kaltura, throughout 2020, Mr. Israeli was the chief executive officer of Ambar A.M. Enterprise Ltd., that was active in the Israeli energy and infrastructure industries. Prior to that Mr. Israeli, a Brig. Gen. (Res.), served for three decades in the Israeli Air Force (IAF) as an officer and helicopter pilot. His last position was Head of the Personnel Directorate of the IAF from 2016 to 2020, in which capacity he was responsible for tens of thousands of people. Prior to that Mr. Israeli held various senior positions, including the IAF's CIO and head of its information systems from 2012 to 2014. Mr. Israeli holds a B.S. in biology and psychology from Bar-Ilan University in Israel and a Master's Degree in Political Science and Government from the University of Haifa in Israel.

Dr. Roy Borochoy, Class II Director

Dr. Borochoy has served as our director since February 2022 and until August 2023 served as our Chairman of the board of directors. He has also served as Chief Executive Officer of Mercury Investment Fund between December 2020 and December 2023 and Chief Executive Officer of Plantify foods (TSXV: PTFY) between August 2022 and Aug 2023. Previously, Dr. Borochoy served as Head of Agriculture at Prospera Technologies Ltd. from 2018 to 2020. Dr. Borochoy has served as a director of Peas of Bean Ltd between 2021-2024, Venda Robotics between 2021-2022, Plantify foods between August 2022 and August 2023, Safe Foods (Nasdaq: SVFD) between April 2023 and December 2023 and Polyrison Ltd between 2021 and 2024. Dr. Borochoy has a Ph.D. from the Hebrew University of Jerusalem. We selected Dr. Borochoy to serve as a director because of his strong business background.

Tali Dinar, Class II Director

Ms. Dinar has served as our director since February 2022. She also serves as Chief Financial Officer of Xylo Technologies Ltd. (Nasdaq: XYLO) since June 2021. Ms. Dinar served as Chief Financial Officer of Novomic Ltd., a private company, between January 2019 and January 2023. Additionally, Ms. Dinar has served as a director of Micronet Ltd. (TLV: MCRNT) between July 2016 and February 2023 and as a director in Canzon Israel Ltd. (TLV: CNZN) between August 2020 and March 2022. Ms. Dinar also currently serves as a member of the board of directors of Jeffs' Brands, beginning September 30, 2021, a director in Charging Robotics Inc. since November 2021 and as a director in Fuel Doctor Holding Inc. since April 4, 2023. Prior to these positions, Ms. Dinar served as CFO of Techcare Corp. (OTC: TECR) from January 2019 to April 2020. She previously served in various positions at MICT Inc. (Nasdaq: MICT) from 2009 to 2019, including as a director and CFO. Ms. Dinar holds a B.A. in accounting and business administration from the College of Management and is also a CPA. We selected Ms. Dinar to serve as a director due to her long track record of leading public and private companies.

Moshe Revach, Class III Director

Mr. Revach has served as our director since February 2022. He is currently Deputy Mayor of the city of Ramat Gan, Israel, has held the sports and government relations portfolios in the Ramat Gan municipality since 2018 and has served in various positions in the Ramat Gan municipality since 2008. Mr. Revach also serves as a director of SciSparc Ltd. (Nasdaq: SPRC), Jeffs' Brands Ltd. (Nasdaq: JFBR) and LLN IT Solutions. He previously served as a director of Biomedico Hadarim Ltd. from 2019 to 2020 and as a director of the RPG Economic Society from 2013 to 2018. Mr. Revach holds an LL.B from the Ono Academic College, Israel, and a B.A in management and economics from the University of Derby. We selected Mr. Revach to serve as a director due to his extensive government and corporate experience.

Yigal Shtief, Class III Director

Mr. Shtief has served as a director since August 2023. Mr. Shtief has served as an external director of Globe Exploration Inc (TLV:GLEX) since 2015. From 2012 to 2020, Mr. Shtief served as an Independent Director of Netz Group (TLV:NETZ). Mr. Shtief holds a Diploma from The Institute of Local Government (Israel). Mr. Shtief has a B.A. in criminology and political science from Bar-Ilan University, and an MBA from the University of Latvia. We believe that Mr. Shtief is qualified to serve on our board of directors due to his extensive experience in a variety of management positions in the public sector and as a director of Israeli public companies.

Naama Falach Avrahamy, Class II Director

Ms. Naama Falach Avrahamy has served as a director since August 2023. Ms. Falach Avrahamy is a senior financial professional with more than 17 years of experience. Ms. Falach Avrahamy has served as a member of the board of directors of Maris-Tech Ltd. (Nasdaq: MTEK) since February 2022, of Argaman Industries (TASE: Argaman) since June 2021 and of Crow Technologies 1977 Ltd. (OTC: CRWTF) since May 2018. She has also served as VP of finance of Midgard Technologies Ltd. since April 2021. She previously served as the chief financial officer and chief operating officer of NGG Global Consulting, a consulting group specializing in organizational and operational excellence solutions from May 2019 to February 2021, and as chief financial officer of AnyfinacialTech Ltd., an online financial trading platform from May 2015 to June 2017. Ms. Falach Avrahamy received a BA in Business Administration and Accounting from the College of Management, Israel. She is also a graduate of the Directors and Executives program from the IDC Herzliya, Israel. We believe that Ms. Falach Avrahamy is qualified to serve on our board of directors due to her financial background and expertise and experience in positions as director of public companies.

Family Relationships

There are no family relationships between any members of our executive management and our directors.

Arrangements for Election of Directors and Members of Management

There are no arrangements or understandings with major shareholders, customers, suppliers or others pursuant to which any of our executive management or our directors were selected. See "Item 7B — Major Shareholders and Related Party Transactions — Related Party Transactions" for additional information.

B. Compensation

The following table presents information regarding compensation accrued in our financial statements for our five most highly compensated office holders (within the meaning of the Companies Law), during or with respect to the year ended December 31, 2024. The table does not include any amounts we paid to reimburse any of such persons for costs incurred in providing us with services during this period.

All amounts reported in the table below reflect our cost, in thousands of U.S. dollars. Amounts paid in NIS are translated into U.S. dollars at the rate of NIS 3.699= U.S. \$1.00, based on the average representative rate of exchange between the NIS and the U.S. dollar as reported by the Bank of Israel during such period of time.

Executive Officer	Salary and Related Benefits⁽¹⁾	Bonus Payments, Benefits and Perquisites	Stock-Based Compensation	Total
Boaz Shetzer, Chief Executive Officer	\$ 188,851	\$ 75,341	\$ 14,299	\$ 278,491
Oren Aviram, Vice President of Sales	81,103	146,645	5,019	232,767
Yuval Gilad, Chief Product Officer	164,746	35,043	8,580	208,368
Yuval Tovias, Former Chief Financial Officer ⁽²⁾	155,124	-	-	155,124
Amitay Weiss, Chairman of the Board of Directors	97,323	-	14,299	111,622

(1) Represents the directors' and senior management's gross salary plus payment of mandatory social benefits made by the company on behalf of such persons. Such benefits may include, to the extent applicable to the executive, payments, contributions and/or allocations for savings funds, education funds (referred to in Hebrew as "Keren Hishtalmut"), pension, severance, risk insurances (e.g., life or work disability insurance) and payments for social security

(2) Yuval Tovias served as the Company's chief financial officer until December 2024.

For further information regarding our compensation policy, see "Item 6C — Directors, Senior Management and Employees — Board Practices — Compensation Committee."

For so long as we qualify as a foreign private issuer, we will not be required to comply with the proxy rules applicable to U.S. domestic companies regarding disclosure of the compensation of certain executive officers on an individual basis. Pursuant to the Companies Law, we are required, after we become a public company, to disclose the annual compensation of our five most highly compensated officers or directors on an individual basis. This disclosure will not be as extensive as that required of a U.S. domestic issuer.

On September 20, 2023, the Company's Board of Directors granted an aggregate of 366,172 options to purchase ordinary shares to certain employees and directors, certain of which were then approved by our shareholders in a general meeting on November 2, 2023. The exercise price of such options is \$1.275 per Ordinary Share, exercisable for a period of 5 years from the grant date. Such options vest over four years, commencing on July 31, 2023, or the Vesting Commencement Date, where 50% of the amount granted vests at the second anniversary of the Vesting Commencement Date, and the remainder shall vest on a quarterly basis, 6.25% of the number of the options commencing on the second anniversary of the Vesting Commencement Date. For a description of our option plan, see "Item 6E — Directors, Senior Management and Employees — Share Ownership — Global Share Incentive Plan (2022)."

On July 30, 2024, the Board of Directors approved the grant of an aggregate of 112,807 options to purchase ordinary shares to certain employees and consultants of the Company. All options may be exercised within 5 years from the date of their grant and are subject to a four-year vesting schedule with a two-year cliff such that 50% of the options shall vest at the completion of two years from the approval of the grant by the Board of Directors, and afterward, 6.25% shall vest upon completion of each three month period of continuous employment or services for the remaining two-year vesting period. The exercise price of the options is \$1.275 per ordinary share. All the other terms of the grant of the options shall be as set forth in the Plan. The fair value of this grant was \$38,319 calculated using the Black Scholes option pricing model.

On October 9, 2024, the Board of Directors approved the grant of an aggregate of 78,682 options to purchase ordinary shares to certain employees and consultants of the Company. All options may be exercised within 5 years from the date of their grant and are subject to a four-year vesting schedule with a two-year cliff such that 50% of the options shall vest at the completion of two years from the approval of the grant by the Board of Directors, and afterward, 6.25% shall vest upon completion of each three month period of continuous employment or services for the remaining two-year vesting period. The exercise price of the options is \$1.275 per ordinary share. All the other terms of the grant of the options shall be as set forth in the Plan. The fair value of this grant was \$24,287 calculated using the Black Scholes option pricing model.

On December 11, 2024, the Board of Directors approved the grant of an aggregate of 36,315 options to purchase ordinary shares to an employee of the Company. All options may be exercised within 5 years from the date of their grant and are subject to a four-year vesting schedule with a two-year cliff such that 50% of the options shall vest at the completion of two years from the approval of the grant by the Board of Directors, and afterward, 6.25% shall vest upon completion of each three month period of continuous employment or services for the remaining two-year vesting period. The exercise price of the options is \$1.275 per ordinary share. All the other terms of the grant of the options shall be as set forth in the Plan. The fair value of this grant was \$33,246 calculated using the Black Scholes option pricing model. In addition, on December 11, 2024, the Board of Directors approved the grant of 15,131 options to a newly appointed director, which grant is subject to the approval of the Company shareholders.

Employment Agreements with Executive Officers

We have entered into written employment or consulting agreements with each of our executive officers. All of these agreements contain customary provisions regarding confidentiality of information, assignment of inventions and noncompetition. However, the enforceability of the noncompetition provisions may be limited under applicable law. In addition, we have entered into indemnification agreements with each executive officer and director pursuant to which we will indemnify each of them up to a certain amount and to the extent that these liabilities are not covered by directors and officers insurance.

For a description of the terms of our options and option plan, see “Item 6E — Directors, Senior Management and Employees — Share Ownership — Global Share Incentive Plan (2022).”

Directors’ Service Contracts

Other than with respect to the chairman of our board of directors, we do not have written agreements with any director providing for benefits upon the termination of his employment with our company.

Director Compensation

Each director, other than the chairman, is entitled to receive an annual cash payment of \$30,000 plus VAT per annum. Each director is also entitled to reimbursements or coverage of expenses (including travel expenses), insurance and indemnification letters. For further information see “Item 6C — Directors, Senior Management and Employees — Board Practices — Exculpation.”

In addition, at the meeting of our shareholders on November 2, 2023, our shareholders approved the Long Term Non-Executive Directors Options Grant Scheme whereby each non-executive director (including our external directors) shall be entitled to a one-time grant of options to purchase 15,131 ordinary shares under our Plan (as defined below). All such options may be exercised until the lapse of 5 years from the date of their grant, (i) shall be subject to vesting over a period of four (4) years commencing on September 20, 2023, which is the date such grant was approved by our board with 50% of such options vesting at the end of two years from the approval of the grant by our board (i.e., September 20, 2025) and afterwards 6.25% of the number of granted options shall vest each subsequent three-month period following the grant; (ii) the exercise price per share of the options is \$1.275 per share; and (iii) the options grant will be in accordance and pursuant to Section 102 of the Israel Income Tax Ordinance (New Version), 1961.

The chairman of our board is entitled to the following compensation, as long as he serves in such position: (i) a monthly fee of NIS 30,000 + VAT (the “Monthly Fee”, which equals approximately \$8,250) effective as of August 2, 2023, the date in which our executive chairman was elected; (ii) an annual bonus of up to six times the Monthly Fee, commencing in 2024; (iii) a grant of options to purchase 60,524 ordinary shares under our Plan, where such options may be exercised until the lapse of 5 years from the date of their grant, (x) are subject to vesting over a period of four (4) years commencing on September 20, 2023, with 50% of such options vesting at the end of two years from the such date and afterwards 6.25% of the number of granted options shall vest each subsequent three-month period following the grant; (y) the exercise price per share of the options is \$1.275 per share; and (z) the options grant will be in accordance and pursuant to Section 102 of the Tax Ordinance; and (iv) in the event that Mr. Weiss shall cease to serve as the executive chairman of our board, then he will be entitled to cash remuneration as the other non-executive directors of our Company.

On February 19, 2025, the Board of Directors approved the increase of executive chairman chairman’s monthly fee to \$10,000, which is subject to the approval of our shareholders.

On February 19, 2025, the Board of Directors (following the approval of the compensation committee) approved the grant of an aggregate of 1,560,165 restricted share units, or RSUs, to certain Plan Participants, as defined in and subject to the terms of the Plan, which grant took place later that day, after filing a registration statement covering the increase in the pool of available shares under the Plan. Some of these grants are subject to the approval of the Company’s shareholders. The RSUs vest quarterly in equal amounts over a period of 1-3 years.

C. Board Practices

Introduction

Our board of directors consists of seven (7) members. We believe that Yigal Shtief, Naama Falach Avrahamy, Moshe Revach, Dr. Roy Borochoy and Natan Israeli are “independent” for purposes of the Nasdaq Stock Market rules. Our amended and restated articles of association provide that the number of board of directors’ members shall be set by the general meeting of the shareholders provided that it will consist of not less than three (3) and not more than twelve (12), including external directors to be elected to the extent required under the Companies Law. Pursuant to the Companies Law, the management of our business is vested in our board of directors. Our board of directors may exercise all powers and may take all actions that are not specifically granted to our shareholders or to management. Our executive officers are responsible for our day-to-day management and have individual responsibilities established by our board of directors. Our Chief Executive Officer is appointed by, and serves at the discretion of, our board of directors. His or her employment terms are generally subject to the approval of the compensation committee, the board of directors and shareholders, and are subject to the employment agreement that we have entered into with him. All other executive officers are appointed by our Chief Executive Officer. Their terms of employment are subject to the approval of the compensation committee, the board of directors, and may also require shareholder approval, and are subject to the terms of any applicable employment agreements that we may enter into with them.

Our board is split into three classes with staggered three-year terms. At each annual general meeting of our shareholders, the election or re-election of directors following the expiration of the term of office of the directors of that class of directors will be for a term of office that expires on the third annual general meeting following such election or re-election, such that, each year the term of office of only one class of directors will expire. Alternatively, the office of a director will terminate earlier, if he or she resigns or is removed by a majority vote of our shareholders at a general meeting of our shareholders or upon the occurrence of certain events, in accordance with the Companies Law and our amended and restated articles of association.

Our directors are divided among three classes as follows:

- the Class I directors are Mr. Amitay Weiss and Mr. Natan Israeli, who will each hold office until our annual general meeting of shareholders to be held in 2027;
- the Class II directors are Ms. Tali Dinar, Ms. Naama Falach Avrahamy and Dr. Roy Borochoy, who will each hold office until our annual general meeting of shareholders to be held in 2025; and
- the Class III directors are Mr. Moshe Revach and Mr. Yigal Shtief, who will each hold office until our annual general meeting of shareholders to be held in 2026.

In addition, under certain circumstances, our amended and restated articles of association allow our board of directors to appoint directors to fill vacancies on our board of directors or in addition to the acting directors (subject to the limitation on the number of directors), until the next annual general meeting, unless such director replaced another director, in which case, such new director's term shall expire at the annual meeting in which the replaced director's term expires.

Under the Companies Law, any shareholder holding at least five percent of our outstanding voting power may nominate a director. However, any such shareholder may make such a nomination only if a written notice of such shareholder's intent to make such nomination has been given to our board of directors. Any such notice must include certain information, including the consent of the proposed director nominee to serve as our director if elected, and a declaration that the nominee signed declaring that he or she possesses the requisite skills and has the availability to carry out his or her duties. Additionally, the nominee must provide details of such skills, and demonstrate an absence of any limitation under the Companies Law that may prevent his or her election, and affirm that all of the required election-information is provided to us, pursuant to the Companies Law.

Under the Companies Law, our board of directors must determine the minimum number of directors who are required to have accounting and financial expertise. In determining the number of directors required to have such expertise, our board of directors must consider, among other things, the type and size of the company and the scope and complexity of its operations. Our board of directors has determined that the minimum number of directors of our company who are required to have accounting and financial expertise is one.

The board of directors must elect one director to serve as the chairman of the board of directors to preside at the meetings of the board of directors, and may also remove that director as chairman. Pursuant to the Companies Law, neither the chief executive officer nor any of his or her relatives is permitted to serve as the chairman of the board of directors, and a company may not vest the chairman or any of his or her relatives with the chief executive officer's authorities. In addition, a person who reports, directly or indirectly, to the chief executive officer may not serve as the chairman of the board of directors; the chairman may not be vested with authorities of a person who reports, directly or indirectly, to the chief executive officer; and the chairman may not serve in any other position in the company or a controlled company, but he or she may serve as a director or chairman of a controlled company. However, the Companies Law permits a company's shareholders to determine, for a period not exceeding three years from each such determination, that the chairman or his or her relative may serve as chief executive officer or be vested with the chief executive officer's authorities, and that the chief executive officer or his or her relative may serve as chairman or be vested with the chairman's authorities. Such determination of a company's shareholders requires either: (1) the approval of at least a majority of the shares of those shareholders present and voting on the matter that are not controlling shareholders and do not have a personal interest in the determination (excluding abstentions); or (2) that the total number of shares opposing such determination does not exceed 2% of the total voting power in the company. Currently, we have a separate chairman and chief executive officer.

The board of directors may, subject to the provisions of the Companies Law, delegate any or all of its powers to committees of the board, and it may, from time to time, revoke such delegation or alter the composition of any such committees, subject to certain limitations. Unless otherwise expressly provided by the board of directors, the committees shall not be empowered to further delegate such powers. The composition and duties of our audit committee, and compensation committee are described below.

The board of directors oversees how management monitors compliance with our risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by us. The board of directors is assisted in its oversight role by an internal auditor. The internal auditor undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to our audit committee.

External Directors

Under the Companies Law, companies incorporated under the laws of the State of Israel that are publicly traded, including Israeli companies with shares listed on the Nasdaq, are generally required to appoint at least two external directors who meet the qualification requirements set forth in the Companies Law, however, pursuant to an exemption provided under section 5D of the Israeli Companies Regulations (Relief for Public Companies with Shares Listed for Trading on a Stock Market Outside of Israel), 5760-2000, or the Exemption, a public company with securities listed on certain foreign exchanges, including Nasdaq, that satisfies the applicable foreign country laws and regulations that apply to companies organized in that country relating to the appointment of independent directors and composition of audit and compensation committees and has no controlling shareholder is exempt from the requirement to elect External Directors or comply with the audit committee and compensation committee composition requirements under the Companies Law.

On February 19, 2025, our Board adopted the Exemption. As a result of the adoption of the Exemption, Ms. Falach Avrahamy was classified as a Class II Director and Mr. Shtief was classified as a Class III Director.

Alternate Directors

Our amended and restated articles of association provide, as allowed by the Companies Law, that any director may, subject to the conditions set thereto including approval of the nominee by our board of directors, appoint a person as an alternate to act in his place, remove the alternate and appoint another in his place and appoint an alternate in place of an alternate whose office is vacated for any reason whatsoever. Under the Companies Law, a person who is not qualified to be appointed as a director, a person who is already serving as a director or a person who is already serving as an alternate director for another director, may not be appointed as an alternate director. Nevertheless, a director who is already serving as a director may be appointed as an alternate director for a member of a committee of the board of directors so long as he or she is not already serving as a member of such committee, and if the alternate director is to replace an external director, he or she is required to be an external director and to have either “accounting and financial expertise” or “professional competence,” depending on the qualifications of the external director he or she is replacing. A person who does not have the requisite “accounting and financial experience” or the “professional competence,” depending on the qualifications of the external director he or she is replacing, may not be appointed as an alternate director for an external director. A person who is not qualified to be appointed as an independent director, pursuant to the Companies Law, may not be appointed as an alternate director of an independent director. Unless the appointing director limits the time or scope of the appointment, the appointment is effective for all purposes until the appointing director ceases to be a director or terminates the appointment.

Committees of the Board of Directors

Our board of directors has established two standing committees: the audit committee and the compensation committee.

Audit Committee

Under the Companies Law, as a public company, we are required to appoint an audit committee. The audit committee must be comprised of at least three directors, including all of the external directors, and must be comprised of a majority of directors meeting certain independence criteria of the Companies Law. The chair of the committee must be an external director. The audit committee may not include the chairman of the board; a controlling shareholder of the company or a relative of a controlling shareholder; a director employed by or providing services on a regular basis to the company, to a controlling shareholder or to an entity controlled by a controlling shareholder; or a director who derives most of his or her income from a controlling shareholder.

Our audit committee is comprised of Naama Falach Avrahamy, who serves as its chairman, Yigal Shtief and Moshe Revach.

Under the Companies Law, our audit committee is responsible for:

- (i) determining whether there are deficiencies in the business management practices of our company, inter alia by consulting with the company’s internal or external auditors, and making recommendations to the board of directors to improve such practices;
- (ii) determining whether to approve certain related party transactions (including transactions in which an office holder has a personal interest and whether such transaction is extraordinary or material under Companies Law) and establishing the approval process for certain transactions with a controlling shareholder or in which a controlling shareholder has a personal interest (see “Item 6C — Directors, Senior Management and Employees — Board Practices — Approval of Related Party Transactions under Israeli Law”);

- (iii) determining the approval process for transactions that are “non-negligible” (i.e., transactions with a controlling shareholder that are classified by the audit committee as non-negligible, even though they are not deemed extraordinary transactions), as well as determining which types of transactions would require the approval of the audit committee, optionally based on criteria which may be determined annually in advance by the audit committee;
- (iv) examining our internal controls and internal auditor’s performance, including whether the internal auditor has sufficient resources and tools to dispose of its responsibilities;
- (v) examining the scope of work and fees of our auditor and submitting a recommendation with respect thereto to our board of directors or shareholders, depending on which of them is determining the fees of our auditor;
- (vi) establishing “whistleblower” procedures for the handling of employees’ complaints as to deficiencies in the management of our business and the protection to be provided to such employees; and
- (vii) where the board of directors approves the working plan of the internal auditor, examining such working plan before its submission to the board of directors and proposing amendments thereto.

Our audit committee may not conduct any discussions or approve any actions requiring its approval, unless at the time of the approval a majority of the committee’s members are present, provided that the majority of the members present meet the independence criteria of the Companies Law and at least one of the members present is an external director.

Our board of directors adopted an audit committee charter setting forth, among others, the responsibilities of the audit committee consistent with the rules of the SEC and Nasdaq Listing Rules (in addition to the requirements for such committee under the Companies Law), including, among others, the following:

- oversight of our independent registered public accounting firm and recommending the fees, engagement, or termination of engagement of our independent registered public accounting firm to the shareholders or board of directors in accordance with Israeli law;
- recommending the engagement or termination of the person filling the office of our internal auditor, reviewing the services provided by our internal auditor and reviewing effectiveness of our system of internal control over financial reporting;
- recommending the terms of audit and non-audit services provided by the independent registered public accounting firm for pre-approval by our board of directors; and
- reviewing and monitoring, if applicable, legal matters with significant impact, finding of regulatory authorities’ findings, receive reports regarding irregularities and legal compliance, acting according to “whistleblower policy” and recommend to our board of directors if so required.

Nasdaq Stock Market Requirements for Audit Committee

Under the Nasdaq Stock Market rules, we are required to maintain an audit committee consisting of at least three members, all of whom are independent and are financially literate and one of whom has accounting or related financial management expertise.

As noted above, the members of our audit committee include Naama Falach Avrahamy, Yigal Shtief and Moshe Revach. Ms. Falach Avrahamy server as the chair of our audit committee. All members of our audit committee meet the requirements for financial literacy under the Nasdaq Stock Market rules. Our board of directors has determined that Ms. Falach Avrahamy is an audit committee financial expert as defined by the SEC rules and has the requisite financial experience as defined by the Nasdaq Stock Market rules.

Compensation Committee

Under the Companies Law, the board of directors of any public company must establish a compensation committee. The compensation committee must be comprised of at least three directors, including all of the external directors, which shall also constitute the majority thereof. The remaining members must be directors who qualify to serve as members of the audit committee as defined in the Companies Law and whose compensation is in accordance with the compensation requirements applicable to the External Directors. The chair of the committee must be an external director.

Our compensation committee, acting pursuant to a written charter, consists of Naama Falach Avrahamy, Yigal Shtief and Moshe Revach. Ms. Falach Avrahamy serves as the chair of our compensation committee. Our compensation committee complies with the provisions of the Companies Law, the regulations promulgated thereunder, and our amended and restated articles of association, on all aspects referring to its independence, authorities and practice. Our compensation committee follows home country practice as opposed to complying with the compensation committee membership and charter requirements prescribed under the Nasdaq Stock Market rules.

Our compensation committee reviews, with respect to our executive officers and directors, and recommends to our board of directors: (1) annual base compensation (2) annual incentive bonus, including the specific goals and amounts; (3) equity compensation; (4) employment agreements, severance arrangements, and change in control agreements and provisions; (5) retirement grants and/or retirement bonuses; and (6) any other benefits, compensation, compensation policies or arrangements.

