

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

FORM 20-F

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2023

OR

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

OR

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

Commission File Number: 001-40842



Valens Semiconductor Ltd.  
(Exact name of Registrant as specified in its charter)

Not applicable

(Translation of Registrant's name into English)

Israel

(Jurisdiction of incorporation or organization)

8 Hanagar St. POB 7152  
Hod Hasharon 4501309 Israel  
+972 (9) 762-6900  
(Address of principal executive offices)

Copy to:  
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(Name, Telephone, Email and/or Facsimile number and Address of Company Contact Person)

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

| Title of each class                  | Trading Symbol(s) | Name of each exchange on which registered |
|--------------------------------------|-------------------|-------------------------------------------|
| Ordinary shares, no par value        | VLN               | The New York Stock Exchange               |
| Warrants to purchase ordinary shares | VLNW              | The New York Stock Exchange               |

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

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

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the shell company report:

As of December 31, 2023, the issuer had 104,160,646 ordinary shares, no par value, outstanding and 18,160,000 warrants to purchase ordinary shares, no par value.

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the 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 and post such files). Yes ☒ No ☐

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Emerging growth company ☒

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards<sup>†</sup> provided pursuant to Section 13(a) of the Exchange Act. ☐

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

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

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

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

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

U.S. GAAP ☒

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

Other ☐

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

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

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## INTRODUCTORY NOTE

*Unless otherwise stated or unless the context otherwise requires, the terms “Company,” “the registrant,” “our company,” “the company,” “we,” “us,” “our,” “ours,” and “Valens” as used in this annual report on Form 20-F (this “Form 20-F” or “Annual Report”) refer to Valens Semiconductor Ltd., a company organized under the laws of the State of Israel.*

This annual report contains estimates, projections and other information concerning our industry and our business, as well as data regarding market research, estimates and forecasts prepared by our management. Information that is based on estimates, forecasts, projections, market research or similar methodologies is inherently subject to uncertainties, and actual events or circumstances may differ materially from events and circumstances that are assumed in this information. The industry in which we operate is subject to a high degree of uncertainty and risk due to a variety of factors, including those discussed under the headings “Special Note Regarding Forward-Looking Statements” and Item 3.D. “Risk Factors” in this annual report.

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Our financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP” or “U.S. GAAP”). We present our combined financial statements in U.S. dollars (“U.S. dollars”, “USD,” “US\$” or “\$”).

Our fiscal year ends on December 31 of each year. References to “fiscal year 2021” and “2021” are references to the fiscal year ended December 31, 2021, references to “fiscal year 2022” and “2022” are references to the fiscal year ended December 31, 2022, and references to “fiscal year 2023” and “2023” are references to the fiscal year ended December 31, 2023.

All references in this Annual Report to “Israeli currency” and “NIS” refer to New Israeli Shekels, the terms “dollar,” “USD” or “\$” refer to U.S. dollars.

## TRADEMARKS

We have proprietary rights to trademarks, trade names and service marks used in this Annual Report that are important to our business, many of which are registered under applicable intellectual property laws. Solely for convenience, trademarks, trade names and service marks referred to in this Annual Report may appear without the “®” or “™” symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent possible under applicable law, our rights or the rights of the applicable licensor to these trademarks, trade names and service marks. We do not intend our use or display of other companies’ trademarks, trade names or service marks to imply a relationship with, or endorsement or sponsorship of us by, any other companies. Each trademark, trade name or service mark of any other company appearing in this Annual Report is the property of its respective holder.

## MARKET INFORMATION

This Annual Report contains industry and market data, including market sizing estimates, growth and other projections and information regarding our competitive position, prepared by our management on the basis of industry sources and our management’s knowledge of and experience in the industry and markets in which we operate (including management’s estimates and assumptions relating to such industry and markets based on that knowledge). Our management has developed its knowledge of such industries and markets through its experience and participation in these markets.

## SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS AND RISK FACTOR SUMMARY

Certain statements in this Annual Report may constitute “forward-looking statements” for purposes of the federal securities laws. Valens’ forward-looking statements include, but are not limited to, statements regarding Valens or its management team’s expectations, hopes, beliefs, intentions or strategies regarding the future. In addition, any statements that refer to projections, forecasts or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. The words “anticipate,” “appear,” “approximate,” “believe,” “continue,” “could,” “estimate,” “expect,” “foresee,” “intends,” “may,” “might,” “plan,” “possible,” “potential,” “predict,” “project,” “seek,” “should,” “would” and similar expressions (or the negative version of such words or expressions) may identify forward-looking statements, but the absence of these words does not mean that a statement is not forward-looking. Forward-looking statements in this Annual Report may include, for example, statements about:

Forward-looking statements involve a number of risks, uncertainties and assumptions, and actual results or events may differ materially from those projected or implied in those statements. Important factors that could cause such differences include, but are not limited to:

- The cyclical nature of the semiconductor industry;
- Competition in the semiconductor industry, and the failure to introduce new technologies and products in a timely manner to compete successfully against competitors;
- If Valens fails to adjust its supply chain volume due to changing market conditions or fails to estimate its customers’ demand;
- Disruptions in relationships with any one of Valens’ key customers;
- Any difficulty selling Valens’ products if customers do not design its products into their product offerings;
- Valens’ dependence on winning selection processes;
- Even if Valens succeeds in winning selection processes for its products, Valens may not generate timely or sufficient net sales or margins from those wins;
- Sustained yield problems or other delays in the manufacturing process of products;
- Valens’ ability to effectively manage, invest in, grow, and retain its sales force, research and development capabilities, marketing team and other key personnel;
- Valens’ ability to timely adjust product prices to customers following price increase by the supply chain;
- Valens’ ability to adjust our inventory level due to sudden reduction in demand due to inventory buffers accrued by customers;
- Valens’ expectations regarding the outcome of any future litigation in which we are named as a party;
- Valens’ ability to adequately obtain, maintain, protect, defend and enforce our intellectual property and proprietary rights;
- The market price and trading volume of Valens ordinary shares may be volatile and could decline significantly;
- Political, economic, governmental and tax consequences associated with our incorporation and location in Israel; and
- The other matters described in the section titled “Risk Factors”.

Some of these factors are discussed in more detail in this Annual Report, including under “Part I, Item 3. Key Information-D. Risk Factors,” “Part I, Item 4. Information on the Company” and “Part I, Item 5. Operating and Financial Review and Prospects.”

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that future results, levels of activity, performance and events and circumstances reflected in the forward-looking statements will be achieved or will occur. All forward-looking statements in this Annual Report speak as of the date of those statements. Except as required by law, we undertake no obligation to update publicly any forward-looking statements for any reason after the date of this Annual Report, to conform these statements to actual results or to changes in our expectations.

## PART I

### ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

#### A. DIRECTORS AND SENIOR MANAGEMENT

Not applicable.

#### B. ADVISERS

Not applicable.

#### C. AUDITORS

Not applicable.

### ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

### ITEM 3. KEY INFORMATION

#### A. [Reserved]

#### B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

#### C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

#### D. RISK FACTORS

*An investment in our securities involves a high degree of risk. You should carefully consider the risks described below before making an investment decision. Our business, prospects, financial condition, or operating results could be harmed by any of these risks, as well as other risks not known to us or that we consider immaterial as of the date of this Annual Report. The trading price of our securities could decline due to any of these risks, and, as a result, you may lose all or part of your investment. Set forth below is a summary of some of the principal risks we face:*

- The cyclical nature of the semiconductor industry;
- Competition in the semiconductor industry, and the failure to introduce new technologies and products in a timely manner to compete successfully with competitors;
- If Valens fails to adjust its supply chain volume due to changing market conditions or fails to estimate its customers' demand;
- Disruptions in relationships with any one of Valens' key customers and/or suppliers;
- Any difficulty selling Valens' products if customers do not design our products into their product offerings;
- Valens' dependence on winning selection processes;
- Even if Valens succeeds in winning selection processes for its products, Valens may not generate timely or sufficient net sales or margins from those wins;
- Sustained yield problems or other delays in the manufacturing process of products;
- Any difficulty adequately obtaining, maintaining, protecting, defending or enforcing Valens' intellectual property (IP) rights or commercializing our products without infringing, misappropriating or otherwise violating the IP rights of others; and
- Cyberattacks or other disruptions to or breaches of Valens' information technology, systems or networks.

