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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2023

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

For the transition period from to

Commission File No. 333-188920

ODYSIGHT.AI INC.

(Exact name of registrant as specified in its charter)

Nevada	**47-4257143**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Suite 7A, Industrial Park **P.O. Box 3030, Omer, Israel**	**8496500**
(Address of Principal Executive Offices)	(Zip Code)

+972 73 370-4690

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of exchange on which registered
N/A	N/A	N/A

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

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

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

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

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

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

As of November 13, 2023, the registrant had 10,440,850 shares of common stock, par value $0.001 of the registrant issued and outstanding.

As used in this Quarterly Report and unless otherwise indicated, the terms "Odysight.ai (formerly known as ScoutCam Inc.)," "we," "us," "our," or "our Company" refer to Odysight.ai. Unless otherwise specified, all dollar amounts are expressed in United States dollars.

ODYSIGHT.AI INC.
QUARTERLY REPORT ON FORM 10-Q

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information set forth in this Quarterly Report on Form 10-Q, including in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere herein may address or relate to future events and expectations and as such constitutes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Statements which are not historical reflect our current expectations and projections about our future results, performance, liquidity, financial condition, prospects and opportunities and are based upon information currently available to us and our management and their interpretation of what is believed to be significant factors affecting our business, including many assumptions regarding future events.

Forward-looking statements, which involve assumptions and describe our future plans, strategies, and expectations, are generally identifiable by use of the words "may," "should," "would," "could," "scheduled," "expect," "anticipate," "estimate," "believe," "intend," "seek," or "project" or the negative of these words or other variations on these words or comparable terminology. Actual results, performance, liquidity, financial condition and results of operations, prospects and opportunities could differ materially and perhaps substantially from those expressed in, or implied by, these forward-looking statements as a result of various risks, uncertainties and other factors. These statements may be found under the section of our Annual Report on Form 10-K for the year ended December 31, 2022 (filed on March 28, 2023) entitled "Risk Factors" as well as in our other public filings.

In light of these risks and uncertainties, and especially given the start-up nature of our business, there can be no assurance that the forward-looking statements contained herein will in fact occur. Readers should not place undue reliance on any forward-looking statements. Except as expressly required by the federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason.

Item 1. Financial Statements

ODYSIGHT.AI INC. (Formerly known as ScoutCam Inc.)

INTERIM FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2023

CONSOLIDATED ODYSIGHT.AI INC.

ODYSIGHT.AI INC. (Formerly known as ScoutCam Inc.)

INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2023	December 31, 2022
	Unaudited	Audited
	USD in thousands	
Assets		
CURRENT ASSETS:		
Cash and cash equivalents	15,938	10,099
Short terms deposits	3,569	3,047
Accounts receivable	-	60
Inventory	782	630
Other current assets	573	281
	20,862	14,117
NON-CURRENT ASSETS:		
Contract fulfillment assets	1,316	1,495
Property and equipment, net	503	648
Operating lease right-of-use assets	1,621	307
Severance pay asset	254	328
	3,694	2,778
TOTAL ASSETS	24,556	16,895

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

ODYSIGHT.AI INC. (Formerly known as ScoutCam Inc.)

INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

	September 30, 2023	December 31, 2022
	Unaudited	Audited
	USD in thousands	
Liabilities and shareholders' equity		
CURRENT LIABILITIES:		
Accounts payable	293	297
Contract liabilities - short term	950	1,426
Operating lease liabilities - short term	528	199
Accrued compensation expenses	761	365
Related parties	52	58
Other accounts payable	280	214
	2,864	2,559
NON-CURRENT LIABILITIES:		
Contract liabilities - long term	1,901	2,218
Operating lease liabilities - long term	957	64
Liability for severance pay	247	268
Other liabilities - long term	28	-
	3,133	2,550
TOTAL LIABILITIES	5,997	5,109
SHAREHOLDERS' EQUITY:		
Common stock, $0.001 par value; 300,000,000 shares authorized as of September 30, 2023 and December 31, 2022, 10,440,850 and 7,121,737 shares issued and outstanding as of September 30, 2023 and December 31, 2022 , respectively	10	7
Additional paid-in capital	51,415	36,541
Accumulated deficit	(32,866)	(24,762)
TOTAL SHAREHOLDERS' EQUITY	18,559	11,786
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	24,556	16,895

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

ODYSIGHT.AI INC. (Formerly known as ScoutCam Inc.)

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	Nine months ended September 30,		Three months ended September 30,	
	2023	**2022**	**2023**	**2022**
	Unaudited			
	USD in thousands (except per share data)			
REVENUES	1,087	506	110	134
COST OF REVENUES	1,648	1,279	321	430
GROSS LOSS	(561)	(773)	(211)	(296)
RESEARCH AND DEVELOPMENT EXPENSES	4,107	3,023	1,354	1,048
SALES AND MARKETING EXPENSES	877	617	208	171
GENERAL AND ADMINISTRATIVE EXPENSES	3,225	3,262	1,099	810
OPERATING LOSS	(8,770)	(7,675)	(2,872)	(2,325)
OTHER INCOME	10	23	-	8
FINANCING INCOME (EXPENSES), NET	656	(152)	330	73
NET LOSS	(8,104)	(7,804)	(2,542)	(2,244)
Net loss per ordinary share (basic and diluted, USD)	(0.86)	(1.10)	(0.24)	(0.32)
Weighted average ordinary shares (basic and diluted, in thousands)	9,395	7,122	10,439	7,122

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

ODYSIGHT.AI INC. (Formerly known as ScoutCam Inc.)

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Nine Months Ended September 30, 2023 (Unaudited)

	Common Stock		Additional paid-in capital	Accumulated deficit	Total Shareholders' equity
	Number	Amount			
	In thousands	USD in thousands			
Balance at January 1, 2023	7,122	$ 7	$ 36,541	$ (24,762)	$ 11,786
Stock based compensation	-	-	1,056	-	1,056
Issuance of shares upon RSU vesting	25	*	*	-	-
Issuance of shares and warrants	3,294	3	13,818	-	13,821
Net loss	-	-	-	(8,104)	(8,104)
Balance at September 30, 2023	10,441	$ 10	$ 51,415	$ (32,866)	$ 18,559

Three Months Ended September 30, 2023 (Unaudited)

	Ordinary shares		Additional paid-in capital	Accumulated deficit	Total Shareholders' Equity
	Number	Amount			
	In thousands	USD in thousands			
Balance at July 1, 2023	10,437	$ 10	$ 51,110	$ (30,324)	$ 20,796
Stock based compensation	-	-	371	-	371
Issuance of shares upon RSU vesting	4	*	*	-	-
Issuance expenses	-	-	(66)	-	(66)
Net loss	-	-	-	(2,542)	(2,542)
Balance at September 30, 2023	10,441	$ 10	$ 51,415	$ (32,866)	$ 18,559

* **Represents an amount less than $1 thousand**

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

Nine Months Ended September 30, 2022 (Unaudited)

	Ordinary shares		Additional paid-in capital	Accumulated deficit	Total Shareholders' Equity
	Number	Amount			
	In thousands	USD in thousands			
Balance at January 1, 2022	7,122	7	34,903	(15,294)	19,616
Stock based compensation	-	-	1,916	-	1,916
Net loss	-	-	-	(7,804)	(7,804)
Balance at September 30, 2022	7,122	7	36,819	(23,098)	13,728

Three Months Ended September 30, 2022 (Unaudited)

	Ordinary shares		Additional paid-in capital	Accumulated deficit	Total Shareholders' Equity
	Number	Amount			
	In thousands	USD in thousands			
Balance at July 1, 2022	7,122	7	36,360	(20,854)	15,513
Stock based compensation	-	-	459	-	459
Net loss	-	-	-	(2,244)	(2,244)
Balance at September 30, 2022	7,122	7	36,819	(23,098)	13,728

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

ODYSIGHT.AI INC. (Formerly known as ScoutCam Inc.)

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30,		Three months ended September 30,	
	2023	**2022**	**2023**	**2022**
	Unaudited			
	USD in thousands			
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss	(8,104)	(7,804)	(2,542)	(2,244)
Adjustments to reconcile net loss to net cash used in operations:				
Depreciation	239	160	47	57
Stock based compensation	1,056	1,916	371	459
Severance pay asset and liability	53	51	(1)	-
Profit from exchange differences from operating lease liability	(78)	(52)	(56)	(2)
Loss (Profit) from exchange differences on cash and cash equivalents	64	301	11	(26)
Interest income in respect of deposits	(22)	(66)	167	(43)
CHANGES IN OPERATING ASSET AND LIABILITY ITEMS:				
Decrease (increase) in accounts receivable	60	(7)	158	84
Increase in inventory	(152)	(485)	(58)	(43)
Decrease (increase) in other current assets	(292)	171	95	138
Decrease in contract fulfillment assets	179	120	60	60
Decrease in ROU asset	211	210	117	78
Increase (decrease) in account payables	(4)	263	(481)	57
Increase (decrease) in contract liabilities	(793)	1,333	(110)	(102)
Decrease in operating lease liability	(225)	(183)	(115)	(58)
Increase (decrease) in accrued compensation expenses	396	(3)	307	(24)
Increase (decrease) in related parties	(6)	28	5	45
Increase (decrease) in other account payable	80	(60)	(230)	(145)
Net cash flows used in operating activities	(7,338)	(4,107)	(2,255)	(1,709)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of property and equipment	(94)	(87)	(37)	(45)
Withdrawal of short terms deposits	18,000	5,000	15,000	-
Investment in short term deposits	(18,500)	(6,500)	-	(3,000)
Net cash flows provided by (used in) investing activities	(594)	(1,587)	14,963	(3,045)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from issuance of shares and warrants	13,835	-	(78)	-
Net cash flows provided by (used in) financing activities	13,835	-	(78)	-
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,903	(5,694)	12,630	(4,754)
LOSS FROM EXCHANGE DIFFERENCES ON CASH AND CASH EQUIVALENTS	(64)	(301)	(11)	(26)
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	10,099	8,581	3,319	7,314
BALANCE OF CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	15,938	2,586	15,938	2,586

Non cash activities -

	Nine months ended September 30,		Three months ended September 30,	
	2023	2022	2023	2022
	Unaudited			
	USD in thousands			
Change in unpaid issuance expenses	14	-	(12)	-
Right-of-use assets obtained in exchange for operating lease liabilities	1,577	118	1,112	37
Termination of right-of-use assets in exchange for cancellation of operating lease obligations	(52)	(65)	(27)	(65)

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

NOTE 1 – GENERAL:

a. Odysight.ai.Inc (the "Company"), formerly known as ScoutCam Inc., was incorporated under the laws of the State of Nevada on March 22, 2013. Prior to the closing of the Exchange Agreement (as defined below), the Company was a non-operating "shell company".

On June 5, 2023, the Company filed with the Nevada Secretary of State a Certificate of Amendment to the Registrant's Articles of Incorporation to change its name from "ScoutCam Inc." to "Odysight.ai Inc.", effective June 5, 2023.

The Company's wholly owned subsidiary, Odysight.ai Ltd ("Odysight.ai".), formerly known as ScoutCam Ltd., was formed in the State of Israel on January 3, 2019, as a wholly-owned subsidiary of Medigus Ltd. ("Medigus"), an Israeli company traded on the Nasdaq Capital Market, and commenced operations on March 1, 2019.

In December 2019, Medigus and Odysight.ai consummated an asset transfer agreement, under which Medigus transferred and assigned certain assets and intellectual property rights related to its miniaturized imaging business to Odysight.ai.

On December 30, 2019, the Company and Medigus consummated a securities exchange agreement (the "Exchange Agreement"), pursuant to which Medigus delivered 100% of its holdings in Odysight.ai to the Company in exchange for shares of the Company's common stock representing 60% of the issued and outstanding share capital of the Company immediately upon the consummation of the Exchange Agreement.