The duties of the compensation committee include the recommendation to the company's board of directors of a policy regarding the terms of engagement of office holders, to which we refer as a compensation policy, and thereafter to recommend to the board of directors, once every three years, regarding any extension or modifications of such compensation policy that had been approved for a period of more than three years. Such policy must be adopted by the company's board of directors, after considering the recommendations of the compensation committee. The compensation policy is then brought for approval by our shareholders, which requires a special majority (see "Item 6C — Directors, Senior Management and Employees — Board Practices — Approval of Related Party Transactions under Israeli Law"). Under the Companies Law, if the compensation policy is not approved by the shareholders, the board of directors may adopt it, provided that after the shareholders oppose the approval of such policy, the compensation committee and the board of directors revisit the matter and determine that adopting the compensation policy would be in the best interests of the company. Under the Companies Law, we are required to adopt an office holder compensation policy no later than 9 months from the consummation of our initial public offering. We adopted our compensation policy at the meeting of our shareholders on November 2, 2023.

The compensation committee is also responsible for: (1) from time to time, recommending the board of directors any updates required to the compensation policy and examine the implementation thereof; (2) determining whether to approve the terms of compensation of office holders that require the committee's approval; and (3) in certain situations described in the Companies Law, to determine whether to exempt employment terms of a candidate for the position of CEO of the company from the requirement to obtain shareholder approval.

The compensation policy must serve as the basis for decisions concerning the terms of employment or engagement of executive officers and directors, including exculpation, insurance, indemnification or any monetary payment or obligation of payment in respect of employment or engagement. The compensation policy must relate to certain factors, including advancement of the company's objectives, the company's business and its long-term strategy, and creation of appropriate incentives for executives. It must also consider, among other things, the company's risk management, size and the nature of its operations. The compensation policy must furthermore consider the following additional factors:

- the education, skills, expertise and accomplishments of the relevant director or executive;
- the director's or executive's roles and responsibilities and prior compensation agreements with him or her;

- the relationship between the cost of the terms of service of an office holder and the average and median compensation of the other employees of the company (including those employed through manpower companies), including the impact of disparities in salary upon work relationships in the company;
- the possibility of reducing variable compensation at the discretion of the board of directors; and the possibility of setting a cap to the exercise value of non-cash variable compensation; and
- as to retirement benefits, the period of service of the director or executive, the terms of his or her compensation during such service period, the company's performance during that period of service, the person's contribution towards the company's achievement of its goals and the maximization of its profits, and the circumstances under which the person is leaving the company.

The compensation policy must also include the following principles:

- the link between variable compensation and long-term performance and measurable criteria;
- the ratio between variable and fixed compensation, and the limit to the value of variable compensation at the time of its payment (or, with respect to non-cash variable compensation, at time of grant);
- the conditions under which a director or executive would be required to repay compensation paid to him or her if it was later shown that the data upon which such compensation was based was inaccurate and was required to be restated in the company's financial statements;
- the minimum holding or vesting period for variable, equity-based compensation; and
- maximum limits for severance compensation.

The compensation policy must also consider appropriate incentives from a long-term perspective.

Internal Auditor

Under the Companies Law, the board of directors of an Israeli public company must appoint an internal auditor nominated by the audit committee. We appointed Mr. Doron Rozenblum as our internal auditor. The role of the internal auditor is to examine, among other things, whether a company's actions comply with the law and proper business procedure. The audit committee is required to oversee the activities, and to assess the performance of the internal auditor as well as to review the internal auditor's work plan. An internal auditor may not be an interested party or office holder, or a relative of any interested party or office holder, and may not be a member of the company's independent accounting firm or its representative. The Companies Law defines an interested party as a holder of 5% or more of the outstanding shares or voting rights of a company, any person or entity that has the right to appoint at least one director or the chief executive officer of the company or any person who serves as a director or as the chief executive officer of a company.

Remuneration of Directors

Under the Companies Law, remuneration of directors is subject to the approval of the compensation committee, thereafter by the board of directors and thereafter, unless exempted under the regulations promulgated under the Companies Law, by our shareholders. In case the remuneration of the directors is in accordance with the Compensation Regulations, such remuneration shall generally be exempt from shareholder approval. Where the director is also a controlling shareholder, the requirements for approval of transactions with controlling shareholders apply.

Fiduciary Duties of Office Holders

The Companies Law imposes a duty of care and a duty of loyalty on all office holders of a company.

The duty of care requires an office holder to act with the level of care with which a reasonable office holder in the same position would have acted under the same circumstances. The duty of care of an office holder includes a duty to use reasonable means to obtain:

- information on the advisability of a given action brought for his approval or performed by him by virtue of his position; and
- all other important information pertaining to such action.

The duty of loyalty of an office holder requires an office holder to act in good faith and for the benefit of the company, and includes a duty to:

- refrain from any conflict of interest between the performance of his duties in the company and the performance of his other duties or personal affairs;
- refrain from any action that is competitive with the company's business;
- refrain from exploiting any business opportunity of the company to receive a personal gain for himself or others; and
- disclose to the company any information or documents relating to the company's affairs which the office holder has received due to his position as an office holder.

Insurance

Under the Companies Law, a company may obtain insurance for any of its office holders against the following liabilities incurred due to acts he or she performed as an office holder, if and to the extent provided for in the company's articles of association:

- breach of his or her duty of care to the company or to another person;
- a breach of his or her duty of loyalty to the company, provided that the office holder acted in good faith and had reasonable cause to assume that his or her act would not prejudice the company's interests; and
- a financial liability imposed upon him or her in favor of another person.

An Israeli Company may also insure an office holder against expenses, including reasonable litigation expenses and legal fees, incurred by the office holder as a result of an administrative proceeding instituted against him or her, pursuant to certain provisions of the Israeli Securities Law, 5728-1968, or the Securities Law.

We currently have directors' and officers' liability insurance, providing total coverage of \$5 million for the benefit of all of our directors and officers, in respect of which we paid a eighteen-month premium of approximately \$250,000.

Indemnification

The Companies Law provides that a company may indemnify an office holder against the following liabilities and expenses incurred for acts performed by him or her as an office holder, either pursuant to an undertaking made in advance of an event or following an event, provided its articles of association include a provision authorizing such indemnification:

- a financial liability imposed on him or her in favor of another person by any judgment concerning an act performed in his or her capacity as an office holder, including a settlement or arbitrator's award approved by a court. However, if an undertaking to indemnify an office holder with respect to such liability is provided in advance, then such an undertaking must be limited to events which, in the opinion of the board of directors, can be foreseen based on the company's activities when the undertaking to indemnify is given, and to an amount or according to criteria determined by the board of directors as reasonable under the circumstances, and such undertaking shall detail the abovementioned events and amount or criteria;
- reasonable litigation expenses, including attorneys' fees, expended by the office holder (a) as a result of an investigation or proceeding instituted against him or her by an authority authorized to conduct such investigation or proceeding, provided that (1) no indictment (as defined in the Companies Law) was filed against such office holder as a result of such investigation or proceeding; and (2) no financial liability as a substitute for the criminal proceeding (as defined in the Companies Law) was imposed upon him or her as a result of such investigation or proceeding, or, if such financial liability was imposed, it was imposed with respect to an offense that does not require proof of criminal intent; or (b) in connection with a monetary sanction; and
- reasonable litigation expenses, including attorneys' fees, expended by the office holder or imposed on him or her by a court: (1) in proceedings that the company institutes, or that another person institutes on the company's behalf, against him or her; (2) in a criminal proceeding of which he or she was acquitted; or (3) as a result of a conviction for a crime that does not require proof of criminal intent.

Pursuant to the Securities Law, an Israeli Company may also indemnify an office holder for expenses incurred by an office holder in connection with an Administrative Procedure under the Securities Law, including reasonable litigation expenses and reasonable attorneys' fees. An "Administrative Procedure" is defined as a procedure pursuant to chapters H3 (Monetary Sanction by the Israeli Securities Authority), H4 (Administrative Enforcement Procedures of the Administrative Enforcement Committee) or I1 (Arrangement to prevent Procedures or Interruption of procedures subject to conditions) to the Securities Law.

We entered into customary indemnification agreements with all of our directors and officers. Each such indemnification agreement provides each office holder with indemnification permitted under applicable law and up to a certain amount, and to the extent that these liabilities are not covered by directors and officers insurance.

Exculpation

Under the Companies Law, an Israeli company may not exculpate an office holder from liability for a breach of his or her duty of loyalty, but may exculpate in advance an office holder from his or her liability to the company, in whole or in part, for damages caused to the company as a result of a breach of his or her duty of care (other than in relation to distributions), but only if a provision authorizing such exculpation is included in its articles of association. Our amended and restated articles of association provide that we may exculpate, in whole or in part, any office holder from liability to us for damages caused to the company as a result of a breach of his or her duty of care. Subject to the aforesaid limitations, under the indemnification agreements, we intend to exculpate and release our office holders from any and all liability to us related to any breach by them of their duty of care to us to the fullest extent permitted by law.

Limitations

The Companies Law provides that we may not exculpate or indemnify an office holder nor enter into an insurance contract that would provide coverage for any liability incurred as a result of any of the following: (1) a breach by the office holder of his or her duty of loyalty unless (in the case of indemnity or insurance only, but not exculpation) the office holder acted in good faith and had a reasonable basis to believe that the act would not prejudice us; (2) a breach by the office holder of his or her duty of care if the breach was carried out intentionally or recklessly (as opposed to merely negligently); (3) any act or omission committed with the intent to derive an illegal personal benefit; or (4) any fine, monetary sanction, penalty or forfeit levied against the office holder.

Under the Companies Law, exculpation, indemnification and insurance of office holders in a public company must be approved by the compensation committee and the board of directors and, with respect to certain office holders or under certain circumstances, also by the shareholders.

Our amended and restated articles of association permit us to exculpate, indemnify and insure our office holders to the fullest extent permitted or to be permitted by the Companies Law.

The foregoing descriptions summarize the material aspects and practices of our board of directors. For additional details, we also refer you to the full text of the Companies Law, as well as of our amended and restated articles of association, which are exhibits to this registration statement of which this prospectus forms a part, and are incorporated herein by reference.

There are no service contracts between us and our directors in their capacity as directors, providing for benefits upon termination of service.

Approval of Related Party Transactions under Israeli Law

General

Under the Companies Law, we may approve an action by an office holder from which the office holder would otherwise have to refrain, as described above, if:

- the office holder acts in good faith and the act or its approval does not cause harm to the company; and
- the office holder disclosed the nature of his or her interest in the transaction (including any significant fact or document) to the company at a reasonable time before the company's approval of such matter.

Disclosure of Personal Interests of an Office Holder

The Companies Law requires that an office holder disclose to the company, promptly, and, in any event, not later than the board meeting at which the transaction is first discussed, any direct or indirect personal interest that he or she may have and all related material information known to him or her relating to any existing or proposed transaction by the company. If the transaction is an extraordinary transaction, the office holder must also disclose any personal interest held by:

- the office holder's relatives; or
- any corporation in which the office holder or his or her relatives holds 5% or more of the shares or voting rights, serves as a director or chief executive officer or has the right to appoint at least one director or the chief executive officer.

An office holder is not, however, obliged to disclose a personal interest if it derives solely from the personal interest of his or her relative in a transaction that is not considered an extraordinary transaction. Under the Companies Law, an extraordinary transaction is a transaction:

- not in the ordinary course of business;
- not on market terms; or
- that is likely to have a material effect on the company's profitability, assets or liabilities.

We require our office holders to make such disclosures to our board of directors.

Under the Companies Law, once an office holder complies with the above disclosure requirement, the board of directors (unless the articles of association provide a different approval procedure) may approve a non-extraordinary transaction between the company and an office holder, or a third party in which an office holder has a personal interest, and provided that the transaction is in the company's interest. If such transaction is extraordinary, first the audit committee and then the board of directors, in that order, must approve the transaction. Generally, a person who has a personal interest in a matter which is considered at a meeting of the board of directors or the audit committee may not be present or vote on such matter at such a meeting. However, if the chair of the audit committee or board of directors (as applicable) determines that an office holder with a personal interest is required to be present for presentation of the transaction that is subject to approval, such office holder may be present. Additionally, if a majority of members of the board of directors or the audit committee, as the case may be, has a personal interest, such directors who have a personal interest in a transaction may be present, and a shareholder approval would also be required.

Disclosure of Personal Interests of a Controlling Shareholder

Under the Companies Law, the disclosure requirements that apply to an office holder also apply to a controlling shareholder of a public company. Extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest, including a private placement in which a controlling shareholder has a personal interest, as well as transactions for the provision of services whether directly or indirectly by a controlling shareholder or his or her relative, or a company such controlling shareholder controls, and transactions concerning the terms of engagement and compensation of a controlling shareholder or a controlling shareholder's relative, whether as an office holder or an employee, require the approval of the audit committee or the compensation committee, as the case may be, the board of directors and a majority of the shares voted by the shareholders of the company participating and voting on the matter in a shareholders' meeting. In addition, the shareholder approval must fulfill one of the following requirements:

- at least a majority of the shares held by shareholders who have no personal interest in the transaction and are voting at the meeting must be voted in favor of approving the transaction, excluding abstentions; or
- the shares voted by shareholders who have no personal interest in the transaction who vote against the transaction represent no more than 2% of the voting rights in the company.

In addition, any extraordinary transaction with a controlling shareholder or in which a controlling shareholder has a personal interest with a term of more than three years requires the abovementioned approval every three years; however, such transactions other than for the provision of services or concerning the terms of engagement or compensation can be approved for a longer term, provided that the audit committee determines that such longer term is reasonable under the circumstances.

The Companies Law requires that every shareholder that participates, in person, by proxy or by voting instrument, in a vote regarding a transaction with a controlling shareholder, indicate in advance or in the ballot whether or not that shareholder has a personal interest in the vote in question. Failure to so indicate will result in the invalidation of that shareholder's vote.

The term "controlling shareholder" is defined in the Companies Law as provided above under "Board Practices — External Directors." In the context of a transaction involving a shareholder of the company, a controlling shareholder also includes a shareholder who holds 25% or more of the voting rights in the company if no other shareholder holds more than 50% of the voting rights in the company. For this purpose, the holdings of all shareholders who have a personal interest in the same transaction will be aggregated.

Approval of the Compensation of Directors and Executive Officers

Directors. Under the Companies Law, the compensation of our directors requires the approval of our compensation committee, the subsequent approval of the board of directors and, unless exempted under the regulations promulgated under the Companies Law, the approval of the general meeting of our shareholders. If the compensation of our directors is inconsistent with the stated compensation policy, shareholder approval by a special majority will be required.

Executive officers other than the chief executive officer. The Companies Law requires the approval of the compensation of a public company's executive officers (other than the chief executive officer) in the following order: (i) the compensation committee, (ii) the company's board of directors, and (iii) only if such compensation arrangement is inconsistent with the company's stated compensation policy, the company's shareholders by a special majority. However, if the shareholders of the company do not approve a compensation arrangement with an executive officer that is inconsistent with the company's stated compensation policy, the compensation committee and board of directors may override the shareholders' decision if each of the compensation committee and the board of directors provide detailed reasons for their decision.

Chief executive officer. Under the Companies Law, the compensation of a public company's chief executive officer is generally required to be approved by: (i) the company's compensation committee; (ii) the company's board of directors, and (iii) the company's shareholders by a special majority. However, if the shareholders of the company do not approve the compensation arrangement with the chief executive officer, the compensation committee and board of directors may override the shareholders' decision if each of the compensation committee and the board of directors provides detailed reasons for their decision. In addition, the compensation committee may exempt the engagement terms of a candidate to serve as the chief executive officer from shareholders' approval, if the compensation committee determines that the compensation arrangement is consistent with the company's stated compensation policy, that the chief executive officer did not have a prior business relationship with the company or a controlling shareholder of the company, and that subjecting the approval to a shareholder vote would impede the company's ability to attain the candidate to serve as the company's chief executive officer (and provide detailed reasons for the latter).

The approval of each of the compensation committee and the board of directors, with regard to the office holders and directors above, must be in accordance with the company's stated compensation policy; however, under special circumstances, the compensation committee and the board of directors may approve compensation terms of a chief executive officer that are inconsistent with the company's stated compensation policy provided that they have considered those provisions that must be included in the compensation policy according to the Companies Law and that shareholder approval was obtained by a special majority requirement.

Duties of Shareholders

Under the Companies Law, a shareholder has a duty to refrain from abusing his power in the company and to act in good faith and in a customary manner in exercising his rights and performing his obligations toward the company and other shareholders, including, among other things, in voting at general meetings of shareholders (and at shareholder class meetings) on the following matters:

- amendment of the articles of association;
- increase in the company's authorized share capital;
- merger; and
- the approval of related party transactions and acts of office holders that require shareholder approval.

A shareholder also has a general duty to refrain from discriminating against other shareholders.

In addition, any controlling shareholder, any shareholder that knows that it has the power to determine the outcome of a shareholder vote and any shareholder that, under a company's articles of association, has the power to appoint or prevent the appointment of an office holder, or has another power with respect to a company, is under a duty to act with fairness towards the company.

The remedies generally available upon a breach of contract will also apply to a breach of any of the duties mentioned above, and in the event of discrimination against other shareholders, additional remedies are available to the injured shareholder.

D. Employees

See "Item 4.B. Business Overview—Employees."

E. Share Ownership

See "Item 7.A. Major Shareholders" below.

Global Share Incentive Plan (2022)

The Global Share Incentive Plan (2022), or the Plan, was adopted by our board of directors on March 28, 2022. The Plan provides for the grant of options, RSUs and shares, or Awards, to our employees, officers, directors, advisors and consultants in order to promote a close identity of interests between those individuals and us.

Shares Available for Grant. The total number of shares reserved for issuance under the Plan is 3,110,156. As of the date of this Annual Report, 946,937 ordinary shares remain available for future awards under the Plan. ordinary shares subject to Awards granted under the Plan that expire, are forfeited or otherwise terminated without having been exercised in full will become available again for future grant under the Plan.

Administration. Our board of directors, or a duly authorized committee of our board of directors, administers the Plan. Under the Plan, the administrator has the authority, subject to applicable law, to determine (i) eligible participants, (ii) the number of options, shares, RSUs or other equity based awards to be covered by each Award, (iii) the time or times at which an Award shall be granted, (iv) the vesting schedule and other terms and conditions applying to Awards, including acceleration, early exercise or deferment provisions, (v) the forms of written agreements applying to Awards and (vi) any other matter which is necessary or desirable for, or incidental to, the administration of the Plan and the granting of Awards.

Eligibility. The Plan provides for granting Awards in compliance with Section 102 of the Israeli Income Tax Ordinance (New Version), 5721-1961, or the Ordinance, or, for Awards granted to our consultants, advisors, service providers or controlling shareholders, under Section 3(i) of the Ordinance. Section 102 of the Ordinance allows employees, directors and officers who are not controlling shareholders and are considered Israeli residents to receive favorable tax treatment for compensation in the form of shares or Awards. Our non-employee service providers and controlling shareholders may only be granted Awards under section 3(i) of the Ordinance, which does not provide for similar tax benefits. Section 102 includes two alternatives for tax treatment involving the issuance of Awards or shares to a trustee for the benefit of the grantees and also includes an additional alternative for the issuance of Awards or shares directly to the grantee. Section 102(b)(2) of the Ordinance, the most favorable tax treatment for the grantee, permits the issuance to a trustee under the “capital gain track.”

Grant. All Awards granted pursuant to the Plan will be evidenced by a grant letter. The grant letter will set forth the terms and conditions of the Award, including the tax provision under which the Award is granted, the tax track elected according to the Plan (if applicable), the exercise price for options, the number of Awards granted to the participant, the date of grant and the vesting schedule. 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.

Option Exercise. An option under the Plan may be exercised by providing us with an exercise notice in a form prescribed by the administrator, including the identity of the participant, the number of options to be exercised and the exercise price to be paid and full payment of the exercise price for such shares underlying the option, in such manner as determined by the administrator. An option may not be exercised for fractional shares.

Transferability. Awards may not be subjected to any sale, assignment, conveyance, pledge, hypothecation, mortgage, seizure, grant of collateral or any security interest or gift, or any other encumbrance, disposition or transfer, except by will or the laws of descent.

Termination of Employment. In the event of termination of a participant’s employment or service with us or any of our affiliates and except as described below, all vested and exercisable options held by such participant as of the date of termination may be exercised within three months after such date of termination, unless otherwise provided by the administrator. All other options held by such participant will expire upon the date of termination of employment.

In the event of termination of a participant’s employment or service with us or any of our affiliates for cause, all unexercised options held by such participant, whether vested or unvested on the date of termination will expire on the date of such termination and any unvested option shares shall terminate and expire on the day the Participant’s effective date of termination.

In the event of termination of a participant's employment or service with us or any of our affiliates due to such participant's death, all vested options held by such participant as of the date of termination may be exercised by the participant's estate, personal representative or beneficiaries at any time but not later than the earlier of: (i) the twelve-month anniversary of the participant's death or (ii) the end of the term of the options. All options which are unvested as of the date of termination shall expire.

In the event of termination of a participant's employment or service with us or any of our affiliates by reason of disability, all options held by such participant as of the date of termination may be exercised at any time but not later than the earlier of: (i) the three-month anniversary of the participant's disability or (ii) the end of the term of the options. All options which are unvested as of the date of termination shall expire.

The foregoing provisions summarized in this "Termination of Employment" section shall apply only in the absence of a provision specifying otherwise in the relevant award agreement or unless otherwise resolved by the administrator.

Transactions. In the event of a share split, reverse share split, distribution of bonus shares, rights issue, cash or share dividend, combination or reclassification of the shares, or any other increase or decrease in the number of issued shares effected without receipt of consideration by us (but not including the conversion of any of our convertible securities), the administrator in its sole discretion shall make a proportionate adjustment to the number of shares covered by each outstanding award, and the number of shares which have been authorized for issuance under the Plan but as to which no awards have yet been granted or which have been returned to the Plan upon cancellation or expiration of an award, as well as the price per share covered by each outstanding award. Except as expressly provided therein, no issuance by us of shares of any class, or securities convertible into shares of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares subject to an award.

In the event of (i) a merger or consolidation of us with or into another corporation resulting in such other corporation being the surviving entity or the direct or indirect parent of us or resulting in us being the surviving entity and there is a change in the ownership of our shares of, such that another person or entity owns fifty percent (50%) or more of the outstanding voting power of our securities by virtue of the transaction; or (ii) an acquisition of all or substantially all of our by any person (including an existing non-majority shareholder or its affiliate of shares not held by any affiliate of such shareholder); or (iii) the sale and/or transfer (including by way of an exclusive license) of all or substantially all of our assets; or (iv) such other transaction with a similar effect, as shall be determined by the administrator, the outstanding (including the unexercised, vested, unvested or restricted) portion of each outstanding Award shall be assumed or substituted with an equivalent Award or the right to receive consideration by the acquiring or successor corporation or an affiliate thereof, as shall be determined by such entity and/or the administrator, subject to the terms of the Plan.

In the event that the successor corporation or any affiliate thereof does not provide for such an assumption, and/or substitution of outstanding Awards and/or the provision of consideration for outstanding Awards, then unless determined otherwise with respect to a specific outstanding Award, the administrator shall have sole and absolute discretion to determine the effect of the Transaction on the portion of Awards outstanding immediately prior to the effective time of the Transaction, which may include any one or more of the following, whether in a manner equitable or not among individual participants or groups of participants: (i) all or a portion of the outstanding Awards shall become exercisable in full prior to the date of consummation of the Transaction, or on another date and/or dates or at an event and/or events as the administrator shall determine at its sole and absolute discretion; and/or (ii) that all or a portion or certain categories of the outstanding Awards shall be cancelled upon the actual consummation of the Transaction, and instead the holders thereof will receive consideration, or no consideration, in the amount and under the terms determined by the administrator at its sole and absolute discretion; and/or (iii) with respect to option awards, make a payment, in such form as may be determined by the administrator in respect of each vested share underlying the Award equal to the excess, if any, of (A) the per share amount payable to holders of Shares in connection with the Transaction, over (B) the per share exercise price payable by such holder in connection with such exercise.

F. Disclosure of Registrant's Action to Recover Erroneously Awarded Compensation

There was no erroneously awarded compensation that was required to be recovered pursuant to the ParaZero Technologies Ltd. Executive Officer Clawback Policy during the fiscal year ended December 31, 2024.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

The following table sets forth information with respect to the beneficial ownership of our ordinary shares as of March 21, 2025 by:

- each person or entity known by us to own beneficially 5% or more of our outstanding ordinary shares;
- each of our directors and executive officers individually; and
- all of our directors and executive officers as a group.

The beneficial ownership of our ordinary shares is determined in accordance with the rules of the SEC and generally includes any shares over which a person exercises sole or shared voting or investment power, or the right to receive the economic benefit of ownership. For purposes of the table below, we deem ordinary shares issuable pursuant to options that are currently exercisable or exercisable within 60 days of December 31, 2024 to be outstanding and to be beneficially owned by the person holding the options for the purposes of computing the percentage ownership of that person, but we do not treat them as outstanding for the purpose of computing the percentage ownership of any other person. Percentage of shares beneficially owned is based on 16,679,631 ordinary shares issued and outstanding as of March 21, 2025.

As of March 21, 2025, based on information provided to us by our transfer agent in the United States and other information reasonably available to us, we had no holders of record of our ordinary shares in the United States. The number of record holders is not representative of the number of beneficial holders of our ordinary shares, as 100% of our outstanding ordinary shares are recorded in the name of Cede & Co. as nominee for the Depository Trust Company, in whose name all shares held in "street name" are held in the United States. Except where otherwise indicated, we believe, based on information furnished to us by such owners, that the beneficial owners of the ordinary shares listed below have sole investment and voting power with respect to such shares.

All of our shareholders, including the shareholders listed below, have the same voting rights attached to their ordinary shares, and neither our principal shareholders nor our directors and executive officers have different or special voting rights with respect to their ordinary shares. A description of any material relationship that our principal shareholders have had with us or any of our predecessors or affiliates within the past three years is included under "Item 7B — Major Shareholders and Related Party Transactions — Related Party Transactions".

Unless otherwise noted below, the address of each shareholder, director and executive officer is c/o ParaZero Technologies Ltd., 1 Hatachana Street, Kfar Saba, 4453001, Israel.