## Risks Related to Our Business and Industry

### *The semiconductor industry is highly cyclical.*

The semiconductor industry is highly cyclical and is characterized by short product life cycles and wide fluctuations in product supply and demand. The industry has, from time to time, experienced significant downturns, often connected with, or in anticipation of, excess manufacturing capacity worldwide, maturing product cycles of both semiconductor companies' and their customers' products and declines in general economic conditions. Cyclical downturns can result from a variety of market forces including constant and rapid technological change, rapid product obsolescence, price erosion, evolving standards, short product life cycles and extensive fluctuations in product supply and demand. If we expand our operations and workforce too rapidly or procure excessive resources in anticipation of increased demand for our products, and that demand does not materialize at the pace at which we expect, or declines, or if we overbuild inventory in a period of decreased demand, our operating results may be adversely affected as a result of increased operating expenses, reduced margins, underutilization of capacity or asset impairment charges.

The semiconductor industry has experienced downturns in the past, in some ways is experiencing them now and may experience such downturns in the future. For example, the industry experienced a significant downturn related to the global recession in 2008, and further experienced a downturn from 2019 to 2021, followed by an upturn in 2022 and then another downturn in 2023. Rising inflation and interest rates during the first half of 2023 caused buyers to take a more cautious approach which in turn led to much slower inventory digestion. Downturn periods are characterized by diminished product demand, production overcapacity, high inventory levels, accelerated erosion of average selling prices, weakness in demand in certain markets, supply chain capacity and pricing challenges for semiconductors across applications and excess inventory.

Recent downturns have directly impacted our business, as has been the case with many other companies, suppliers, distributors and customers in the semiconductor industry and other industries around the world, and any prolonged or significant future downturns in the semiconductor industry could have a material adverse effect on our business, financial condition, and results of operations.

Conversely, significant upturns can cause us to be unable to satisfy demand in a timely and cost-efficient manner and could result in increased competition for access to third-party foundry and assembly capacity. In the event of such an upturn, we may not be able to procure adequate capacity within our semiconductor supply chains, resources and raw materials, some of which are single-sourced or locate suitable third-party suppliers or other third-party subcontractors to respond effectively to changes in demand for our existing products. Shortage periods are often characterized with extended lead times from suppliers as well as cost increases for certain raw materials that are in short supply, which may impact our revenues, gross margins and our ability to obtain future design wins, while potentially increasing order cancellations. If the availability of those materials and supplies is interrupted, we may not be able to find suitable replacements and, as a result, our business, financial condition and results of operations could be materially and adversely affected. In addition, we may not be able to expand our workforce and operations in a sufficiently timely manner or respond effectively to changes in demand for our existing products or to demand for new products requested by our customers.

Due to the cyclic nature of the semiconductor industry, our business and certain of the end markets we serve are also subject to rapid technological changes and material fluctuations in demand based on end-user preferences. There can be no assurance (i) that products stocked in our inventory will not be rendered obsolete before we ship them, or (ii) that we will be able to design, develop and produce products in a timely fashion to accommodate changing customer demand.

***Global political and economic uncertainty, downturns or volatility in general economic conditions could have a material adverse effect on our international operations and adversely affect our business, financial condition, results of operations and liquidity.***

Our net sales, gross margin, and profitability depend significantly on general economic conditions and the demand for products in the markets in which our customers compete. A significant portion of our revenue is derived from customers in international markets, and we expect that international sales will continue to account for a significant portion of our revenue in the future. As a result of our international operations, our business, financial condition and results of operations could be negatively impacted by the following:

political, legal and economic changes, crises or instability and civil unrest in markets in which we do business, such as potential macroeconomic weakness related to trade and political disputes between the United States and China, changes in China-Taiwan relations that may adversely affect our operations in Taiwan, our customers, and the technology industry supply chain since, as of today, all our silicon wafers, which are the basic element of any semiconductor product, are designed to be manufactured at Taiwan Semiconductor Manufacturing Company (“TSMC”); The complex relationships among China, Taiwan, and the United States, might lead to trade disputes affecting the semiconductor industry, which is already subject to regulatory constraints and license requirements. The geopolitical tensions might lead to additional sanctions, or regulatory constraints that the U.S. government may impose. Additionally, the Asia-Pacific region is susceptible to the occurrence of natural disasters, such as earthquakes, cyclones, tsunamis, and flooding, all of which may influence the local and global economy and have an adverse effect on our business in these markets and in general.

- geopolitical events, such as the ongoing conflict between Russia and Ukraine, or any other threat of war or terrorist actions;
- compliance requirements of U.S. customs and export regulations, including the Export Administration Regulations;
- currency conversion risks and exchange rate and interest rate fluctuations, including the current increasing interest rate environment;
- currency conversion risks and exchange rate and interest rate fluctuations, including the current increasing interest rate environment;
- instability of global credit and financial markets due to adverse macroeconomic conditions such as rising inflation, increasing interest rates and slower economic growth or recession that could, among other impacts, affect our ability to access external financing sources on acceptable terms or lead to financial difficulties or uncertainty of our customers, suppliers and distributors exposing us to late payments, cancelled orders and inventory challenges, among others;
- trade policy, commercial, travel, export or taxation disputes or restrictions, import or export tariffs, changes to export classifications or other restrictions imposed by the U.S. government or by the governments of the countries in which we do business, particularly in China;
- complex, varying and changing government regulations and legal standards and requirements, particularly with respect to tax regulations, price protection, competition practices, export control regulations and restrictions, customs and tax requirements, immigration, anti-boycott regulations, privacy, data protection and information security, sustainability and climate-related regulations, intellectual property, anti-corruption and environmental compliance, including the Foreign Corrupt Practices Act;
- economic disruption from terrorism and threats of terrorism and the response to them by the U.S. and its allies;
- natural disasters or public health emergencies, such as the COVID-19 pandemic;
- fluctuations in raw material costs and energy costs due to general market factors and conditions such as inflation and supply chain constraints;
- cyber-attacks or other disruptions to or breaches of our information technology, systems or networks; and
- greater difficulty in accounts receivable collections and longer collection periods.

Weaknesses in the global economy and financial markets and any adverse changes in general domestic and global economic conditions that may occur in the future, including any recession, economic slowdown or disruption of credit markets, may also lead to lower demand for products that incorporate our solutions, particularly in the automotive and audio-video markets. A decline in end-user demand can affect our customers’ demand for our products, as well as their ability to build new products, obtain credit and otherwise meet their payment obligations. Our net sales, financial condition and results of operations could be negatively affected by such actions. Volatile and/or uncertain economic conditions can adversely impact sales, gross margin and profitability and make it difficult for us to accurately forecast and plan our future business activities. To the extent we incorrectly plan for favorable economic conditions that do not materialize or take longer to materialize than expected, we may face oversupply of our products relative to customer demand.

Conversely, if we overestimate customer demand, we may manufacture products that we may not be able to sell. As a result, we would have excess inventory, which could result in losses. To the extent that our sales, profitability and strategies are negatively affected by downturns or volatility in general economic conditions, our business, financial condition and results of operations may be materially and adversely affected. In addition, any disruption in the credit markets could impede our access to capital, which could be further adversely affected if we are unable to obtain or maintain favorable credit ratings. If we have limited access to additional financing sources, we may be required to defer capital expenditure or seek other sources of liquidity, which may not be available to us on acceptable terms or at all.

Similarly, if our suppliers face challenges in obtaining credit or other financial difficulties, they may be unable to provide the materials we need to manufacture our products. All of these factors relate to global economic conditions, which are beyond our control, and could adversely impact our business, financial condition, results of operations and liquidity.