During 2020-2023 Medigus has decreased its holdings in the Company such that as of March 31, 2023, Medigus owned 18.45% of the Company's outstanding common stock. On June 1, 2023, Medigus sold all its holdings in the Company to existing shareholders and to Chairman of the Board and CEO of the Company.

The Company, through Odysight.ai, provides image-based platforms. Through the use of its proprietary visualization technology, Odysight.ai offers solutions across predictive maintenance and condition-based monitoring markets, in sectors such as energy, automotive and aviation. Odysight.ai's solutions are based on small and highly resilient cameras, specialized AI analysis and supplementary technologies. Some of the Company's products utilize micro visualization technology in medical devices for minimally invasive medical procedures.

NOTE 1 – GENERAL (continued):

b. Since incorporation of Odysight.ai and through September 30, 2023, the Company accumulated a deficit of approximately $32.9 million and its activities have been funded mainly by its shareholders. The Company's management believes the Company' cash and cash resources will allow the Company to fund its operating plan through at least the next 12 months from the filing date of these Interim Condensed Consolidated Financial Statements. However, the Company expects to continue to incur significant research and development and other costs related to its ongoing operations, requiring the Company to obtain additional funding in order to continue its future operations until becoming profitable.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

a. Unaudited Interim Financial Statements

The accompanying unaudited interim condensed financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of U.S. Securities and Exchange Commission Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included (consisting only of normal recurring adjustments except as otherwise discussed). For further information, reference is made to the consolidated financial statements and footnotes thereto included in the Group's Annual Report on Form 10-K for the year ended December 31, 2022.

b. Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. All intercompany balances and transactions have been eliminated in consolidation.

c. Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. The Company evaluates on an ongoing basis its assumptions, including those related to contingencies, deferred taxes, inventory impairment, stock-based compensation, as well as in estimates used in applying the revenue recognition policy. Actual results may differ from those estimates.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued):

d. Significant Accounting Policies

The significant accounting policies followed in the preparation of these unaudited interim condensed consolidated financial statements are identical to those applied in the preparation of the latest annual financial statements.

e. Recent Accounting Pronouncements

Management does not believe that any recently issued, but not yet effective, accounting standards, if currently adopted, would have a material effect on the Group's condensed consolidated financial statements.

NOTE 3 – LEASES:

a. Omer office space

In December 2020, Odysight.ai entered into a lease agreement for office space in Omer, Israel ("original space"), with the 36-month term for such agreement beginning on January 1, 2021. In March 2021, Odysight.ai entered into a lease agreement for additional office space in Omer, Israel ("additional space"), with the term for such agreement is ending December 31, 2023.

On June 25, 2023, Odysight.ai entered into an amendment to these agreements, pursuant to which the lease for the additional space will be shortened and end on June 30, 2023 and the lease for the original space will be extended for an additional five years until December 31, 2028. It was also agreed that Odysight.ai has an option to terminate the agreement for the original space after three years.

Monthly lease payments under the agreement for the original space are approximately $7 thousand.

b. Ramat Gan office space

In December 2022, Odysight.ai entered into a lease agreement for office space in Ramat Gan, Israel. The agreement is for 12 months beginning on December 14, 2022 and the Company has an option to extend the lease period for an additional one year. The Company does not expect to extend the lease period. Therefore, the Company has elected to use the practical expedient regarding short-term leases. Monthly lease payments under the agreement are $3 thousand.

In May 2023, Odysight.ai entered into an additional lease agreement for office space in Ramat Gan, Israel. The agreement is for 48 months beginning on July 1, 2023 and the Company has an option to extend the lease period for an additional two years. The Company does not currently expect to extend the lease period. Monthly lease payments under the agreement are in the amount of approximately $24 thousand.

Odysight.ai subleases part of the additional office space in Ramat Gan to a third party for approximately $7 thousand per month.

Supplemental cash flow information related to operating leases was as follows:

	Nine months ended September 30,		Three months ended September 30,	
	2023	2022	2023	2022
	Unaudited			
	USD in thousands			
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	262	203	143	67

As of September 30, 2023, the Company's operating leases had a weighted average remaining lease term of 0.89 years and a weighted average discount rate of 6%.

Future lease payments under operating leases as of September 30, 2023 were as follows:

	Operating leases
	USD in thousands
Remainder of 2023	138
2024	542
2025	502
2026	382
2027	148
Total future lease payments	1,712
Less imputed interest	(227)
Total lease liability balance	1,485

NOTE 4 – EQUITY:

a. **Private Placement**

On March 16, 2023, the Company consummated a Stock Purchase Agreements for a private placement with (i) Moshe Arkin through his individual retirement account and (ii) The Phoenix Insurance Company Ltd. and Shotfut Menayot Israel – Phoenix Amitim, in connection with the sale and issuance of an aggregated amount of 3,294,117 units (collectively, the “Units”), at a purchase price of $4.25 per Unit, and for an aggregated purchase price of $14,000,000. Each Unit consists of: (i) one share of the Company’s common stock with par value of $0.001 per share (the “Common Stock”) and (ii) one warrant to purchase one share of Common Stock with an exercise price of $5.50 (the “Warrants”). The Warrants are immediately exercisable and will expire three years from the date of issuance and will be subject to customary adjustments.

Warrants:

As of September 30, 2023, the Company had the following outstanding warrants to purchase common stock:

Warrant	**Issuance Date**	**Expiration Date**	**Exercise Price Per Share ($)**	**Number of Shares of common stock Underlying Warrants**
March 2021 Warrant	March 29, 2021	March 31, 2026	10.35	2,469,156
March 2023 Warrant	March 27, 2023	March 26, 2026	5.50	3,294,117
				5,763,273

NOTE 4 – EQUITY (continued):

b. Stock-based compensation to employees, directors and service providers:

In February 2020, the Company's Board of Directors approved the 2020 Share Incentive Plan (the "Plan").

The Plan initially included a pool of 580,890 shares of common stock for grant to Company employees, consultants, directors and other service providers. On March 15, 2020, the Company's Board of Directors approved an increase to the option pool pursuant to the Plan by an additional 64,099 shares of common stock. On June 22, 2020, the Company's Board of Directors approved an increase to the option pool pursuant to the Plan by an additional 401,950 shares of common stock. During the second quarter of 2021, the Company's Board of Directors approved an increase to the option pool pursuant to the Plan by an additional 777,778 shares of common stock. During the first quarter of 2023, the Company's Board of Directors approved an increase to the option pool pursuant to the Plan by an additional 1,000,000 shares of common stock.

The Plan is designed to enable the Company to grant options to purchase shares of common stock and RSUs under various and different tax regimes including, without limitation: (i) pursuant and subject to Section 102 of the Israeli Tax Ordinance or any provision which may amend or replace it and any regulations, rules, orders or procedures promulgated thereunder and to designate them as either grants made through a trustee or not through a trustee; and (ii) pursuant and subject to Section 3 (i) of the Israeli Tax Ordinance.

Stock option activity

During the nine months ended September 30, 2023, the Company granted 684,000 options pursuant to the Plan.

The fair value of each option was estimated as of the date of grant or reporting period using the Black-Scholes option-pricing model, using the following assumptions:

	Nine months ended September 30, 2023
Underlying value of ordinary shares ($)	2.95-5.00
Exercise price ($)	3.0-4.5
Expected volatility (%)	37.39%-37.50%
Term of the options (years)	7
Risk-free interest rate	3.94%-4.47%

The cost of the benefit embodied in the options granted during the nine months ended September 30, 2023, based on their fair value as of the grant date, is estimated to be approximately $1,028 thousand. These amounts will be recognized in the statements of operations and comprehensive income over the vesting period.

The following table summarizes stock option activity for the nine months ended September 30, 2023:

	For the Nine months ended September 30, 2023	
	Amount of options	Weighted average exercise price
		$
Outstanding at beginning of period	1,560,040	3.64
Granted	684,000	3.13
Fortfeited	(29,117)	3.78
Outstanding at end of period	2,214,923	3.48
Vested at end of period	993,487	3.21

NOTE 4 – EQUITY (continued):

Restricted stock unit ("RSU") activity

Each RSU will vest based on continued service which is generally over three years. The grant date fair value of the award will be recognized as stock-based compensation expense over the requisite service period. The fair value of restricted stock units was estimated on the date of grant based on the fair value of the Company's common stock.

The following table summarizes RSU activity for the nine months ended September 30, 2023:

	For the Nine months ended September 30, 2023	
	Amount of RSUs	Weighted Average Grant Date Fair Value per Share
		$
Outstanding at beginning of period	50,000	6.32
Granted	25,000	3.20
Fortfeited	(7,501)	7.20
Vested	(24,996)	6.32
Unvested and Outstanding at end of period	42,503	4.33

The following table sets forth the total stock-based payment expenses resulting from options and RSU granted, included in the statements of operation and comprehensive income:

	Nine months ended September 30,		Three months ended September 30,	
	2023	2022	2023	2022
	Unaudited			
	USD in thousands			
Cost of revenues	11	37	6	(11)
Research and development	323	442	58	131
Sales and marketing expenses	83	134	21	35
General and administrative	639	1,303	286	304
Total expenses	1,056	1,916	371	459

NOTE 5 – REVENUES:

Disaggregation of revenue

	Nine months ended September 30, 2023		Three months ended September 30, 2023	
	2023	**2022**	**2023**	**2022**
	USD in thousands		**USD in thousands**	
Development Services (*)	317	211	105	105
Products	770	295	5	29
Revenue	1,087	506	110	134

(*) During the second quarter of 2022, the Company completed the development of the product relating to a customer-specific project for a Fortune 500 multinational healthcare corporation and moved from the development phase of the project to its production phase. As a result, during the nine months ended September 2023, the Company recognized development services revenues and related development costs that had been previously deferred, in the amount of $317 thousand. The amount was recognized based on the expected manufacturing term of the product, which the Company estimates at seven years.

In addition, following the commencement of the production phase, the Company recognized product revenues of $722 thousand during the nine months ended September 2023 from the sale of units of the product developed in the context of these development services.

Contract fulfillment assets and Contract liabilities:

The Company's contract fulfillment assets and contract liabilities as of September 30, 2023 and December 31, 2022 were as follows:

	September 30, 2023	December 31, 2022
	USD in thousands	
Contract fulfillment assets	1,316	1,495
Contract liabilities	2,851	3,644

Contract liabilities include deferred service revenue and advance payment.

The change in contract fulfillment assets:

	September 30, 2023	December 31, 2022
	USD in thousands	
Balance at beginning of the period	1,495	1,675
Contract costs recognized during the period	(179)	(180)
Balance at end of the period	1,316	1,495

The change in contract liabilities:

	September 30, 2023	December 31, 2022
	USD in thousands	
Balance at beginning of the period	3,644	2,420
Deferred revenue relating to new sales	-	1,613
Revenue recognized during the period	(793)	(389)
Balance at end of the period	2,851	3,644

Remaining Performance Obligations

Remaining Performance Obligations ("RPO") represents contracted revenue that has not yet been recognized, which includes deferred revenue and amounts that will be invoiced and recognized as revenue in future periods. As of September 30, 2023, the total RPO amounted to $2.9 million, which the Company expects to recognize over the expected manufacturing term of the product.

NOTE 6 - INVENTORY:

Composed as follows:

	September 30, 2023	December 31, 2022
	USD in thousands	
Raw materials and supplies	242	438
Work in progress	277	148
Finished goods	263	44
	782	630

During the period ended September 30, 2023, no impairment occurred.

NOTE 7 – LOSS PER SHARE

Basic loss per share is computed by dividing net loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares as described below.

In computing the Company's diluted loss per share, the numerator used in the basic loss per share computation is adjusted for the dilutive effect, if any, of the Company's potential shares of common stock. The denominator for diluted loss per share is a computation of the weighted-average number of ordinary shares and the potential dilutive ordinary shares outstanding during the period.