Name of beneficial owner	Ordinary shares beneficially owned	Percentage owned
5% or Greater Shareholders		
None		
Directors and Executive Officers		
Amitay Weiss ⁽¹⁾	-	-%
Boaz Shetzer ⁽²⁾	48,651	*%
Regev Livne ⁽³⁾	6,972	*%
Yuval Gilad ⁽⁴⁾	6,972	*%
Oren Aviram ⁽⁵⁾	4,648	*%
Moshe Revach ⁽⁶⁾	-	-%
Dr. Roy Borochoy ⁽⁷⁾	-	-%
Tali Dinar ⁽⁸⁾	-	-%
Yigal Shtief ⁽⁹⁾	-	-%
Naama Falach Avrahamy ⁽¹⁰⁾	2,500	*%
Natan Israeli ⁽¹¹⁾	-	-%
All directors and executive officers as a group (11 persons) ⁽¹²⁾	51,151	*%

* Indicates beneficial ownership of less than 1% of the total ordinary shares outstanding.

- (1) Does not include (i) options to purchase 60,524 ordinary shares exercisable at an exercise price of \$1.275 per share and expiring in September 2028 that vest in more than 60 days from the date of this annual report and (ii) 167,796 RSUs that vest in more than 60 days from the date of this annual report and are subject to the approval of the Company's shareholders.
- (2) Consists of 48,651 ordinary shares. Does not include (i) options to purchase 60,524 ordinary shares exercisable at an exercise price of \$1.275 per share and expiring in November 2028 that vest in more than 60 days from the date of this annual report and (ii) 167,796 RSUs that vest in more than 60 days from the date of this annual report and are subject to the approval of the Company's shareholders.
- (3) Consists of 6,972 RSUs. Does not include (i) options to purchase 36,315 ordinary shares exercisable at an exercise price of \$1.275 per share and expiring in December 2029 that vest in more than 60 days from the date of this annual report and (ii) 48,960 RSUs that vest in more than 60 days from the date of this annual report.
- (4) Consists of 6,972 RSUs. Does not include (i) options to purchase 36,315 ordinary shares exercisable at an exercise price of \$1.275 per share and expiring in November 2028 that vest in more than 60 days from the date of this annual report and (ii) 48,960 RSUs that vest in more than 60 days from the date of this annual report.
- (5) Consists of 4,648 RSUs. Does not include (i) options to purchase 36,315 ordinary shares exercisable at an exercise price of \$1.275 per share and expiring in September 2028 that vest in more than 60 days from the date of this annual report and (ii) 51,284 RSUs that vest in more than 60 days from the date of this annual report.
- (6) Does not include (i) options to purchase 15,131 ordinary shares exercisable at an exercise price of \$1.275 per share and expiring in November 2028 that vest in more than 60 days from the date of this annual report and (ii) 41,949 RSUs that vest in more than 60 days from the date of this annual report and are subject to the approval of the Company's shareholders.
- (7) Does not include (i) options to purchase 15,131 ordinary shares exercisable at an exercise price of \$1.275 per share and expiring in November 2028 that vest in more than 60 days from the date of this annual report and (ii) 41,949 RSUs that vest in more than 60 days from the date of this annual report and are subject to the approval of the Company's shareholders.
- (8) Does not include (i) options to purchase 15,131 ordinary shares exercisable at an exercise price of \$1.275 per share and expiring in November 2028 that vest in more than 60 days from the date of this annual report and (ii) 41,949 RSUs that vest in more than 60 days from the date of this annual report and are subject to the approval of the Company's shareholders.
- (9) Does not include (i) options to purchase 15,131 ordinary shares exercisable at an exercise price of \$1.275 per share and expiring in November 2028 that vest in more than 60 days from the date of this annual report and (ii) 41,949 RSUs that vest in more than 60 days from the date of this annual report and are subject to the approval of the Company's shareholders.
- (10) Consists of 2,500 ordinary shares. Does not include (i) options to purchase 15,131 ordinary shares exercisable at an exercise price of \$1.275 per share and expiring in November 2028 that vest in more than 60 days from the date of this annual report and (ii) 41,949 RSUs that vest in more than 60 days from the date of this annual report and are subject to the approval of the Company's shareholders.
- (11) Does not include (i) options to purchase 15,131 ordinary shares exercisable at an exercise price of \$1.275 per share and expiring in March 2030 that vest in more than 60 days from the date of this annual report and are subject to the approval of the Company's shareholders and (ii) 41,949 RSUs that vest in more than 60 days from the date of this annual report and are subject to the approval of the Company's shareholders.
- (12) See footnotes (1)-(10) for certain information regarding beneficial ownership.

Changes in Ownership of Major Shareholders

To our knowledge, other than as disclosed in the table above, our other filings with the SEC and this Annual Report, there has been no significant change in the percentage ownership held by any major shareholder since January 1, 2022. The major shareholders listed above do not have voting rights with respect to their ordinary shares that are different from the voting rights of other holders of our ordinary shares.

B. Related Party Transactions

The following is a description of the material terms of those transactions with related parties to which we are party since January 1, 2024.

Agreements and Arrangements With, and Compensation of, Directors and Executive Officers

Certain of our executive officers have employment or services agreements with us. These agreements contain customary provisions and representations, including confidentiality, noncompetition, non-solicitation and inventions assignment undertakings by the executive officers. In addition, we entered into agreements with each executive officer and director, pursuant to which we agree to indemnify each of the officers or directors up to a certain amount and to the extent that these liabilities are not covered by directors and officers insurance. Under current applicable Israeli employment laws, we may not be able to enforce (either in whole or in part) covenants not to compete and therefore may be unable to prevent our competitors from benefiting from the expertise of some of our former employees. See “Item 6B — Directors, Senior Management and Employees — Compensation.”

Indemnification Agreements

Our amended and restated articles of association permit us to exculpate, indemnify and insure each of our directors and office holders to the fullest extent permitted by the Israeli Companies Law. We entered into indemnification agreements with each of our directors and executive officers immediately prior to the closing of the IPO, undertaking to indemnify them to the fullest extent permitted by Israeli law, including with respect to liabilities resulting from a public offering of our shares, to the extent that these liabilities are not covered by insurance. We have also obtained directors and officers insurance for each of our executive officers and directors. For further information, see “Item 6C — Directors, Senior Management and Employees — Board Practices — Exculpation.”

Options

As of the date of this Annual Report, we have issued an aggregate of 587,923 options to purchase ordinary shares and an aggregate of 1,560,165 RSUs to our directors or executive officers, of which the grants of an aggregate of 972,879 RSUs to certain directors and officers require the approval of our shareholders. For a description of our option plan, see “Item 6E — Directors, Senior Management and Employees — Board Practices — Global Share Incentive Plan (2022).” The shares are subject to transfer restrictions and “lock up” provisions upon the occurrence of certain conditions.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION.

A. Consolidated Statements and Other Financial Information.

See “Item 18. Financial Statements.”

Legal Proceedings

See “Item 4.B. Business Overview-Legal Proceedings.”

Dividend Policy

We have never declared or paid any cash dividends to our shareholders, and we do not anticipate or intend to pay cash dividends in the foreseeable future. Payment of cash dividends, if any, in the future will be at the discretion of our board of directors in compliance with applicable legal requirements and will depend on a number of factors, including future earnings, our financial condition, operating results, contractual restrictions, capital requirements, business prospects, our strategic goals and plans to expand our business, applicable law and other factors that our board of directors may deem relevant.

The Companies Law, imposes further restrictions on our ability to declare and pay dividends.

Payment of dividends may be subject to Israeli withholding taxes. See “Item 10.E. Taxation-Material Israeli Federal Income Tax Considerations” for additional information.

B. Significant Changes

Other than as otherwise described in this Annual Report on Form 20-F and as set forth below, no significant change has occurred in our operations since the date of our financial statements included in this Annual Report on Form 20-F.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

Our ordinary shares are currently traded on the Nasdaq Capital Market under the symbol “PRZO”.

B. Plan of Distribution

Not applicable.

C. Markets

Our ordinary shares are listed on the Nasdaq Capital Market.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Articles of Association

A copy of our Amended and Restated Articles of Association is attached as Exhibit 1.1 to this Annual Report. Other than as disclosed below, the information called for by this Item is set forth in Exhibit 1.1 to this Annual Report and is incorporated by reference into this Annual Report.

C. Material Contracts

We have not entered into any material contracts other than in the ordinary course of business and other than those described in Item 4. “Information on Our Company,” Item 7B “Major Shareholders and Related Party Transactions - Related Party Transactions” or elsewhere in this Annual Report.

D. Exchange Controls

There are currently no Israeli currency control restrictions on remittances of dividends on our ordinary shares, proceeds from the sale of the shares or interest or other payments to non-residents of Israel, except for shareholders who are subjects of countries that are, or have been, in a state of war with Israel.

E. Taxation.

The following summary contains a description of certain Israeli and U.S. federal income tax consequences of the acquisition, ownership and disposition of our ordinary shares, but it is not intended to constitute a complete analysis of all tax consequences relating to the ownership or disposition of our ordinary shares that may be relevant to a decision to purchase our ordinary shares. The summary is based upon the tax laws of Israel and regulations thereunder and on the tax laws of the United States and regulations thereunder as of the date hereof, which are subject to change. You should consult your own tax advisor concerning the tax consequences of your particular situation, as well as any tax consequences that may arise under the laws of any state, local, foreign, including Israeli, or other taxing jurisdiction.

ISRAELI TAX CONSIDERATIONS AND GOVERNMENT PROGRAMS

E. Taxation.

The following summary contains a description of certain Israeli and U.S. federal income tax consequences of the acquisition, ownership and disposition of our ordinary shares, but it is not intended to constitute a complete analysis of all tax consequences relating to the ownership or disposition of our ordinary shares that may be relevant to a decision to purchase our ordinary shares. The summary is based upon the tax laws of Israel and regulations thereunder and on the tax laws of the United States and regulations thereunder as of the date hereof, which are subject to change. You should consult your own tax advisor concerning the tax consequences of your particular situation, as well as any tax consequences that may arise under the laws of any state, local, foreign, including Israeli, or other taxing jurisdiction.

ISRAELI TAX CONSIDERATIONS AND GOVERNMENT PROGRAMS

The following is a summary of certain tax consequences applicable to companies incorporated in Israel, with special reference to its effect on us, as well as a summary of Israeli government programs that benefit us. The following also contains a discussion of material Israeli tax consequences concerning the ownership and disposition of our ordinary shares.

This summary does not discuss all the aspects of Israeli tax law that may be relevant to a particular investor in light of his or her personal investment circumstances or to some types of investors subject to special treatment under Israeli law. Examples of such investors include residents of Israel, partnerships, trusts, traders in securities and other taxpayers who are subject to special tax regimes not covered in this discussion. To the extent that the discussion is based on tax legislation which has not been subject to judicial or administrative interpretation, we cannot assure you that the views expressed in the discussion will be accepted by the appropriate tax authorities or the courts. The discussion below is subject to change, including due to amendments under Israeli law or changes to the applicable judicial or administrative interpretations of Israeli law, possibly with a retroactive effect, which changes could affect the tax consequences described below. The discussion is not intended, and should not be construed, as legal or professional tax advice and is not exhaustive of all possible tax considerations.

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

General Corporate Tax Structure

Israeli companies are generally subject to corporate tax on their taxable income at a flat rate. Starting 2018 and thereafter, the taxable income of the Company is subject to the Israeli corporate tax at the rate of 23%. However, the effective tax rate payable by a company that derives income under the Law for the Encouragement of Capital Investments (as discussed below) may be considerably lower.

Under the Israeli Income Tax Ordinance (New Version), 5721-1961 (the “Ordinance”), a company will be considered as an “Israeli resident” if: (a) it was incorporated in Israel; or (b) the control and management of its business are operated from Israel.

Tax benefits under the Law for the Encouragement of Capital Investments, 5719-1959, or the Encouragement of Capital Investments Law

The Encouragement of Capital Investments Law was significantly amended effective as of January 2011, or Amendment 68. Amendment 68 introduced new benefits to replace those granted in accordance with the provisions of the Encouragement of Capital Investments Law in effect prior to Amendment 68. However, companies entitled to benefits under the Encouragement of Capital Investments Law as in effect prior to January 1, 2011 were entitled to choose to continue to enjoy such benefits, provided that certain conditions are met, or elect instead, irrevocably, to forego such benefits and have the benefits of Amendment 68 apply.

Amendment 68 cancelled the availability of the benefits granted to Industrial Companies under the Encouragement of Capital Investments Law prior to 2011 and, instead, introduced new benefits for income generated by a “Preferred Company” through its “Preferred Enterprise” (as such terms are defined in the Encouragement of Capital Investments Law) as of January 1, 2011. The definition of a Preferred Company includes a company incorporated in Israel that is not fully owned by a governmental entity, and that has, among other things, Preferred Enterprise status and is controlled and managed from Israel. Pursuant to Amendment 68, a Preferred Company is entitled to a reduced corporate tax rate of 15% with respect to its income derived by its Preferred Enterprise in 2011 and 2012, unless the Preferred Enterprise is located in certain areas in Israel designated as Development Area A, in which case the rate will be 10%.

In August 2013, the Israeli Parliament enacted the Law for Changing National Priorities (Legislative Amendments for Achieving Budget Targets for 2013 and 2014), 2013 which includes Amendment 71 thereto, or Amendment 71. Per Amendment 71, the tax rate on preferred income from a Preferred Enterprise in 2013 will be 7% in Development Area A, and 12.5% in other areas and in 2014-2016 9% in Development Area A and 16% in other areas. In 2017 and thereafter, the tax rate for Development Area A was reduced to 7.5%.

We may claim the tax benefits offered by Amendment 71 in our tax returns, provided that our facilities meet the criteria for tax benefits set out by the amendment. We are also entitled to approach the Israel Tax Authority (the “ITA”) for a pre-ruling regarding their eligibility for benefits under Amendment 71 (and in some cases are required to apply for such approval).

In December 2016, the Israeli Parliament enacted the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2016 which includes Amendment 73 thereto, or Amendment 73. Amendment 73, which came into effect in January 2017, prescribes special tax tracks for Preferred Technological Enterprises, granting such enterprises a corporate tax rate of 7.5% in Development Area A and 12% in other areas, and setting a corporate tax rate of 6% for enterprises that qualify as a Special Preferred Technological Enterprise.

Under Amendment 73, dividends distributed to individuals or non-Israeli shareholders by a Preferred Technological Enterprise or a Special Preferred Technological Enterprise, paid out of income that qualifies as “Preferred Technological Income,” are generally subject to tax at the rate of 20% or such lower rate as may be provided in an applicable tax treaty, which, in each case, will be withheld at source (non-Israeli shareholders are required to present, in advance of payment, a valid withholding certificate from the ITA allowing for such 20% tax rate or lower treaty rate). However, dividends distributed to an Israeli company are not subject to tax (although, if such dividends are subsequently distributed to individuals or a non-Israeli company, withholding tax at a rate of 20% or such lower rate as may be provided in an applicable tax treaty, will apply). If such dividends are distributed to a foreign corporation or corporations (holding directly at least 90% in the Preferred Company which owns the Preferred Technological Enterprise or holding indirectly such 90% in the Preferred Company which owns the Preferred Technological Enterprise, subject to certain conditions) and other conditions are met, the applicable withholding tax rate will be 4%, or such lower rate as may be provided in an applicable tax treaty (in each case, subject to the receipt in advance of a valid withholding certificate from the ITA).

In order to be eligible for the reduced tax rates, a company must meet certain criteria as set forth in Amendment 73 including that R&D expenses and employee level remain at a certain rate.

We have yet to claim the tax benefits offered under Amendment 73 and accordingly such reduced taxes were not considered in the computation of the deferred taxes and valuation allowance as of December 31, 2022.

Capital Gains Tax on Sales of Our Ordinary Shares

The Israeli tax law generally imposes a capital gains tax on the sale of assets, including shares, by non-Israeli residents, if those assets are either (a) located in Israel; (b) located outside of Israel and represent a direct or indirect right to an asset or inventory located in Israel; (c) are shares or rights to shares in an Israeli resident corporation; or (d) are rights in a foreign resident corporation (non-Israeli corporation) that holds, directly or indirectly, assets located in Israel, unless a specific exemption is available or unless a tax treaty between Israel and the shareholder's country of residence provides otherwise. Under the Israeli Income Tax Ordinance (New Version), 5721-1961 (the "Ordinance"), there is a distinction between a "Real Capital Gain" and "Inflationary Surplus". The Inflationary Surplus is equal to the increase in the purchase price of the relevant asset attributable to the increase in the Israeli consumer price index or, in certain circumstances, a foreign currency exchange rate, between the date of purchase and the date of sale. The Real Capital Gain is the excess of the total capital gain over the Inflationary Surplus. Inflationary Surplus is currently not subject to tax in Israel.

The tax rate applicable to Real Capital Gain derived by an individual from the sale of shares which had been purchased after January 1, 2012, whether listed on a stock exchange or not, is 25%. However, if such shareholder is considered a Substantial Shareholder at the time of sale or at any time during the preceding 12-month period (or claims a deduction for interest and linkage differences expenses in connection with the purchase and holding of such shares), such gain will be taxed at the rate of 30%. A Substantial Shareholder is generally a person who holds, alone or together with a family relative or with a person who is not a relative where the person has a permanent cooperation agreement with such non-relative, directly or indirectly, at least 10% of any of the "means of control" of the corporation. "Means of control" generally include the right to vote, receive profits, nominate a director or an executive officer, receive assets upon liquidation, or order someone who holds any of the aforesaid rights how to act, regardless of the source of such right. Real capital gain derived by corporations will be generally subject to a corporate tax, currently at a rate of 23%.

Moreover, Real Capital Gain derived by a shareholder who is a dealer or trader in securities, or to whom such income is otherwise taxable as ordinary "business income" as defined in Section 2(1) of the Ordinance, is taxed in Israel at the marginal tax rates applicable to business income (for fiscal year 2024 and 2025, up to 47% and surtax (if applicable, as described below) for individuals, and the corporate tax rate (currently at a rate of 23%) for Israeli resident corporations).

Notwithstanding the foregoing, non-Israeli resident shareholders are generally exempt from Israeli capital gains tax on any gains derived from the sale, exchange or disposition of our ordinary shares purchased after January 1, 2009, provided that such gains were not derived from, or attributable to, a permanent establishment or business activity of such shareholders in Israel (and certain other conditions are fulfilled). However, non-Israeli "Body of Persons" (as defined under the Ordinance) which includes corporate entities, partnerships, and other entities, will not be entitled to the foregoing exemptions if an Israeli resident (i) has, alone or together with such person's relatives or another person who, according to an agreement, collaborates with such person on a permanent basis regarding material affairs of the company, or with another Israeli tax resident, a controlling interest of more than 25% in any of the means of control of such non-Israeli Body of Persons or (ii) is the beneficiary of, or is entitled to, 25% or more of the revenues or profits of such non-Israeli Body of Persons, whether directly or indirectly.

Additionally, a sale of securities by a non-Israeli resident may be exempt from Israeli capital gains tax under the provisions of an applicable tax treaty. For example, pursuant to the Convention between the Government of the United States of America and the Government of Israel with Respect to Taxes on Income, as amended (the "U.S.-Israel Tax Treaty"), the sale, exchange or disposition of ordinary shares by a person who (i) holds the ordinary shares as a capital asset, (ii) qualifies as a resident of the United States within the meaning of the U.S.-Israel Tax Treaty and (iii) is entitled to claim the benefits afforded to such resident by the U.S.-Israel Tax Treaty, generally will not be subject to Israeli capital gains tax unless either (a) such resident holds, directly or indirectly, shares representing 10% or more of the voting power of a company during any part of the 12-month period preceding such sale, exchange or disposition, subject to certain conditions, (b) the capital gains from such sale, exchange or disposition can be allocated to a permanent establishment in Israel, under certain terms, (c) the capital gain arising from such sale, exchange or disposition is attributed to real property located in Israel; (d) the capital gain arising from such sale, exchange or disposition is attributed to royalties, or (e) such resident is an individual and was present in Israel for period or periods aggregating 183 days or more during the relevant taxable year. In the event that the exemption shall not be available, the sale, exchange or disposition of ordinary shares would be subject to such Israeli capital gains tax to the extent applicable; however, under the U.S.-Israel Tax Treaty, such residents may be permitted to claim a credit for such taxes against U.S. federal income tax imposed with respect to such sale, exchange or disposition, subject to the limitations in U.S. laws applicable to foreign tax credits. The U.S.-Israel Tax Treaty does not relate to state or local taxes.

Regardless of whether shareholders may be liable for Israeli income tax on the sale of our ordinary shares, the payment of the consideration may be subject to withholding of Israeli tax at the source. Accordingly, shareholders may be required to demonstrate that they are exempt from tax on their capital gains in order to avoid withholding tax at source at the time of sale by providing a valid certificate from the ITA allowing for an exemption from withholding tax at source at the time of sale. Specifically, in transactions involving a sale of all of the shares of an Israeli resident company, in the form of a merger or otherwise, the ITA may require shareholders who are not liable for Israeli tax to sign declarations in forms specified by the ITA or, provide documents (including, for example, a certificate of residency), or obtain a specific exemption from the ITA to confirm their status as non-Israeli resident, and, in the absence of such declarations or exemptions, may require the purchaser of the shares to withhold taxes at source.

A detailed return, including a computation of the tax due, must be filed and an advance payment must be paid on January 31 and July 31 of each tax year for sales of securities traded on a stock exchange made within the previous six months. However, if all tax due was withheld at the source according to applicable provisions of the Ordinance and the regulations promulgated thereunder, the return does not need to be filed provided that (i) such income was not generated from business conducted in Israel by the taxpayer, (ii) the taxpayer has no other taxable sources of income in Israel with respect to which a tax return is required to be filed and an advance payment does not need to be made, and (iii) the taxpayer is not obligated to pay surtax (as further explained below). Capital gains are also reportable on an annual income tax return.

Taxation of Non-Residents on Dividends

Non-Israeli residents are generally subject to Israeli withholding income tax on the receipt of dividends paid on our Shares at the rate of 25% or 30% (for an individual shareholder that is considered a Substantial Shareholder (as described above) at the time of distribution or at any time during the 12-month period preceding such date), which tax will be withheld at source. Dividends are generally subject to Israeli withholding tax at a rate of 25% so long as the shares are registered with a nominee company (whether the recipient is a Substantial Shareholder or not). Such dividends are generally subject to Israeli withholding tax at a rate of 20% if the dividend is distributed from income attributed to a Preferred Enterprise or Technology Technological Enterprise or a reduced rate provided under an applicable tax treaty between Israel and the shareholder's country of residence, in each case subject to the receipt in advance of a valid certificate from the ITA allowing for a reduced tax rate. For example, under the U.S.-Israel Tax Treaty, Israeli withholding tax on dividends paid to a U.S. resident for treaty purposes may not, in general, exceed 25%, or 15% in the case of dividends paid out of the profits of an Approved Enterprise, subject to certain conditions. Where the recipient is a U.S. corporation owning 10% or more of the outstanding shares of the voting stock of the paying corporation throughout the paying corporation's taxable year in which the dividend is paid and during the whole of its prior taxable year (if any) and not more than 25% of the gross income of the paying corporation for such prior taxable year (if any) consists certain interest or dividends, the Israeli tax withheld may not exceed 12.5%, subject to certain conditions. The aforementioned rates under the U.S.-Israel Tax Treaty will not apply if the dividend income was derived through or attributed to a permanent establishment of the U.S. recipient in Israel. A valid withholding certificate from the Israel Tax Authority allowing for such reduced treaty tax rates must be presented in advance of payment.

A non-Israeli resident who receives dividends from which tax was withheld is generally exempt from the duty to file tax returns in Israel in respect of such income, provided that (i) such income was not generated from business conducted in Israel by such non-Israeli resident; (ii) the non-Israeli resident has no other taxable sources of income in Israel with respect to which a tax return is required to be filed, and (iii) the non-Israeli resident is not liable to surtax (as explained below).

Israeli Surtax

Subject to the provisions of an applicable tax treaty, individuals who are subject to income tax in Israel (whether any such individual is an Israeli resident or non-Israeli resident) are subject to (i) an additional tax at a rate of 3% on annual income (including, but not limited to, income derived from dividends, interest and capital gains) exceeding a certain threshold (NIS 721,560 for 2024 through 2027 (the “**Threshold amount**”), which amount will be updated annually starting January 1, 2028, based on the change in the Israeli consumer price index); and (ii) as of January 1, 2025, an additional tax at a rate of 2% (5% in total) on annual capital-sourced income (defined as income from any source other than employment income, business income, or income from “personal effort,” and which includes, among other things, income from capital gains, dividends, interest, rental income, or from the sale of real property) exceeding the Threshold Amount.

Estate and Gift Tax

Israeli law presently does not impose estate or gift taxes.

Certain Material U.S. Federal Income Tax Considerations

THE FOLLOWING SUMMARY IS INCLUDED HEREIN FOR GENERAL INFORMATION AND IS NOT INTENDED TO BE, AND SHOULD NOT BE CONSIDERED TO BE, LEGAL OR TAX ADVICE. EACH U.S. HOLDER SHOULD CONSULT WITH HIS OR HER OWN TAX ADVISOR AS TO THE PARTICULAR U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND SALE OF ORDINARY SHARES, INCLUDING THE EFFECTS OF APPLICABLE STATE, LOCAL, FOREIGN OR OTHER TAX LAWS AND POSSIBLE CHANGES IN THE TAX LAWS.

Subject to the limitations described in the next two paragraphs, the following discussion summarizes certain material U.S. federal income tax consequences to a “U.S. Holder” arising from the purchase, ownership and sale of the ordinary shares. For this purpose, a “U.S. Holder” is a holder of ordinary shares that is: (1) an individual citizen or resident of the United States, including an alien individual who is a lawful permanent resident of the United States or meets the substantial presence residency test under U.S. federal income tax laws; (2) a corporation (or entity treated as a corporation for U.S. federal income tax purposes) created or organized under the laws of the United States or the District of Columbia or any political subdivision thereof; (3) an estate, the income of which is includable in gross income for U.S. federal income tax purposes regardless of its source; (4) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have authority to control all substantial decisions of the trust; or (5) a trust that has a valid election in effect to be treated as a U.S. person to the extent provided in U.S. Treasury regulations.