***Events beyond our control could have an adverse effect on our business, financial condition, results of operations and cash flow.***

Our ability to make, transport and sell products in coordination with our suppliers, customers, distributors and third-party manufacturers or other subcontractors is critical to our success. Damage or disruption to our supply, manufacturing, supply chain or distribution capabilities resulting from weather, freight carrier availability, any potential effects of climate change, natural disaster, disease, fire, explosion, cyber-attacks or other disruptions to or breaches of our information technology, systems or networks, terrorism, pandemics, epidemics or other outbreaks of infectious disease, strikes, civil unrest, repairs or enhancements at facilities manufacturing or distribution of our products or other reasons could impair our ability to manufacture, sell our products, and to deliver products to our customers on a timely basis or at all. Global climate change may result in certain natural disasters occurring more frequently or with greater intensity, such as drought, wildfires, storms, sea-level rise, and flooding, and could disrupt the availability of water necessary for the operation of our fabrication facilities located in semi-arid regions. The long-term effects of climate change on the global economy and the semiconductor industry in particular are unclear but could be severe.

Similarly, over demand on existing supply chain manufacturing lines as well as disruptions in the operations of our key suppliers or in the services provided by contract manufacturers, including disruptions due to natural disasters, materials shortages or other disruptions, or by the transition by us to other suppliers or third-party manufacturers could lead also to supply chain problems and otherwise impair or delay our ability to deliver products to our customers on a timely basis or at all. Additionally, we do not have long-term agreements for the materials and supplies used in our business, which could make it more difficult to obtain such materials and supplies.

Other companies in our industry may be affected differently by natural disasters or other disruptions depending on the location of their suppliers, operations, and customers. In addition, many of our competitors are larger companies with more substantial financial and other resources and, as a result, may be better able to plan for, withstand or otherwise mitigate the effects of any such disruption. While we may take steps to plan for or address the occurrence of any such event, we cannot guarantee that we will be successful. If we fail to take adequate steps to reduce the likelihood or mitigate the potential impact of such events, or to effectively manage such events if they occur, it could adversely affect our business, financial condition, results of operations and cash flows and/or require additional resources to restore our supply chain.

***Any downturn in the audio-video or automotive markets could significantly harm our financial results.***

Approximately 68% and 32% of our total net sales in fiscal year 2023 and 82% and 18% of our total net sales in fiscal year 2022 were generated by our audio-video and automotive products, respectively. The global economic uncertainty in recent years have impacted demand in many global markets exposing us to the risks associated with such markets as follows:

- Audio-Video market: following the negative impact from the COVID-19 pandemic on some of our audio-video customers' demand in 2021, 2022 was characterized by an increase in demand for high-speed connectivity products driven by a need for products and infrastructure to support trends that emerged from the impact of the COVID-19 pandemic such as working from home, hybrid work models, hybrid education models and remote healthcare. In 2023, the global economy witnessed a slowdown with the rise of inflation and interest rates, which in turn contributed to a decrease in demand for our audio video products. The continuation of deteriorated growth trends may continue to have a negative effect on the demand for our audio video products, as well as digestion of inventory, and could delay plans of our customers to introduce new products into which our products are designed.
- Automotive market: automotive sales generally correlate with global economic conditions, such as increased inflation rate and the rise of interest rates, which may affect consumer spending. A downturn in the automotive market could delay automakers' plans to introduce new vehicles with new features, as well as decrease manufacturing of existing car models, which would negatively impact the demand for our products and our ability to grow our business. Such potential developments could have a material adverse effect on our business, financial condition, and results of operations, as well as our ability to execute our growth strategy.

***The semiconductor industry is highly competitive. If we fail to introduce new technologies and products in a timely manner, this could adversely affect our business.***

The semiconductor industry is highly competitive and characterized by constant and rapid technological change, short product life cycles (in certain cases), significant price erosion and evolving standards. Our ability to compete in this industry depends on many factors, including general economic and industry market conditions, our ability to identify emerging markets and technology trends in an accurate and timely manner, introduce new and innovative technologies and products, implement advanced manufacturing technologies at a sustainable pace, maintain the performance and quality of our products, and manufacture our products in a cost-effective manner, as well as on our competitors' performance.

The success of our business depends to a significant extent on our ability to develop new technologies and products that are ultimately successful in the market. The costs related to the research and development necessary to develop new technologies and products are significant and any reduction in our research and development budget could harm our competitiveness. Meeting evolving industry requirements and introducing new products to the market in a timely manner and at prices that are acceptable to our customers are significant factors in determining our competitiveness and success. Given the long development cycle of semiconductor products, commitments to develop new products must be made well in advance of any resulting sales, and technologies and standards may change during development, potentially rendering our products outdated or uncompetitive before their introduction. If we are unable to successfully develop new products, our revenues may decline substantially. Since our principal research and development activities are conducted in Israel, the geopolitical and security circumstances in Israel may influence such activities, as we have witnessed towards the end of 2023. The terrorist attack on Israel launched by Hamas on October 7th, resulted in some of our workforce shifting temporarily to remote work, and some of our workforce called for military reserve duty. Although this did not have a significant impact on our planned schedule, as employees stepped up covering for their colleagues, any continuation of such conditions may cause delays in our introduction of new technologies to the market in a timely manner, which, in turn, could adversely affect our business.

Moreover, some of our competitors are well-established entities, are larger than us and have greater resources than we do. Some of our competitors may have more advantageous supply or development relationships with our current and potential customers or suppliers. If these competitors increase the resources they devote to developing and marketing their products, we may not be able to compete effectively. Any consolidation among our competitors could lead to a changing competitive landscape, which could negatively impact our competitive position and market share, could enhance their product offerings and financial resources, further strengthening their competitive position. In addition, some of our competitors operate in narrow business areas relative to us, allowing them to concentrate their research and development efforts directly on products and services for those areas, which may give them a competitive advantage. As a result of these competitive pressures, we may face declining sales volumes or lower prevailing prices for our products, and we may not be able to reduce our total product costs in line with these declining revenues. If any of these risks materialize, they could have a material adverse effect on our business, financial condition, and results of operations.

***The semiconductor industry is characterized by significant price erosion, especially after a product has been on the market for a significant period of time.***

The products we develop and sell are subject to rapid declines in average selling prices over the life of the products. Product life cycles can be relatively short, and as a result, products tend to be replaced by more technologically advanced substitutes on a regular basis. In turn, demand for older technology falls, causing the price at which such products can be sold to drop, in some cases precipitously. Additionally, competitors may be able to quickly introduce new products to compete with our products, and sometimes competitors will anticipate our entry into a market and start to lower the prices on their products before our entry. To the extent we are unable to reduce the prices of our products and remain competitive, our net sales will likely decline, resulting in further pressure on our gross margins, which could have a material adverse effect on our business, financial condition and results of operations and our ability to grow our business.

Additionally, because we do not operate our own manufacturing, assembly or testing facilities, we may not be able to reduce our costs as rapidly as companies that operate their own facilities and consequently our costs may increase, which could also impact our gross margins. Our gross margin could also be impacted by increased cost (including those caused by tariffs), loss of cost savings or dilution of savings due to changes in charges incurred due to inventory holding periods if parts ordering does not correctly anticipate product demand or if the financial health of either contract manufacturers or suppliers deteriorates as well as excess inventory and inventory storage and obsolescence charges. In addition, we are subject to risks from fluctuating market prices of certain components, which are incorporated into our products or used by our suppliers to manufacture our products. Supplies of these components may, from time to time, become restricted, or general market factors and conditions may affect pricing of such commodities. For example, supply shortages in the semiconductor industry of multi-layer complex substrates, IC packaging capacity and fab constraints as we have experienced in past years, have resulted in increased lead times, and overall increased costs. For other industry players they have resulted in an inability to meet demand, which can also happen to us. Any increase in the price of components used in our products or difficulties in meeting the demand may adversely affect our gross margins.