NOTE 8 – RELATED PARTIES

a. Balances with related parties:

	September 30 , 2023	December 31, 2022
	USD in thousands	
Directors (directors' accrued compensation)	43	48
Smartec R&D Ltd. (see b below)	9	10
	52	58

b. During nine months ended September 30, 2023 the Company received development services from Smartec R&D Ltd., a company owned by the Company's CTO.

Total compensation during the nine months ended September 30, 2023 and September 30, 2022 were approximately $29 thousands and $87 thousands, respectively.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

On April 2023, the Company received approval from the Israel Innovation Authority (previously the Office of the Chief Scientist), (the "IIA") to support and enhance the Company's production line and capabilities in the next 24 months until April 2025. Pursuant to the agreement with the IIA relating to the program, the Company has to pay royalties of 3% to the IIA up to the amount IIA funding received and the accrued interest repayment of the grant is contingent upon the Company successfully completing its enhancement plans and generating sales from the enhancements preformed. The Company has no obligation to repay these grants if its enhancement plans are not completed or aborted or if it generates no sales.

During the three months ended September 30, 2023 grants of $50 thousand recorded as cost of revenues in the consolidated statements.

NOTE 10 – SUBSEQUENT EVENTS

On October 7, 2023, subsequent to the reporting period, Hamas terrorists infiltrated Israel's southern border from the Gaza Strip and conducted a series of attacks on civilian and military targets, which led Israel to formally declare war on Hamas the next day. The war is ongoing as of the issuance date of these financial statements. At this stage, the Company does not expect substantial impact of the above-described events on its operations.

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

Readers are advised to review the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements and related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and the consolidated financial statements and related notes thereto in our Annual Report on Form 10-K for the year ended December 31, 2022. Some of the information contained in this discussion and analysis or set forth elsewhere in this Quarterly Report, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties. See "Cautionary Note Regarding Forward-Looking Statements". You should review the "Risk Factors" section of our Annual Report for the fiscal year ended December 31, 2022 for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Overview

Overview

The Company's primary business activities during last few months were:

- Production and supply of product to a Fortune 500 multinational healthcare corporation.
- Enlarging our focus on R&D activities in the domain of I4.0 (including PdM and CBM in sectors such as aerospace, maritime energy and other heavy machinery, engines and complicated mechanics which have a need for monitoring and predictive maintenance applications). The main effect of this activity was an increase in the number of employees to enable the Company to manage the anticipated increased workload and solution development activity.

Comparison of the Nine months ended September, 2023 and 2022

The following table summarizes our results of operations for the nine month period ended September 30, 2023 and 2022, together with the changes in those items in dollars and as a percentage:

	Nine months ended September 30,		
	2023	2022	% Change
Revenues	1,087,000	506,000	115%
Cost of Revenues	1,648,000	1,279,000	29%
Gross Loss	(561,000)	(773,000)	(27)%
Research and development expenses	4,107,000	3,023,000	36%
Sales and marketing expense	877,000	617,000	42%
General and administrative expenses	3,225,000	3,262,000	(1)%
Operating Loss	(8,770,000)	(7,675,000)	14%

Revenues

As a result of the nature of our target market and the current stage of our development, a substantial portion of our revenue comes from a limited number of customers.

For the nine months ended September 30, 2023, we generated revenues of $1,087,000, an increase of $581,000, or 115%, compared to revenues of $506,000 for the nine months ended September 30, 2022.

The increase in revenues was primarily due to the completion of development of the product relating to our miniature camera solution with a Fortune 500 company during the second quarter of 2022 and moving to production stage. Total revenues recorded from our miniature camera solution with the Fortune 500 company for the nine months ended September 30, 2023 amounted to approximately $1,039,000 compared to $433,000 for the nine months ended September 30, 2022.

Cost of Revenues

Cost of revenue is primarily comprised of cost of personnel including warehouse personnel costs, certain allocated facilities, and expenses associated with logistics and quality control.

Cost of revenues for the nine months ended September 30, 2023 was $1,648,000, an increase of $369,000, or 29%, compared to cost of revenues of $1,279,000 for the nine months ended September 30, 2022.

The increase was primarily due to an increase in material costs due to an increase in the number of products sold and supplied to the Fortune 500 company.

Gross Loss

Gross loss for the nine months ended September 30, 2023 was $561,000, a decrease of $212,000, or 27%, compared to gross loss of $773,000 for the nine months ended September 30, 2022.

The decrease was primarily due to increase in revenues partially offset by increase in cost of revenues, as described above.

Research and Development Expenses

Research and development efforts are focused on new product development and on developing additional functionality for our new and existing products. These expenses primarily consist of employee-related expenses, including salaries, benefits, and stock-based compensation expense for personnel engaged in research and development functions, consulting, and professional fees related to research and development activities, prototype materials, facility costs, and other allocated expenses, which include expenses for rent and maintenance of our facility, utilities, depreciation, and other supplies. We expense research and development costs as incurred.

Research and development expenses for the nine months ended September 30, 2023 were $4,107,000, an increase of $1,084,000, or 36%, compared to $3,023,000 for the nine months ended September 30, 2022.

The increase was primarily due to an increase in payroll expenses from additional employee recruitments, as result of enlarging our focus on R&D activities in the domain of I4.0.

We expect that our research and development expenses will increase as we continue to develop our products and service and recruit additional research and development employees to the I4.0 domain.

Sales and Marketing Expenses

Sales and marketing expenses primarily consist of payroll expenses, consulting services, promotional materials, exhibitions ,demonstration equipment, and certain allocated facility infrastructure costs.

Sales and marketing expenses for the nine months ended September 30, 2023 were $877,000, an increase of $260,000, or 42%, compared to $617,000 for the nine months ended September 30, 2022.

The increase was primarily due to recent rebranding activities (including expenses related to the changing of the name of the Company which include among other designing a new logo and promotional materials). In addition, during June 2023 the Company participated on Paris Air Show, the world's premier and largest event dedicated to the aviation and space industry.

This increase was partially offset by a decrease in payroll expenses (including stock-based compensation) due to the resignation of our VP Business Development during the fourth quarter of 2022.

We expect that our selling and marketing expenses will increase as we expand our selling and marketing efforts in the I4.0 domain.

General and Administrative Expenses

General and administrative expenses primarily consist of salaries and other related costs, including stock-based compensation, for personnel in executive, finance, and administrative functions. General and administrative expenses also include direct and allocated facility-related costs as well as professional fees for legal, patent, consulting, investor, public relations, accounting, auditing, tax services, and insurance costs.

General and administrative expenses for the nine months ended September 30, 2023 were $3,225,000, a decrease of $37,000, or 1%, compared to $3,262,000 for the nine months ended September 30, 2022.

Operating loss

We incurred an operating loss of $8,770,000 for the nine months ended September 30, 2023, an increase of $1,095,000, compared to operating loss of $7,675,000 for the nine months ended September 30, 2022.

The increase in operating loss was primarily due to an increase in expenses related to research and development and sales and marketing expenses, partially offset by a decrease in general and administrative expenses, each as described above.

Cash Flows

The following table sets forth the significant sources and uses of cash for the periods set forth below (in dollars):

	Nine month ended September 30,	
	2023	2022
Cash used in Operating Activity	(7,338,000)	(4,107,000)
Cash used in Investing Activity	(594,000)	(1,587,000)
Cash provided by Financing Activity	13,835,000	-

Operating Activities

Our primary uses of cash from operating activities have been for payroll expenses, research and development costs, manufacturing costs, marketing and promotional expenses, professional services cost and costs related to our facilities. We expect that our cash flows from operating activities will continue to increase due to an expected increase of expenses of our business and our working capital requirements.

During the nine months ended September 30, 2023, cash used in operating activities was $7.3 million, consisting of net loss of $8.1 million, an unfavorable net change in operating assets and liabilities of $0.5 million, partially offset by a non-cash benefit of $1.3 million. Our non-cash benefit consisted primarily of non-cash charges for stock-based compensation.

During the nine months ended September 30, 2022, cash used in operating activities was $4.1 million, consisting of net loss of $7.8 million, partially offset by a non-cash benefit of $1.9 million, a favorable net change in operating assets and liabilities of $1.4 million and loss from exchange differences on cash and cash equivalents of $0.3 million. Our non-cash benefit consisted primarily of non-cash charges of $1.4 million for stock-based compensation. The net change in our operating assets and liabilities primarily reflects cash inflows from changes in contract liability of $1.3 million.

Investing Activities

For the nine months ended September 30, 2023, net cash flows used in investing activities was $594,000, consisting mainly of investment, net on short-term deposits.

For the nine months ended September 30, 2022, net cash flows used in investing activities was $1,587,000, consisting mainly of investment, net on short-term deposits.

Financing Activities

During the nine months ended September 30, 2023, cash provided by financing activities was $13.9 million, consisting of cash proceeds from issuance of shares and warrants, net of issuance costs.

Comparison of the three months ended September 30, 2023 and 2022

The following table summarizes our results of operations for the three months period ended September 30, 2023, and 2022, together with the changes in those items in dollars and as a percentage:

	Three months ended September 30,		
	2023	2022	% Change
Revenues	110,000	134,000	(18)%
Cost of Revenues	321,000	430,000	(25)%
Gross Loss	(211,000)	(296,000)	(29)%
Research and development expenses	1,354,000	1,048,000	29%
Sales and marketing expense	208,000	171,000	22%
General and administrative expenses	1,099,000	810,000	36%
Operating Loss	(2,872,000)	(2,325,000)	24%

Revenues

For the three months ended September 30, 2023, we generated revenues of $110,000, a decrease of $24,000, or 18%, from the three months ended September 30, 2022.

The decrease in revenues was primarily due to an overall decrease in the sales of the Company's products.

Cost of Revenues

Cost of revenue is primarily comprised of cost of personnel including warehouse personnel costs, certain allocated facilities, and expenses associated with logistics and quality control.

Cost of revenues for the three months ended September 30, 2023 was $321,000, a decrease of $109,000, or 25%, compared to cost of revenues of $430,000 for the three months ended September 30, 2022.

The decrease was primarily due to a decrease in material costs and salary expenses, which were due to decrease in revenues.

Gross Loss

Gross loss for the three months ended September 30, 2023 was $211,000, a decrease of $85,000, or 29%, compared to gross loss of $296,000 for the three months ended September 30, 2022.

The decrease was primarily due to decrease in cost of revenues, partially offset by decrease in revenues as described above.

Research and Development Expenses

Research and development efforts are focused on new product development and on developing additional functionality for our new and existing products. These expenses primarily consist of employee-related expenses, including salaries, benefits, and stock-based compensation expense for personnel engaged in research and development functions, consulting, and professional fees related to research and development activities, prototype materials, facility costs, and other allocated expenses, which include expenses for rent and maintenance of our facility, utilities, depreciation, and other supplies. We expense research and development costs as incurred.

Research and development expenses for the three months ended September 30, 2023 were $1,354,000, an increase of $306,000, or 29%, compared to $1,048,000 for the three months ended September 30, 2022.

The increase was primarily due to an increase in payroll expenses from additional employee recruitments, as result of enlarging our focus on R&D activities in the domain of I4.0.

We expect that our research and development expenses will increase as we continue to develop our products and service and recruit additional research and development employees to the I4.0 domain.

Sales and Marketing Expenses

Sales and marketing expenses primarily consist of payroll expenses, consulting services, promotional materials, exhibitions ,demonstration equipment, and certain allocated facility infrastructure costs.

Sales and marketing expenses for the three months ended September 30, 2023 were $208,000, an increase of $37,000, or 22%, compared to $171,000 for the three months ended September 30, 2022.

The increase was primarily due to an increase in marketing activities.

We expect that our selling and marketing expenses will increase as we expand our selling and marketing efforts in the I4.0 domain.

General and Administrative Expenses

General and administrative expenses primarily consist of salaries and other related costs, including stock-based compensation, for personnel in executive, finance, and administrative functions. General and administrative expenses also include direct and allocated facility-related costs as well as professional fees for legal, patent, consulting, investor, public relations, accounting, auditing, tax services, and insurance costs.