This summary is for general information purposes only and does not purport to be a comprehensive description of all of the U.S. federal income tax considerations that may be relevant to a decision to purchase our ordinary shares. This summary generally considers only U.S. Holders that will own our ordinary shares as capital assets. Except to the limited extent discussed below, this summary does not consider the U.S. federal tax consequences to a person that is not a U.S. Holder, nor does it describe the rules applicable to determine a taxpayer’s status as a U.S. Holder. This summary is based on the provisions of the Code and final, temporary and proposed U.S. Treasury regulations promulgated thereunder, administrative and judicial interpretations thereof, and the United States-Israel Income Tax Treaty, all as in effect as of the date hereof and all of which are subject to change, possibly on a retroactive basis, and all of which are open to differing interpretations. We will not seek a ruling from the Internal Revenue Service, or the IRS, with regard to the U.S. federal income tax treatment of an investment in our ordinary shares by U.S. Holders and, therefore, can provide no assurances that the IRS will agree with the conclusions set forth below.

This discussion does not address all of the aspects of U.S. federal income taxation that may be relevant to a particular U.S. Holder based on such holder’s particular circumstances and in particular does not discuss any estate, gift, generation-skipping transfer, state, local, excise or non-U.S. tax considerations. In addition, this discussion does not address the U.S. federal income tax treatment of a U.S. Holder who is: (1) a bank, life insurance company, regulated investment company, or other financial institution or “financial services entity;” (2) a broker or dealer in securities or foreign currency; (3) a person who acquired our ordinary shares in connection with employment or other performance of services; (4) a U.S. Holder that is subject to the U.S. alternative minimum tax; (5) a U.S. Holder that holds our ordinary shares as a hedge or as part of a hedging, straddle, conversion or constructive sale transaction or other risk-reduction transaction for U.S. federal income tax purposes; (6) a tax-exempt entity; (7) real estate investment trusts or grantor trusts; (8) a U.S. Holder that expatriates out of the United States or a former long-term resident of the United States; or (9) a person having a functional currency other than the U.S. dollar. This discussion does not address the U.S. federal income tax treatment of a U.S. Holder that owns, directly or constructively, at any time, ordinary shares representing 10% or more of the shares of our company. Additionally, the U.S. federal income tax treatment of partnerships (or other pass-through entities) or persons who hold ordinary shares through a partnership or other pass-through entity are not addressed.

Each prospective investor is advised to consult his or her own tax adviser for the specific tax consequences to that investor of purchasing, holding or disposing of our ordinary shares, including the effects of applicable state, local, non-U.S. or other tax laws and possible changes in the tax laws.

Taxation of Dividends Paid on Ordinary Shares

We do not intend to pay dividends in the foreseeable future. In the event that we do pay dividends, and subject to the discussion under the heading “Passive Foreign Investment Companies” below and the discussion of “qualified dividend income” below, a U.S. Holder, other than certain U.S. Holders that are U.S. corporations, will be required to include in gross income as ordinary income the amount of any distribution paid on the ordinary shares (including the amount of any Israeli tax withheld on the date of the distribution), to the extent that such distribution does not exceed our current and accumulated earnings and profits, as determined for U.S. federal income tax purposes. The amount of a distribution that exceeds our earnings and profits will be treated first as a non-taxable return of capital, reducing the U.S. Holder’s tax basis for the ordinary shares to the extent thereof, and then capital gain. We do not expect to maintain calculations of our earnings and profits under U.S. federal income tax principles and, therefore, U.S. Holders should expect that the entire amount of any distribution generally will be reported as dividend income.

In general, preferential tax rates for “qualified dividend income” and long-term capital gains are applicable for U.S. Holders that are individuals, estates or trusts. For this purpose, “qualified dividend income” means, inter alia, dividends received from a “qualified foreign corporation.” A “qualified foreign corporation” is a corporation that is entitled to the benefits of a comprehensive tax treaty with the United States that includes an exchange of information program. The IRS has stated that the United States-Israel Tax Treaty satisfies this requirement and we believe we are eligible for the benefits of that treaty.

In addition, our dividends will be qualified dividend income if our ordinary shares are readily tradable on the Nasdaq Capital Market or another established securities market in the United States. Dividends will not qualify for the preferential rate if we are treated, in the year the dividend is paid or in the prior year, as a passive foreign investment company, or PFIC, as described below under “Passive Foreign Investment Companies.” A U.S. Holder will not be entitled to the preferential rate: (1) if the U.S. Holder has not held our ordinary shares for at least 61 days of the 121 day period beginning on the date which is 60 days before the ex-dividend date, or (2) to the extent the U.S. Holder is under an obligation to make related payments with respect to positions in substantially similar or related property. Any days during which the U.S. Holder has diminished its risk of loss on our ordinary shares are not counted towards meeting the 61-day holding period. Finally, U.S. Holders who elect to treat the dividend income as “investment income” pursuant to Section 163(d)(4) of the Code will not be eligible for the preferential rate of taxation.

The amount of a distribution with respect to our ordinary shares will be measured by the amount of the fair market value of any property distributed, and for U.S. federal income tax purposes, the amount of any Israeli taxes withheld therefrom. Cash distributions paid by us in NIS will be included in the income of U.S. Holders at a U.S. dollar amount based upon the spot rate of exchange in effect on the date the dividend is includible in the income of the U.S. Holder, and U.S. Holders will have a tax basis in such NIS for U.S. federal income tax purposes equal to such U.S. dollar value. If the U.S. Holder subsequently converts the NIS into U.S. dollars or otherwise disposes of them, any subsequent gain or loss in respect of such NIS arising from exchange rate fluctuations will be U.S. source ordinary exchange gain or loss.

Subject to certain significant conditions and limitations, any Israeli taxes paid on or withheld from distributions from us and not refundable to a U.S. Holder may be credited against the U.S. Holder’s U.S. federal income tax liability or, alternatively, may be deducted from the U.S. Holder’s taxable income. However, as a result of recent changes to the U.S. foreign tax credit rules, a withholding tax generally may need to satisfy certain additional requirements in order to be considered a creditable tax for a U.S. Holder. We have not determined whether these requirements have been met and, accordingly, no assurance can be given that any withholding tax on dividends paid by us will be creditable. The election to deduct, rather than credit, foreign taxes, is made on a year-by-year basis and applies to all foreign taxes paid by a U.S. Holder or withheld from a U.S. Holder that year. Dividends paid with respect to our ordinary shares will be treated as foreign source income, which may be relevant in calculating the U.S. Holder’s foreign tax credit limitation. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends that we distribute generally should constitute “passive category income,” or, in the case of certain U.S. Holders, “general category income.” The rules relating to the determination of the foreign tax credit are complex, and U.S. Holders should consult their tax advisor to determine whether and to what extent such holder will be entitled to this credit.

Dividends paid with respect to our ordinary shares will not be eligible for the “dividends-received” deduction generally allowed to corporate U.S. Holders with respect to dividends received from U.S. corporations.

Taxation of the Sale, Exchange or other Disposition of Ordinary Shares

Except as provided under the PFIC rules described below under “Passive Foreign Investment Companies,” upon the sale, exchange or other disposition of our ordinary shares, a U.S. Holder will recognize capital gain or loss in an amount equal to the difference between such U.S. Holder’s tax basis for the ordinary shares, determined in U.S. dollars, and the U.S. dollar value of the amount realized on the disposition (or its U.S. dollar equivalent determined by reference to the spot rate of exchange on the date of disposition, if the amount realized is denominated in a foreign currency). The gain or loss realized on the sale, exchange or other disposition of ordinary shares will be long-term capital gain or loss if the U.S. Holder has a holding period of more than one year at the time of the disposition. Individuals who recognize long-term capital gains may be taxed on such gains at reduced rates of tax. The deduction of capital losses is subject to various limitations. U.S. Holders should consult their own tax advisors regarding the U.S. federal income tax consequences of receiving currency other than U.S. dollars upon the disposition of their ordinary shares.

Passive Foreign Investment Companies

Special U.S. federal income tax laws apply to U.S. taxpayers who own shares of a corporation that is a PFIC. We will be treated as a PFIC for U.S. federal income tax purposes for any taxable year that either:

- 75% or more of our gross income (including our pro rata share of gross income for any company, in which we are considered to own 25% or more of the shares by value), in a taxable year is passive; or
- At least 50% of our assets generally determined on the basis of a quarterly average and based upon fair market value (including our pro rata share of the assets of any company in which we are considered to own 25% or more of the shares by value) are held for the production of, or produce, passive income.

For this purpose, passive income generally consists of rents, dividends, interest, royalties, gains from the disposition of passive assets and gains from commodities and securities transactions. Generally, cash is treated as generating passive income and is therefore treated as a passive asset for purposes of the PFIC rules.

We believe that we were not a PFIC for the year ended December 31, 2024 and we will not be a PFIC for the current taxable year, although we have not determined whether we will be a PFIC in the foreseeable future. The tests for determining PFIC status are applied annually, and it is difficult to make accurate projections of future income and assets which are relevant to this determination. In addition, our PFIC status may depend in part on the market value of our ordinary shares. Accordingly, there can be no assurance that we currently are not or will not become a PFIC.

If we currently are or become a PFIC, each U.S. Holder who has not elected to mark the shares to market (as discussed below), would, upon receipt of certain “excess distributions” by us and upon disposition of our ordinary shares at a gain: (1) have such excess distribution or gain allocated ratably over the U.S. Holder’s holding period for the ordinary shares, as the case may be; (2) the amount allocated to the current taxable year and any period prior to the first day of the first taxable year in which we were a PFIC would be taxed as ordinary income; and (3) the amount allocated to each of the other taxable years would be subject to tax at the highest rate of tax in effect for the applicable class of taxpayer for that year, and an interest charge for the deemed deferral benefit would be imposed with respect to the resulting tax attributable to each such other taxable year. Distributions received by a U.S. Holder in a taxable year that are greater than 125% of the average annual distributions received during the shorter of the three preceding taxable years or the U.S. Holder’s holding period for the ordinary shares will be treated as excess distributions. In addition, when shares of a PFIC are acquired by reason of death from a decedent that was a U.S. Holder, the tax basis of such shares would not receive a step-up to fair market value as of the date of the decedent’s death, but instead would be equal to the decedent’s basis if lower, unless all gain were recognized by the decedent. Indirect investments in a PFIC may also be subject to these special U.S. federal income tax rules.

The PFIC rules described above would not apply to a U.S. Holder who makes a qualified electing fund, or QEF, election for all taxable years that such U.S. Holder has held the ordinary shares while we are a PFIC, provided that we comply with specified reporting requirements. Instead, each U.S. Holder who has made such a QEF election is required for each taxable year that we are a PFIC to include in income such U.S. Holder's pro rata share of our ordinary earnings as ordinary income and such U.S. Holder's pro rata share of our net capital gains as long-term capital gain, regardless of whether we make any distributions of such earnings or gain. In general, a QEF election is effective only if we make available certain required information. The QEF election is made on a shareholder-by-shareholder basis and generally may be revoked only with the consent of the IRS. We do not intend to notify U.S. Holders if we believe we will be treated as a PFIC for any tax year. In addition, we do not intend to furnish U.S. Holders annually with information needed in order to complete IRS Form 8621 and to make and maintain a valid QEF election for any year in which we or any of our subsidiaries are a PFIC. Therefore, the QEF election will not be available with respect to our ordinary shares.

In addition, the PFIC rules described above would not apply if we were a PFIC and a U.S. Holder made a mark-to-market election. A U.S. Holder of our ordinary shares which are regularly traded on a qualifying exchange, including the Nasdaq Capital Market, can elect to mark the ordinary shares to market annually, recognizing as ordinary income or loss each year an amount equal to the difference as of the close of the taxable year between the fair market value of the ordinary shares and the U.S. Holder's adjusted tax basis in the ordinary shares. Losses are allowed only to the extent of net mark-to-market gain previously included income by the U.S. Holder under the election for prior taxable years.

A U.S. Holder that owns (or is deemed to own) shares in a PFIC during any taxable year of the U.S. Holder generally is required to file an IRS Form 8621 with such U.S. Holder's U.S. federal income tax return and provide such other information as the IRS may require. Failure to file IRS Form 8621 for each applicable taxable year may result in substantial penalties and result in the U.S. Holder's taxable years being open to audit by the IRS until such forms are properly filed.

U.S. Holders who hold our ordinary shares during a period when we are a PFIC generally will be subject to the foregoing rules, even if we cease to be a PFIC. A U.S. Holder is encouraged to consult its tax advisor with respect to any available elections that may be applicable in such a situation, including a "deemed sale" election. The U.S. federal income tax rules relating to PFICs are complex. U.S. Holders are urged to consult their own tax advisors with respect to the consequences to them of an investment in a PFIC, any elections available with respect to the ordinary shares and the IRS information reporting obligations with respect to the purchase, ownership, and disposition of the ordinary shares in the event we are determined to be a PFIC.

Tax on Net Investment Income

U.S. Holders who are individuals, estates or trusts will generally be required to pay a 3.8% Medicare tax on their net investment income (including dividends on and gains from the sale or other disposition of our ordinary shares), or in the case of estates and trusts on their net investment income that is not distributed to beneficiaries of the estate or trust. In each case, the 3.8% Medicare tax applies only to the extent the U.S. Holder's total adjusted income exceeds applicable thresholds.

Information Reporting and Withholding

A U.S. Holder may be subject to backup withholding at a rate of 24% with respect to cash dividends and proceeds from a disposition of ordinary shares. In general, backup withholding will apply only if a U.S. Holder fails to comply with specified identification procedures. Backup withholding will not apply with respect to payments made to designated exempt recipients, such as corporations and tax-exempt organizations. Backup withholding is not an additional tax and may be claimed as a credit against the U.S. federal income tax liability of a U.S. Holder, provided that the required information is timely furnished to the IRS.

Certain U.S. Holders with interests in "specified foreign financial assets" (including, among other assets, our ordinary shares, unless such ordinary shares are held on such U.S. Holder's behalf through a financial institution) may be required to file an information report with the IRS if the aggregate value of all such assets exceeds \$50,000 on the last day of the taxable year or \$75,000 at any time during the taxable year (or such higher dollar amount as may be prescribed by applicable IRS guidance). You should consult your own tax advisor as to the possible obligation to file such information report.

THE DISCUSSION ABOVE IS A GENERAL SUMMARY AND IS NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSEQUENCES RELATING TO THE PURCHASE, OWNERSHIP AND DISPOSITION OF OUR ORDINARY SHARES. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE OF IMPORTANCE TO A PROSPECTIVE INVESTOR. EACH PROSPECTIVE INVESTOR IS URGED TO CONSULT ITS OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES TO IT RELATING TO THE PURCHASE, OWNERSHIP, AND DISPOSITION OF ORDINARY SHARES IN LIGHT OF THE INVESTOR'S OWN CIRCUMSTANCES.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We are subject to certain information reporting requirements of the Exchange Act, applicable to foreign private issuers and under those requirements will file reports with the SEC. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. Our filings with the SEC will also be available to the public through the SEC's website at www.sec.gov.

As a foreign private issuer, we are exempt from the rules under the Exchange Act related to the furnishing and content of proxy statements, and our officers, directors and principal shareholders will be exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file annual, quarterly and current reports and financial statements with the SEC as frequently or as promptly as U.S. domestic companies whose securities are registered under the Exchange Act. However, we will file with the SEC, within 120 days after the end of each fiscal year, or such applicable time as required by the SEC, an annual report on Form 20-F containing financial statements audited by an independent registered public accounting firm, and may submit to the SEC, on a Form 6-K, unaudited quarterly financial information.

I. Subsidiary Information.

Not applicable.

J. Annual Report to Security Holders

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and Qualitative Disclosures about Market Risk

We are exposed to a variety of financial risks, which result from our financing, operating and investing activities. The objective of financial risk management is to contain, where appropriate, exposures in these financial risks to limit any negative impact on our financial performance and position. Our main financial instruments are our cash and other receivables, trade and other payables. The main purpose of these financial instruments is to raise finance for our operations. We actively measure, monitor and manage our financial risk exposures by various functions pursuant to the segregation of duties and principals. The risks arising from our financial instruments are mainly credit risk and currency risk. The risk management policies employed by us to manage these risks are discussed below.

Credit risk

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. We closely monitor the activities of our counterparties and control the access to our intellectual property which enables it to ensure the prompt collection. Our main financial assets are cash as well as trade receivables and other receivables and represent our maximum exposure to credit risk in connection with our financial assets. Wherever possible and commercially practical, we hold cash with major financial institutions in Israel.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not our functional currency. We are exposed to foreign exchange risk arising from currency exposure primarily with respect to the NIS, as the majority of our expenses are denominated in NIS. As most of our revenues are USD derived, the USD is our functional currency. Our policy is not to enter into any currency hedging transactions.. If the NIS fluctuates significantly against the U.S. dollar, it may have a negative impact on our results of operations.

Liquidity risks

Liquidity risk is the risk that we will encounter difficulty in meeting the obligations associated with our financial liabilities that are settled in cash. Cash flow forecasting is performed in our operating entity. We monitor forecasts of our liquidity requirements to ensure we have sufficient cash to meet operational needs. We may be reliant on our ability to raise additional investment capital from the issuance of both debt and equity securities to fund our business operating plans and future obligations.

Emerging Growth Company Status

We qualify as an “emerging growth company” as defined in the JOBS Act. An emerging growth company may take advantage of specified reduced reporting and other burdens that are otherwise applicable generally to public companies. These provisions include:

- a requirement to present only two years of audited financial statements in addition to any required interim financial statements and correspondingly reduced Management’s Discussion and Analysis of Financial Condition and Results of Operations disclosure;
- to the extent that we no longer qualify as a foreign private issuer, (i) reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and (ii) exemptions from the requirement to hold a non-binding advisory vote on executive compensation, including golden parachute compensation;
- an exemption from the auditor attestation requirement in the assessment of our internal control over financial reporting pursuant to the Sarbanes-Oxley Act of 2002; and
- an exemption from compliance with the requirement that the Public Company Accounting Oversight Board has adopted regarding a supplement to the auditor’s report providing additional information about the audit and the financial statements.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities.

Not applicable.

B. Warrants and rights.

Not applicable.

C. Other Securities.

Not applicable.

D. American Depositary Shares

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

There are no material modifications to the rights of security holders.

ITEM 15. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2024, or the Evaluation Date. Based on such evaluation, those officers have concluded that, as of the Evaluation Date, our disclosure controls and procedures are not effective in recording, processing, summarizing and reporting, on a timely basis, information required to be included in periodic filings under the Exchange Act and that such information is accumulated and communicated to management, including our principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure.

(b) Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Our management conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2024 based on the criteria set forth in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on that assessment, our management concluded that our internal control over financial reporting was not effective as of December 31, 2024, due to ineffective controls over period end financial reporting, which is considered as a "material weakness".

As defined in Regulation 12b-2 under the Exchange Act, 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 our annual or interim consolidated financial statements will not be prevented, or detected on a timely basis.

As previously disclosed in our Annual Report on Form 20-F for the year ended December 31, 2023, as of December 31, 2023, our internal control over financial reporting was ineffective due to the following material weaknesses: lack of segregation of duties within account processes, and systems, inadequate documentation to evidence the operation of controls, inconsistent procedures and approvals, lack of periodic user access reviews, lack of assessment of controls of financially significant vendors and insufficient written policies and procedures for accounting, IT and financial reporting and record keeping.

We have begun the process of engaging an external consulting firm to assist us with assessment of Sarbanes-Oxley compliance requirements and improvement of overall internal controls and we began working with such external consultant in 2024 to design and begin implementing our remediation plan. We have begun to take a number of measures to address the internal control deficiency that has been identified, including expanding our existing accounting and financial reporting personnel and the reallocation of internal resources, and we will be engaging with an external consulting firm to assist us with assessment of Sarbanes-Oxley compliance requirements and improvement of overall internal controls.

We expect to complete our remediation plan within the next 12 months. However, we have not tested the effectiveness of our internal control over financial reporting and cannot assure you that we will be able to successfully remediate this material weakness and, even if we do, we cannot assure you that we will not suffer from other material weaknesses in the future. Except for additional personnel costs and the costs of our third-party service providers, we do not expect to incur any material costs related to our remediation plan.

While we believe the remediation actions described above improved our internal control over financial reporting, we still require validation and testing of the design and operating effectiveness of internal controls over a sustained period of financial reporting cycles, and therefore concluded that as of December 31, 2024, our internal control over financial reporting was not effective.

(c) Attestation Report of the Registered Public Accounting Firm

This Annual Report on Form 20-F does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting due to an exemption for emerging growth companies provided in the JOBS Act.

(d) Changes in Internal Control over Financial Reporting

Except as described above, during the year ended December 31, 2024, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management continues to identify and improve our internal control over financial reporting, in the context of which we have identified material weaknesses in our internal control over financial reporting as of December 31, 2024 related to lack of segregation of duties. Management has implemented corrective actions to address this issue, including improving the segregation of duties and enhancing our controls to ensure the accuracy of our financial reporting within account processes, and systems, documentation to evidence the operation of controls, procedures and approvals, periodic user access reviews, assessment of controls of financially significant vendors, written policies and procedures for accounting, IT and financial reporting and record keeping. The Company continues to improve its internal controls over financing, and has engaged outside consultants, experts in the controls and procedures over financial reporting, and internally, we have reviewed and improved these processes. In light of the remediation occurring, our internal controls are expected to be effective in the 2025.

ITEM 16. [RESERVED]

Not applicable.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our Audit Committee is currently comprised of Naama Falach Avrahamy, Yigal Shtief and Moshe Revach, and is chaired by Ms. Falach Avrahamy. Our Board has determined that each of the members of the committee are financially literate and meets the independence requirements for directors, including the heightened independence standards for members of the Audit Committee under Rule 10A-3 under the Exchange Act. Our Board has determined that Ms. Falach Avrahamy is “financially sophisticated” within the meaning of the Nasdaq Rules and a “financial expert” as defined by Rule 10A-3 under the Exchange Act.

ITEM 16B. CODE OF ETHICS

Our Board has adopted a Code of Business Conduct and Ethics applicable to all of our directors and employees, including our Chief Executive Officer, Chief Financial Officer, controller or principal accounting officer, or other persons performing similar functions, which is a “code of ethics” as defined in Item 16B of Form 20-F promulgated by the SEC. The full text of our code of business conduct and ethics is available under the Corporate Governance section of our website at www.parazero.com. In addition, we intend to post on our website all disclosures that are required by law or the Nasdaq Rules concerning any amendments to, or waivers from, any provision of the code. 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 on Form 20-F.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Ziv Haft, Certified Public Accountants, Isr., BDO Member Firm, or BDO Israel, served as our principal independent registered public accounting firm through September 12, 2023.

On September 12, 2023, Brightman Almagor Zohar & Co., a Firm in the Deloitte Global Network, or Deloitte Israel, was appointed as our principal independent registered public accounting firm for the year ended December 31, 2023.

The following table provides information regarding fees paid or to be paid by us to Deloitte Israel and BDO Israel for the years ended December 31, 2024 and 2023.

(Dollars)	Year Ended December 31,	
	2024	2023
Audit fees (1)	\$ 180,000	\$ 180,000
Audit-related fees (2)	5,000	88,095
Total	\$ 185,000	\$ 268,095

(1) Audit fees for the year ended December 31, 2024 consist of professional services provided in connection with the audit of our annual financial statements.

Audit fees for the year ended December 31, 2023, consist of professional services provided in connection with the audit of our annual financial statements, including the re-audit by Deloitte Israel of the Company’s financial statements as of December 31, 2023 and for the three years then ended, which had previously been audited by BDO Israel, which was performed in 2023. For additional information, see “Item 16F – Change in Registrant’s Certifying Accountant”.

(2) Audit-related fees in 2023 consist of services in connection with our initial public offering that closed in July 2023 and private placement that closed in October 2023. In 2023, the amounts paid to Deloitte Israel and BDO Israel were \$15,000 and \$73,095 respectively.

Pre-Approval of Auditors’ Compensation

Our audit committee has a pre-approval policy for the engagement of our independent registered public accounting firm to perform certain audit and non-audit services. Pursuant to this policy, which is designed to assure that such engagements do not impair the independence of our auditors, the audit committee pre-approves annually a catalog of specific audit and non-audit services in the categories of audit services, audit-related services and tax services that may be performed by our independent registered public accounting firm. If a type of service, that is to be provided by our auditors, has not received such general pre-approval, it will require specific pre-approval by our audit committee. The policy prohibits retention of the independent registered public accounting firm to perform the prohibited non-audit functions defined in applicable SEC rules.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Not applicable.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

There has been no change in independent accountants for our Company during the two most recent fiscal years or any subsequent interim period except as previously reported in our registration statement on Form F-1 filed with the SEC on November 6, 2023 (File No. 333-275351). There have been no disagreements of the type required to be disclosed by Item 16F(b).

ITEM 16G. CORPORATE GOVERNANCE

As a foreign private issuer, are permitted, and intend, to follow certain home country corporate governance practices instead of those otherwise required by the Nasdaq for domestic U.S. issuers. Following our home country governance practices as opposed to the requirements that would otherwise apply to a U.S. company listed on The Nasdaq Global Market may provide less protection to you than what is accorded to investors under the Nasdaq Rules applicable to domestic U.S. issuers.

Accordingly, we have elected to follow the provisions of the Companies Law, rather than the Nasdaq Rules, with respect to the following requirements:

- *Quorum.* While the Nasdaq Stock Market rules require that the quorum for purposes of any meeting of the holders of a listed company's ordinary voting stock, as specified in the company's bylaws, be no less than 33 1/3% of the company's outstanding ordinary voting stock, under Israeli law, a company is entitled to determine in its articles of association the number of shareholders and percentage of holdings required for a quorum at a shareholders meeting. Our amended and restated articles of association provide that a quorum of two or more shareholders holding at least 25% of the voting rights in person or by proxy is required for commencement of business at a general meeting. However, the quorum set forth in our amended and restated articles of association with respect to an adjourned meeting consists of at least one shareholders present in person or by proxy.
- *Compensation of officers.* The Nasdaq Stock Market rules require a listed company to have a compensation committee composed entirely of independent directors that operates pursuant to a written charter addressing its purpose, responsibilities and membership qualifications and may receive counselling from independent consultants, after evaluating their independence. The purpose, responsibilities and membership qualifications of our compensation committee will be governed by the Companies Law, rather than the Nasdaq Capital Market listing requirements. The Companies Law requires us to ensure that a majority of the members of our Compensation Committee are external directors, and the compensation of all of its members shall be limited to amounts provided to external directors in accordance with Israeli regulations. However, under the Companies Law, there are no specific independence evaluation requirements for outside consultants. Compensation of executive officers is determined and approved by our compensation committee and our board of directors, and in certain circumstances by our shareholders, either in consistency with our office holder compensation policy or, in special circumstances in deviation therefrom, taking into account certain considerations stated in the Companies Law. See "Item 6C — Directors, Senior Management and Employees — Board Practices — Approval of Related Party Transactions under Israeli Law" for additional information.