In order to continue profitably supplying our products, we must reduce our production costs in line with the lower revenues we can expect to receive per unit. Usually, this must be accomplished through improvements in process technology and production efficiencies. If we cannot advance our process technologies or improve our efficiencies to a degree sufficient to maintain required margins, we will no longer be able to make a profit from the sale of these products. Additionally, we may not be able to cease production of such products, either due to contractual obligations or for customer relationship reasons, and as a result may be required to bear a loss on such products. We cannot guarantee that competition in our core product markets will not lead to price erosion, lower revenue growth rates and lower margins in the future. Should reductions in our manufacturing costs fail to keep pace with reductions in market prices for the products we sell, this could have a material adverse effect on our business, financial condition and results of operations. Similarly, if our suppliers increase their production prices, and we are not able to roll over such increases to our customers in a timely manner, it could adversely impact our business, decrease our gross margins and operating income.

To attract new customers or retain existing customers, from time to time we offer certain price concessions to our customers, which could cause our average selling prices and gross margins to decline. In the past, we have reduced the average selling prices of our products in anticipation of future competitive pricing pressures, new product introductions by us or by our competitors and other factors. We expect that we will continue to have to reduce prices of existing products in the future. Moreover, because of the wide price differences across the markets we serve, the mix and types of performance capabilities of our products sold may affect the average selling prices of our products and have a substantial impact on our revenue and gross margin. We may enter new markets in which a significant amount of competition exists, and this may require us to sell our products with lower gross margins than we earn in our established businesses. If we are successful in growing revenue in these markets, our overall gross margin may decline. Fluctuations in the mix and types of our products may also affect the extent to which we are able to recover the fixed costs and investments associated with a particular product, and as a result may harm our financial results.

***Failure to adjust our supply chain volume due to changing market conditions or failure to estimate our customers' demand could adversely affect our net sales and could result in additional charges for obsolete or excess inventories or non-cancelable purchase commitments. Conversely, we may have insufficient inventory or be unable to obtain the supplies or contract manufacturing capacity to meet that demand which would result in lost revenue opportunities and potential loss of market share as well as damaged customer relationships.***

We typically sell products pursuant to purchase orders rather than long-term purchase commitments. Some of our customers may cancel or defer purchase orders on short notice without incurring a significant penalty. Due to their inability to predict demand or other reasons, some of our customers may accumulate excess inventories and, as a consequence, defer purchases of our products.

We make significant decisions, including determining the levels of business that we will seek and accept, production schedules, levels of reliance on outsourced contract manufacturing, personnel needs, and other resource requirements, based on our estimates of customer requirements. The short-term nature of the commitments by many of our customers and the possibility of rapid changes in demand for their products reduces our ability to accurately estimate the future requirements of our customers. Anticipating future demand is difficult because our customers face unpredictable demand for their own products and are increasingly focused more on cash preservation and tighter inventory management. In addition, as an increasing number of our chips are being incorporated into consumer products, we anticipate greater fluctuations in demand for our products, which makes it more difficult to forecast customer demand. Occasionally, our customers may require rapid increases in production, which can challenge our resources. We may not have sufficient capacity at any given time to meet our customers' demands. Conversely, downturns in the semiconductor industry have in the past caused, and may in the future, cause our customers to significantly reduce the solutions or the number of products ordered from us. Because many of our sales, research and development, and manufacturing expenses are relatively fixed, a reduction in customer demand may decrease our gross margins and operating income.

In addition, we base many of our operating decisions, and enter long-term purchase commitments, on the basis of anticipated net sales trends which are highly unpredictable. Some of our purchase commitments are not cancelable, and in some cases, we are required to recognize a charge representing the amount of material purchased or ordered which exceeds our actual requirements. These non-cancelable purchase commitments could reduce our ability to adjust our inventory to address declining market demands. If demand for our products is less than we expect, we may experience additional excess and obsolete inventories and be forced to incur additional charges, which would reduce our gross margin and adversely affect our financial results. If net sales in future periods fall substantially below our expectations, or if we fail to accurately forecast changes in demand mix, we could again be required to record substantial charges for obsolete or excess inventories or non-cancelable purchase commitments. Conversely, if we underestimate customer demand or otherwise lack the required manufacturing capacity, we may miss revenue opportunities and potentially lose market share. In addition, any future significant cancellations or deferrals of product orders or the return of previously sold products could materially and adversely affect our profit margins, increase product obsolescence and restrict our ability to fund our operations.

Moreover, during a market upturn, we may not be able to purchase sufficient supplies or components to meet increasing product demand, which could prevent us from taking advantage of opportunities and reduce our net sales. In addition, a supplier could discontinue a component necessary for our design, extend lead times, limit supply, or increase prices due to capacity constraints or other factors. Our failure to adjust our supply chain volume or estimate our customers' demands could have a material adverse effect on our net sales, business, financial condition and results of operations.

***Disruptions in our relationships with any one of our key customers could adversely affect our business.***

Approximately 36% of our revenues 2023 and 32% of our 2022 revenues were generated by our top three customers in each of those periods that purchase products from us based on short term purchase orders that reflect the demand they have from their end customers. We cannot guarantee that we will be able to generate similar levels of revenues from our largest customers in the future. Should one or more of these customers substantially reduce their purchases from us, this could have a material adverse effect on our business, financial condition and results of operations.

Our customers' continued success will depend in large part on growth within the markets for our automotive and audio-video solutions and products and their success within such markets. Demand in these markets fluctuates significantly, driven by consumer spending, consumer preferences, the development of new technologies and prevailing economic conditions. Factors affecting these markets could seriously harm our customers and, as a result, harm us, including:

- the effects of catastrophic and other disruptive events at our customers' offices or facilities including, but not limited to, natural disasters, telecommunications failures, cyber-attacks or other disruptions to or breaches of our customers' information technology, systems or networks, terrorist attacks, pandemics, epidemics or other outbreaks of infectious disease, including the COVID-19 pandemic, breaches of security or loss of critical data;
- increased costs associated with potential disruptions to our customers' supply chain and other manufacturing and production operations, including due to shortages in raw materials, increases in raw materials, transport and other commodities' prices, among others, due to geopolitical tensions and fluctuations in oil prices;

- the deterioration of our customers' financial condition;
- changes in geographic, product or customer mix;
- delays and project cancellations as a result of design flaws in the products developed by our customers; the inability of customers to dedicate the resources necessary to promote and commercialize their products;
- the inability of our customers to adapt to changing technological demands resulting in their products becoming obsolete; and
- the failure of our customers to anticipate their customers' needs and the failure of our customers' products to achieve market success and gain broad market acceptance.

Any slowdown in the growth of these end markets could adversely affect our financial results.

***We will have difficulty selling our products if customers do not design our products into their product offerings.***

Our products are not sold directly to the end-users but are components of other products. Our products are generally incorporated into our customers' products at the design stage. As a result, we rely on our customers to select our products from among alternative offerings to be designed into the products they sell. If they do not include our products in their designs, we will have difficulty selling our products. Even after a customer designs our products into the products it sells, the customer is not obligated to purchase our products, nor can we guarantee that the customer is not using competitive products. In addition, the customer can choose at any time to reduce or discontinue their use of our products, for example, if its own products are not commercially successful, or for any other reason. In addition, we often incur significant expenditures on the development of a new product without any assurance that our product will be designed into our customers' products. Once a customer designs a competitor's product into its product offering, it becomes significantly more difficult for us to sell our products to that customer because changing suppliers involves significant cost, time, effort and risk for the customer. Our customers may not continue to design our products into their products, or we might not be able to convert any such design into actual sales, either of which could materially and adversely affect our results of operations.

***If we are unable to manage our growth effectively, our business and financial results may be adversely affected.***

To continue to grow, we must continue to expand our operational, engineering, accounting and financial systems, procedures, controls and other internal management systems. This may require substantial managerial and financial resources, and our efforts in this regard may not be successful. Our current systems, procedures and controls may not be adequate to support our future operations. Unless our growth results in an increase in our revenues that is proportionate to the increase in our costs associated with this growth, our operating margins and profitability will be adversely affected. If we fail to adequately manage our growth effectively, improve our operational, financial and management information systems, or effectively train, motivate and manage our new and future employees, it could adversely affect our business, financial condition and results of operations.