General and administrative expenses for the three months ended September 30, 2023 were $1,099,000, an increase of $289,000, compared to $810,000 for the three months ended September 30, 2022.

The increase was primarily due to:

- Rent and maintenance expenses due to lease of new office space in Ramat Gan and

- Cancellation of a provision of $129,000 related to additional taxes due, following the entering into an agreement with the Israeli Tax Authority. On September 30, 2021, the Company accrued an amount of approximately NIS 740,000 ($229,000) for additional taxes due following a VAT audit by the Israeli Tax Authority for the years 2019-2021. In July 2022, the Company reached an agreement with the Israeli Tax Authority, according to which the amount due in additional taxes was reduced to approximately NIS 341,000 ($100,000).

Operating loss

We incurred an operating loss of $2,872,000 for the three months ended September 30, 2023, an increase of $547,000, compared to operating loss of $2,325,000 for the three months ended September 30, 2022.

The increase in operating loss was primarily due to increases in expenses related to research and development and sales and marketing expenses.

Cash Flows

The following table sets forth the significant sources and uses of cash for the periods set forth below (in dollars):

	Three month ended September 30,	
	2023	2022
Cash used in Operating Activity	(2,255,000)	(1,709,000)
Cash provided by (used in) Investing Activity	14,963,000	(3,045,000)
Cash used in Financing Activity	(78,000)	-

Operating Activities

Our primary use of cash from operating activities have been for payroll expenses, research and development costs, manufacturing costs, marketing and promotional expenses, professional services cost and costs related to our facilities. We expect that our cash flows from operating activities will continue to be increase due to the expected increase in spending on our business and our working capital requirements.

During the three months ended September 30, 2023, cash used in operating activities was $2.3 million, consisting of net loss of $2.5 million, an unfavorable net change in operating assets and liabilities of $0.3 million and a non-cash benefit of $0.5 million. Our non-cash benefit consisted primarily of non-cash charges of $0.3 million for stock-based compensation.

During the three months ended September 30, 2022, cash used in operating activities was $1.7 million, consisting of net loss of $2.2 million partially offset by a non-cash benefit of $0.5 million. Our non-cash benefit consisted primarily of non-cash charges for stock-based compensation.

Investing Activities

For the three months ended September 30, 2023, net cash provided by Investing Activity was $15 million, consisting mainly of withdrawal, net on short-term deposits.

For the three months ended September 30, 2022, net cash flows used in investing activities was $3,045,000, consisting mainly of investment, net in short terms deposits.

Financing Activities

For the three months ended September 30, 2023, net cash flows used in financing activities was $78,000, consisting of issuance expenses.

Liquidity and Capital Resources

As of September 30, 2023, we had cash and cash equivalents of $15.9 million and $3.6 million of short-term deposits compared to cash and cash equivalents $10.1 million and $3.0 million of short-term deposits as of December 31, 2022. In addition, as of September 30, 2023 we incurred an accumulated deficit of approximately $32.9 million, compared to $24.8 million as of December 31, 2022.

Our primary sources of liquidity to date have been from fund raisings and warrant exercises.

Additional Cash Requirements

We plan to continue to invest for long-term growth, and therefore we expect that our expenses will increase. We currently believe that our existing cash and cash equivalents and short-term deposits, as of November 13, 2023, will allow us to fund our operating plan through at least the next 12 months. We expect our expenses will increase in connection with our ongoing activities, particularly as we continue the research and development and the scale up process of our I4.0 solutions. We expect to incur significant commercialization expenses related to product sales, marketing, manufacturing, and distribution. Furthermore, we will continue to incur additional costs associated with operating as a public company. Accordingly, we will need to obtain substantial additional funding in connection with our continuing operations. We may raise these funds through equity financing, debt financing, or other sources, which may result in further dilution in the equity ownership of our common stock. There is no assurance that we will be able to maintain operations at a level sufficient for investors to obtain a return on their investment in our common stock, or that we will be able to raise sufficient capital required to implement our business plan on acceptable terms, if at all. Even if we are successful in raising sufficient capital to implement our business plan, we will, most likely, continue to be unprofitable for the foreseeable future. If we are unable to raise capital when needed or on attractive terms, we would be forced to delay, reduce, or eliminate our research and development programs or future commercialization efforts.

Off-Balance Sheet Arrangements

None.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

As a smaller reporting company, we are not required to provide the information requested by this Item.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and our principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Exchange Act Rule 13a-15(e). Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

No change in our internal control over financial reporting, as defined in Exchange Act Rule 13a-15(e), occurred during the fiscal quarter ended September 30, 2023 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we may become involved in legal proceedings relating to claims arising from the ordinary course of business. Our management believes that there are currently no claims or actions pending against us, the ultimate disposition of which could have a material adverse effect on our results of operations, financial condition or cash flows.

ITEM 1A. RISK FACTORS.

RISK FACTORS

We have updated and are restating below the information set forth in "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31,2022 as filed with the SEC on March 28, 2023.

Below is a summary of the principal factors that make an investment in the Company speculative or risky. This summary does not address all of the risks that we face. Additional discussion of the risks summarized in this risk factor summary, and other risks that we face, can be found below, after this summary, and should be carefully considered.

Risks Related to Our Business, Operations and Financial Condition

- We have had a limited operating history and may not be able to successfully operate our business or execute our business plan.
- If we are unable to establish sales, marketing and distribution capabilities or enter into successful relationships with business targets and third parties to perform these services, we may not be successful in commercializing our products and technology.
- We may require substantial additional funding, which may not be available to us on acceptable terms, or at all.
- Our failure to effectively manage growth could impair our business.
- Our commercial success depends upon the degree of market acceptance by prospective markets and industries.
- Weakened global economic conditions may harm our industry, business and results of operations.
- Our recent rebranding efforts to Odysight.ai may not be successful.
- The continuing effects of the COVID-19 pandemic are highly unpredictable and could be significant, and the duration and extent to which this will impact our future results of operations and overall financial performance remains uncertain.

Risk Related to Third Parties

- Our reliance on third-party suppliers for most of the components of our products, including miniature video sensors could harm our ability to meet demand for our products in a timely and cost-effective manner.
- We may not be able to manage our strategic partners.
- We may not have sufficient manufacturing capabilities to satisfy any growing demand for our products. We may be unable to control the availability or cost of producing such products.

Risks Related to Competition

- We expect to face some competition possibly from our customer. If we cannot successfully compete there might be adverse effect on the company.
- Failure to comply with anti-bribery, anti-corruption and anti-money laundering laws could subject us to penalties and other adverse consequences.

Risks Related to Intellectual Property

- We may not be able to obtain all possible patents or other intellectual property rights necessary to protect our proprietary technology and business.
- We may not be successful in enforcing our intellectual property rights against third parties.
- We may be subject to infringement claims and other litigation, which could adversely affect our business.
- Governmental regulation of non-practicing patent holders may adversely affect our business.

General Risk Factors Related to Our Business

- Our business and operations would suffer in the event of computer system failures, cyber-attacks, or deficiencies in our cyber-security.
- We may be subject to product liability claims, product actions, including product recalls, and other field or regulatory actions that could be expensive, divert management's attention, and harm our business.
- Testing of our technologies potential applications for our products will be required and there is no assurance of regulatory approval.
- We rely on highly skilled personnel, and, if we are unable to attract, retain, or motivate qualified personnel, we may not be able to operate our business effectively.
- We incorporate artificial intelligence, or AI, into some of our products. This technology is new and developing and may present both compliance and reputational risks

Risks Related to this Offering and Our Common Stock

- Although we have filed an application to list our Common Stock on Nasdaq, there can be no assurance that our Common Stock will be so listed or, if listed, that we will be able to comply with the continued listing standards.
- If the ownership of our Common Stock continues to be highly concentrated, it may prevent you and other minority stockholders from influencing significant corporate decisions and may result in conflicts of interest.
- Future resales of Common Stock may cause the market price of our Common Stock to drop significantly, even if our business is doing well.
- Trading on the OTC Markets is volatile, sporadic and often thin, which could depress the market price of our Common Stock and make it difficult for our stockholders to resell their Common Stock.
- Nevada law and provisions in our amended and restated articles of incorporation and amended and restated bylaws could make a merger, tender offer or proxy contest difficult, thereby depressing the market price of our Common Stock.
- The market price of our Common Stock may be highly volatile and such volatility could cause you to lose some or all of your investment.
- Because our Common Stock may be deemed a "penny stock," it may be more difficult for investors to sell shares of our Common Stock, and the market price of our Common Stock may be adversely affected.
- Compliance with the reporting requirements of federal securities laws can be expensive.
- Our investors' ownership in the Company may be diluted in the future.
- Directors, executive officers, principal stockholders, and affiliated entities own a significant percentage of our capital stock, and they may make decisions that our stockholders do not consider to be in their best interests.
- We do not anticipate paying any cash dividends in the foreseeable future.

Risks Related to our Operations in Israel

- We are subject to the risks of political, economic, health, and military instability in countries outside the United States in which we operate.
- Our offices and management team are located in Israel. Conditions in Israel, including the recent attack by Hamas and other terrorist organizations from the Gaza Strip and Israel's war against them, may affect our operations.
- In addition to the current war with Hamas, other political, economic, and military instability in Israel may impede our ability to operate and harm our financial results.
- It may be difficult for investors in the United States to enforce any judgments obtained against us or some of our directors or officers.
- Exchange rate fluctuations between foreign currencies and the U.S. Dollar may negatively affect our earnings.
- Certain technology developed and used by us received Israeli government grants for certain research and development activities. The terms of those grants require us to satisfy specified conditions in addition to repayment of the grants upon certain events.
- 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.

You should carefully consider the risks described below, as well as the financial or other information in this prospectus, including our consolidated financial statements and the related notes, before deciding whether to invest in our securities. The risks and uncertainties described below are not the only risks we face. We may face additional risks and uncertainties not currently known to us or that we currently deem to be immaterial. Any of the risks described below, and any such additional risks, could materially adversely affect our business, financial condition or results of operations. In such case, you may lose all or part of your original investment.

Risks Related to Our Business, Operations and Financial Condition

We have had a limited operating history and may not be able to successfully operate our business or execute our business plan.

Given our limited operating history, it is hard to evaluate our proposed business and prospects. Our proposed business operations will be subject to numerous risks, uncertainties, expenses, and difficulties associated with early-stage enterprises. Such risks include, but are not limited to, the following:

- the absence of a lengthy operating history;
- potential for ongoing operating losses;
- operating in multiple currencies;
- our ability to anticipate and adapt to a developing market(s);
- acceptance of our products by the medical and industrial (I4.0) markets and consumers;
- introducing innovation to conservative industries;
- development risks and implementation of new software and algorithm for AI and cloud utilization;
- insufficient capital to fully realize our operating plan;
- a competitive environment;
- the ability to identify, attract, and retain qualified personnel; and
- operating in an environment that is highly regulated by a number of agencies.

Because we are subject to these risks, evaluating our business may be difficult, our business strategy may be unsuccessful and we may be unable to address such risks in a cost-effective manner, if at all. We have not earned a profit in any full fiscal year since our inception, and we cannot be certain as to when or if we will achieve or maintain profitability. If we are unable to successfully address these risks our business could be harmed.

If we are unable to establish sales, marketing and distribution capabilities or enter into successful relationships with business targets and third parties to perform these services, we may not be successful in commercializing our products and technology.

Given that we are currently as a B2B company, our business is reliant on our ability to successfully attract potential business targets. Furthermore, we have a limited sales and marketing infrastructure and have limited experience in the sale, marketing, or distribution of our technologies beyond the B2B model. To achieve commercial success for our technologies or any future developed product, we will need to establish a sales and marketing infrastructure or to out-license such future products.

In the future, we may consider building a focused sales and marketing infrastructure to market any developed products and potentially other products in the United States or elsewhere in the world. There are risks involved with establishing our own sales, marketing, and distribution capabilities. For example, recruiting, and training a sales force could be expensive and time consuming and could delay any product launch. This may be costly, and our investment would be lost if we cannot retain or reposition our sales and marketing personnel.