- *Shareholder approval.* We will seek shareholder approval for all corporate actions requiring such approval under the requirements of the Companies Law, rather than seeking approval for corporation actions in accordance with Nasdaq Listing Rule 5635. In particular, under this Nasdaq Stock Market rule, shareholder approval is generally required for: (i) an acquisition of shares/assets of another company that involves the issuance of 20% or more of the acquirer's shares or voting rights or if a director, officer or 5% shareholder has greater than a 5% interest in the target company or the consideration to be received; (ii) the issuance of shares leading to a change of control; (iii) adoption/amendment of equity compensation arrangements; and (iv) issuances of 20% or more of the shares or voting rights (including securities convertible into, or exercisable for, equity) of a listed company via a private placement (and/or via sales by directors/officers/5% shareholders) if such equity is issued (or sold) at below the greater of the book or market value of shares. By contrast, under the Companies Law, shareholder approval is required for, among other things: (i) transactions with the chief executive officer or directors concerning the terms of their service or indemnification, exemption and insurance for their service (or for any other position that they may hold at a company), for which approvals of the compensation committee, board of directors and shareholders are all generally required, (ii) extraordinary transactions with controlling shareholders of publicly held companies, which require a special disinterested majority approval, and (iii) terms of employment or other engagement of the controlling shareholder of us or such controlling shareholder's relative, which require a special disinterested majority approval. In addition, under the Companies Law, a merger requires approval of the shareholders of each of the merging companies. Further, we adopted and approved an equity incentive plans and, to the extent required, material changes thereto in accordance with the Companies Law, which does not impose a requirement of shareholder approval for such actions. In addition, we intend to follow Israeli corporate governance practice instead of the Nasdaq corporate governance rule which requires shareholder approval prior to an issuance of securities in connection with equity-based compensation of officers, directors, employees or consultants.
- *Approval of Related Party Transactions.* All related party transactions are approved in accordance with the requirements and procedures for approval of interested party acts and transactions as set forth in the Companies Law, which generally requires the approval of the audit committee, or the compensation committee, as the case may be, the board of directors and shareholders, as may be applicable, for specified transactions, rather than approval by the audit committee or other independent body of our board of directors as required under the Nasdaq Stock Market rules. See "Management — Board Practices — Approval of Related Party Transactions under Israeli Law" for additional information.
- *Annual Shareholders Meeting.* As opposed to the Nasdaq Stock Market Rule 5620(a), which mandates that a listed company hold its annual shareholders meeting within one year of the company's fiscal year-end, we are required, under the Companies Law, to hold an annual shareholders meeting each calendar year and within 15 months of the last annual shareholders meeting.
- *Distribution of periodic reports to shareholders; proxy solicitation.* As opposed to the Nasdaq Stock Market rules, which require listed issuers to make such reports available to shareholders in one of a number of specific manners, Israeli law does not require us to distribute periodic reports directly to shareholders, and the generally accepted business practice in Israel is not to distribute such reports to shareholders but to make such reports available through a public website. In addition to making such reports available on a public website, we currently make our audited consolidated financial statements available to our shareholders at our offices and will only mail such reports to shareholders upon request. As a foreign private issuer, we are generally exempt from the SEC's proxy solicitation rules.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 16I. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

ITEM 16J. INSIDER TRADING POLICIES

We have adopted a statement of trading policies that governs the trading in our securities by our directors, officers and certain other covered persons, and which is reasonably designed to promote compliance with applicable insider trading laws, rules and regulations, and any listing standards applicable to the Company. A copy of the Insider Trading Policy is included as Exhibit 11.1 to this annual report. In addition, with regard to any trading in our own securities, it is our policy to comply with the federal securities laws and the applicable exchange listing requirements.

ITEM 16K. CYBERSECURITY

We are in the process of developing a cybersecurity risk management program, consisting of cybersecurity policies, procedures, compliance and awareness programs to mitigate risk and to ensure compliance with security, availability and confidentiality trust principles. Following the completion of the development of our cybersecurity risk management program, the cybersecurity process will be integrated into our overall risk management system and process, and, initially, will be solely internally managed. Management is responsible for identifying risks that threaten achievement of the control activities stated in the management's description of the services organizations systems. Management has started to implement a process for identifying relevant risks that could affect the organization's ability to provide secure and reliable service to its users. The risk assessment will occur annually, or as business needs change, 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. Most of the information generated and collected by us is stored and maintained by third-party vendors and service providers. We believe that each of these providers has its own cybersecurity protocols to which our management believes to be adequate for protecting our files in their possession. See "Item 3.D Risk Factors—Risks Related to Our Business and Industry—Significant disruptions of our information technology systems or breaches of our data security could adversely affect our business."

The level of each identified risk is determined by considering the impact of the risk itself and the likelihood of the risk materializing and high scoring risks are actioned upon. Risks are analyzed to determine whether the risk meets company risk acceptance criteria to be accepted or whether a mitigation plan will be applied. Mitigation plans include both the individual or department responsible for the plan and may include budget considerations.

Governance

The oversight of cybersecurity threats is undertaken by our Chief Product Officer, who holds over a decade of experience in information technology and the design and architecture of information systems, and is supported by management. Our audit committee is responsible for cybersecurity oversight and monitoring risk. Following the completion of the development of our cybersecurity risk management program, the audit committee will receive periodic reports at least annually from our management, concerning the Company's significant cybersecurity threats and risk, and the processes the Company has implemented to address them. The audit committee will also receive various reports, summaries or presentations related to cybersecurity threats, risk and mitigation.

As of the date of this report, we are not aware of any material risks from cybersecurity threats that have materially affected or are reasonably likely to materially affect us, including our business strategy, results of operations or financial condition.

PART III

ITEM 17. FINANCIAL STATEMENTS

We have elected to provide financial statements and related information pursuant to Item 18.

ITEM 18. FINANCIAL STATEMENTS

The financial statements and the related notes required by this Item are included in this Annual Report on Form 20-F beginning on page F-1.

ITEM 19. EXHIBITS.

Exhibit No.	Exhibit Description
1.1	<u>Amended and Restated Articles of Association of ParaZero Technologies Ltd. (filed as Exhibit 99.1 to our Report on Form 6-K furnished to the Securities and Exchange Commission on December 10, 2024, and incorporated herein by reference).</u>
2.1	<u>Description of Securities (filed as Exhibit 2.1 to our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 21, 2024, and incorporated herein by reference).</u>
4.1	<u>Form of Indemnification Agreement (filed as Exhibit 10.1 to our Registration Statement on Form F-1 (File No.: 333-265178) as filed with the Securities and Exchange Commission on July 1, 2022, and incorporated herein by reference).</u>
4.2#	<u>ParaZero Technologies Ltd. Global Share Incentive Plan (2022) (filed as Exhibit 10.2 to our Registration Statement on Form F-1 (File No.: 333-265178) as filed with the Securities and Exchange Commission on May 24, 2022, and incorporated herein by reference).</u>
4.3	<u>Share Purchase Agreement, dated January 28, 2022, by and among ParaZero Technologies Ltd., Delta Drone International Ltd., L.I.A Pure Capital Ltd. and other entities listed therein (filed as Exhibit 10.3 to our Registration Statement on Form F-1 (File No.: 333-265178) as filed with the Securities and Exchange Commission on May 24, 2022, and incorporated herein by reference).</u>
4.4	<u>Form of Simple Agreement for Future Equity (filed as Exhibit 10.4 to our Registration Statement on Form F-1 (File No.: 333-265178) as filed with the Securities and Exchange Commission on May 24, 2022, and incorporated herein by reference).</u>
4.5	<u>Loan Conversion Agreement, dated January 28, 2022, by and between ParaZero Technologies Ltd. and Delta Drone International Ltd. (filed as Exhibit 10.5 to our Registration Statement on Form F-1 (File No.: 333-265178) as filed with the Securities and Exchange Commission on May 24, 2022, and incorporated herein by reference).</u>
4.6	<u>Supply Agreement, dated February 2, 2022, by and between ParaZero Technologies Ltd. and Delta Drone International Ltd. (filed as Exhibit 10.6 to our Registration Statement on Form F-1 (File No.: 333-265178) as filed with the Securities and Exchange Commission on May 24, 2022, and incorporated herein by reference).</u>
4.7	<u>Loan Agreement, dated August 4, 2022, by and between ParaZero Technologies Ltd. and Xylo Technologies (f/k/a Medigus Ltd.) (filed as Exhibit 10.7 to our Registration Statement on Form F-1 (File No.: 333-265178) as filed with the Securities and Exchange Commission on September 7, 2022, and incorporated herein by reference).</u>

4.8	<u>Unsecured Credit Facility Agreement, dated October 30, 2022, by and between ParaZero Technologies Ltd. and Xylo Technologies (f/k/a Medigus Ltd.) (filed as Exhibit 10.8 to our Registration Statement on Form F-1 (File No.: 333-265178) as filed with the Securities and Exchange Commission on November 4, 2022, and incorporated herein by reference).</u>
4.9	<u>Consulting Agreement, dated October 30, 2022, by and between ParaZero Technologies Ltd. and Xylo Technologies (f/k/a Medigus Ltd.) (filed as Exhibit 10.9 to our Registration Statement on Form F-1 (File No.: 333-265178) as filed with the Securities and Exchange Commission on November 4, 2022, and incorporated herein by reference).</u>
4.10	<u>First Amendment to Unsecured Credit Facility Agreement, dated June 26, 2023, by and between ParaZero Technologies Ltd. and Xylo Technologies (f/k/a Medigus Ltd.) (filed as Exhibit 10.10 to our Registration Statement on Form F-1 (File No.: 333-265178) as filed with the Securities and Exchange Commission on June 27, 2023, and incorporated herein by reference).</u>
4.11	<u>Form of Placement Agent Agreement (filed as Exhibit 99.1 to our Report on Form 6-K furnished to the Securities and Exchange Commission on October 26, 2023, and incorporated herein by reference).</u>
4.12	<u>Form of Securities Purchase Agreement (filed as Exhibit 99.2 to our Report on Form 6-K furnished to the Securities and Exchange Commission on October 26, 2023, and incorporated herein by reference).</u>
4.13	<u>Form of Registration Rights Agreement (filed as Exhibit 99.3 to our Report on Form 6-K furnished to the Securities and Exchange Commission on October 26, 2023, and incorporated herein by reference).</u>
4.14	<u>Form of Series A and Series B Warrants (filed as Exhibit 99.4 to our Report on Form 6-K furnished to the Securities and Exchange Commission on October 26, 2023, and incorporated herein by reference).</u>
4.15	<u>Form of Pre-Funded Warrant (filed as Exhibit 99.5 to our Report on Form 6-K furnished to the Securities and Exchange Commission on October 26, 2023, and incorporated herein by reference).</u>
4.16#	<u>Compensation Policy for the Office Holders of the Company (included as Exhibit A to Exhibit 99.1 to our Report on Form 6-K furnished to the Securities and Exchange Commission on September 28, 2023, and incorporated herein by reference).</u>
4.17	<u>Form of Securities Purchase Agreement (filed as Exhibit 10.1 to our Report on Form 6-K furnished to the Securities and Exchange Commission on February 13, 2025, and incorporated herein by reference).</u>
4.18	<u>Form of Pre-Funded Warrant (filed as Exhibit 10.2 to our Report on Form 6-K furnished to the Securities and Exchange Commission on February 13, 2025, and incorporated herein by reference).</u>
4.19	<u>Form of Placement Agent Agreement (filed as Exhibit 10.3 to our Report on Form 6-K furnished to the Securities and Exchange Commission on February 13, 2025, and incorporated herein by reference).</u>
11.1*	<u>Insider Trading Policy</u>

12.1*	Certification of the Chief Executive Officer pursuant to rule 13a-14(a) of the Securities Exchange Act of 1934
12.2*	Certification of the Chief Financial Officer pursuant to rule 13a-14(a) of the Securities Exchange Act of 1934
13.1*	Certification of the Chief Executive Officer pursuant to 18 U.S.C. 1350
13.2*	Certification of the Chief Financial Officer pursuant to 18 U.S.C. 1350
15.1*	Consent of Brightman Almagor Zohar & Co., a Firm in the Deloitte Global Network.
97.1#	Clawback Policy (included as Exhibit A to Exhibit A to Exhibit 99.1 to our Report on Form 6-K filed with the Securities and Exchange Commission on September 28, 2023, and incorporated herein by reference).
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.

SIGNATURES

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

PARAZERO TECHNOLOGIES LTD.

Date: March 21, 2025

By: /s/ Boaz Shetzer
Boaz Shetzer
Chief Executive Officer

PARAZERO TECHNOLOGIES LTD.

TABLE OF CONTENTS

	Page
Report of Independent Registered Public Accounting Firm (PCAOB ID No. 1197)	F-2
Balance Sheets	F-3
Statements of Comprehensive Loss	F-5
Statements of Changes in Shareholders' Equity (Deficit)	F-6
Statements of Cash Flows	F-7
Notes to the Financial Statements	F-9



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of ParaZero Technologies Ltd.

Opinion on the Financial Statements

We have audited the accompanying balance sheets of ParaZero Technologies Ltd. (the “Company”) as of December 31, 2024 and 2023, the related statements of comprehensive loss, changes in shareholders’ equity (deficit), and cash flows, for each of the three years in the period ended December 31, 2024, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2024 and 2023, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2024, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

/s/ Brightman Almagor Zohar & Co.

Certified Public Accountants
A Firm in the Deloitte Global Network

Tel Aviv, Israel
March 21, 2025

We have served as the Company’s auditor since 2023.

PARAZERO TECHNOLOGIES LTD.
BALANCE SHEETS
(US dollars)

	<u>Note</u>	<u>December 31,</u> <u>2024</u>	<u>December 31,</u> <u>2023</u>
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		4,178,866	7,428,405
Trade receivables		114,564	22,376
Other current assets	3,4	421,919	651,560
Inventories	5	394,193	264,468
TOTAL CURRENT ASSETS		<u>5,109,542</u>	<u>8,366,809</u>
NON-CURRENT ASSETS:			
Restricted Deposit	2Z	68,001	—
Prepaid expenses, net of current portion		33,333	—
Operating lease right-of-use asset	6	418,790	8,127
Property and equipment, net	7	107,906	49,981
TOTAL NON-CURRENT ASSETS		<u>628,030</u>	<u>58,108</u>
TOTAL ASSETS		<u><u>5,737,572</u></u>	<u><u>8,424,917</u></u>

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

PARAZERO TECHNOLOGIES LTD.
BALANCE SHEETS — (Continued)
(US dollars)

	<u>Note</u>	<u>December 31, 2024</u>	<u>December 31, 2023</u>
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)			
CURRENT LIABILITIES:			
Trade payables		184,247	56,682
Operating lease liabilities	6	202,563	7,543
Other current liabilities	9	933,995	690,861
TOTAL CURRENT LIABILITIES		<u>1,320,805</u>	<u>755,086</u>
NON-CURRENT LIABILITIES:			
Derivative warrant liabilities	13A	4,511,491	1,564,773
Operating lease liabilities, net of current portion		216,917	0
TOTAL NON-CURRENT LIABILITIES		<u>4,728,408</u>	<u>1,564,773</u>
COMMITMENTS AND CONTINGENCIES			
SHAREHOLDERS' EQUITY (DEFICIT):			
Ordinary shares, NIS 0.02 par value: Authorized 200,000,000 and 25,000,000 as of December 31, 2024 and December 31, 2023; Issued and outstanding 12,817,092 and 10,073,956 shares as of December 31, 2024 and as of December 31, 2023, respectively	10A	72,061	56,227
Additional paid-in capital		29,093,585	24,471,888
Accumulated losses		(29,477,287)	(18,423,057)
TOTAL SHAREHOLDERS' EQUITY (DEFICIT)		<u>(311,641)</u>	<u>6,105,058</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		<u>5,737,572</u>	<u>8,424,917</u>

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

PARAZERO TECHNOLOGIES LTD.
STATEMENTS OF COMPREHENSIVE LOSS
(US dollars)

	Note	Year ended December 31,		
		2024	2023	2022
Sales	11	932,154	620,508	560,118
Cost of Sales		873,861	476,610	337,565
Gross profit		58,293	143,898	222,553
Research and development expenses		2,143,353	636,801	640,328
Selling and marketing expenses		1,081,003	487,904	264,728
General and administrative expenses		2,400,000	1,472,872	766,711
Initial public offering expenses		—	345,925	389,396
Operating loss		5,566,063	2,799,604	1,838,610
Change in fair value of convertible notes	8C1	—	504,976	—
Change in fair value of derivative warrant liabilities	13A	5,688,891	277,600	—
Issuance expenses attributable to derivate warrant liability	10B	—	247,129	—
Interest expenses on related party loan	15	—	152,745	17,386
Other finance income, net		(200,724)	(210,675)	(202,958)
Net loss and comprehensive loss		11,054,230	3,771,379	1,653,038
Net loss per ordinary share, basic and diluted		0.99	0.77	0.49
Weighted-average number of ordinary shares outstanding, basic and diluted (*)		11,129,978	4,891,071	3,349,071

(*) See Note 2X.

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

PARAZERO TECHNOLOGIES LTD.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)
(US dollars)

	Ordinary shares		Additional paid-in Capital U.S. dollars	Accumulated Losses	Total
	Number of shares	Amount			
BALANCE AS OF DECEMBER 31, 2021	359,743	1,945	6,380,403	(12,998,640)	(6,616,292)
Conversion of Former Parent Company's debt into ordinary shares and warrants	3,237,699	19,511	6,403,797	—	6,423,308
Stock based compensation	—	—	91,377	—	91,377
Benefit to the Company by an equity holder with respect to funding transactions	—	—	112,715	—	112,715
Comprehensive	—	—	—	(1,653,038)	(1,653,038)
BALANCE AS OF DECEMBER 31, 2022	3,597,442	21,456	12,988,292	(14,651,678)	(1,641,930)
Stock based compensation	—	—	490,015	—	490,015
Conversion of convertible note into ordinary shares	504,976	2,734	2,017,170	—	2,019,904
Issuance of ordinary shares and warrants upon initial public offering, net of issuance costs	1,950,000	10,561	5,919,064	—	5,929,625
Issuance of ordinary shares, pre-funded warrants, and warrants upon private placement, net of issuance costs (*)	4,021,538	21,476	3,045,180	—	3,066,656
Benefit to the Company by an equity holder with respect to funding transactions	—	—	12,167	—	12,167
Comprehensive loss	—	—	—	(3,771,379)	(3,771,379)
BALANCE AS OF DECEMBER 31, 2023	10,073,956	56,227	24,471,888	(18,423,057)	6,105,058
Stock based compensation	—	—	75,357	—	75,357
Exercise of pre-funded warrants and consultants warrants (*)	1,088,590	5,792	(5,792)	—	—
Exercise of warrants A	1,654,546	10,042	4,552,132	—	4,562,174
Comprehensive loss	—	—	—	(11,054,230)	(11,054,230)
BALANCE AS OF DECEMBER 31, 2024	12,817,092	72,061	29,093,585	(29,477,287)	(311,641)

(*) Includes shares issued following a cashless exercise

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

PARAZERO TECHNOLOGIES LTD.
STATEMENTS OF CASH FLOWS
(US dollars)

	Year ended December 31,		
	2024	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	(11,054,230)	(3,771,379)	(1,653,038)
Adjustments required to reconcile net loss to net cash used in operating activities:			
Depreciation	22,814	17,087	18,495
Stock based compensation	75,357	14,815	52,286
Interest expenses with respect to funding from related party	—	112,373	12,509
Change in fair value of convertible loan	—	504,976	—
Changes in fair value of derivative liabilities	5,688,891	277,600	—
Issuance expenses attributable to derivative warrant liabilities	—	247,129	—
Inventory write-down	114,617	33,360	12,387
Foreign currency exchange differences with respect to amount due to a Former Parent Company	—	—	(243,948)
Finance expenses	689	583	4,021
Loss from exchange differences on cash and equivalents	31,579	—	—
Changes in operating assets and liabilities:			
Trade receivables, net	(92,188)	161,689	(176,863)
Other current assets	229,641	(472,020)	(96,782)
Prepaid expenses, net of current portion	(33,333)	—	—
Deferred initial public offering cost	—	—	(252,041)
Inventories	(244,343)	6,995	34,205
Operating lease right-of-use asset	135,266	48,766	(48,633)
Trade payables	127,565	9,422	10,145
Operating lease liabilities	(134,681)	(45,911)	(48,975)
Other current liabilities	243,134	(83,785)	404,597
Net cash used in operating activities	(4,889,222)	(2,938,300)	(1,971,635)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Change in restricted deposit	(68,001)	—	—
Purchase of property and equipment	(80,738)	(25,757)	(9,725)
Net cash used in investing activities	(148,739)	(25,757)	(9,725)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Cost associated with the conversion of the Former Parent Company's debt	—	—	(84,780)
Proceeds from issuance of convertible notes	—	—	1,514,928
Proceeds from exercise of warrants	1,820,001	—	—
Issuance of ordinary shares in initial public offering, net of issuance costs (Note 10c)	—	6,695,957	—
Issuance of ordinary shares, pre-funded warrants and warrants in private placement, net of issuance costs (Note 10b)	—	4,106,699	—
Receipt of loan from related party	—	245,000	500,000
Repayment of loan from related party	—	(745,000)	—
Receipt of loans from the Former Parent Company	—	—	107,994
Net cash provided by financing activities	1,820,001	10,302,656	2,038,142

PARAZERO TECHNOLOGIES LTD.
STATEMENTS OF CASH FLOWS — (Continued)
(US dollars)

	Year ended December 31,		
	2024	2023	2022
Effect of exchange rate changes on cash, cash equivalents	(31,579)		
Net (decrease) increase in cash and cash equivalents	(3,249,539)	7,338,599	56,782
Cash and cash equivalents at beginning of the year	7,428,405	89,806	33,024
Cash and cash equivalents at the end of the year	4,178,866	7,428,405	89,806
	Year ended December 31,		
	2024	2023	2022
Supplementary disclosure on cash flows:			
Cash paid for interest	—	40,000	4,876
Cash received from interest	243,618	53,804	—
Supplemental disclosure of non-cash investment and financing activities:			
Right-of-use assets obtained in exchange for operating lease liabilities	545,929	—	97,532
Conversion of the Former Parent Company's debt into ordinary shares	—	—	6,508,089
Benefit to the Company by an equity holder with respect to funding transactions	—	12,167	112,715
Conversion of convertible notes into ordinary shares	—	2,019,904	—
Stock based compensation included as issuance costs	—	475,201	39,091
Derivative warrants liabilities converted into ordinary shares	2,742,173	—	—

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

PARAZERO TECHNOLOGIES LTD.
NOTES TO FINANCIAL STATEMENTS
(US dollars)

NOTE 1 — GENERAL:

- A. PARAZERO TECHNOLOGIES LTD. (the “Company”) was incorporated in Israel on June 30, 2013. The Company’s address is 1 Hatachana, Kfar Saba, 4453001, Israel. The Company is a developer of autonomous parachute safety systems technologies for commercial and military platforms as well as for urban air mobility aircraft. Started in 2014 by a group of aviation professionals and drone industry veterans, the Company develops, manufactures, markets and sells smart, autonomous parachute safety systems designed to enable safe flight operations overpopulated areas and beyond-visual-line-of-sight, as well as for various military applications including counter-unmanned aircraft system. The Company sells its products internationally.
- B. On July 31, 2023, the Company closed the IPO. In connection with the IPO, the Company issued and sold 1,950,000 ordinary shares, par value NIS 0.02 per share, (the “Ordinary Shares”) pursuant to which it received gross proceeds of approximately \$7.8 million. The Ordinary Shares were approved for listing on the Nasdaq Capital Market (“Nasdaq”) and commenced trading under the symbol “PRZO” on July 27, 2023. For further information see Note 10C.
- C. On October 30, 2023, the Company closed the PIPE. In connection with the PIPE, the Company issued and sold 1,136,364 Ordinary Shares and issued 3,500,000 pre-funded warrants, each to purchase one Ordinary Share, pursuant to which the Company received gross proceeds of approximately \$5.1 million. In addition, the Company issued an aggregate of 4,636,364 and 140,373, series A warrants and series B warrants, respectively, to purchase Ordinary Shares. During 2023, certain warrant holders exercised 2,894,548 pre-funded warrants and 8,257 series B warrants via a cashless exercise mechanism for which investors received 2,876,957 and 8,217 Ordinary Shares, respectively.

During January, February and April 2024, certain warrant holders exercised 605,452 pre-funded warrants and 132,116 series B warrants on a cashless basis into 601,367 ordinary shares and 131,249 ordinary shares, respectively. As of December 31, 2024, all pre-funded warrants and series B warrants have been exercised.

During December 2024, certain warrant holders exercised 1,654,546 series A warrants into 1,654,546 ordinary shares accordingly. As a result of such exercise, the Company received approximately \$1.8 million. As of December 31, 2024, there were 2,981,818 series A warrants outstanding. For further information see Notes 10B.

- D. On January 28, 2022, Delta Drone International Limited (ASX: DLTI) (the “Former Parent Company”) sold its shares in the Company to a consortium of investors led by Xylo and facilitated by L.I.A. Pure Capital Ltd., an Israeli venture capital firm.
- E. The Company is in its early commercialization stage and has not yet generated significant revenue in this stage. The Company has recurring losses from operations and negative cash flows from operations since inception. The Company’s net loss and comprehensive loss for the years ended December 31, 2024, 2023, and 2022 was approximately \$11.1 million, \$3.8 million, and \$1.7 million, respectively. As of December 31, 2024, the Company had accumulated losses of approximately \$29.5, and a shareholders’ deficit of \$312 thousands.