***The estimates of market opportunity and growth forecasts included in this disclosure may prove to be inaccurate.***

Market opportunity estimates and growth forecasts are inherently uncertain. Our estimates regarding the expected growth in our served available markets are based on our experience, as well as internal research and industry forecasts, which are subject to a number of estimates and assumptions. While we believe our assumptions and the data underlying our estimates to be reasonable, these assumptions and estimates may not be correct and the conditions supporting our assumptions or estimates may change at any time, thereby reducing the predictive accuracy of these underlying factors. As a result, our estimates regarding the size and expected growth rates of our served available markets may prove to be incorrect. If our served available markets are smaller than we have estimated, our sales growth and/or market share may fail to reach the levels implied by these estimates.

***Our quarterly net sales and operating results are difficult to predict accurately and may fluctuate significantly from period to period. As a result, we may fail to meet the expectations of securities analysts and investors, which could cause our share price to decline.***

We operate in a highly dynamic industry and our future operating results could be subject to significant fluctuations, particularly on a quarterly basis. Our quarterly net sales and operating results have fluctuated significantly in the past and may continue to vary from quarter to quarter due to a number of factors, many of which are not within our control. Although some of our customers provide us with rolling forecasts of their future requirements for our products, a significant percentage of our net sales in each fiscal quarter is dependent on sales that are booked and shipped during that fiscal quarter and are typically attributable to a large number of orders from diverse customers and markets. As a result, accurately forecasting our operating results in any fiscal quarter is difficult. If our operating results do not meet the expectations of securities analysts and investors, they may change their recommendations, or the target price of our share and our share price may decline.

Additional factors that can contribute to fluctuations in our operating results include:

- the rescheduling, increase, reduction or cancellation of significant customer orders;
- the timing of customer qualification of our products and commencement of volume sales by our customers of systems that include our products;
- the timing and amount of research and development and sales and marketing expenditures;
- the rate at which our present and future customers and end users adopt our technologies in our target end markets;
- the timing and success of the introduction of new products and technologies by us and our competitors, and the acceptance of our new products by our customers;
- our ability to anticipate changing customer product requirements;
- our gain or loss of one or more key customers;
- the availability, cost and quality of materials and components that we purchase from third-party vendors and any problems or delays in the manufacturing, testing or delivery of our products;
- the availability of production capacity at our third-party facilities or other third-party subcontractors and other interruptions in the supply chain, including as a result of materials shortages, bankruptcies or other causes;
- supply constraints for and changes in the cost of the other components incorporated into our customers' products;
- our ability to reduce the manufacturing costs of our products;
- fluctuations in manufacturing yields;
- the changes in our product mix or customer mix;
- the timing of expenses related to the acquisition of technologies or businesses;
- product rates of return or price concessions in excess of those expected or forecasted;
- the emergence of new industry standards;
- product obsolescence;
- unexpected inventory write-downs or write-offs;

- costs associated with litigation over intellectual property rights and other litigation;
- the length and unpredictability of the purchasing and budgeting cycles of our customers;
- loss of key personnel or the inability to attract qualified engineers;
- the quality of our products and any remediation costs;
- adverse changes in economic conditions in various geographic areas where we or our customers do business;
- the general industry conditions and seasonal patterns in our target end markets, particularly the automotive market and the audio-video market;
- other conditions affecting the timing of customer orders or our ability to fill orders of customers subject to export control or economic sanctions;
- cyber-attacks or other disruptions to or breaches of our information technology, systems or networks; and
- geopolitical events, such as war, threat of war or terrorist actions, or the occurrence of pandemics, epidemics or other outbreaks of disease, or natural disasters, and the impact of these events on the factors set forth above.

We may experience a delay in generating or recognizing revenues for a number of reasons. For example, open backlogs at the beginning of each quarter are typically lower than expected net sales for that quarter and are generally cancelable or reschedulable with minimal notice. Accordingly, we depend on obtaining orders during each quarter for shipment in that quarter to achieve our net sales objectives and failure to fulfill such orders by the end of a quarter may adversely affect our operating results. Furthermore, our customer agreements may include provisions that allow them to delay scheduled delivery dates and/or cancel orders within specified timeframes without a significant penalty. In addition, we maintain an infrastructure of facilities and human resources in several locations around the world and have a limited ability to reduce the expenses required to maintain such infrastructure. Because we base our operating expenses on anticipated revenue trends and a high percentage of our expenses are fixed in the short term, any delay in generating or recognizing forecasted net sales or changes in levels of our customers' forecasted demand could materially and adversely impact our business, financial condition, and results of operations. Due to our limited ability to reduce expenses, in the event our revenues decline, or our forecasted net sales do not meet our expectations, it is likely that in some future quarters our operating results will decrease from the previous quarter or fall below the expectations of securities analysts and investors. As a result of these factors, our operating results may vary significantly from quarter to quarter.

Accordingly, we believe that period-to-period comparisons of our results of operations should not solely be relied upon as indications of future performance. Any shortfall in net sales or net income from any previous quarter or from levels expected by the investment community could cause a decline in the trading price of our share.

***We depend on winning selection processes, and failure to be selected could adversely affect our business in those market segments.***

One of our business strategies is to participate in and win competitive technology selection processes to develop products for use in our customers' equipment and products. These selection processes are typically lengthy and require us to incur significant design and development expenditures, with no guarantee of winning a contract or generating revenues. The incurrence of such significant expenditures, failure to win new design projects and delays in developing new products with anticipated technological advances or in commencing volume shipments of these products may have an adverse effect on our business. This risk is particularly pronounced in markets where there are only a few potential customers and in the automotive market, where, due to the longer design cycles involved, failure in a particular selection process could prevent access to such an automotive customer for several years. Our failure to win a sufficient number of design wins could result in reduced revenues and hurt our competitive position in future selection processes because we may not be perceived as being a technology or industry leader, each of which could have a material adverse effect on our business, financial condition and results of operations. Furthermore, even if our solution is selected, it can take a long period, of months and even years, before the selecting customer will commence the volume production of components or systems that incorporate our products, which means that the sales and meaningful revenues therefrom may be delayed.

***Even if we succeed in winning selection processes for our products, we may not generate timely or sufficient net sales or margins from those wins and our financial results could suffer.***

After incurring significant design and development expenditures, a substantial period of time generally elapses before we generate meaningful net sales relating to such a product, if at all, particularly with respect to the automotive industry. The reasons for this delay include, among other things, the following:

- changing customer requirements, including product and quality related requirements, resulting in an extended development cycle for the product;
- delay in the ramp-up of volume production of the customer's products into which our solutions are designed;
- delay or cancellation of the customer's product development plans;
- competitive pressures to reduce our selling price for the product;
- the discovery of design flaws, defects, errors or bugs in the products or at the customers' system level;
- lower than expected customer acceptance of the solutions designed for the customer's products;
- lower than expected acceptance of our customers' products; and
- higher manufacturing costs than anticipated.

If we do not continue to win selection processes for our products in the short term, then we may not be able to achieve the expected net sales levels associated with these winnings. If we experience delays in achieving such sales levels, our operating results could be adversely affected. Moreover, even if a customer selects our product, we cannot guarantee that this will result in any sales of our products, as the customer may ultimately change or cancel its product plans, or our customer's efforts to market and sell its product may not be successful.

***If we fail in a timely and cost-effective manner to develop new product features or new products that address customer preferences and achieve market acceptance, our operating results could be adversely affected.***

Our customers are constantly seeking new products with more features and functionality at a lower cost, and our success relies heavily on our ability to continue to develop and market to our customers new and innovative products and improvements of existing products, at competitive prices. In order to respond to new and evolving customer demands, achieve a strong market share and keep pace with new technological, processing and other developments, we must constantly introduce new and innovative products into the market. Although we strive to respond to customer preferences and industry expectations in the development of our products, we may not be successful in developing, introducing or commercializing any new or enhanced products on a timely basis or at all. Further, if initial sales volumes for new or enhanced products do not reach anticipated levels within the time periods we expect, we may be required to engage in additional marketing efforts to promote such products and the costs of developing and commercializing such products may be higher than we predict. Moreover, new and enhanced products may not perform as expected. We may also encounter lower manufacturing yields and longer delivery schedules in commencing volume production of new products that we introduce, which could increase our costs and disrupt our supply of such products.