Factors that may inhibit our efforts to commercialize any future products on our own include:

- we have not recruited adequate numbers of effective sales and marketing personnel;
- the challenge of sales personnel to obtain access to potential customers;
- the lack of complementary products to be offered by sales personnel or lack of product-market fit, which may put us at a competitive disadvantage relative to companies with more extensive product lines; and
- unforeseen costs and expenses associated with creating an independent sales and marketing organization.

If we are unable to establish our own sales, marketing, and distribution capabilities or enter into successful arrangements with third parties to perform these services, we will not be successful in commercializing our technologies or any future products we may develop, and our revenues and profitability may be materially adversely affected.

We may require substantial additional funding, which may not be available to us on acceptable terms, or at all.

Our cash and short-term deposit balance as of September 30, 2023 was $19.5 million. We may require additional funding to fund and grow our operations and to develop certain products. There can be no assurance that financing will be available in amounts or on terms acceptable to us, if at all. In the event we require additional capital, the inability to obtain such capital will restrict our ability to grow and may reduce our ability to continue to conduct business operations. If we require and are unable to obtain additional financing, we will likely be required to curtail our development plans. In that event, current stockholders would likely experience a loss of most or all of their investment. Additional funding may be dilutive to the interests of existing stockholders.

Our failure to effectively manage growth could impair our business.

Our business strategy contemplates a period of rapid growth which may put a strain on our administrative and operational resources, and our funding requirements. Our ability to effectively manage growth will require us to successfully expand the capabilities of our operational and management systems, and to attract, train, manage, and retain qualified personnel. There can be no assurance that we will be able to do so, particularly if losses continue and we are unable to obtain sufficient financing. If we are unable to appropriately manage growth, our business, prospects, financial condition, and results of operations could be adversely affected.

Our commercial success depends upon the degree of market acceptance by such prospective markets and industries as defense and aviation, as well as by the medical community.

Our current business model is that of a B2B approach in which we seek to identify target businesses interested in integrating our technology or commissioning individual projects using our technology. Any product that we commission or that is brought to the market may or may not gain market acceptance by prospective customers. The commercial success of our technologies, commissioned products, and any future product that we may develop depends in part on the medical community as well as other industries for various use cases, depending on the acceptance by such industries of our commissioned products as a useful and cost-effective solution compared to current technologies. During 2022, we commenced proactive market penetration into industries other than the biomedical sector, such as the defense and aviation industries. If our technology or any future product that we may develop does not achieve an adequate level of acceptance, or does not garner significant commercial appeal, we may not generate significant revenue and may not become profitable. The degree of market acceptance will depend on a number of factors, including:

- the cost, safety, efficacy/performance, perceived value and convenience of our technology and any commissioned product and any future product that we may develop in relation to alternative products;
- the ability of third parties to enter into relationships with us;
- the effectiveness of our sales and marketing efforts;
- the strength of marketing and distribution support for, and timing of market introduction of, competing technology and products; and
- publicity concerning our technology or commissioned products or competing technology and products.

Our efforts to penetrate industries and educate the marketplace on the benefits of our technology, and reasons to seek the commissioning of products based on our technology, may require significant resources and may never be successful. Such efforts to educate the marketplace may require more resources than are required by conventional technologies.

Weakened global economic conditions may harm our industry, business and results of operations.

Our overall performance depends in part on worldwide economic conditions. Global financial developments and downturns seemingly unrelated to us or may harm us. The United States and other key international economies have been affected from time to time by falling demand for a variety of goods and services, restricted credit, reduced liquidity, reduced corporate profitability, volatility in credit, equity and foreign exchange markets, bankruptcies, inflation and overall uncertainty with respect to the economy, including with respect to tariff and trade issues. Weak economic conditions or the perception thereof, or significant uncertainty regarding the stability of financial markets related to stock market volatility, inflation, recession, changes in tariffs, trade agreements, or governmental fiscal, monetary and tax policies, among others, could adversely impact our business, financial condition and operating results.

More recently, inflation rates in the U.S. have been higher than in previous years, which may result in decreased demand for our products and services, increases in our operating costs including our labor costs, constrained credit and liquidity, reduced government spending and volatility in financial markets. The Federal Reserve has raised, and may again raise, interest rates in response to concerns over inflation risk. Increases in interest rates on credit and debt that would increase the cost of any borrowing that we may make from time to time and could impact our ability to access the capital markets. Increases in interest rates, especially if coupled with reduced government spending and volatility in financial markets, may have the effect of further increasing economic uncertainty and heightening these risks. In an inflationary environment, we may be unable to raise the sales prices of our products at or above the rate at which our costs increase, which could reduce our profit margins and have a material adverse effect on our financial results and net income. We also may experience lower than expected sales and potential adverse impacts on our competitive position if there is a decrease in consumer spending or a negative reaction to our pricing. A reduction in our revenue would be detrimental to our profitability and financial condition and could also have an adverse impact on our future growth.

Our recent rebranding efforts to Odysight.ai may not be successful.

On June 8, 2023, we announced an extensive corporate rebranding initiative, changing our name to Odysight.ai. Customers, suppliers and partners may be confused by or disapprove of our name change, leading to disruptions in our business and results of operations, and investors may not recognize us under our new name, or understand or appreciate our rebranding efforts, which could materially and adversely impact the trading price of our Common Stock.

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

The extent to which the COVID-19 pandemic ultimately impacts our business will depend on future developments, which are highly uncertain and cannot be predicted, such as the duration of future outbreaks, including current and subsequent variants of COVID-19, travel restrictions and social distancing in Israel, the United States and other countries, business closures or business disruptions, and the effectiveness of actions taken in Israel, the United States and other countries to contain and treat the disease and to address its impact, including on financial markets or otherwise. These measures have impacted, and may further impact, our suppliers and other business partners from conducting business activities as usual (including, without limitation, the availability and pricing of materials, manufacturing and delivery efforts, clinical trials, and other aspects that may affect our business) for an unknown period of time. In addition, we, our suppliers and other business partners may experience significant impairments of business activities due to operational shutdowns or suspensions that may be requested or mandated by national or local governmental authorities or self-imposed by us, our suppliers or other business partners.

Risk Related to Third Parties

Our reliance on third-party suppliers for most of the components of our products could harm our ability to meet demand for our products in a timely and cost-effective manner.

We rely on our third-party suppliers to obtain an adequate supply of quality components on a timely basis with favorable terms to manufacture our commissioned products. Some of those components that we sell are provided to us by a limited number of suppliers. We will be subject to disruptions in our operations if our sole or limited supply contract manufacturers decrease or stop production of components or do not produce components and products of sufficient quantity or quality. Alternative sources for our components will not always be available.

Though we attempt to ensure the availability of more than one supplier for each important component in any product that we commission, the number of suppliers engaged in the provision of miniature video sensors which are suitable for our CMOS technology mainly in the medical domain is very limited, and therefore in some cases we engage with a single supplier, which may result in our dependency on such supplier. This is the case regarding sensors for the CMOS type technology that are produced by a single supplier in the United States. As we do not have a direct general contract in place with this supplier, there is no contractual commitment on the part of such supplier for any set quantity of such sensors. The loss of our sole supplier in providing us with miniature sensors for our CMOS technology products mainly in the medical domain, and our inability or delay in finding a suitable replacement supplier, could negatively affect our business, financial condition, results of operations, and reputation.

We are also subject to other risks inherent in the manufacturing of our products and their supply chain, including industrial accidents, natural disasters (including as a result of climate change), environmental events, strikes, and other labor disputes, capacity constraints, disruptions in material or packaging supplies, as well as global shortages, disruptions in supply chain or information technology, loss or impairment of key manufacturing sites or suppliers, product quality control, safety, increase in commodity prices and energy costs, licensing requirements and other regulatory issues, as well as other external factors over which we have no control. If such an event were to occur, it could have an adverse effect on our business, financial condition, and results of operations.

In addition, if we cannot supply commissioned products or future potentially developed products due to a lack of components or are unable to utilize other components in a timely manner, our business will be significantly harmed. If inventory shortages occur, they could be expected to have a material and adverse effect on our future revenues and ability to effectively project future sales and operating results.

We may not be able to manage our strategic partners effectively.

We have entered into, and we may continue to enter into, strategic alliances with third parties to gain access to new and innovative technologies and markets. These parties are often large, established companies. Negotiating and performing under these arrangements involves significant time and expense, and we may not have sufficient resources to devote to our strategic alliances, particularly those with companies that have significantly greater financial and other resources than we do. The anticipated benefits of these arrangements may never materialize and performing under these arrangements may adversely affect our results of operations.

Failure to manage our current partners effectively or enter into new strategic alliances may affect our success in executing our business plan and may adversely affect our business, financial condition, and results of operation. We may not realize the anticipated benefits of any or all partnerships or may not realize them in the time frame expected.

We may not have sufficient manufacturing capabilities to satisfy any growing demand for our commissioned products. We may be unable to control the availability or cost of producing such products.

Our current manufacturing capabilities may not reach the required production levels necessary in order to meet growing demands for any products we may commission or future products we may develop. There can be no assurance that our commissioned products can be manufactured at our desired commercial quantities, in compliance with our requirements, and at an acceptable cost. Any such failure could delay or prevent us from shipping said products and marketing our technologies in accordance with our target growth strategies.

Risks Related to Competition

We expect to face competition. If we cannot successfully compete with new or existing technologies or future developed products, our marketing and sales will suffer, and we may never be profitable.

We expect to compete against existing technologies and proven products in different industries. In addition, some of these competitors, either alone or together with their collaborative partners, operate larger research, and development programs than we do, and may have substantially greater financial resources than we do, as well as significantly greater experience in obtaining regulatory approvals applicable to the commercialization of relevant competitive technologies and future products.

Failure to comply with anti-bribery, anti-corruption and anti-money laundering laws could subject us to penalties and other adverse consequences.

We are subject to the U.S. Foreign Corrupt Practices Act, or the FCPA, Chapter 9 (sub-chapter 5) of the Israeli Penal Law, 5737-1977, and the Israeli Prohibition on Money Laundering Law, 5760-2000, collectively, the Israeli Anti-Corruption Laws, and the UK Bribery Act 2010, or UK Bribery Act, and other anticorruption, anti-bribery and anti-money laundering laws in the jurisdictions in which we do business, both domestic and abroad. These laws generally prohibit us and our employees from improperly influencing government officials or commercial parties in order to obtain or retain business, direct business to any person or gain any advantage. The FCPA, the Israeli Anti-Corruption Laws, the UK Bribery Act, and other applicable anti-bribery and anti-corruption laws also may hold us liable for acts of corruption and bribery committed by our third-party business partners, representatives and agents. In addition, we leverage third parties to sell our products and conduct our business abroad. We and our third-party business partners, representatives and agents may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities and we may be held liable for the corrupt or other illegal activities of these third-party business partners and intermediaries, our employees, representatives, contractors, channel partners and agents, even if we do not explicitly authorize such activities. These laws also require that we keep accurate books and records and maintain internal controls and compliance procedures designed to prevent any such actions. While we have policies and procedures to address compliance with such laws, we cannot assure you that our employees and agents will not take actions in violation of our policies or applicable law, for which we may be ultimately held responsible and our exposure for violating these laws increases as our international presence is established and as we increase sales and operations in foreign jurisdictions. Any violation of the FCPA, the Israeli Anti-Corruption Laws, the UK Bribery Act, or other applicable anti-bribery, anti-corruption laws and anti-money laundering laws could result in whistleblower complaints, adverse media coverage, investigations, imposition of significant legal fees, loss of export privileges, severe criminal or civil sanctions or suspension or debarment from U.S. government contracts, substantial diversion of management's attention, a decline in the market price of our Common Stock or overall adverse consequences to our reputation and business, all of which may have an adverse effect on our results of operations and financial condition.