The Company has funded its operations substantially through issuances of our equity securities in public and private offerings, including in its initial public offering in July 2023 and its private placement in October 2023, the exercises of warrants, loans from related parties, SAFEs and government grants for research and development projects received from the IIA. Considering the above, management expects that it will require additional financing in the future to fund its operations until it has generated significant revenues. As of December 31, 2024, the Company had \$4,178,866 million in cash and cash equivalents.

Following the February 2025 registered direct offering, as detailed in Note 19, by which the Company raised gross proceeds of approximately \$3.1 million, the Company’s management currently estimates that based on its operating plan, its cash position, together with anticipated revenue from existing customer pursuant to existing purchase orders, as well as projected revenue from new customer, will be sufficient to fund its current operations and satisfy its obligations through the end of the first quarter of 2026, more than 12 months from the date of issuance of these financial statements.

PARAZERO TECHNOLOGIES LTD.
NOTES TO FINANCIAL STATEMENTS
(US dollars)

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES:

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The significant accounting policies followed in the preparation of the financial statements are as follows:

A. Use of estimates

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as to disclose contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting years. On an ongoing basis, management evaluates its estimates, judgments and assumptions. Management bases its estimates, judgments and assumptions on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

B. Functional and foreign currency

The financial statements of the Company are prepared in U.S. dollars (the functional currency), which is the currency of the primary economic environment in which the entity operates. The Company has funded its operations to date through financing mainly denominated in U.S. dollars and majority of the Company’s revenues during the years ended December 31, 2024, 2023 and 2022 were denominated in U.S. dollars.

Transactions and balances that are denominated in currencies other than U.S. dollars have been remeasured into U.S. dollars in accordance with principles set forth in Accounting Standards Codification (“ASC”) 830, Foreign Currency Matters. Monetary assets and liabilities denominated other than the U.S. dollar are remeasured into U.S. dollars at the end of each reporting period using the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are measured at historical rates. Foreign currency transaction gains or losses are recorded in the statements of comprehensive loss as financing income or expenses, as appropriate.

C. Cash and cash equivalents

Cash and cash equivalents consist of cash and bank deposits with insignificant interest rate risk and original maturities of three months or less.

D. Trade receivables

Trade receivables are initially recognized at the invoiced amount less an allowance for estimated credit losses, if identified.

E. Inventories

The cost of inventories comprises all costs of purchase, and other costs incurred in bringing the inventories to their present location and condition. Inventories are stated at the lower of cost, determined by the first-in, first-out method, or market based on net realizable value. Inventories are adjusted for estimated excess and obsolescence and written down to net realizable value based upon estimates of future demand, technology developments, and market conditions.

F. Property and equipment, net

Property and equipment, net is stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis, over the useful lives of the assets at annual rates as follows:

	Years
Computers	3-7
Research and Development (“R&D”) equipment	6-7
Furniture and office equipment	14
Leasehold improvements	Shorter of economic life or remaining lease term

Depreciation expenses were \$22,814, \$17,087, and \$18,495 for the years ended December 31, 2024, 2023, and 2022, respectively.

PARAZERO TECHNOLOGIES LTD.
NOTES TO FINANCIAL STATEMENTS
(US dollars)

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES: (cont.)

G. Fair value measurement

The Company measures and discloses fair value in accordance with the Financial Accounting Standards Board (“FASB”), ASC 820, Fair Value Measurements and Disclosures (“ASC 820”). ASC 820 defines fair value, establishes a framework and gives guidance regarding the methods used for measuring fair value, and expands disclosures about fair value measurements. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, there exists a three-tier fair-value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1 — unadjusted quoted prices are available in active markets for identical assets or liabilities that the Company has the ability to access as of the measurement date.
- Level 2 — pricing inputs are other than quoted prices in active markets that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data.
- Level 3 — pricing inputs are unobservable for the non-financial asset or liability and only used when there is little, if any, market activity for the non-financial asset or liability at the measurement date. The inputs into the determination of fair value require significant management judgment or estimation. Level 3 inputs are considered as the lowest priority within the fair value hierarchy.

This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. The carrying amounts of cash and cash equivalents, trade receivables, other current assets, trade payables and other account payables approximate their fair value due to the short-term maturity of such instruments. The Company’s financial liabilities measured at fair value on a recurring basis consisted of derivative warrant liabilities as of December 31, 2024 and December 31, 2023 (level 3).

H. Initial public offering costs

Following the completion of the IPO, deferred initial public offering costs were recorded in stockholders’ equity as a reduction from gross proceeds within additional paid-in capital.

Fees attributable to the resale of existing securities that were offered together with newly issued shares in the IPO were recognized as initial public offering expenses within the statement of comprehensive loss. As of December 31, 2023 and December 31, 2022, the Company recognized initial public offering expenses of \$345,925 and \$389,396 respectively, within the statement of comprehensive loss.

I. Loans from Related Party

During fiscal years 2023 and 2022, the Company signed a Credit Facility Agreement with a related party. On the borrowing date of loans with related parties, the Company estimates the value of the benefit granted to it as the difference between the interest rate that the Company is required to pay to investors for the loans provided by them and the interest rate required to pay for similar unsecured loans to non-related parties. The value of the benefit was recorded within shareholders’ equity on the borrowing date.

PARAZERO TECHNOLOGIES LTD.
NOTES TO FINANCIAL STATEMENTS
(US dollars)

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES: (cont.)

J. Convertible notes

In accordance with *ASC 480-10, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity"*, financial instruments that have characteristics of both liabilities and equity are classified as liabilities and are initially and subsequent to issuance measured at fair value, if at inception such instruments, in the predominant scenario, may be settled either by issuing a variable number of shares that in the aggregate provide a fixed monetary value, by issuing a variable number of shares that is inversely related to changes in the fair value of the Company's share or by issuing a variable number of shares that is based on variations in an observable market or index, other than a market of index measured by reference to the fair value of the Company's share.

The Company issued convertible notes (see Note 8) to investors and related parties in 2022. Such convertible notes embodied a conditional obligation for the Company to issue a variable number of shares based on a fixed monetary amount known at inception and as such were classified as liabilities and were initially and subsequent to issuance measured at fair value.

K. Warrants classification

When the Company issues freestanding instruments, it first analyzes the provisions of the Financial Accounting Standards Board ("FASB") ASC Topic 480, *Distinguishing Liabilities from Equity* ("ASC 480") in order to determine whether the instrument should be classified as a liability, with subsequent changes in fair value recognized in the statements of comprehensive loss in each period. If the instrument is not within the scope of ASC 480, the Company further analyzes the provisions of FASB ASC Topic 815, *Derivatives and Hedging* ("ASC 815-40") in order to determine whether the instrument is considered indexed to the entity's own stock, and qualifies for classification within equity. If the provisions of ASC 815-40 for equity classification are not met, the instrument is classified as a liability, with subsequent changes in fair value recognized in the statements of comprehensive loss in each period.

L. Warranty reserve

The Company provides a one-year standard warranty for its products. The Company records a provision for the estimated cost to repair or replace products under warranty at the time of sale. Factors that affect the Company's warranty reserve include the number of units sold, historical and anticipated rates of warranty repairs and the cost per repair. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary. As of December 31, 2024 and December 31, 2023, the Company recorded under the other current liabilities line item a provision of \$12,335 and \$5,793 respectively.

M. Stock based compensation

The Company accounts for stock based compensation under ASC Topic 718, *Compensation - Stock Compensation* ("ASC 718"), which requires the measurement and recognition of compensation expense based on estimated fair values for all stock based payment awards made to employees, non-employee consultants and directors. The Company's stock based compensation plan provides for the award of stock options and restricted stock units. The Company estimates the fair value of stock options on the date of grant using the Black-Scholes option-pricing model.

PARAZERO TECHNOLOGIES LTD.
NOTES TO FINANCIAL STATEMENTS
(US dollars)

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES: (cont.)

M. Stock based compensation (cont.)

The Company recognizes compensation expenses for the value of its awards granted based on a straight-line basis over the requisite service period for each separately vesting portion of the award. Forfeitures are accounted for as they occur. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's statements of comprehensive loss.

The Black-Scholes option-pricing model requires the Company to make several assumptions, of which the most significant are the fair market value of the underlying ordinary shares, expected share price volatility and the expected option term.

Expected volatility was calculated based on the implied volatilities from market comparisons of certain publicly traded companies that operate in the same industry as the Company. The expected option term represents the period of time that options granted are expected to be outstanding. The expected option term is determined based on the simplified method in accordance with Staff Accounting Bulletin No. 110, as adequate historical experience is not available to provide a reasonable estimate. The risk-free interest rate is based on the yield from U.S. treasury bonds with an equivalent term. The term of awards to directors, officers, and consultants was based on the contractual term of the option.

The Company has historically not paid dividends and has no foreseeable plans to pay dividends. The assumptions used to determine the fair value of the stock based awards are management's best estimates and involve inherent uncertainties and the application of judgment.

O. Revenue recognition

Revenue is recognized when (or as) control of the promised goods or services is transferred to the customer, and in an amount that reflects the consideration the Company is contractually due in exchange for those services or goods. 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) the Company satisfies its performance obligations.

Performance obligations are satisfied over time if one of the following criteria is met: (a) the customer simultaneously receives and consumes the benefits provided by the Company's performance; (b) the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the Company's performance does not create an asset with an alternative use for the Company and the Company has an enforceable right to payment for performance completed to date. If a performance obligation is not satisfied over time, a Company satisfies the performance obligation at a point in time.

The Company's revenues consist mainly of sales of drone safety systems ("products") with a one-year warranty, directly to system manufactures, resellers and an online store.

The Company recognizes revenue from the sale of products at the point of time when control is transferred to its customers. Once the products have been physically delivered to the agreed location, the Company no longer has physical possession but has a present right to receive payment without retaining any significant risks or benefits.

PARAZERO TECHNOLOGIES LTD.
NOTES TO FINANCIAL STATEMENTS
(US dollars)

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES: (cont.)

O. Revenue recognition (cont.)

The products include warranties that require the Company to either replace or repair defective products during the warranty period if the products fail to comply with their described specifications. Such warranties are not accounted for as separate performance obligations and hence no revenue is allocated to them. Instead, a provision is made for the costs of satisfying the warranties.

The Company assesses the performance obligations in its contracts. Contracts consisting of supply of products and/or design services were identified as having a single performance obligation that is satisfied once the product is delivered to the customer

Revenues from development and customization contracts in which the performance obligation is satisfied over time are recognized over the duration of contract and commensurate with the progress of services. The Company measures the progress of services using the input method, based on the effort expended relative to the estimated total effort to satisfy the performance obligation.

P. Cost of sales

Cost of sales consists primarily of expenses related to the purchase of materials of products sold, royalties, warranty costs, salary and related expenses.

Q. Research and development cost

Research and development expenses consist primarily of payroll, payroll related expenses, subcontractors, and materials. Costs are expensed as incurred.

R. Leases

The Company accounts for leases in accordance with ASC 842 “*Leases*.” Arrangements that are determined to be leases at inception are recognized as right-of-use operating lease assets and lease liabilities in the balance sheets at lease commencement. Operating lease liabilities are recognized based on the present value of the future lease payments over the lease term at commencement date. As the rate implicit in the Company’s leases are not readily determinable, the Company applies its incremental borrowing rate based on the economic environment at the commencement date in determining the present value of future lease payments. Lease terms may include options to extend the lease when it is reasonably certain that the Company will exercise that option. Lease expense for operating leases or payments are recognized on a straight-line basis over the lease term.

The Company has elected the practical expedient to include lease and non-lease components as a single lease component. Additionally, the Company has made a policy election not to recognize operating lease right-of- use assets and lease liabilities on leases with original terms of 12 months or less.

Payments for variable lease costs are expensed as incurred and are not included in the operating lease ROU assets and lease liabilities.

In accordance with ASC 360-10, management reviews operating lease assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable based on estimated future undiscounted cash flows. If so indicated, an impairment loss would be recognized for the difference between the carrying amount of the asset and its fair value.

S. Income taxes

The Company accounts for income taxes in accordance with ASC 740 (Income Taxes) (“ASC 740”). Deferred taxes are determined utilizing the assets and liabilities method, which is based on the estimated future tax effects of the differences between the financial accounting and tax bases of assets and liabilities under the applicable tax laws. Deferred tax balances are computed using the tax rates expected to be in effect when those differences reverse.

PARAZERO TECHNOLOGIES LTD.
NOTES TO FINANCIAL STATEMENTS
(US dollars)

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES: (cont.)

S. Income taxes (cont.)

A valuation allowance in respect of deferred tax assets is provided if, based upon the weight of available evidence, it is more likely than not that some or all the deferred tax assets will not be realized. The measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realized. As of December 31, 2024 and 2023, the Company recorded a full valuation allowance against its deferred tax assets.

The Company applies ASC 740, which clarifies the accounting and reporting for uncertainties with respect to income taxes. ASC 740 prescribes a comprehensive model for the financial statement recognition, measurement, presentation, and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. As of December 31, 2024 and 2023, no liability for uncertain tax positions were recorded.

T. Severance pay

Israeli labor law generally requires payment of severance pay upon dismissal of an employee or upon termination of employment in certain other circumstances. All of the Company's employees are covered under Section 14 of the Severance Pay Law, 1963 ("Section 14"). Pursuant to Section 14, the Company's employees are entitled to monthly deposits, at a rate of 8.33% of their monthly salary, made in their name with insurance companies. Payments in accordance with Section 14 relieve the Company from any future severance payments in respect of those employees.

U. Commitments and contingencies

Liabilities for loss contingencies arising from claims, assessments, litigations, fines and penalties and other sources are recognized in accordance with ASC No. 450, "*Contingencies*" when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated.

V. Basic and diluted loss per share

Loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year. Diluted loss per share is computed by dividing the net loss by the weighted average number of ordinary shares outstanding together with the number of additional ordinary shares that would have been outstanding if all potentially dilutive ordinary shares had been issued. Since the Company was in a loss position for the periods presented, basic net loss per share is the same as diluted net loss per share since the effects of potentially dilutive securities are antidilutive. The total potentially dilutive securities outstanding as of December 31, 2024 and 2023 were 3,853,505 and 6,452,491 respectively.

W. Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily cash and cash equivalents. The Company is exposed to credit risk in the event of default by the financial institutions to the extent of the amounts recorded on the accompanying balance sheets exceed federally insured limits. The Company places its cash and cash equivalents with two financial institutions with high-quality credit ratings in Israel and has not experienced any losses in such accounts.

PARAZERO TECHNOLOGIES LTD.
NOTES TO FINANCIAL STATEMENTS
(US dollars)

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES: (cont.)

X. Restricted Deposits

The restricted deposits consist of funds that are contractually restricted as to usage or withdrawal due to guarantees made with regard to lease payments for the Company's office space. The bank deposit bears an annual interest rate of 4%. See note 7 for additional information regarding this lease.

Y. Recently adopted accounting pronouncements

As an emerging growth company, the Jumpstart Our Business Startup Act of 2012 (the "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.

1. Derivatives and Hedging

In August 2020, FASB issued ASU 2020-06, "Debt-Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging- Contracts in Entity's Own Equity (Subtopic 815-40)." The amendments in this update affect entities that issue convertible instruments and/or contracts in an entity's own equity. For convertible instruments, the instruments primarily affected are those issued with beneficial conversion features or cash conversion features because the accounting models for those specific features are removed. This ASU became effective for the Company starting on January 1, 2024. There was no material impact on these financial statements as a result of adopting this ASU.

2. Segment Reporting

In November 2023, the FASB issued ASU 2023-07, "Segment Reporting (Topic 280)", Improvements to Reportable Segment Disclosures to improve reportable segment disclosure requirements through enhanced disclosures about significant segment expenses on an interim and annual basis. All disclosure requirements of ASU 2023-07 are required for entities with a single reportable segment. ASU 2023-07 became effective starting January 1, 2024, and was applied on a retrospective basis to all periods presented. The Company has adopted this standard for the fiscal year 2024 annual financial statements and interim financial statements thereafter. See Note 16 for further information.

Z. Recently issued accounting pronouncements

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740) – "Improvements to Income Tax Disclosures". The ASU requires that an entity disclose specific categories in the effective tax rate reconciliation as well as provide additional information for reconciling items that meet a quantitative threshold. Further, the ASU requires certain disclosures of state versus federal income tax expense and taxes paid. The amendments in this ASU are required to be adopted starting January 1, 2025. Early adoption is permitted, and the amendments should be applied on a prospective basis. The Company is currently evaluating the effect of adopting ASU on its disclosures.

In November 2024, the FASB issued ASU 2024-03, "Income Statement-Reporting Comprehensive Income-Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses" ("ASU 2024-03"), which requires the disaggregation of certain expenses in the financial statements notes, to provide enhanced transparency into the expense captions presented on the face of the consolidated statement of operations. ASU 2024-03 is effective for annual reporting periods beginning January 1, 2027 and interim periods beginning January 1, 2028 and may be applied either prospectively or retrospectively. The Company is currently evaluating the impact that ASU 2024-03 will have on its related disclosures, and the transition method

PARAZERO TECHNOLOGIES LTD.
NOTES TO FINANCIAL STATEMENTS
(US dollars)

NOTE 3 — OTHER CURRENT ASSETS:

	December 31	
	2024	2023
Governmental institutions	33,972	233,501
Prepaid expenses	322,198	349,632
Deferred contract costs	57,392	68,427
Other current assets	8,357	—
Total	421,919	651,560

NOTE 4 — DEFERRED COSTS AND DEFERRED REVENUES

	December 31	
	2024	2023
Deferred contract costs	57,392	68,427
Deferred Revenues	142,340	201,762

Total Change in deferred contract costs

	December 31	
	2024	2023
Balance at the beginning of the year	68,427	—
Contract costs recognized during the period	(68,427)	
Contract costs relating to new sales	57,392	68,427
Balance at the end of the year	57,392	68,427

Total Change in deferred revenues

	December 31	
	2024	2023
Balance at the beginning of the year	201,762	185,002
Deferred revenue relating to new sales	104,450	163,872
Revenue recognized during the year	(163,872)	(147,112)
Balance at the end of the year	142,340	201,762

Remaining Performance Obligations (“RPO”) represents contracted revenue that has not yet been recognized, which includes deferred revenue and amounts that will be recognized as revenue in future periods. As of December 31, 2024, the total RPO amounted to \$432,400, which the Company expects to recognize in the future.

NOTE 5 — INVENTORIES:

	December 31	
	2024	2023
Raw materials	343,240	261,192
Finished goods	50,953	3,276
Total	394,193	264,468

For the years ended December 31, 2024, 2023 and 2022, the Company wrote off inventory in the amount approximately \$115 thousand, \$33 thousand and \$12 thousand, respectively, to cost of sales of specific inventory items that can no longer be used due to technological obsolescence as the market has introduced new drones. As of December 31, 2024 and December 31, 2023 the outstanding accrual for obsolescence inventory were \$148 thousand and \$33 thousand, respectively.

PARAZERO TECHNOLOGIES LTD.
NOTES TO FINANCIAL STATEMENTS
(US dollars)

NOTE 6 — LEASES:

On February 1, 2024, the Company entered into a three-year lease agreement commencing on March 15, 2024 (the “Lease Agreement”), to move its corporate headquarters, including the offices and research and development facility, to 1 Hatahana Street, Menivim Tower, Kfar Saba 4453001 Israel where it occupies approximately 6,340 square feet, plus an additional storage space of approximately 260 square feet and 12 parking spaces. The Company completed the move to the new corporate headquarters in March 2024. The monthly aggregate rental payment is NIS 71,000 plus VAT, as required under Israeli law. At the end of the term, the Company has an option to extend the lease for an additional three years. In addition, the Company provided a bank guarantee in the amount of approximately NIS 257,680 (approximately \$68,603) to the Company’s landlords as part of the Lease Agreement.

Previously, the Company had a two-year lease agreement for its office in Kiryat Ono, Israel that began in 2020, and was renewed in 2022 for an additional two years that ended in February 2024 and further extended by one month that ended in March 2024. The facility occupied approximately 2,100 square feet and the annual lease payment was approximately \$50 thousand.

The Company’s lease expenses were as follows:

	Year ended December 31,		
	2024	2023	2022
Lease expense	\$ 198,625	\$ 45,891	\$ 47,425

Other information related to operating leases as follows:

	December 31,		
	2024	2023	2022
Weighted-average remaining lease term — operating leases (years)	2.2	0.166	1.166
Weighted-average discount rate — operating leases (%)	11.54	6.00	6.00

Undiscounted maturities of operating lease payments are summarized as follows:

	December 31, 2024
2025	\$ 211,193
2026	\$ 211,193
2027	\$ 43,998
Total undiscounted cash flows	\$ 466,384
Less: imputed interest	\$ 46,904
Operating lease liabilities	\$ 419,480

PARAZERO TECHNOLOGIES LTD.
NOTES TO FINANCIAL STATEMENTS
(US dollars)

NOTE 7 — PROPERTY AND EQUIPMENT, NET:

	Leasehold improvements	Computers	Furniture and office equipment	R&D equipment	Total
Cost:					
Balance as of January 1, 2023	94,805	15,297	30,596	—	140,698
Additions during the year	—	9,037	677	16,043	25,757
Balance as of December 31, 2023	94,805	24,334	31,273	16,043	166,455
Additions during the year	12,222	33,460	32,109	2,947	80,738
Disposals during the year	(8,970)				(8,970)
Balance as of December 31, 2024	98,057	57,794	63,382	18,990	238,223
Accumulated depreciation:					
Balance as of January 1, 2023	83,429	5,360	10,598	—	99,387
Additions during the year	9,490	4,026	2,548	1,023	17,087
Balance as of December 31, 2023	92,919	9,386	13,146	1,023	116,474
Additions during the year	4,096	12,748	3,299	2,671	22,814
Disposals during the year	(8,971)				(8,971)
Balance as of December 31, 2024	88,044	22,134	16,445	3,694	130,317
Net book value:					
As of December 31, 2024	<u>10,013</u>	<u>35,660</u>	<u>46,937</u>	<u>15,296</u>	<u>107,906</u>
As of December 31, 2023	<u>1,886</u>	<u>14,948</u>	<u>18,127</u>	<u>15,020</u>	<u>49,981</u>

NOTE 8 — CONVERTIBLE NOTES:

In February, March and May 2022, the Company entered into certain SAFEs, as further amended in July 2023, with certain investors including related parties, officers and directors. As of December 31, 2022, the Company had received approximately \$1,514,928 (such amount for each investor, the “Investment Amount”). The SAFEs provided for the conversion of the Investment Amount into the Company’s Ordinary Shares under certain circumstances:

1. Upon the occurrence of an initial public offering-event immediately prior to the closing of such initial public offering of the Company, the Investment Amount automatically converted into such number of Ordinary Shares and warrants, as applicable, issued in the initial public offering equal to the initial public offering price discounted by 25%.
2. Optional conversion following a written notice made at investor’s sole discretion equal to the purchase amount discounted by 20%.
3. In the event of liquidity event and dissolution event.
4. Mandatory conversion upon drop date — If the Investment Amount had not been converted prior to October 31, 2023 (the “Drop Date”), then on such Drop Date, the SAFE would have been automatically converted into such number of the most senior class of equity shares of the Company then outstanding, equal to, the Investment Amount, divided by the lowest price per share actually paid to the Company for such most senior class of equity shares of the Company then outstanding in an investment transaction by a third party on or after January 1, 2022, discounted by 20%. If such investment transaction did not occur by January 1, 2022, then the SAFE would have automatically converted into such number of the most senior class of equity shares of the Company then outstanding, equal to, the Investment Amount, divided by AUD3.313 (approximately \$2.30) (subject to any customary adjustments for share splits and consolidations).

PARAZERO TECHNOLOGIES LTD.
NOTES TO FINANCIAL STATEMENTS
(US dollars)

NOTE 8 — CONVERTIBLE NOTES: (cont.)

As the conversion rate was not indexed to the Company's share price, the Company accounted for the SAFEs as a liability which subsequently measured at fair value.

On July 31, 2023, following the closing of the IPO, the aggregate amount of \$1,514,928 received under the SAFE, was converted at a price equal to the IPO price discounted by 25%, into 504,976 Ordinary Shares of the Company. The Company recorded a finance expense of \$0 and \$504,976 for the years ended December 31, 2024 and 2023 with respect to the change in the fair value of the SAFEs upon conversion respectively.

NOTE 9 — OTHER CURRENT LIABILITIES:

	December 31	
	2024	2023
Employees, salaries and related liabilities	447,161	195,509
Deferred Revenue	142,340	201,762
Warranty provision	12,335	5,793
Advances from customers	46,134	
Accrued expenses	272,819	287,797
Other payables	13,206	-
	933,995	690,861

NOTE 10 — SHAREHOLDERS' EQUITY (DEFICIT):

A. SHARE CAPITAL

The Ordinary Shares entitle their holders: to receive notices of, and to attend, general meetings where each Ordinary Share shall have one vote for all purposes; to share distributions as may be declared by the board of directors of the Company (the "Board of Directors") and approved by the shareholders, if required; and, upon liquidation or dissolution — to participate in the distribution of the assets of the Company after payment of all debts and other liabilities of the Company, in accordance with the terms of the Company's Articles of Association (the "Articles of Association").

On July 24, 2024, at a meeting of the Company's shareholders, the Company's shareholders resolved to approve a reverse share split of the Company's issued and outstanding ordinary shares NIS 0.02 par value each, in the range of a ratio between 1:5 and 1:20, such that, depending on the ratio, every five ordinary shares and up to twenty ordinary shares shall be converted into one ordinary share with such par value to be adjusted proportionally, to be effected at the discretion of, and at such ratio and on such date to be determined by the Board of Directors, but not later than July 24, 2025, and to approve conforming amendments to the Company's Articles of Association to reflect such reverse share split. As of the date of these financial statements, the Company has not effected a reverse share split of its issued and outstanding ordinary shares.

B. PRIVATE PLACEMENT

On October 26, 2023, the Company entered into the PIPE with certain accredited investors for aggregate gross proceeds of approximately \$5.1 million, before deducting fees to the placement agent and other expenses payable by the Company (the "issuance expenses") of \$975,811. The PIPE closed on October 30, 2023.

As part of the PIPE, the Company issued an aggregate of (i) 1,136,364 Ordinary Shares, (ii) 3,500,000 pre-funded warrants each to purchase one Ordinary Share at an exercise price of \$0.005 and, (iii) series B warrants convertible into an aggregate of up to 140,373 Ordinary Shares at an exercise price \$0.005 (following the end of an adjustment period as further described below).