A fundamental shift in technologies, the regulatory climate or demand patterns and preferences in our existing product markets or the product markets of our customers or end-users could make our current products obsolete, prevent or delay the introduction of new products or enhancements to our existing products or render our products irrelevant to our customers' needs. If our new product development efforts fail to align with the needs of our customers, including due to circumstances outside of our control like a fundamental shift in the product markets of our customers and end users or regulatory changes, our business, financial condition and results of operations could be materially and adversely affected.

The development of our products is highly complex. New and enhanced products require substantial financial and other resources to research and development. Occasionally, we have experienced delays in completing the development and introduction of new products and product enhancements, and we could experience delays in the future. Unanticipated problems in developing products could also divert substantial research and development and engineering resources, which may impair our ability to develop new products and enhancements and could substantially increase our costs. Even if we introduce new and enhanced products to the market, we may not be able to achieve market acceptance of these products in a timely manner or at all.

***Our competitive position, demand for products and results of operations could be adversely affected if we are unable to meet customers' quality requirements.***

Suppliers in the semiconductor industry must meet increasingly stringent quality standards of certain original equipment manufacturers and customers, particularly for automotive and audio-video applications. While our quality performance to date has generally met these requirements, we may experience problems in achieving acceptable quality results in the manufacture of our products, particularly in connection with the production of new products or adoption of a new manufacturing process or applying any change to an existing product. Any of these changes may require a new qualification process. If we are unsuccessful or delayed in qualifying these products or changes by our existing or potential customers or if we fail to achieve acceptable quality levels, the sales of our products may be precluded from a certain process or potential customer, or delayed, which may result in holding excess or obsolete inventory, or could otherwise adversely affect our business results. In addition, our customers generally impose very high quality and reliability standards on our products, which often change and may be difficult or costly to satisfy. Any inability to satisfy customer quality and reliability standards or comply with industry standards and technical requirements may cause our customers not to design-in our products or to return products that do not meet their quality requirements. This may adversely affect demand for our products and the results of our operations.

***Our results of operations and reputation could be adversely affected by warranty claims, product liability claims and product returns, including recalls.***

Our products are highly complex and though we invest significant resources in their testing and quality, they may contain defects, bugs or errors that may affect their quality or performance and could result in claims against us by our customers or others, including liability for costs and expenses associated with such defects, including recalls, which, in turn, may adversely impact our operating results, our relationship with our customers and our reputation. We generally provide our customers with a limited warranty assurance that the sold products are in compliance with the applicable specifications at the time of delivery. Under our standard terms and conditions of sale, liability for certain failures of product during the stated warranty periods is usually limited to repair or replacement of defective items, although with some customers we may have other arrangements. Any claims that are based on warranty, product liability, epidemic or delivery failures, or other grounds relating to any defects, errors or bugs in our products, may require us to make significant expenditures to defend these claims or pay damage awards or settlements. In addition, we may write-off inventory or, our customers may decide as a result to discontinue the purchasing or the design-in of our products into their products, which may also result in holding excess or obsolete inventory or could otherwise adversely affect our business results. If our customers product is recalled due to a failure in our product which is embedded into such product, the process of identifying a recalled product, whether in automotive or in other devices that have been widely distributed, may be lengthy and require significant resources, and we may incur significant costs and expenses as a result as well as reputational harm, which may adversely affect our business results. To minimize these potential damages, we maintain relevant insurances, but there is no guarantee that such insurances will be available or adequate to protect against all such potential claims and damages.

***Changes in industry standards could limit our ability to sell our products and force us to write down our inventory.***

The markets for semiconductors are characterized by rapidly evolving industry standards. We must continuously develop new products or upgrade our existing products to keep pace with these evolving standards. Changes in industry standards, or the development of new industry standards, may make our products less competitive or obsolete. Our products comprise only a component of an automotive vehicle or a part of an electronic device. All components of these end products must uniformly comply with industry standards (if any) in order to operate efficiently together. We depend on companies that provide other components of the end products to support prevailing industry standards. Many of these companies are significantly larger and more influential in driving industry standards than we are. Some industry standards may not be widely adopted or implemented uniformly, and competing standards may emerge that may be preferred by our customers or end users. If larger companies do not support the same industry standards that we do, or if competing standards emerge, market acceptance of our products could be adversely affected, which would harm our business.

Because it is not practicable to develop products that comply with all current standards and new standards that may be adopted in the future, our ability to compete effectively will depend on our ability to select industry standards that will be widely adopted by the market and to design our products to support those relevant industry standards. We may be required to invest significant effort and to incur significant expense to redesign our products to address relevant standards, and we may lose market share if we do not redesign our products quickly enough. If our products do not meet relevant industry standards that have been widely adopted for a significant period of time, our results of operations, business, and prospects would be adversely affected.

***If we encounter sustained yield problems or other delays in the manufacturing process of our products, we may lose sales and damage our customer relationships.***

The manufacture of our products, including the fabrication of semiconductor microchips, and the assembly and testing of our products, involve highly complex processes. From time to time, we have experienced problems achieving acceptable yields at our third-party facilities, resulting in delays in the availability of components. Moreover, an increase in the rejection rate of products during the quality control process before, during or after manufacture and/or shipping of such products, results in lower yields and margins. In addition, changes in manufacturing processes required as a result of changes in product specifications, changing customer needs and the introduction of new product lines have historically significantly reduced our manufacturing yields, resulting in low or negative margins on those products. Poor manufacturing yields over a prolonged period of time could adversely affect our ability to deliver our products on a timely basis and harm our relationships with customers, which could materially and adversely affect our business, financial condition and results of operations. We may be unable to maintain appropriate manufacturing capacity or product yields at our CM manufacturing facilities.

***Our ability to raise capital in the future may be limited and could prevent us from executing our growth strategy.***

Our ability to operate and expand our business depends on the availability of adequate capital, which in turn depends on cash flow generated by our business and the availability of debt, equity, or other applicable financing arrangements. We cannot assure you that our existing resources will be sufficient to meet our future liquidity needs. We may require additional capital to respond to business opportunities, challenges, acquisitions or other strategic transactions and/or unforeseen circumstances. The timing and amount of our working capital and capital expenditure requirements may vary significantly depending on numerous factors, including: market acceptance of our products; the need to adapt to changing technologies and technical requirements; the existence of opportunities for expansion; and access to and availability of sufficient management, technical, marketing and financial personnel.

If our capital resources are insufficient to satisfy our liquidity requirements, we may seek to sell additional equity securities or debt securities or obtain debt financing. The sale of additional equity securities or convertible debt securities would result in additional dilution to our shareholders. Additional debt would result in increased expenses and could result in covenants that would restrict our operations and our ability to incur additional debt or engage in other capital-raising activities. We have not made arrangements to obtain additional financing and there is no assurance that financing, if required, will be available in amounts or on terms acceptable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to grow and support our business and respond to business opportunities and challenges could be significantly limited.

***We are exposed to a variety of financial risks, including currency risk, interest rate risk, liquidity risk, commodity price risk, credit risk and other non-insured risks, which may have an adverse effect on our financial results.***

We are a global company and, as a direct consequence, movements in the financial markets may impact on our financial results. We are exposed to a variety of financial risks, including currency fluctuations primarily due to the fact that while our functional currency is the U.S. dollar, our Israeli employees' payroll, which is a significant expense in our income statement, is paid in NIS, interest rate risk, liquidity risk, commodity price risk and credit risk and other non-insured risks. If we create debt, the rating thereof by major rating agencies may further improve or deteriorate. As a result, our additional borrowing capacity and financing costs may be impacted. Credit risk represents the loss that would be recognized at the reporting date if counterparties failed to perform upon their agreed payment obligations. Credit risk is present within our trade receivables. Such exposure is reduced through ongoing credit evaluations of the financial conditions of our customers and by adjusting payment terms and credit limits when appropriate. We invest available cash and cash equivalents with various financial institutions and are in that respect exposed to credit risk with these counterparties. Cash is invested and financial transactions are concluded where possible with financial institutions with a strong credit rating. If we are unable to successfully manage these risks, they could have a material adverse effect on our business, financial condition and results of operations.