Risks Related to Intellectual Property

We may not be able to obtain patents or other intellectual property rights necessary to protect our proprietary technology and business.

We may seek to patent concepts, components, processes, designs and methods, and other inventions and technologies that we consider to have commercial value or that will likely give us a technological advantage. Despite devoting resources to the research and development of proprietary technology, we may not be able to develop technology that is patentable or protectable. Patents may not be issued in connection with pending patent applications, and claims allowed may not be sufficient to allow them to use the inventions that they create exclusively. Furthermore, any patents issued could be challenged, re-examined, held invalid or unenforceable, or circumvented and may not provide sufficient protection or a competitive advantage. In addition, despite efforts to protect and maintain patents, competitors and other third parties may be able to design around their patents or develop products similar to our work products that are not within the scope of their patents. Finally, patents provide certain statutory protection only for a limited period of time that varies depending on the jurisdiction and type of patent.

Prosecution and protection of the rights sought in patent applications and patents can be costly, lengthy, and uncertain, often involve complex legal and factual issues, and consume significant time and resources. In addition, the breadth of claims allowed in our patents, their enforceability, and our ability to protect and maintain them cannot be predicted with any certainty. The laws of certain countries may not protect intellectual property rights to the same extent as the laws of the United States. Even if our patents are held to be valid and enforceable in a certain jurisdiction, any legal proceedings that we may initiate against third parties to enforce such patents will likely be expensive, take significant time, and divert management's attention from other business matters. We cannot assure that any of our issued patents or pending patent applications provide any protectable, maintainable, or enforceable rights or competitive advantages to us.

In addition to patents, we plan to rely on a combination of copyrights, trademarks, trade secrets, and other related laws and confidentiality procedures and contractual provisions to protect, maintain, and enforce our proprietary technology and intellectual property rights in the United States and other countries. However, our ability to protect our brands by registering certain trademarks may be limited. In addition, while we will generally enter into confidentiality and nondisclosure agreements with our employees, consultants, contract manufacturers, distributors and resellers, and with others to attempt to limit access to and distribution of our proprietary and confidential information, it is possible that:

- misappropriation of our proprietary and confidential information, including technology, will nevertheless occur;
- our confidentiality agreements will not be honored or may be rendered unenforceable;
- third parties will independently develop equivalent, superior, or competitive technology or products;
- disputes will arise with our current or future strategic licensees, customers, or others concerning the ownership, validity, enforceability, use, patentability, or registrability of intellectual property; or
- unauthorized disclosure of our know-how, trade secrets, or other proprietary or confidential information will occur.

We may not be successful in enforcing our intellectual property rights against third parties.

Unlicensed copying and use of our intellectual property or infringement of our intellectual property rights may result in the loss of revenue to us and cause us other harm. We seek diligently to enforce our intellectual property rights. Although we devote significant resources to developing and protecting our technologies and evaluating potential competitors of our technologies for infringement of our intellectual property rights, these infringements may nonetheless go undetected or may arise in the future. In the ordinary course of business, we encounter companies that we suspect are infringing on our intellectual property rights. When we encounter a company that we suspect is infringing our intellectual property rights, we may try to analyze their products and/or try to negotiate a license arrangement with such party. If we try and are unable to negotiate a license or secure the agreement of such alleged infringing party to cease its activities, we must make decisions as to how best to enforce our intellectual property rights.

The process of negotiating a license with a third party can be lengthy and may take months or even years in some circumstances. Even if we are successful in securing a license agreement, there can be no assurance that our technologies will be used in a product that is ultimately brought to market, achieves commercial acceptance or results in significant royalties to us. We generally incur expense prior to entering into our license agreements, generating a license fee, and establishing a royalty stream from each customer. We may incur costs in any particular period before any associated revenue stream begins, if at all. Further, it is possible that third parties who we believe are infringing our intellectual property rights are unwilling to license our intellectual property from us on terms we can accept, or at all.

If we cannot persuade a third party who we believe is infringing our technology to enter into a license with us, we may be required to consider other alternatives to enforce our rights, including commencing litigation. The decision to commence litigation over infringement of a patent is complex and may lead to several risks to us, including the following, among others:

- the time, significant expense and distraction to management of managing such litigation;
- the uncertainty of litigation and its potential outcomes;
- the possibility that in the course of such litigation, the defendant may challenge the validity of our patents, which could result in a re-examination or post grant review of our patents and the possibility that our patents may be limited in scope or invalidated altogether;
- the potential that the defendant may successfully persuade a court that their technology or products do not infringe our intellectual property rights;
- the impact of such litigation on other licensing relationships we have or seek to establish, including the timing of renewing or entering into such relationships, as applicable, as well as the terms of such relationships; and
- adverse publicity to us or harm to relationships we have with customers or others.

Also, enforcement of patent protection throughout the world is generally established on a country-by-country basis and we may not have as much success enforcing our patents in foreign jurisdictions as in the United States. Further, in some instances, certain foreign governmental entities that might infringe our intellectual property rights may enjoy sovereign immunity from such claims. Consequently, effective protection of our intellectual property rights may be unavailable or limited.

Defendants in any litigation we consider commencing may have substantially greater financial and management resources necessary to manage litigation than we have. Further, such potential defendants may also have their own substantial patent portfolio. Patent litigation can endure for years and result in millions of dollars of expenses. If our counterparties in such litigation have substantially greater resources than we have, we may not be able to withstand the time, expense, or distraction of the litigation, even though we may have a better litigation position than such counterparties. In such instances we may not recover the expenses of litigation, and we may be required to enter into settlement agreements that would be adverse to us or our intellectual property portfolio.

The foregoing and other factors may cause us not to file or continue litigation against alleged infringers of our intellectual property rights, or may cause us not to file for, or pursue, patent protection for our inventive technology, in certain jurisdictions. Our failure to seek to enforce our intellectual property rights may weaken our ability to enforce our intellectual property in the future or make our efforts to license our intellectual property rights more difficult.

If we fail to protect our intellectual property rights adequately, if there are adverse changes in applicable laws, or if we become involved in litigation relating to our intellectual property rights or the intellectual property rights of others, our business could be seriously harmed. In such cases, the value ascribed to our intellectual property could diminish, we may incur significant legal expenses that could harm our results of operations, and our patents or other intellectual property rights may be limited or invalidated. Any of the foregoing could have a negative effect on the value of our Common Stock.

We may be subject to infringement claims and other litigation, which could adversely affect our business.

As more companies engage in business activities relating to predictive maintenance solutions, and develop corresponding intellectual property rights, it is increasingly likely that claims may arise which assert that some of our products or services infringe upon other parties' intellectual property rights. These claims could subject us to costly litigation and divert management resources. These claims may require us to pay significant damages, cease production of infringing products, terminate our use of infringing technology, or develop non-infringing technologies. In these circumstances, continued use of our technology may require that we acquire licenses to the intellectual property that is the subject of the alleged infringement, and we might not be able to obtain these licenses on commercially reasonable terms or at all. Our use of protected technology may result in liability that could threaten our continued operation.

Some of the contracts with our customers include indemnity and similar provisions regarding our non-infringement of third-party intellectual property rights. As deployment of our technology increases, and more companies enter our markets, the likelihood of a third-party lawsuit resulting from these provisions increases. If an infringement arose in a context governed by such a contract, we may have to refund to our customer amounts already paid to us or pay significant damages, or we may be sued by the party whose intellectual property has allegedly been infringed upon.

Governmental regulation of non-practicing patent holders may adversely affect our business.

Governmental policymakers and commercial participants have proposed reforming U.S. patent laws and regulations in a manner that may limit a patent-holder's ability to enforce its patents against others to the extent that the holder is not practicing the subject matter of the patent at issue. The U.S. International Trade Commission has also recently taken certain actions that have been viewed as unfavorable to patentees seeking recourse in this forum. While we cannot predict what form any new patent reform laws or regulations may ultimately take, or what impact they may have on our business, any laws or regulations that restrict our ability to enforce our patent rights against third parties could have a material adverse effect on our business.

General Risk Factors Related to Our Business

Our business and operations would suffer in the event of computer system failures, cyber-attacks, or deficiencies in our cyber-security.

Security incidents involving our information technology systems and those of third parties on which we rely have occurred in the past, such as phishing attacks, although none of these incidents have been material to our business. Such security incidents may occur in the future. Despite the implementation of security measures, our internal computer systems, and those of third parties on which we rely, are vulnerable to damage from computer viruses, malware, natural disasters, terrorism, war, telecommunication and electrical failures, cyber-attacks or cyber-intrusions over the Internet, attachments to emails, persons inside our organization, or persons with access to systems inside our organization. The risk of a security breach or disruption, particularly through cyber-attacks or cyber intrusion, including by computer hackers, foreign governments, and cyber terrorists, has generally increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. If such an event were to occur and cause interruptions in our operations, it could result in a material disruption of our product development programs. To the extent that any disruption or security breach was to result in a loss of or damage to our data or applications, or inappropriate disclosure of confidential or proprietary information, we could incur material legal claims and liability, and damage to our reputation, and the further development of our product candidates could be delayed. We face an increasingly difficult challenge to attract and retain highly qualified security personnel to assist us in combatting these security threats.

We may be subject to product liability claims, product actions, including product recalls, and other field or regulatory actions that could be expensive, divert management's attention, and harm our business.

Our business exposes us to potential liability risks, product actions, and other field or regulatory actions that are inherent in the manufacturing, marketing and sale of medical device, or any other products that we may have commissioned for a target business. We may be held liable if such products cause injury or death or are found otherwise unsuitable or defective during usage. Our products incorporate mechanical and electrical parts, complex computer software, and other sophisticated components, any of which can contain errors or failures. Complex computer software is particularly vulnerable to errors and failures, especially when first introduced. In addition, new products or enhancements to our existing products may contain undetected errors or performance problems that, despite testing, are discovered only after installation.

If any of our commissioned products are defective, whether due to design or manufacturing defects, improper use of the product, or other reasons, we may voluntarily or involuntarily undertake an action to remove, repair, or replace the product at our expense. In some circumstances we will be required to notify regulatory authorities of an action pursuant to a product failure.

We cannot ensure that provisions in our customer contracts will be legally sufficient to protect us if we are subjected to legal action. In addition, our errors and omissions and product liability insurance coverage may not be completely adequate, may not continue to be available on reasonable terms or in sufficient amounts to cover one or more large claims, or the insurer may disclaim coverage as to some types of future claims. The successful assertion of any large claim against us could seriously harm our business. Even if not successful, these claims may result in significant legal and other costs, be a distraction to our management and harm our reputation.

Testing of our technologies potential applications for our products will be required and there is no assurance of regulatory approval.

The effect of government regulation and the need for compliance may delay marketing of our technologies and future potentially developed products for a considerable period of time, impose costly procedures upon our activities, and provide an advantage to larger companies that compete with us. There can be no assurance that we will be able to achieve regulatory compliance for any of our products. Any such delay in achieving such regulatory compliance would materially and adversely affect the marketing of any contemplated products and the ability to earn product revenue. Further, regulation of manufacturing facilities by state, local, and other authorities is subject to change. Any additional regulation could result in limitations or restrictions on our ability to utilize any of our technologies, thereby adversely affecting our operations. Various federal and foreign statutes and regulations also govern or influence the manufacturing, safety, labeling, storage, record keeping, and marketing of our products. The process of compliance with relevant U.S. and foreign statutes and regulations are time-consuming and require the expenditure of substantial resources. In addition, these requirements and processes vary widely from country to country.

We rely on highly skilled personnel, and if we are unable to attract, retain, or motivate qualified personnel, we may not be able to operate our business effectively.

Our success depends in large part on continued employment of senior management and key personnel who can effectively operate our business, as well as our ability to attract and retain skilled employees. Competition for highly skilled management, technical, research and development, and other employees is intense, and we may not be able to attract or retain highly qualified personnel in the future. Our long-term incentive programs may not be attractive enough or perform sufficiently to attract or retain qualified personnel.