Additionally, the Company issued 4,636,364 series A warrants each to purchase one Ordinary Share at an exercise price of \$1.10 per Ordinary Share (subject to customary adjustments and certain anti-dilution adjustments) and were immediately exercisable for a period of 5.5 years from the date of issuance.

The number of Ordinary Shares issuable under the series B warrant was initially subject to an adjustment determined by the trading price of the Ordinary Shares following the effectiveness of a resale registration statement (the "Resale Registration Statement") (see below) that the Company undertook to file, subject to a pricing floor of \$0.50 per Ordinary Share, such that the maximum number of Ordinary Shares underlying the series B warrants would have been an aggregate of 5,563,638 shares.

PARAZERO TECHNOLOGIES LTD.
NOTES TO FINANCIAL STATEMENTS
(US dollars)

NOTE 10 — SHAREHOLDERS' EQUITY (DEFICIT): (cont.)

B. PRIVATE PLACEMENT (cont.)

Following the effectiveness of the Resale Registration Statement, on December 14, 2023, the number of Ordinary Shares underlying the series B warrants was adjusted to an aggregate of 140,373 Shares. Subsequent to such adjustment, the series B warrants have substantially the same terms as the pre-funded warrants.

During December 2023, certain warrant holders exercised 2,894,548 pre-funded warrants and 8,257 series B warrants via a cashless exercise mechanism for which they received 2,876,957 and 8,217 Ordinary Shares respectively.

During January 2024, certain warrant holders exercised 605,452 pre-funded warrants and 132,116 series B warrants via a cashless mechanism for which they received 601,367 and 131,249 Ordinary Shares, respectively. Following the above exercises, there were no outstanding pre-funded warrants or series B warrants.

During December 2024, certain warrant holders exercised 1,654,546 series A warrants into 1,654,546 shares and paid to the company approximately \$1.8 million. As of December 31, 2024, 2,981,818 series A warrants were outstanding.

The series A warrants have certain features that preclude equity classification; therefore, the series A warrants were accounted for as derivative warrant liabilities recorded at fair value, see note 13.

The PIPE proceeds were first allocated to the derivative warrant liabilities based on its fair value of \$1,287,173 at the date of issuance with the remaining proceeds allocated to the equity instruments in the amount of \$3,795,338, prior to the allocation of issuance expenses (\$3,066,656 net of issuance expenses).

The Company expensed a portion of the issuance expenses attributable to the derivative warrant liabilities. Such portion which amounted to \$247,129 was determined based on the proportion of the fair value of the derivative warrant liabilities on the issuance date to gross proceeds from the PIPE and recorded in the statement of comprehensive loss for the year ended December 31, 2023.

C. IPO

On July 31, 2023, the Company issued and sold in connection with the closing of the IPO 1,950,000 Ordinary Shares at a price to the public of \$4.00 per share. In addition, the Company granted the underwriters a 45-day option to purchase up to 292,500 additional ordinary shares at the initial price to the public, less underwriting discounts and commissions, to cover over-allotments. The 45-day option was not exercised by the underwriters.

In connection with the IPO, the Company received gross proceeds of approximately \$7.8 million before deducting underwriting discounts and commissions and before offering expenses (\$5.8 million net proceeds after deducting approximately \$0.8 million of underwriting discounts and commissions and approximately \$1.2 million of other offering costs).

The Ordinary Shares were approved for listing on the Nasdaq Capital Market and commenced trading under the symbol "PRZO" on July 27, 2023.

In connection with the closing of the IPO, the following transactions took place:

- 1) All of the SAFEs representing an aggregate amount of \$1,514,928 were converted into 504,976 Ordinary Shares of the Company. The fair value of the SAFEs prior to the conversion was \$2,019,904. See Note 8 above.
- 2) The Company issued warrants to the underwriters to purchase up to an aggregate of 97,500 Ordinary Shares at an exercise price of \$5.00 per share, exercisable during the five-year period commencing on the date that is six months from July 31, 2023. The fair value of the warrants issued to the underwriters of \$93,600 was accounted for as an issuance cost charged to equity.
- 3) The Company repaid the used credit facility received from a related party in an aggregate amount of \$745 thousand. See Note 15.

PARAZERO TECHNOLOGIES LTD.
NOTES TO FINANCIAL STATEMENTS
(US dollars)

NOTE 10 — SHAREHOLDERS' EQUITY (DEFICIT): (cont.)

C. IPO (cont.)

- 4) During 2022, the Company entered into a consulting agreement with two consultants by which the Company would issue 179,510 warrants to each consultant upon the consummation of a qualified equity transaction. Each whole warrant would be exercisable to purchase one Ordinary Share of the Company, at an exercise price equal to the par value of the Company's Ordinary Shares (NIS 0.02 or approximately \$0.00555 per Ordinary Share), which may be paid also via cashless exercise at any time after the six-month anniversary of the grant date exercisable until August 9, 2028. The warrants were issued upon the consummation of the IPO and were fully vested on the issuance date and are exercisable at any time and from time to time, in whole or in part for a period of five years from the date of their grant. Considering the de-minimis exercise price, the fair values of the warrants were determined, taking into consideration the ordinary share price on the grant date and likelihood of attaining the performance condition.

The total grant date fair value of the warrants was \$387,660 thousand which was fully expensed upon the completion of the IPO.

Total stock-based compensation expenses for the period ended December 31, 2022 was \$91,377 of which \$39,091 was capitalized within deferred initial public offering cost. For the year ended December 31, 2023, the Company incurred \$296,283 of stock-based compensation expenses that was recorded as an issuance cost within shareholders' equity net of the IPO proceeds.

During April 2024, the consultants exercised 359,020 warrants via a cashless mechanism for which they received 355,974 Ordinary Shares.

- 5) The Company issued to its advisor 144,606 warrants, with each whole warrant exercisable for one Ordinary Share at an exercise price of \$1.275 per Ordinary Share, which may be paid also via cashless exercise at any time after the six-month anniversary of the grant date, exercisable until September 20, 2028. The fair value of the warrants of \$85,318 was recorded as an issuance cost

D. On October 2, 2022, the Board of Directors approved the issuance of 672,691 bonus Ordinary Shares to the holders of the Company's Ordinary Shares on a basis of 0.23 bonus shares for each Ordinary Share outstanding (equivalent to a 1.23-for-1 forward share split of the Company's Ordinary Shares effected through the amendment to the Company's Articles of Association. All share amounts and instruments convertible into common shares prior to the date of the share split have been retroactively restated for all periods presented.

E. On September 25, 2022, the Company's shareholders meeting approved the increase of the registered share capital of the Company by NIS 400,000, consisting of 20,000,000 Ordinary Shares, effective as of immediately before the IPO, such that immediately following such increase, the registered share capital of the Company was NIS 500,000 consisting of 25,000,000 Ordinary Shares of the Company.

F. On June 26, 2022, the shareholders of the Company approved a 1-for-2 reverse stock split of the Company's Ordinary Shares, pursuant to which holders of Ordinary Shares received one Ordinary Share, par value NIS 0.02, for every two ordinary shares, par value NIS 0.01, held before the reverse stock split. All share amounts and instruments convertible into Ordinary Shares prior to the date of the reverse share split have been retroactively restated for all periods presented.

PARAZERO TECHNOLOGIES LTD.
NOTES TO FINANCIAL STATEMENTS
(US dollars)

NOTE 10 — SHAREHOLDERS' EQUITY (DEFICIT): (cont.)

G. On May 23, 2022, the Board of Directors approved the issuance of 4,178,206 bonus Ordinary Shares to the holders of our Ordinary Shares on a basis of 2.5 bonus Ordinary Shares for each Ordinary Share outstanding (equivalent to a 3.5-for-1 forward share split of the Company's Ordinary Shares) effected through the amendment to the Company's Articles of Association. All share amounts and instruments convertible into Ordinary Shares prior to the date of the share split have been retroactively restated for all periods presented.

H. On January 23, 2024, at a meeting of the Company's shareholders, the Company's shareholders resolved to increase the Company's registered share capital of the Company by NIS 3,500,000, such that immediately following such increase, the registered share capital of the Company was NIS 4,000,000 consisting of 200,000,000 Ordinary Shares of the Company.

I. On August 9, 2024, the Company filed a Shelf Registration Statement on Form F-3 (the "Form F-3") with the Securities and Exchange Commission (the "SEC") for the registration under the Securities Act of 1933, as amended (the "Act"), of such indeterminate number of ordinary shares, warrants to purchase ordinary shares, and units, in one or more offerings for an aggregate initial offering price of up to \$50,000,000 on Form F-3. The Form F-3 was declared effective by the SEC on August 16, 2024. As of December 31, 2024, the Company did not utilize the Form F-3.

NOTE 11 — REVENUE

The company implemented standard ASC 606 and recognized revenues according to the following table:

ASC 280, "Segment Reporting," establishes standards for reporting information about operating segments. The Company manages its business based on one operating segment, as described in Note 1.

a. Disaggregation of revenue

	Year ended December 31,		
	2024	2023	2022
Revenues at a point in time	894,354	620,508	560,118
Revenues recorded overtime	37,800		
Total Revenue	932,154	620,508	560,118

In 2024, the company revenues from Customer A accounted to more than 10% of total revenues of the Company for the respective year.

In 2024, customers from United States and Israel generated more than 10% each from Company's total revenue.

NOTE 12 — STOCK-BASED COMPENSATION:

The Company's Global Share Incentive Plan (2022) (the "Plan") was adopted by the Board of Directors on March 28, 2022. The Plan provides for the grant of options to purchase Ordinary Shares, restricted share units representing Ordinary Shares and Ordinary Shares (collectively, the "Awards") to the Company's employees, officers, directors, advisors and consultants.

PARAZERO TECHNOLOGIES LTD.
NOTES TO FINANCIAL STATEMENTS
(US dollars)

NOTE 12 — STOCK-BASED COMPENSATION: (cont.)

As of December 31, 2024, the total number of Ordinary Shares reserved for issuance under the Plan is 610,156 Ordinary Shares and 91,836 Ordinary Shares remain available for future awards under the Plan. Ordinary Shares subject to Awards granted under the Plan that expire, are forfeited or otherwise terminated without having been exercised in full will become available again for future grant under the Plan.

On September 20, 2023, the Board of Directors approved the grant of an aggregate of 366,172 options to purchase Ordinary Shares to certain employees and directors. Options granted to certain officers and directors require shareholder approval which was obtained in a shareholder general meeting on November 2, 2023. The exercise price of such options is \$1.275 per Ordinary Share, exercisable for a period of 5 years from the grant date. Such options vest over four years, commencing on September 20, 2023 ("Vesting Commencement Date"), where 50% of the amount granted vests at the second anniversary of the Vesting Commencement Date, and the remainder shall vest on a quarterly basis, 6.25% of the number of the options commencing on the second anniversary of the Vesting Commencement Date. The fair value of this grant was \$307,429 calculated using the Black Scholes option pricing model.

On July 30, 2024, the Board of Directors approved the grant of an aggregate of 112,807 options to purchase ordinary shares to certain employees and consultants of the Company. All options may be exercised within 5 years from the date of their grant and are subject to a four-year vesting schedule with a two-year cliff such that 50% of the options shall vest at the completion of two years from the approval of the grant by the Board of Directors, and afterward, 6.25% shall vest upon completion of each three month period of continuous employment or services for the remaining two-year vesting period. The exercise price of the options is \$1.275 per ordinary share. All the other terms of the grant of the options shall be as set forth in the Plan. The fair value of this grant was \$38,319 calculated using the Black Scholes option pricing model.

On October 9, 2024, the Board of Directors approved the grant of an aggregate of 78,682 options to purchase ordinary shares to certain employees and consultants of the Company. All options may be exercised within 5 years from the date of their grant and are subject to a four-year vesting schedule with a two-year cliff such that 50% of the options shall vest at the completion of two years from the approval of the grant by the Board of Directors, and afterward, 6.25% shall vest upon completion of each three month period of continuous employment or services for the remaining two-year vesting period. The exercise price of the options is \$1.275 per ordinary share. All the other terms of the grant of the options shall be as set forth in the Plan. The fair value of this grant was \$24,287 calculated using the Black Scholes option pricing model.

On December 11, 2024, the Board of Directors approved the grant of an aggregate of 36,315 options to purchase ordinary shares to an employee of the Company. All options may be exercised within 5 years from the date of their grant and are subject to a four-year vesting schedule with a two-year cliff such that 50% of the options shall vest at the completion of two years from the approval of the grant by the Board of Directors, and afterward, 6.25% shall vest upon completion of each three month period of continuous employment or services for the remaining two-year vesting period. The exercise price of the options is \$1.275 per ordinary share. All the other terms of the grant of the options shall be as set forth in the Plan. The fair value of this grant was \$33,246 calculated using the Black Scholes option pricing model. In addition, on December 11, 2024, the Board of Directors approved the grant of 15,131 options to a newly appointed director, which grant is subject to the approval of the Company shareholders.

PARAZERO TECHNOLOGIES LTD.
NOTES TO FINANCIAL STATEMENTS
(US dollars)

NOTE 12 — STOCK-BASED COMPENSATION: (cont.)

A summary of the stock option activity for the year ended December 31, 2024 is as follows:

	Number of Options	Weighted Average Exercise Price
Options outstanding as of December 31, 2022	-	-
Granted	366,172	\$ 1.275
Options outstanding as of December 31, 2023	366,172	\$ 1.275
Granted	227,804	\$ 1.275
Forfeited	(75,656)	\$ 1.275
Options outstanding as of December 31, 2024	518,320	\$ 1.275
Options exercisable as of December 31, 2024	-	-

As of December 31, 2024, the weighted-average remaining contractual life of the outstanding options was 4.2 years.

The Company used the Black-Scholes option-pricing model to determine the fair value of options granted during 2024. The following assumptions were applied in determining the options' fair value on their grant date:

	2024	2023
Risk-free interest rate	3.9% - 4.11%	4.51% - 4.67%
Expected option term (years)	3.8 - 5	3.8 - 5
Expected share price volatility	77.3% - 84.3%	61.1% - 66.3 %

As of December 31, 2024, the Company had 518,320 unvested options. As of December 31, 2024, the unrecognized compensation cost related to all unvested options of \$263,271 is expected to be recognized as an expense on a straight-line basis over a weighted-average period of 3.1 years. The intrinsic value of the options that vested as of December 31, 2024 was \$0.

A summary of the stock option expenses for the year ended December 31, 2024 and 2023 is as follows:

	2024	2023
Cost of Sales expenses	1,520	350
Research and development expenses	17,169	2,882
Selling and marketing expenses	4,617	2,066
General and administrative expenses	52,051	9,517
Total	75,357	14,815

NOTE 13 — WARRANTS:

A. Derivatives warrant liabilities

As part of the PIPE the Company issued to accredited investors Units each consisting of (i) one Ordinary Share or pre-funded warrant, (ii) one series A warrant and (iii) one series B warrant, see Note 10B above. The terms of the series A warrants issued include certain features that preclude equity classification; therefore, they were classified as liabilities with changes in fair value recognized in profit or loss. Additionally, the terms include a cashless exercise provision and repricing provisions, under certain circumstances.

PARAZERO TECHNOLOGIES LTD.
NOTES TO FINANCIAL STATEMENTS
(US dollars)

NOTE 13 — WARRANTS: (cont.)

A. Derivatives warrant liabilities (cont.)

The fair value of the series A warrants issued in the PIPE at the time of the initial closing, which took place on October 30, 2023, was calculated by an independent valuation expert, performing numerous iterations using the Black–Scholes option price model and were in the following dates (as per level 3 hierarchy):

	2023	2024
Expected volatility (%)	55.08% - 60.24%	80.84% - 83.21%
Risk-free interest rate (%)	3.85% - 4.99%	4.08% - 4.34%
Expected Life (years)	2-5.33	1.89 - 4.39
Value per share	\$0.59 - \$0.71	\$1.53 - \$2.48
Exercise price (U.S. dollars per share)	\$1.1	\$1.1

The following table sets forth the changes in the number of outstanding series A warrants during the year ended December 31, 2024:

Balance as of December 31, 2022	-
Issuance of warrants - October 2023	4,636,364
Balance as of December 31, 2023	4,636,364
Exercise of warrants	1,654,546
Balance as of December 31, 2024	2,981,818

The following table sets forth the fair value changes in US dollar of the series A warrants during the year ended December 31, 2024:

Balance as of December 31, 2022	-
Initial measurement	1,287,173
Change in fair value	277,600
Balance as of December 31, 2023	1,564,773
Change in fair value	5,688,891
Exercise of warrants*	(2,742,173)
Balance as of December 31, 2024	4,511,491

* See note 10B

PARAZERO TECHNOLOGIES LTD.
NOTES TO FINANCIAL STATEMENTS
(US dollars)

NOTE 13 — WARRANTS: (cont.)

B. Equity warrant

During April 2024, certain consultants exercised 359,020 warrants via a cashless exercise mechanism for which they received 355,974 ordinary shares.

As of December 31, 2024, the remaining outstanding equity warrants are summarized in the table below:

Issuance date	In connection with	No. of warrants issued	Exercise price per share	No. of Ordinary shares underlying warrants
2022*	Delta Drone Warrants	111,261	\$ 4.00	111,261
2023**	IPO Underwriter Warrants	97,500	\$ 5.00	97,500
2023****	IPO Consultant Warrants	144,606	\$ 1.275	144,606

* see Note 13B

** see Note 10C2)

**** see Note 10C5)

PARAZERO TECHNOLOGIES LTD.
NOTES TO FINANCIAL STATEMENTS
(US dollars)

NOTE 14 — COMMITMENTS AND CONTINGENCIES:

A. Israel Innovation Authority:

The Company has received royalty-bearing grants from the Israel Innovation Authority (the “IIA”), for approved research and development projects. The programs include grants for: wages, materials, subcontractors and miscellaneous. The Company is required to pay royalties at the rate of 3%-3.5% depending on meeting certain conditions on sales of the products developed with the funds provided by the IIA, up to an amount equal to 300% of the IIA research and development grant received, depending upon the manufacturing volume that is performed outside of Israel, indexed to the U.S. dollar and bearing interest. Until December 31, 2023, the interest was calculated at a rate based on an annual application of the London Interbank Offered Rate, or the LIBOR, applicable to U.S. dollar deposits, however, pursuant to the latest IIA regulations, as of January 1, 2024, IIA grants received after June 30, 2017, shall bear interest calculated at a rate based on an annual application of the SOFR, or at an alternative rate published by the Bank of Israel, plus approximately 0.72%. indexed to the dollar including accrued interest at the SOFR rate.

As of December 31, 2019, the research and development projects funded by the IIA were completed. The total amount of the IIA grant received was \$748 thousand.

As of December 31, 2024, the maximum obligation with respect to the grants received from the IIA, including accrued interest, contingent upon entitled future sales, is \$602 thousand. During the years ended 2024 and 2023, the Company paid the IIA royalties in the amounts of approximately \$8 and 121 thousand, respectively, in connection with revenues recorded between the years 2019-2024 of the products developed with the funds provided by the IIA.

When a company develops know-how, technology or products using IIA grants, the terms of these grants and the Research Law restrict the transfer of such know-how, and the transfer of manufacturing or manufacturing rights of such products, technologies or know-how outside of Israel, without the prior approval of the IIA. Therefore, the discretionary approval of an IIA committee would be required for any transfer to third parties inside or outside of Israel of know-how or manufacturing or manufacturing rights related to those aspects of such technologies. There is no certainty that the Company would obtain such approvals.

B. Former Parent Company

On January 28, 2022, the Former Parent Company announced it had entered into a binding agreement with a consortium of investors led by Xylo and facilitated by Israeli venture capital firm L.I.A. Pure Capital Ltd (“Pure Capital”), for the sale of 100% of the share capital of the Company for a total consideration of Australian Dollar (“AUD”) 6 million (approximately \$4.2 million) in cash (the “Acquisition”), and all outstanding liabilities between the Company and the Former Parent Company were converted into equity immediately prior to the closing of the Acquisition.

On February 2, 2022 (the “Issue Date”), the Company issued to the Former Parent Company a warrant to purchase 111,261 Ordinary Shares. The exercise price of such warrant is (A) if a Trigger Event (defined below) occurs, the price per Company Ordinary Shares in the IPO, or, (B) if a Trigger Event has not occurred, US \$2.7797 per each Company Ordinary Shares, reflecting a pre-money valuation of US \$10,000,000 on a fully diluted as-converted basis as of the Issue Date. Further, (A) if an IPO of the Company occurs before the fifth anniversary of the Issue Date, then the warrant shall expire after the lapse of 90 days from the earlier of (“Trigger Event”): (i) the fifth anniversary of the Issue Date; or (ii) the price per each Company Ordinary Shares has increased by at least 50% compared to the listing price per Company Ordinary Shares as part of the IPO (to be determined based upon one-calendar-month volume weighted average price); and (B) if no IPO of the Company occurs before the lapse of the fifth anniversary of the Issue Date, then the warrant shall expire after the lapse of 12 months from the fifth anniversary of the Issue Date.

As of December 31, 2024, the number of the outstanding warrants is 111,261 with an exercise price of \$4.00 per ordinary share and expiration date of no later than July 31, 2028.

PARAZERO TECHNOLOGIES LTD.
NOTES TO FINANCIAL STATEMENTS
(US dollars)

NOTE 15 — LOAN FROM RELATED PARTY:

In August 2022, the Company received a \$250 thousand loan from Xylo bearing an interest rate of 8% per annum, to be repaid upon the earlier of (i) August 4, 2024, (ii) the date the Company closes an equity financing round, which would include IPO, (iii) the date on which the Company will receive a bank financing or (iv) the occurrence of certain events of default. On October 30, 2022, the Company terminated the Xylo Loan and repaid the balance of \$250 thousand plus the accrued interest (\$4,876), in accordance with the loan agreement. On October 30, 2022, the Company entered into the Credit Facility Agreement with Xylo to borrow from time to time amounts from Xylo for the purposes of financing the ongoing activities and the payment of certain expenses in connection with the IPO Pursuant to the Credit Facility Agreement, as of October 30, 2022, Xylo made available to the Company credit facility with an aggregate initial amount of up to \$625 thousand. On June 26, 2023, the Company amended the Credit Facility Agreement with Xylo to increase the amount of the Credit Facility to up to \$745 thousand. As of December 31, 2022, and June 30, 2023, the Company received from Xylo \$500 thousand and \$745 thousand, respectively and did not receive further amounts during the year ended in December 31 2024.

The Credit Facility bears no interest, and the outstanding credit shall be due and payable on the earlier of (i) one year from the date of the Credit Facility Agreement (The Company may extend such time by up to six months), (ii) the closing of the Company's IPO or (iii) the occurrence of certain events of default. If the outstanding credit is repaid in connection with the closing of the Company's IPO, the Company will be obligated to make a one-time payment of an additional \$40,000 to Xylo. There was no outstanding credit facility as of December 31, 2023

On the borrowing date, the Company estimated the value of the benefit received based on the interest rate that the Company would be required to pay for similar unsecured loans to non-related parties. The value of the benefit was recorded within shareholders' equity on each borrowing date. The accumulated interest expenses calculated as of December 31, 2023 and December 31, 2022 in the amount of \$7,073 and \$10,396 respectively, were charged to finance expenses.

The used credit facility in an aggregate amount of \$745 thousand was fully repaid in August 2023, following the closing of the IPO.

NOTE 16 — INCOME TAXES:

A. Corporate tax rate:

The standard tax rate in Israel was 23% during the years ended December 31, 2024, 2023 and 2022.

Tax assessments of the Company through tax year 2019 are considered final.

B. Deferred tax assets and liabilities:

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred taxes are computed using the standard tax rates of 23%. Significant components of the Company's deferred tax assets and liabilities are as follows:

	December 31,	
	2024	2023
Net operating loss carry forward	\$ 11,054,230	\$ 3,532,233
Research and development expenses	978,685	66,407
Provision for warranty	6,542	(3,054)
Provision for vacation and convalescence	30,453	9,211
Other Adjustments	-	181,565
Share-based compensation expenses	75,357	14,733
Issuance cost	1,193,836	(605,905)
Total deferred tax assets	<u>13,339,103</u>	<u>3,195,190</u>
Less - valuation allowance	<u>(13,339,103)</u>	<u>(3,195,190)</u>
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

PARAZERO TECHNOLOGIES LTD.
NOTES TO FINANCIAL STATEMENTS
(US dollars)

NOTE 16 — INCOME TAXES: (cont.)

B. Deferred tax assets and liabilities: (cont.)

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

C. As of December 31, 2024 and December 31, 2023, the operating loss carry-forwards amounted to approximately \$27.9 million and \$14.6 million, respectively. Operating losses in Israel may be carried forward indefinitely to offset against future taxable operational income.

D. 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 (see above).

The main reconciling item between the statutory tax rate of the Company and the effective tax rate is the recognition of valuation allowance in respect of deferred taxes relating to accumulated net operating losses carried forward due to the uncertainty of the realization of such deferred taxes.

NOTE 17 — TRANSACTIONS WITH RELATED PARTIES:

A. During the years 2022-2023, the Company received from Xylo, a related party, a loan which later on was amended to a credit facility, payable upon the completion of the Company's IPO which took place in July 2023. In addition, on October 30, 2022, the Company entered into a consulting agreement with Xylo pursuant to which Xylo will serve as its independent consultant for a monthly fee of \$10,000, effective upon the closing of the Company's IPO and terminating on the three-year anniversary of the closing of the Company's IPO. The Company may terminate the consulting agreement any time after the closing of the Company's IPO upon providing three months advance notice. The total amount payable to Xylo as of December 31, 2024 was \$0

B. On July 31, 2023, the Company entered into a consulting agreement with Maris-Tech Ltd, pursuant to which Maris will serve as its independent consultant for a monthly fee of \$10,000. The Chairman of the Board of Directors is also the Chairman of the Board of Directors of Maris-Tech. Either party may terminate the consulting agreement entirely with a 90-day prior written notice provided to the other party. In October 2023, the Company expanded the collaboration into the drones defense market with Maris, to develop a unified product, integrating safety technology and predictive maintenance. In addition, the Company will explore the possibility of enhancing the capabilities of its failure prediction and emergency safety system, utilizing the AI acceleration capabilities in Maris's OEM products. The total amount payable to Maris-Tech as of December 31, 2024 was \$47,000. The consulting agreement was terminated by the Company in December 2024 and will be ended effectively on March 31, 2025.