***We may pursue acquisitions and investments in new businesses, products or technologies, joint ventures and other strategic transactions, which may not be successful and could disrupt our business and divert financial and management resources from more productive uses.***

If we identify appropriate opportunities, we may acquire or invest in technologies, businesses or assets that are important to our business or form alliances with key players in the semiconductor industry to further expand our business. If we decide to pursue a strategy of selective acquisitions or joint ventures, we may not be successful in identifying suitable acquisition opportunities or potential partners or in completing such transactions. Our competitors may be more effective in executing and closing acquisitions in competitive technology-selection processes than us. Our ability to enter into and complete acquisitions or joint ventures may be restricted by, or subject to, various approvals under U.S. and/or Israeli laws, or other law regimes, or may not otherwise be possible, may result in a possible dilutive issuance of our securities, or may require us to seek additional financing. We also may experience difficulties integrating acquired operations, technology, and personnel into our existing business and operations. Completed acquisitions or joint ventures may also expose us to potential risks, including risks associated with unforeseen or hidden liabilities, the diversion of resources from our existing business, and the potential loss of, or harm to, relationships with our employees as a result of our integration of new businesses. In addition, following completion of an acquisition or a formation of a joint venture, our management and resources may be diverted from their core business activities due to the integration process, which diversion may harm the effective management of our business. Furthermore, it may not be possible to achieve the expected level of any synergy benefits on integration and/or the actual cost of delivering such benefits may exceed the anticipated cost. Any of these factors may have an adverse effect on our competitive position, results of operations and financial condition.

***We may have difficulty attracting, motivating and retaining executives and other key employees.***

Our success depends to a large extent upon the continued services of our executive officers, managers and skilled personnel, including our development engineers. Generally, our employees are not bound by obligations that require them to continue to work for us for any specified period and, therefore, they could terminate their employment with us at any time. Given these limitations, we may not be able to continue to attract, retain and motivate the qualified personnel necessary for our business.

The loss of services of any key personnel or the inability to hire new personnel with the requisite skills could restrict our ability to develop new products or enhance existing products in a timely matter, to sell products to customers or to manage our business effectively.

***We depend on highly skilled personnel to support our business operations. If we are unable to retain and motivate our current personnel or attract additional qualified personnel, our ability to develop and successfully market our products could be harmed.***

We believe our future success will depend in large part upon our ability to attract and retain highly skilled managerial, engineering, sales and marketing personnel. Our ability to enhance our products may be harmed if we are unable to attract and retain sufficient engineers and research and development personnel. The competition for qualified technical personnel with significant experience in the design, development, manufacturing, marketing and sales of semiconductor solutions is intense, specifically in Israel where our principal research and development activities are conducted, we face significant competition for suitably skilled engineers and research and development personnel, where the availability of such personnel is limited as well as in global markets in which we operate. Our inability to attract and retain qualified personnel, including hardware and software engineers and sales and marketing personnel, could delay the development and introduction of, and harm our ability to sell our products. Our ability to attract and retain qualified personnel also depends on how well we maintain a strong workplace culture that is attractive to employees. Larger companies with whom we compete may allocate more resources than we do for employee recruitment and may be able to offer more favorable compensation and incentive packages than us. In addition, as a result of the intense competition for qualified human resources, the Israeli high-tech market has also experienced and may continue to experience significant wage inflation. Accordingly, our efforts to attract, retain and develop personnel may also result in significant additional expenses, which could adversely affect our profitability. Furthermore, in making employment decisions, particularly in the high-technology industry, job candidates often consider the value of the equity they are to receive in connection with their employment. Employees may be more likely to leave us if the shares they own or the shares underlying their equity incentive awards have significantly appreciated or significantly decreased in value. Many of our employees may receive significant proceeds from sales of our equity in the public markets, which may reduce their motivation to continue to work for us and could heighten the risk of employee attrition. If we cannot attract or retain a sufficient number of skilled research and development employees, our business, prospects and results of operations could be adversely affected. In order to remain competitive, we expect to continue to dedicate significant financial and other resources to expand our research and development teams in order to assist in developing new solutions, applications and enhancements to our existing products and platforms. The loss of our key personnel could harm our business, as their knowledge of our business and industry would be extremely difficult to replace.

Following the pandemic, and in line with global practices, we too modified our workplace practices to allow many of our employees to work in a hybrid model. This working model was also applied in our headquarters in Israel following the October 7<sup>th</sup> terror attacks and since then, enabling our headquarters and research and development teams to continue and operate as seamlessly as possible. Post the pandemic, many of our employees have expressed a preference to continue to work from home two to three days a week. In response, we announced a hybrid work policy for our Israeli based employees, under which our employees may work up to two days per week from home. However, certain types of activities such as new product innovation, critical business decision making, brainstorming sessions, providing sensitive employee feedback, and onboarding new employees may be less effective in a hybrid work environment. Our hybrid work environment may also negatively impact social interactions between employees that build camaraderie and may, therefore, negatively impact our office culture. Many companies, including companies that we compete with for talent, have announced hybrid working policies, sometimes more flexible than ours, which may impact our ability to attract and retain qualified personnel if potential or current employees prefer these policies.

***We may not be able to adequately obtain, maintain, protect, defend or enforce our intellectual property rights, which could harm our competitive position.***

Our success and future revenue growth depend, in part, on our ability to obtain, maintain, protect, defend and enforce our intellectual property rights. We primarily rely on patent, copyright, trademark, and trade secret laws, as well as non-disclosure agreements and other methods, to protect our proprietary technologies and processes. It is difficult and costly to monitor the use of our intellectual property and there can be no assurances that the steps we have taken to protect our proprietary technologies or processes will be effective or sufficient. It is possible that competitors or other unauthorized third parties may obtain, copy, use or disclose, illegally or otherwise, our proprietary technologies and processes, despite our efforts to protect such proprietary technologies and processes. It is also possible that customers, employees and other third parties may breach or violate our agreements with them and make unauthorized use of our proprietary technology and processes, and we may not have adequate remedies for such breach or violation. We cannot guarantee that we have entered into such agreements with each party that may have or has had access to our proprietary technology or processes. In addition, while it is our policy to require our employees and contractors who may be involved in the conception or development of intellectual property to execute agreements assigning such intellectual property to us, we may be unsuccessful in executing such an agreement with each party who, in fact, conceives or develops intellectual property that we regard as our own. Moreover, even when we obtain agreements assigning intellectual property to us, the assignment of intellectual property rights may not be self-executing or the assignment agreements may be breached, and we may be forced to bring claims against third parties, or defend claims that they may bring against us, to determine the ownership of what we regard as our intellectual property.

Moreover, the semiconductor industry is generally subject to a high turnover of employees, so the risk of trade secret misappropriation may be amplified. Enforcing a claim that a party illegally disclosed or misappropriated our trade secrets or proprietary technologies and processes is difficult, expensive, and time-consuming, and the outcome is unpredictable, and therefore, we may not be able to obtain adequate remedies. If any of our trade secrets are subject to unauthorized disclosure or are otherwise misappropriated by third parties or are independently developed by competitors or other third parties, our competitive position may be materially and adversely affected.

The failure to identify any violations of our intellectual property rights could materially and adversely affect our business, financial condition and result of operations and hurt our competitive advantage.