If a significant portion of our employees leaves us, we might fail to effectively manage a transition to new personnel, or if we fail to attract and retain qualified and experienced professionals on acceptable terms, our business, financial condition, and results of operations could be adversely affected.

Our success also depends on our having highly trained financial, technical, R&D, sales, and marketing personnel. We will need to continue to hire additional personnel as our business grows. A shortage in the number of people with these skills or our failure to attract them to our Company could impede our ability to increase revenues from our existing technology and services, ensure full compliance with international and federal regulations, or launch new product offerings and would have an adverse effect on our business and financial results.

Further, the volatility of our stock price may make our equity compensation less attractive to current and potential employees.

We may be unable to keep pace with changes in technology as our business and market strategy evolves.

We will need to respond to technological advances in a cost-effective and timely manner in order to remain competitive. The need to respond to technological changes may require us to make substantial, unanticipated expenditures. There can be no assurance that we will be able to respond successfully to technological change.

We incorporate artificial intelligence, or AI, into some of our products. This technology is new and developing and may present both compliance and reputational risks.

Because we develop our own algorithms and learning capabilities in the artificial intelligence ("AI") capabilities that we incorporate into some of our products, and because the software solutions we create, implement, and maintain are often critical to some of our potential customers' platforms, we may experience some system and service failures, schedule or delivery delays and other problems in connection with our AI work. If we experience these problems, we may lose revenue due to adverse customer reactions, including postponement, cancellation or failure to renew contracts; be required to provide additional services to a customer at no charge; receive negative publicity, which could damage our reputation and adversely affect our ability to attract or retain customers; and suffer legal action for substantial damages.

Risks Related to this Offering and Our Common Stock

Although we have filed an application to list our Common Stock on Nasdaq, there can be no assurance that our Common Stock will be so listed or, if listed, that we will be able to comply with the continued listing standards.

In June 2021, we filed a listing application with The Nasdaq Stock Market, or Nasdaq, to request an uplisting of our Common Stock. Although Nasdaq did not approve our application at that time, we have maintained the active status of our application since then. However, due to Nasdaq listing requirements, we do not expect that our application for listing will be approved until after we file our Annual Report on Form 10-K in 2024 for the fiscal year ended December 31, 2023, at the earliest. Even then, there can be no assurance that Nasdaq will approve our Common Stock for listing on The Nasdaq Capital Market. Even if our Common Stock is eventually listed, we cannot assure you that we will be able to maintain such listing. In addition, if after listing, Nasdaq delists our Common Stock from trading on its exchange for failure to meet the continued listing standards, we and our shareholders could face significant material adverse consequences, including a limited availability of market quotations for our Common Stock, consequences related to being designated "penny stock", if applicable, and a decreased ability to issue additional securities or obtain additional financing in the future.

If the ownership of our Common Stock continues to be highly concentrated, it may prevent you and other minority stockholders from influencing significant corporate decisions and may result in conflicts of interest.

Mr. Arkin, who beneficially owns approximately 55.62% of our Common Stock, holds approximately 44.59% of the current voting power in our Company and may exercise warrants and options which could increase his voting power to 55.62%. As a result, Mr. Arkin will likely control any action requiring a stockholder vote, including: the election of directors; mergers, consolidations and acquisitions; the sale of all or substantially all of our assets and other decisions affecting our capital structure; the amendment of our amended and restated certificate of incorporation and our amended and restated bylaws; and our winding up and dissolution. This concentration of ownership may delay, deter or prevent acts that would be favored by our other stockholders. The interests of Mr. Arkin may not always coincide with our interests or the interests of our other stockholders. This concentration of ownership may also have the effect of delaying, preventing or deterring a change in control of our Company. Also, Mr. Arkin may seek to cause us to take courses of action that, in his judgment, could enhance his investment in our Company, but which might involve risks to our other stockholders or adversely affect us or our other stockholders, including investors in this offering. As a result, the market price of our Common Stock could decline or stockholders might not receive a premium over the then-current market price of our Common Stock upon a change in control. In addition, this concentration of share ownership may adversely affect the trading price of our Common Stock because investors may perceive disadvantages in owning shares in a company with significant stockholders.

Future resales of Common Stock may cause the market price of our Common Stock to drop significantly, even if our business is doing well.

Sales of a substantial number of shares of our Common Stock in the public market could occur at any time, including by the Selling Stockholders pursuant to a registration statement on Form S-1 that has been filed with the Securities and Exchange Commission but has not yet been declared effeceive. These sales, or the perception in the market that such sales can occur, could reduce the market price of our Common Stock and increase the volatility in the market price of our Common Stock. Further, the sale of a substantial portion of shares of our Common Stock could result in a change of control, which could impact the market price and liquidity of our Common Stock.

Trading on the OTC Markets is volatile, sporadic and often thin, which could depress the market price of our Common Stock and make it difficult for our stockholders to resell their Common Stock.

Our Common Stock is currently quoted on the OTCQB tier of the OTC Markets. Trading in securities quoted on the OTC Markets is often thin and characterized by wide fluctuations in trading prices due to many factors, some of which may have little to do with our operations or business prospects. This volatility could depress the market price of our Common Stock for reasons unrelated to operating performance. Moreover, the OTC Markets is not a stock exchange, and trading of securities on the OTC Markets is often more sporadic than the trading of securities listed on a stock exchange like NASDAQ or the NYSE. Our Common Stock has a history of thin trading. During the 52-week period ended December 31, 2022, trades were only reported on 37 trading days. These factors may result in investors having difficulty reselling any shares of our Common Stock.

Anti-takeover provisions contained in our articles and bylaws, as well as provisions of Nevada law, could impair a takeover attempt.

Our amended and restated articles of incorporation and bylaws currently contain provisions that, together with Nevada law, could have the effect of rendering more difficult or discouraging an acquisition deemed undesirable by our board of directors. Our corporate governance documents presently include provisions such as providing for a "staggered" board of directors in which only one-third (1/3) of the directors can be elected in any year, and limiting the liability of, and providing indemnifications to, our directors and officers. These provisions, alone or together, could delay hostile takeovers and changes in control of our Company or changes in our management.

As a Nevada corporation, we may also become subject to the provisions of Nevada Revised Statutes Sections 78.378 through 78.3793, which prohibit an acquirer, under certain circumstances, from voting shares of a corporation's stock after crossing specific threshold ownership percentages, unless the acquirer obtains the approval of the stockholders of the issuer corporation. The first such threshold is the acquisition of at least one-fifth, but less than one-third of the outstanding voting power of the issuer. We may become subject to the above referenced Statutes if we have 200 or more stockholders of record, at least 100 of whom are residents of the State of Nevada and do business in the State of Nevada directly or through an affiliated corporation.

Any provision of our amended and restated articles of incorporation, our bylaws or Nevada law that has the effect of delaying or deterring a change in control of our Company could limit the opportunity for our stockholders to receive a premium for their shares of our Common Stock and could also affect the price that some investors are willing to pay for our Common Stock.

The market price of our Common Stock may be highly volatile and such volatility could cause you to lose some or all of your investment.

The market price of our Common Stock may fluctuate significantly in response to numerous factors, some of which are beyond our control, such as:

- the announcement of new products or product enhancements by us or our competitors;
- developments concerning intellectual property rights;
- changes in legal, regulatory, and enforcement frameworks impacting our technology or the application of our technology;
- variations in our and our competitors' results of operations;
- fluctuations in earnings estimates or recommendations by securities analysts, if our Common Stock is covered by analysts;
- the results of product liability or intellectual property lawsuits;

- future issuances of Common Stock or other securities;
- the addition or departure of key personnel;
- announcements by us or our competitors of acquisitions, investments or strategic alliances;
- current or anticipated impact of military conflict, including the conflict between Russia and Ukraine, terrorism or other geopolitical events;
- sanctions imposed by the United States and other countries in response to such conflicts, including the one in Ukraine, may also adversely impact the financial markets and the global economy, and any economic countermeasures by affected countries and others could exacerbate market and economic instability; and
- general market conditions and other events or factors, many of which are beyond our control.

In addition, the stock market has experienced significant volatility, particularly with respect to pharmaceutical, biotechnology and other life sciences company stocks. The volatility of pharmaceutical, biotechnology and other life sciences company stocks often does not relate to the operating performance of the companies represented by the stock. In the past, securities class action litigation has often been initiated against companies following periods of volatility in their stock price. This type of litigation could result in substantial costs and divert our management's attention and resources and could also require us to make substantial payments to satisfy judgments or to settle litigation.

Because our Common Stock may be deemed a "penny stock," it may be more difficult for investors to sell shares of our Common Stock, and the market price of our Common Stock may be adversely affected.

Our Common Stock may be a "penny stock" if, among other things, the stock price is below $5.00 per share, it is not listed on a national securities exchange, or it has not met certain net tangible asset or average revenue requirements. Broker-dealers who sell penny stocks must provide purchasers of these stocks with a standardized risk-disclosure document prepared by the SEC. This risk-disclosure document provides information about penny stocks and the nature and level of risks involved in investing in the penny-stock market. A broker must also give a purchaser, orally or in writing, bid and offer quotations and information regarding broker and salesperson compensation, make a written determination that the penny stock is a suitable investment for the purchaser and obtain the purchaser's written agreement to the purchase. Broker-dealers must also provide customers that hold penny stock in their accounts with such broker-dealer a monthly statement containing price and market information relating to the penny stock. If a penny stock is sold to an investor in violation of the penny stock rules, the investor may be able to cancel its purchase and get their money back.

If applicable, the penny stock rules may make it difficult for stockholders to sell their shares of our Common Stock. Because of the rules and restrictions applicable to a penny stock, there is less trading in penny stocks and the market price of our Common Stock may be adversely affected. Also, many brokers choose not to participate in penny stock transactions. Accordingly, stockholders may not always be able to resell their shares of our Common Stock publicly at times and prices that they feel are appropriate.

Compliance with the reporting requirements of federal securities laws can be expensive.

We are a public reporting company in the United States, and accordingly, subject to the information and reporting requirements of the Securities Exchange Act of 1934, or the Exchange Act, and other federal securities laws. The costs of preparing and filing annual and quarterly reports and other information with the SEC and furnishing audited reports to stockholders are substantial. Failure to comply with the applicable securities laws could result in private or governmental legal action against us or our officers and directors, which could have a detrimental impact on our business and financials, the value of our stock, and the ability of stockholders to resell their stock.

Our investors' ownership in the Company may be diluted in the future.

In the future, we may issue additional authorized but previously unissued equity securities, resulting in the dilution of ownership interests of our present stockholders. We have in the past and may continue to issue a substantial number of shares of Common Stock or other securities convertible into or exercisable for Common Stock in connection with capital raising activity, hiring, or retaining employees, future acquisitions, raising additional capital in the future to fund our operations, and other business purposes. We expect to authorize in the future a substantial number of shares of our Common Stock for issuance under a stock option or similar plan, and may issue equity awards to management, employees, and other eligible persons. Additional shares of Common Stock issued by us in the future will dilute an investor's investment in the Company. In addition, we may seek stockholder approval to increase the amount of the Company's authorized stock, which would create the potential for further dilution of current investors.

Directors, executive officers, principal stockholders, and affiliated entities own a significant percentage of our capital stock, and they may make decisions that our stockholders do not consider to be in their best interests.

As of September 22, 2023, our directors, executive officers, principal stockholders, and affiliated entities may be deemed to beneficially own, in the aggregate, approximately 84.56% of our outstanding voting securities. As a result, if some or all of such parties acted together, they would have the ability to exert substantial influence over the election of our board of directors and the outcome of issues requiring approval by our stockholders. This concentration of ownership may also have the effect of delaying or preventing a change in control of the Company that may be favored by other stockholders. This could prevent transactions in which stockholders might otherwise recover a premium for their shares over current market prices. This concentration of ownership and influence in management and board decision-making could also harm the price of our capital stock by, among other things, discouraging a potential acquirer from seeking to acquire shares of our capital stock (whether by making a tender offer or otherwise) or otherwise attempting to obtain control of our Company.