C. On December 5, 2024, the Company entered into a reseller agreement with Jeff Brands to distribute, market and sell Para Zero's Products on Amazon. The Chairman of the Board of Directors and additional two directors serve as directors at Jeff Brands. The total amount received as of December 31, 2024 was \$10,000.

PARAZERO TECHNOLOGIES LTD.
NOTES TO FINANCIAL STATEMENTS
(US dollars)

NOTE 18 — SEGMENT REPORTING

Segment information is prepared on the same basis that the chief executive officer, who is the Company's chief operating decision maker, manages the business, makes business decisions and assesses performance. The Company has one reportable segment specializing in the developments and sale of autonomous parachute safety systems technologies for commercial and military platforms as well as for urban air mobility aircraft, as described in Note 1.

The chief executive officer assesses performance for this segment and decides how to allocate resources based on operating expenses excluding non-cash items and net loss. The measure of segment assets is reported on the balance sheet as cash and cash equivalents. The chief executive officer performs the assessment of segment performance by using the reported measure of segment profit or loss to monitor budget versus actual results.

The table below summarizes the significant expense categories regularly reviewed by the chief operating decision maker for the years ended December 31, 2024, 2023 and 2022:

	Year ended December 31,		
	2024	2023	2022
Sales	\$ 932,154	\$ 620,508	\$ 560,118
Cost of Sales (*)			
Payroll and payroll related	188,740	40,602	42,040
Others	564,836	396,967	265,467
Research and Development expenses (*)			
Payroll and payroll related	1,366,896	520,133	320,620
Material, subcontractors, consultants and other	745,807	108,045	302,018
Selling and Marketing expenses (*)			
Payroll and payroll related	459,042	100,885	54,507
Professional services, tradeshow and others	616,306	383,313	204,324
General and Administrative expenses (*)			
Payroll and payroll related	325,662	348,740	273,864
Professional services and Facility related and other	2,018,139	1,110,241	462,556
Other segment items: (*)	5,700,956	1,382,961	287,760
Net loss	11,054,230	3,771,379	1,653,038

(*) Excluding share-based payments, change in fair value of derivative warrants liabilities, depreciation, inventory obsolescence expenses, and finance income, and expenses that are included in other segment items

PARAZERO TECHNOLOGIES LTD.
NOTES TO FINANCIAL STATEMENTS
(US dollars)

NOTE 19 — SUBSEQUENT EVENTS:

A. In January 2025, certain warrant holders exercised 1,144,357 series A warrants, at an exercise price of \$1.10 per share, The aggregate amount received by the Company of such exercise of warrants was \$1,258,000.

B. On January 22, 2025, the Board of Directors approved the grant of an aggregate of 69,603 options to purchase ordinary shares to certain employees of the Company. All options may be exercised within 5 years from the date of their grant and are subject to a four-year vesting schedule with a two-year cliff such that 50% of the options shall vest at the completion of two years from the approval of the grant by the Board of Directors, and afterward, 6.25% shall vest upon completion of each three month period of continuous employment or services for the remaining two-year vesting period. The exercise price of the options is \$1.96 per ordinary share. All the other terms of the grant of the options shall be as set forth in the Plan.

C. On February 13, 2025, the Company completed a registered direct offering with institutional investors for the purchase and sale of 2,518,182 Ordinary Shares and 300,000 pre-funded warrants to purchase 300,000 Ordinary Shares at a price of \$1.10 per Ordinary Share and \$1.09999 per pre-funded warrant, which is equal to the offering price per Ordinary Share sold in the offering minus an exercise price of \$0.00001 per pre-funded warrant. The pre-funded warrants are immediately exercisable and may be exercised at any time until exercised in full. Aggregate gross proceeds to the Company were approximately \$3.1 million. As of the date of these financial statements, 200,000 pre-funded warrants have been exercised into 200,000 Ordinary Shares and 100,000 pre-funded warrants are outstanding.

D. On February 19, 2025, the Board of Directors approved the increase in the pool of shares reserved under the Plan by an additional 2,500,000 million Ordinary Shares. As a result, the total number of Ordinary Shares reserved for future issuance under the Plan increased to 3,110,156 Ordinary Shares.

E. On February 19, 2025, the Board of Directors (following the approval of compensation committee) approved the grant of an aggregate of 1,560,165 restricted share units (“RSUs”) to certain Plan Participants, as defined in and subject to the terms of the Plan, which grants were made upon the filing a registration statement on February 19, 2025 covering the increase in the pool of available shares under the Plan. Some of these grants are subject to the approval of the Company’s shareholders. The RSUs vest quarterly in equal amounts over a period of 1- 3 years.

F. On February 19, 2025, the Board of Directors approved the increase of Chairman’s monthly fee to \$10,000, which is subject to the approval of the Company’s shareholders.

PARAZERO TECHNOLOGIES LTD.**INSIDER TRADING POLICY**

This Insider Trading Policy (the “Policy”) sets forth the policy for directors, officers, employees, and certain consultants and contractors of ParaZero Technologies Ltd. and its subsidiaries (the “Company”) with respect to transactions in the Company’s securities or securities of certain other publicly traded companies while in possession of confidential information.

Applicability of Policy

This Policy applies to all transactions in the Company’s Securities, including ordinary shares, preferred shares, restricted shares or units, options and warrants for ordinary shares, bonds and any other securities the Company may issue from time to time, such as convertible debentures and other derivative securities relating to the Company’s shares, whether or not issued by the Company, such as exchange-traded options (the “Company’s Securities”). It applies to all directors, officers and employees of the Company, and any consultant or contractor of the Company that is specifically designated by the Company’s Chief Financial Officers (collectively, “Insiders”) as well as members of Insiders’ immediate families, members of their households and corporations under their control. Insiders are responsible for ensuring that members of their immediate families and members of their households comply with this Policy. This Policy also applies to any person who receives Material Non-Public Information (as defined below) from any Insider.

General Policy

It is against Company policy for any Insider to make an unauthorized disclosure of any nonpublic information acquired in the work-place or as a result of their position with the Company. It is also against Company policy for any Insider to misuse Material Nonpublic Information in securities trading. The Company has established procedures for releasing material information in a manner that is designed to achieve broad public dissemination of the information to the public immediately upon its release. As an Insider, you may not, therefore, disclose information to anyone outside the Company, including family members and friends. You also may not discuss the Company or its business in an internet “chat room” or similar internet-based forum.

Specific Policies**1. Trading on Material Nonpublic Information**

No Insider shall engage in any transaction involving a purchase or sale of the Company’s Securities, including any offer to purchase or offer to sell, during any period commencing with the date that he or she possesses Material Nonpublic Information concerning the Company, and ending after one full Trading Day has elapsed following the date of public disclosure of that information, or at such time as such nonpublic information is no longer material. As used herein, the term “Trading Day” shall mean a day on which the Nasdaq stock market is open for trading.

Transactions that may be necessary or justifiable for independent reasons (such as the need to raise money for an emergency expenditure) are not excepted from the Policy. The securities laws do not recognize such mitigating circumstances, and, in any event, even the appearance of an improper transaction must be avoided to preserve the Company’s reputation for adhering to the highest standards of conduct.

2. Short Sales

No Insider shall engage in a short sale of the Company's Securities. A short sale is in general a sale of securities not owned by the seller. Transactions in certain put and call options for the Company's Securities may in some instances constitute a short sale. Short sales may evidence an expectation on the part of the seller that the securities will decline in value, and therefore have the potential to signal to the market that the seller lacks confidence in the Company's prospects. In addition, short sales may reduce a seller's incentive to seek to improve the Company's performance.

3. Publicly Traded Options

A transaction in publicly-traded options to purchase or sell the Company's Securities is, in effect, a bet on the short-term movement of the Company's Securities and therefore may create the appearance that the Insider is trading based on inside information. Transactions in options also may focus the Insider's attention on short-term performance at the expense of the Company's long-term objectives. Accordingly, transactions in puts, calls or other derivative securities, on an exchange or in any other organized market, by any Insider are prohibited by this Policy. Option positions arising from certain types of hedging transactions are governed by the section below captioned "Hedging Transactions".

4. Standing Orders

Standing orders should be used only for a very brief period of time. A standing order placed with a broker to sell or purchase securities at a specified price leaves you with no control over the timing of the transaction. A standing order transaction executed by the broker when you are aware of Material Nonpublic Information may result in unlawful insider trading. Transactions pursuant to a plan adopted in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), discussed below, may be excepted from this prohibition against standing orders.

5. Hedging Transactions

Certain forms of hedging or monetization transactions, such as zero-cost collars and forward sale contracts, allow an employee to lock in much of the value of his or her share holdings, often in exchange for all or part of the potential for upside appreciation in the shares. These transactions allow the Insider to continue to own the securities, but without the full risks and rewards of ownership. When that occurs, Insider may no longer have the same objectives as the Company's other shareholders. Any person wishing to enter into such an arrangement must first pre-clear the proposed transaction with the Chief Financial Officer. Any request for pre-clearance of a hedging or similar arrangement must be submitted to the Chief Financial Officer at least two weeks prior to the proposed execution of documents evidencing the proposed transaction and must set forth a justification for the proposed transaction. The Chief Financial Officer may decline any request in his or her sole discretion.

6. Margin Accounts and Pledges

Securities held in a margin account may be sold by the broker without the customer's consent if the customer fails to meet a margin call. Similarly, securities pledged (or hypothecated) as collateral for a loan may be sold in foreclosure if the borrower defaults on the loan. A margin or foreclosure sale that occurs when the pledgor is aware of Material Nonpublic Information may, under some circumstances, result in unlawful insider trading. Because of this danger, Insiders should exercise caution in holding the Company's Securities in a margin account or pledging the Company's Securities as collateral for a loan. In addition, certain directors and executive officers may be required to publicly disclose the amount of the Company's Securities pledged as collateral for a loan.

7. Short-Term Trading

Short-term trading of the Company's Securities may be distracting to the person and may unduly focus the person on the Company's short-term stock market performance instead of the Company's long-term business objectives. For these reasons, if you purchase or sell Company Securities, you may not conduct an opposite way transaction in any Company Securities of the same class for at least six (6) months after the purchase or sale, unless you first pre-clear the proposed transaction with the Chief Financial Officer.

8. Tipping

No Insider shall disclose (commonly known as a "tip") Material Nonpublic Information to any other person (including family members) where such information may be used, or there is a reasonable basis to believe that such information may be used, by such person to his or her profit by trading (buying or selling) in the securities of companies to which such information relates, nor shall such person or related person make recommendations or express opinions on the basis of Material Nonpublic Information as to trading in the Company's Securities.

9. Advice Concerning Trading

No Insider may give trading advice of any kind about the Company or the Company's Securities to anyone while possessing Material Nonpublic information about the Company. An Insider should always advise others, preferably in writing or electronically, not to trade in the Company's Securities if doing so might violate the law or this policy. The Company strongly discourages any Insider from giving trading advice concerning the Company's Securities or the Company to third parties even when such persons do not possess Material Nonpublic information about the Company or the Company's Securities.

10. Confidentiality of Nonpublic Information

Nonpublic information relating to the Company is the property of the Company and the unauthorized disclosure of such information is forbidden. In the event any Insider receives any inquiry for information from outside the Company, such as from a journalist, stock analyst or investor, the inquiry should be referred to the Company's Chief Executive Officer or any designee of the Chief Executive Officer who is responsible for coordinating and overseeing the release of such information to the investing public, analysts and others in compliance with applicable laws and regulations.

11. Post-Termination Transactions

The Policy continues to apply to Insiders' transactions in the Company's Securities even after you have terminated employment or cease to serve as an officer, director, consultant or contractor. If you are in possession of Material Nonpublic Information when your employment or other service to the Company terminates or ceases, you may not trade in the Company's Securities until that information has become public or is no longer material.

Potential Criminal and Civil Liability and/or Disciplinary Action

1. Liability for Insider Trading

Pursuant to federal and state securities laws, any person violating U.S. insider trading laws may be subject to penalties of up to \$5,000,000 and up to 20 years in jail for engaging in transactions in the Company's Securities at a time when they have knowledge of Material Nonpublic Information regarding the Company.

Liability for Tipping

Insiders may also be liable for improper transactions by any person (commonly referred to as a "tippee") to whom they have disclosed Material Nonpublic Information regarding the Company or to whom they have made recommendations or expressed opinions on the basis of such information as to trading in the Company's Securities. The Securities and Exchange Commission (the "SEC") has imposed large penalties even when the disclosing person did not profit from the trading. The SEC, the stock exchanges, and the Financial Industry Regulatory Authority use sophisticated electronic surveillance techniques to uncover insider trading. In recent years, criminal prosecution of insiders has become much more common, particularly when such persons were aware of their obligations under the securities laws and elected to ignore those obligations in acting on, or in tipping others concerning, Material Nonpublic Information.

2. Liability of Control Persons

If the Company or its supervisory personnel fail to take appropriate steps to prevent illegal insider trading, they may be subject to the following penalties:

- (a) A civil penalty of up to \$1,425,000 or, if greater, three times the profit gained or loss avoided as a result of the employee's violation; and
- (b) A criminal penalty of up to \$5,000,000 and up to 20 years in jail for individuals and/or a fine of \$25,000,000 for the Company.

3. Possible Disciplinary Actions

Insiders who violate this Policy may also be subject to disciplinary action by the Company, which may include ineligibility for future participation in the Company's equity incentive plans or termination of employment.

Trading Guidelines and Requirements

1. Black-Out Periods and Trading Window

- a. *Financial Black-Out Period.* The period beginning at the close of market on the 14th day of the last month of a fiscal period for which the Company prepares financial statements for, and / or provides a public disclosure of the applicable period's financial results, and ending after one full Trading Day has elapsed following the date of public disclosure of the financial results for that period is a particularly sensitive period of time for transactions in the Company's Securities from the perspective of compliance with applicable securities laws. This sensitivity arises because Insiders involved in the preparation of the financial results will often possess Material Nonpublic Information about the expected financial results for the applicable period. Accordingly, this period of time is referred to as a "financial black-out" period in which all Insiders are prohibited from trading during such period. As of the date hereof, the financial black-out period commences on June 14 and December 14 of each year.

- b. *Reserved.*
- c. *Special Black-Out Periods.* In addition, from time to time Material Nonpublic Information regarding the Company may be pending or there may be material developments known to the Company and not yet disclosed to the public. The Company may impose a special “black-out” period on all or certain Insiders prohibiting them from trading in the Company’s Securities during a special black-out period and such persons should not disclose to others the fact of such suspension of trading.
- d. *Mandatory Trading Window Related to Financial Information.* To ensure compliance with this Policy and applicable federal and state securities laws, the Company requires that all Insiders refrain from conducting transactions involving the purchase or sale of the Company’s Securities other than during the period (the “**Trading Window**”) commencing at the open of market on the second Trading Day following the time of public disclosure of the financial results for a particular fiscal period and continuing until the close of market on the 14th day prior to the end of the calendar month of the next fiscal period for which the Company provides a public disclosure. During the Trading Window, if the Company is in a special black-out period, the Company requires that all Insiders refrain from conducting transactions involving the purchase or sale of the Company’s Securities even though the Trading Window may otherwise be open. The prohibition against trading during the financial black-out period and special black-out period encompasses the fulfillment of “limit orders” by any broker for an Insider and the brokers with whom any such limit order is placed must be so instructed at the time it is placed.

It should be noted, however, that even during a Trading Window, any person possessing Material Nonpublic Information concerning the Company, whether or not subject to the financial or special black-out periods, should not engage in any transactions in the Company’s Securities (except for transactions specifically described in the “Certain Exceptions” section below) until such information has been known publicly for at least one full Trading Day, whether or not the Company has recommended a suspension of trading to that person. Trading in the Company’s Securities during the Trading Window is not a “safe harbor,” and all Insiders should use good judgment at all times and pre-clear all trades in accordance with the following paragraph.

2. Pre-Clearance of Trades

All Insiders must refrain from trading in the Company’s Securities without first complying with the Company’s “pre-clearance” process, even if the trade would take place in a Trading Window. Each Insider must contact the Chief Financial Officer prior to commencing any trade in the Company’s Securities. The Chief Financial Officer will consult as necessary with senior management of the Company before clearing any proposed trade.

3. Individual Responsibility

Every Insider has the individual responsibility to comply with this Policy. He or she may, from time to time, have to forego a proposed transaction in the Company’s Securities even if he or she planned to make the transaction before learning of the Material Nonpublic Information and even though he or she believes he or she may suffer an economic loss or forego anticipated profit by waiting.

As part of your individual responsibility, you should take every practicable step to preserve the confidentiality of information. For example:

- (a) Do not discuss material information in elevators, hallways, restaurants, airplanes, taxicabs or any place where you can be overheard;
- (b) Do not gossip about confidential information;
- (c) Do not read confidential documents in public places or discard them where they can be retrieved by others;
- (d) Do not carry confidential documents in elevators, hallways, etc. in an exposed manner;
- (e) Beware of the carrying quality of conversations conducted on speaker telephones in offices, and the potential for eavesdropping on conversations conducted on car or airplane telephones, on marine radios, etc.;
- (f) Do not leave confidential documents in unattended conference rooms; do not leave confidential documents behind when the conference is over;
- (g) Cover confidential documents on your desk before you leave your room; do not leave confidential papers lying where visitors can see them;
- (h) Be careful when giving out the whereabouts of personnel not in the office or revealing the presence of specific visitors to the office. The mere fact of a meeting or the destination of a trip may reveal something confidential; and
- (i) Under no circumstances are employees to provide confidential Company documents or other information to third parties, without express consent of the supervisor. This includes, but is not limited to, any confidential Company documents or information relating to customers, competitors or suppliers of the Company.
- (j) Obviously, a list such as this can only be suggestive. It is the responsibility of each employee to take whatever practicable steps are appropriate to preserve the confidentiality of information.

Applicability of Policy to Inside Information Regarding Other Companies

This Policy also applies to Material Nonpublic Information relating to other companies with which the Company conducts business, including proposed business combinations (“**Business Partners**”), when that information is obtained in the course of employment with, or other services performed on behalf of, the Company. Civil and criminal penalties, and termination of employment, may result from trading on inside information regarding the Company’s Business Partners. All Insiders should treat Material Nonpublic Information about the Company’s Business Partners with the same care required with respect to information related directly to the Company. Similarly, you must not discuss Material Nonpublic Information relating to the Company’s Business Partners in an internet “chat room” or similar internet-based forum.

Definition of “Material Nonpublic Information”

It is not possible to define all categories of Material Nonpublic Information. However, information should be regarded as material if there is a reasonable likelihood that it would be considered important (within the total mix of information) to an investor in making an investment decision regarding the purchase or sale of the Company’s Securities. Either positive or negative information may be material.

While it may be difficult under this standard to determine whether particular information is material, there are various categories of information that are particularly sensitive and, as a general rule, should always be considered material. Examples of such information may include:

- (a) financial results;
- (b) news of development milestones;
- (c) significant communications to or from regulatory agencies, or other significant regulatory developments;
- (d) significant developments related to intellectual property;
- (e) significant developments related to collaboration relationships;
- (f) proposals, plans or agreements, even if preliminary in nature, involving mergers, acquisitions, divestitures, recapitalizations, strategic alliances, licensing arrangements, or purchases or sales of substantial assets;
- (g) impending bankruptcy or financial liquidity problems;
- (h) share splits;
- (i) new equity or debt offerings;
- (j) positive or negative developments in outstanding litigation;
- (k) significant litigation exposure due to actual or threatened litigation; and
- (l) changes in senior management, the Company's auditors or the board of directors.

Nonpublic information is information that has not been previously disclosed to the general public and is otherwise not available to the general public. To be "public" the information must have been disseminated in a manner designed to reach investors generally, and the investors must be given the opportunity to absorb the information.

Certain Exceptions

1. Share Option Exercises

The Company's Policy does not apply to the exercise of an Insider share option if the shares acquired upon exercise are held rather than sold, or to the exercise of a tax withholding right pursuant to the option holder elects to have the Company withhold shares subject to an option to satisfy tax withholding requirements. The Policy does apply, however, to any sale of shares as part of a broker-assisted cashless exercise of an option, or any other sale for the purpose of generating the cash needed to pay the exercise price of an option.

2. Restricted Share Awards

This Policy does not apply to the vesting of restricted shares, or the forfeiture of shares to pay for taxes incident to such vesting.

3. Gifts

Bona fide gifts of the Company's Securities generally may be exempt from this Policy. However, all such gifts by Insiders must be pre-cleared by the Chief Financial Officer if a Black-Out Period is in effect at the time of the gift. The Chief Financial Officer may prohibit any gift that is subject to pre-clearance in his or her sole discretion.

4. Blind Trusts and Pre-Arranged Trading Programs

Rule 10b5-1 of the Exchange Act provides an affirmative defense against insider trading liability for a transaction done pursuant to "blind trusts" (trusts in which investment control has been delegated to a third party, such as an institutional or professional trustee) or pursuant to a written plan, or a binding contract or instruction, entered into in good faith at a time when the Insider was not aware of Material Nonpublic Information, even though the transaction in question may occur at a time when such person is aware of Material Nonpublic Information.

The Company may, in appropriate circumstances, permit Insiders to enter into a blind trust or a trading program that complies with Rule 10b5-1, in which case, unless otherwise determined as provided below, the pre-clearance procedures or the Black-Out Periods of this Policy shall not apply to transactions executed pursuant to such blind trust or trading program. All blind trusts and trading programs, must be pre-cleared with the Chief Financial Officer. With respect to arrangements that result or may result in transactions taking place during Black-Out Periods, the Chief Financial Officer will review such arrangements in light of guidelines that it from time to time establishes, with input, if appropriate, from the Board of Directors and Company legal counsel. The Company reserves the right to bar any transactions in the Company's Securities, including transactions pursuant to arrangements previously approved, if the Chief Financial Officer determines that such a bar is in the best interests of the Company. In addition, the Company does not permit any trades in such a blind trust or a Rule 10b5-1 trading program to consist of any hedging transactions (as described above).

Additional Guidance and Information – Directors and Officers

Directors and officers of the Company and certain other persons identified by the Company from time to time must also comply with the reporting obligations and limitations on short-swing transactions set forth in Section 16 of the Exchange Act, to the extent applicable. The practical effect of these provisions is that officers, directors and such other persons who purchase and sell the Company's Securities within a six-month period must disgorge all profits to the Company whether or not they had knowledge of any Material Nonpublic Information. Under these provisions, and so long as certain other criteria are met, neither the receipt of an option under the Company's option plans, nor the exercise of that option is deemed a purchase under Section 16; however, the sale of any such shares is a sale under Section 16. Section 16 prohibits executive officers and directors from ever making a short sale of the Company's stock. A short sale is a sale of securities not owned by the seller or, if owned, not delivered. Transactions in put and call options for the Company's Securities may in some instances constitute a short sale or may otherwise result in liability for short swing profits. All executive officers and directors of the Company and such other identified persons must confer with the Chief Financial Officer before effecting any such transaction. The Company does not permit short-swing and short sale transactions by executive officers or directors.

Priority of Statutory or Regulatory Trading Restrictions

The trading prohibitions and restrictions set forth in this Policy will be superseded by any greater prohibitions or restrictions prescribed by federal or state securities laws and regulations, e.g., contractual restrictions on the sale of securities (e.g. under lock-up agreements), short-swing trading by Section 16 parties or restrictions on the sale of securities subject to Rule 144 under the Securities Act. Any person who is uncertain whether other prohibitions or restrictions apply should ask the Chief Financial Officer.

Inquiries

Any person who has a question about this Policy or its application to any proposed transaction may obtain additional guidance from the Chief Financial Officer. Ultimately, however, the responsibility for adhering to this Policy and avoiding unlawful transactions rests with the individual Insider.

Certifications

All directors, officers, employees, consultants and contractors must certify their understanding of, and intent to comply with, this Policy. Please sign the certification attached hereto as Attachment 1.

Last Updated: February 19, 2025

ATTACHMENT 1

CERTIFICATIONS

I certify that:

1. I have read and understand the Company's Insider Trading Policy (the "Policy"). I understand that the Chief Financial Officer is available to answer any questions I have regarding the Policy.

2. Since the date this Policy became effective, or such shorter period of time that I have been a director, officer or other employee of the Company, I have complied with the Policy.

3. I will continue to comply with the Policy for as long as I am subject to the Policy.

Signature: _____

Date: _____

Print Name: _____

CERTIFICATION PURSUANT TO EXCHANGE ACT RULE 13a-14(a) or 15d-14(a)

I, Boaz Shetzer, certify that:

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

Date: March 21, 2025

/s/ Boaz Shetzer

Boaz Shetzer
Chief Executive Officer

CERTIFICATION PURSUANT TO EXCHANGE ACT RULE 13a-14(a) or 15d-14(a)

I, Regev Livne, certify that:

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

Date: March 21, 2025

/s/ Regev Livne

Regev Livne
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. Section 1350**

In connection with the filing of the Annual Report on Form 20-F for the period ended December 31, 2024 (the “Report”) by ParaZero Technologies Ltd. (the “Company”), the undersigned, as the Chief Executive Officer of the Company, hereby certifies pursuant to 18 U.S.C. Section 1350, that, to my knowledge:

- (1) the Report 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 Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 21, 2025

/s/ Boaz Shetzer

Boaz Shetzer

Chief Executive Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. Section 1350**

In connection with the filing of the Annual Report on Form 20-F for the period ended December 31, 2024 (the “Report”) by ParaZero Technologies Ltd. (the “Company”), the undersigned, as the Chief Financial Officer of the Company, hereby certifies pursuant to 18 U.S.C. Section 1350, that, to my knowledge:

- (1) the Report 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 Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 21, 2025

/s/ Regev Livne

Regev Livne

Chief Financial Officer

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements on Form F-3 (File Nos. 333-281443 and 333-275351) and Form S-8 (File Nos. 333-278268 and 333-285054) of our report dated March 21, 2025, relating to the financial statements of ParaZero Technologies Ltd. appearing in this Annual Report on Form 20-F for the year ended December 31, 2024.

/s/ Brightman Almagor Zohar & Co.

Brightman Almagor Zohar & Co.

Certified Public Accountants

A Firm in the Deloitte Global Network

Tel Aviv, Israel

March 21, 2025