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

We have never declared or paid cash dividends, and we do not anticipate paying cash dividends in the foreseeable future. Therefore, you should not rely on an investment in our Common Stock as a source for any future dividend income. Our board of directors has complete discretion as to whether to distribute dividends. Even if our board of directors decides to declare and pay dividends, the timing, amount, and form of future dividends, if any, will depend on our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiary, our financial condition, contractual restrictions, and other factors deemed relevant by our board of directors.

Risks Related to our Operations in Israel

We are subject to the risks of political, economic, health, and military instability in countries outside the United States in which we operate.

Some of our products are produced in Israel, India, China, and other countries which are particularly subject to risks of political, economic, health, and military instability. This instability could result in wars, riots, nationalization of industry, currency fluctuations, and labor unrest or unavailability. These conditions could have an adverse impact on our ability to manufacture, ship, and operate in these regions and, depending on the extent and severity of these conditions, could result in a reduction in customer orders and sales to certain regions and end-markets and materially and adversely affect our overall financial condition and operating results. We have principal manufacturing facilities and operations located in Israel. Accordingly, our business will be directly influenced by the political, economic, and military conditions affecting Israel at any given time.

Our offices and management team are located in Israel. Conditions in Israel, including the recent attack by Hamas and other terrorist organizations from the Gaza Strip and Israel's war against them, may affect our operations.

Our offices and management team are located in Israel. Accordingly, our business and operations are directly affected by economic, political, geopolitical and military conditions in Israel. Since the establishment of the State of Israel in 1948, a number of armed conflicts have occurred between Israel and its neighboring countries and 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.

On October 7, 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. On October 8, 2023, Israel formally declared war on Hamas, and the armed conflict is ongoing as of the date of this filing. 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. Moreover, the clash between Israel and Hezbollah in Lebanon, may escalate in the future into a greater regional conflict.

Although we currently do not expect the ongoing conflict to affect our business, financial condition and results of operations, there can be no assurances that further unforeseen events will not have a material adverse effect on our business, financial condition and results of operations in the future.

The Israel Defense Force (the "IDF"), the national military of Israel, is a conscripted military service, subject to certain exceptions. Since October 7, 2023, the IDF has called up more than 350,000 of its reserve forces to serve. It is possible that there will be further military reserve duty call-ups in the future, which may affect our business due to a shortage of skilled labor and loss of institutional knowledge, and necessary mitigation measures we may take to respond to a decrease in labor availability, such as overtime and third-party outsourcing, for example, may have unintended negative effects and adversely impact our business, financial condition and results of operations.

Shelter-in-place and work-from-home measures, government-imposed restrictions on movement and travel and other precautions taken to address the ongoing conflict may temporarily disrupt our employees' ability to effectively perform their daily tasks.

It is currently not possible to predict the duration or severity of the ongoing conflict or its effects on our business, operations and financial conditions. The ongoing conflict is rapidly evolving and developing, and could disrupt our business and operations, interrupt our sources and availability of supply and hamper our ability to raise additional funds or sell our securities, among others.

In addition to the current war with Hamas, other political, economic and military instability in Israel may impede our ability to operate and harm our financial results.

In addition to the ongoing war with Hamas, other political, economic, and military conditions in Israel and the surrounding region may directly affect our business and operations. Since the establishment of the State of Israel in 1948, a number of armed conflicts have occurred between Israel and its neighboring countries. We have never experienced any material interruption in our operations attributable to these factors, in spite of several Middle East crises, including wars. A change in the security and political situation in Israel and in the economy could have a material adverse effect on our business, operating results, and financial condition.

In recent years, Israel has been subject to certain political instability and increased number of elections were held. 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. Changes in the Israeli economy could make it more difficult for us to operate our business and could have a material adverse effect on our business, reputation, financial condition, results of operation, and cash flow.

In addition to Hamas, Israel is engaged in sporadic armed conflicts with Hezbollah, an Islamist terrorist group that controls large portions of southern Lebanon, and with Iranian-backed military forces in Syria. In addition, Iran has threatened to attack Israel and may be developing nuclear weapons. Some of these hostilities have been accompanied by missiles being fired from Lebanon against civilian targets in various parts of Israel, including areas in which some of our employees and consultants may be located, and negatively affected business conditions in Israel. Any hostilities involving Israel or the interruption or curtailment of trade between Israel and its trading partners could adversely affect our operations and results of operations.

Our commercial insurance does not cover losses that may occur as a result of events associated with war and terrorism. Although the Israeli government currently covers the reinstatement value of direct damages that are caused by terrorist attacks or acts of war, we cannot assure you that this government coverage will be maintained or that it will sufficiently cover our potential damages. Any losses or damages incurred by us could have a material adverse effect on our business. Any armed conflicts or political instability in the region would likely negatively affect business conditions and could harm our results of operations.

Further, in the past, the State of Israel and Israeli companies have been subjected to economic boycotts. Several countries still restrict business with the State of Israel and with Israeli companies. These restrictive laws and policies may have an adverse impact on our operating results, financial condition, or the expansion of our business. A campaign of boycotts, divestment, and sanctions has been undertaken against Israel, which could also adversely impact our business.

In addition, many Israeli citizens are obligated to perform several days, and in some cases more, of annual military reserve duty each year until they reach the age of 40 (or older, for reservists who are military officers or who have certain occupations) and, in the event of a military conflict, may be called to active duty. As has been the case with the ongoing war with Hamas, 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 additional military reserve duty call-ups in the future. Our operations could be disrupted by such call-ups, which may include the call-up of members of our management. Such disruption could materially adversely affect our business, prospects, financial condition, and results of operations.

It may be difficult for investors in the United States to enforce any judgments obtained against us or some of our directors or officers.

It may be difficult to acquire jurisdiction and enforce liabilities against any of our officers and directors who are based in Israel. It may not be possible for United States investors to enforce their legal rights, to effect service of process upon our directors or officers or to enforce judgments of United States courts predicated upon civil liabilities and criminal penalties of our directors and officers under federal securities laws. Moreover, we have been advised that Israel does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States. Further, it is unclear if extradition treaties now in effect between the United States and Israel would permit effective enforcement of criminal penalties of the federal securities laws. Even if an Israeli court agrees to hear a claim, it may determine that the Israeli law, and not U.S. law, is applicable to the claim. Further, if U.S. law is found to be applicable, certain content of applicable U.S. law must be proved as a fact, which can be a time-consuming and costly process, and certain matters of procedure would still be governed by the Israeli law. Consequently, you may be effectively prevented from pursuing remedies under U.S. federal and state securities laws against us or any of our non-U.S. directors or officers.

Exchange rate fluctuations between foreign currencies and the U.S. Dollar may negatively affect our earnings.

Our reporting and functional currency is the U.S. dollar. Our revenues are currently primarily payable in U.S. dollars and we expect our future revenues to be denominated primarily in U.S. dollars. However, some of our expenses are in New Israeli Shekels (NIS) and as a result, we are exposed to the currency fluctuation risks relating to the recording of our expenses in U.S. dollars. We may, in the future, decide to enter into currency hedging transactions. These measures, however, may not adequately protect us from material adverse effects.

Exchange rate movements have impacted and may continue to impact our consolidated revenues and operating results. It is particularly difficult to forecast exchange rate movements and unanticipated currency fluctuations have affected and could continue to affect our financial results and cause our results to differ from investor expectations or our own guidance in any future periods. Volatility in exchange rates and global financial markets is expected to continue due to political and economic uncertainty globally

Certain technology developed and used by us received Israeli government grants for certain research and development activities. The terms of those grants require us to satisfy specified conditions in addition to repayment of the grants upon certain events.

The research and development efforts that contributed to certain technology used by us was financed in part through grants from the Israel Innovation Authority ("IIA") to Medigus, which was subsequently transferred to Odysight.ai (for more information about such agreements, refer to – "CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS" below). The terms of such grants require Odysight.ai to comply with the requirements of the Innovation Law. When a company develops know-how, technology or products using IIA grants, the terms of these grants and the Innovation Law restrict the transfer outside of Israel of such know-how, and the manufacturing or manufacturing rights of such products, technologies or know-how, without the prior approval of the IIA. Therefore, if aspects of our technologies are deemed to have been developed with IIA funding, the discretionary approval of an IIA committee would be required for any transfer to third parties outside of Israel of 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 or manufacturing or manufacturing rights related to aspects of such technologies outside of Israel may involve the payment of significant penalties and other amounts, depending upon the value of the transferred technology or know-how, the amount of IIA support, the time of completion of the IIA-supported research project and other factors. These restrictions and requirements for payment may impair our ability to sell our technology assets outside of Israel or to outsource or transfer development or manufacturing activities with respect to any product or technology outside of Israel. Furthermore, the consideration available to our shareholders in a transaction involving the transfer outside of Israel of technology or know-how developed with IIA funding (such as a merger or similar transaction) may be reduced by any amounts that we are required to pay to the IIA.

The Company has applied for and been awarded an additional IIA-funded grant, to support and enhance the Company's production capabilities. Subject to successfully achieving certain predetermined milestones, the Company will receive a maximum grant amount of NIS 1 million. The grant shall subject the Company to certain restrictions on transfer of manufacturing rights and know-how outside of Israel and will require royalty payments on revenues derived from sales of the products developed from the IIA funding.

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 in the course and as a result of or arising from his or her employment with a company are regarded as "service inventions," which belong to the employer, absent a specific agreement between the employee and employer giving the employee service invention rights. The Patent Law also provides that if there is no such agreement between an employer and an employee, the Israeli Compensation and Royalties Committee, or the Committee, a body constituted under the Patent Law, will determine whether the employee is entitled to remuneration for his inventions. Recent 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 Patent Law). Although we generally enter into assignment-of-invention agreements with our employees pursuant to which such individuals assign to us all rights to any inventions created in the scope of their employment or engagement 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 claims, which could negatively affect our business.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES

There have been no unregistered sales of equity securities in addition to the sales provided under Form 8-K as filed with the SEC during the recent fiscal quarter ended September 30, 2023.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS.

(a) The following documents are filed as exhibits to this Quarterly Report or incorporated by reference herein.

Exhibit Number	Description
3.1.1	Amended and Restarted Articles of Incorporation, effective as of June 4,2023 (incorporated by reference to Exhibit 3.1.1 to our Registration Statement on Form S-1 filed with the SEC on July 17, 2023)
3.2.1	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2.1 to our Registration Statement on Form S-1 filed with the SEC on July 17, 2023)
31.1*	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act
31.2*	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act
32.1**	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document
101.INS	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 in Inline XBRL and contained in Exhibit 101)
*	Filed herewith.
**	Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: November 13, 2023

ODYSIGHT.AI INC

By: */s/ Yehu Ofer*
Name: Yehu Ofer
Title: Chief Executive Officer
Odysight.ai.Inc

By: */s/ Tanya Yosef*
Name: Tanya Yosef
Title: Chief Financial Officer
Odysight.ai.Inc

Exhibit 31.1

**CERTIFICATION PURSUANT TO
RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Yehu Ofer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended September 30, 2023 of Odysight.ai.Inc.

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the quarter end covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the quarter end presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the quarter end in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the quarter end covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2023

/s/ Yehu Ofer

Yehu Ofer
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION PURSUANT TO
RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Tanya Yosef, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended September 30, 2023, of Odysight.ai.Inc.

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the quarter end covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the quarter end presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the quarter end in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the quarter end covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2023

/s/ Tanya Yosef

Tanya Yosef
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

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

In connection with the Quarterly Report of Odysight.ai.Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Yehu Ofer, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Yehu Ofer
Yehu Ofer
Chief Executive Officer
(Principal Executive Officer)
November 13, 2023

Exhibit 32.2

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

In connection with the Quarterly Report of Odysight.ai.Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Tanya Yosef, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Tanya Yosef

Tanya Yosef
Chief Financial Officer
(Principal Financial Officer)
November 13, 2023