While we currently own a significant number of patents, the patent prosecution process is expensive, time-consuming and complex, and there can be no assurances that we be able to file, prosecute, maintain, enforce or license all necessary or desirable patent applications at a reasonable cost or in a timely manner. Further, there can be no assurances that any additional patents will be issued. Even if new patents are issued, the claims allowed may not be sufficiently broad to protect our technology. In addition, any of our existing patents, and any future patents, may be challenged, narrowed, declared generic or lapsed, invalidated or circumvented. As such, any rights granted under these patents may not provide us with meaningful protection or commercial advantage. Our intellectual property rights may be infringed, misappropriated or challenged, which could result in them being narrowed in scope or declared invalid or unenforceable.

In addition, the protection afforded under the patent and other intellectual property laws of one country may not be the same as that in other countries. The legal systems of certain countries, particularly certain developing countries, do not favor the enforcement of patents, trade secrets and other intellectual property protection, which could make it difficult for us to stop the infringement of our patents or marketing of competing products in violation of our proprietary rights generally. Therefore, our intellectual property rights may not be as strong or as easily enforced outside of the U.S. This means, for example, that our right to exclusively commercialize a product in those countries where we have patent rights for that product can vary on a country-by-country basis. We also may not have the same scope of patent protection in every country where we do business. If our patents do not adequately protect our technology, competitors may be able to offer products similar to ours. Our competitors may also be able to develop similar technology independently or design around our patents. In addition, changes in either the patent laws or interpretation of the patent laws in the U.S. and other jurisdictions could increase the uncertainties and costs surrounding the prosecution of patent applications and the enforcement or defense of issued patents. Court rulings may narrow the scope of patent protection available in certain circumstances and weaken the rights of patent owners in certain situations, which could also have a material adverse effect on our business, financial condition, results of operations and prospects.

***Our ability to compete successfully depends in part on our ability to commercialize our products without infringing, misappropriating or otherwise violating the intellectual property rights of others.***

To the same extent that we seek to protect our proprietary technology, processes and other inventions with patents, copyrights, trademarks and trade secrets, our competitors and other third parties do the same for their proprietary technology, processes and other inventions. We have no means of knowing the content of patent applications filed by third parties until they are published. It is also difficult and costly to continuously monitor the intellectual property portfolios of our competitors to ensure our technologies do not infringe, misappropriate or otherwise violate the intellectual property rights of any third parties.

The semiconductor industry is ripe with patent assertion entities and is characterized by frequent litigation regarding patent and other intellectual property rights. As a public company with an increased profile and visibility, we may receive communications in the future that allege that our products or technologies infringe, misappropriate or otherwise violate third-party patents, copyrights, trademarks or other intellectual property rights. Lawsuits or other proceedings resulting from such allegations could subject us to significant liability for damages, narrow or invalidate our intellectual property or proprietary rights and adversely affect our business. Defending these proceedings may be costly and time-consuming and may divert the attention of management and key personnel from other business issues, regardless of whether there is merit to such claims. The complexity of the technology involved and the uncertainty of intellectual property litigation increase these risks. Under our customer agreements and other agreements, we agree in many cases to indemnify our customers if our products are alleged to infringe, misappropriate or otherwise violate a third party's intellectual property rights.

In the event that any third party succeeds in asserting a valid claim against us or any of our customers, we could be forced to do one or more of the following:

- discontinue selling, importing or using certain technologies that contain the allegedly infringing intellectual property which could cause us to stop manufacturing certain products;
- seek to develop non-infringing technologies, which may not be feasible;
- incur significant legal expenses;
- pay substantial monetary damages to the party whose intellectual property rights we may be found to be infringing; and/or
- seek licenses to the infringed technology that may not be available on commercially reasonable terms, if at all.

If a third party causes us to discontinue the use of any of our technologies, we may be required to design around those technologies. This could be costly and time-consuming and could have an adverse effect on our financial results. Claims that we have misappropriated the confidential information or trade secrets of third parties could have a similar negative impact on us. Although we try to ensure that our employees, consultants and advisors do not use the proprietary information or know-how of others in their work for us, we may be subject to claims that these individuals or we have wrongfully used or disclosed intellectual property, including trade secrets or other proprietary information, of any such individual's current or former employer. Any significant impairments of our intellectual property rights from any litigation we face could materially and adversely impact our business, financial condition, results of operations and our ability to compete in our industry.

***If we fail to comply with our obligations under license or technology agreements with third parties, or if we cannot license rights to use technologies on reasonable terms, we could be required to pay damages, lose license rights that are critical to our business or be unable to commercialize new products in the future.***

We license from third parties certain intellectual property and technologies that are important to our business, and in the future, we may enter into additional agreements. If we fail to comply with any of the obligations under our license or technology agreements, we may be required to pay damages and the licensor may have the right to terminate the license. Termination by the licensor (or other applicable counterparty) may cause us to lose valuable rights and could disrupt or otherwise inhibit our ability to sell our products or commercialize future products. Our business may suffer if any current or future licenses or other grants of rights to us terminate, if the licensors (or other applicable counterparties) fail to abide by the terms of the license or other applicable agreement, if the licensors fail to enforce the licensed intellectual property rights against infringing third parties, or if the licensed intellectual property rights are found to be invalid or unenforceable. Third parties from whom we currently license intellectual property and technology could refuse to renew our agreements upon their expiration or could impose additional terms and fees that we otherwise would not deem acceptable requiring us to obtain the intellectual property or technology from another third party, if any is available, or to pay increased licensing fees or be subject to additional restrictions on our use of such third-party intellectual property or technology. In addition, the agreements under which we license intellectual property or technology from third parties may be complex, and certain provisions in such agreements may be susceptible to multiple interpretations. The resolution of any contract interpretation disagreement that may arise could narrow what we believe to be the scope of our rights to the relevant intellectual property or technology or increase what we believe to be our financial or other obligations under the relevant agreement.

In the future, we may also identify additional third-party intellectual property and technologies that we may need to license or otherwise obtain rights to in order to conduct our business, including to develop or commercialize new products. However, such licenses or other grants of rights may not be available on acceptable terms or at all. The licensing or acquisition of third-party intellectual property rights is a competitive area, and several more established companies may pursue strategies to license or acquire third-party intellectual property rights that we may consider attractive or necessary. These established companies may have a competitive advantage over us due to their size, capital resources and greater development or commercialization capabilities. In addition, companies that perceive us to be a competitor may be unwilling to assign, license or otherwise grant rights to us. Even if such licenses or other grants of rights are available, we may be required to pay the licensor (or other applicable counterparty) substantial royalties based on sales of our products. Such royalties are a component of the cost of our products and may affect the margins on our products. In addition, such licenses or other grants of rights may be non-exclusive, which could give our competitors access to the same intellectual property licensed to us. Failure to obtain the necessary licenses or otherwise obtain adequate grants of rights on favorable terms, or at all, could prevent us from commercializing products, which could have a material adverse effect on our competitive position, business, financial condition and results of operations.

***We may be subject to cyber-attacks or other disruptions to or breaches of our information technology, systems or networks that could irreparably damage our reputation and our business, expose us to liability and materially and adversely affect our results of operations.***

In conducting our business, we routinely collect, store and otherwise process proprietary, confidential or sensitive data, including personal information and proprietary technology and information about our business and our customers, suppliers and business partners, including proprietary technology and information owned by our customers. The secure maintenance, transmission and other processing of this data and information is critical to our operations and business strategy. Our employees occasionally work remotely, based on a hybrid work model, which creates a heightened risk of cyber-attacks or other disruptions to or breaches of our information technology, systems or networks.

We may be subject to cyber-attacks or other disruptions to or breaches of our information technology, systems or networks caused by computer viruses, software bugs, server malfunctions, software or hardware failure, illegal hacking, criminal fraud or impersonation, ransomware attacks, denial-of-service attacks, malware, social engineering or phishing attacks, acts of vandalism or terrorism, unauthorized access, theft or employee malfeasance or error.

Cyber-attacks are increasing in number and sophistication, are well-financed, in some cases supported by state actors, and are designed to not only attack, but also to evade detection. Since the techniques used to obtain unauthorized access to information technology, systems, and networks, or to otherwise sabotage them, change frequently, have become increasingly complex and sophisticated, including through the use of artificial intelligence (“AI”), and are often not recognized until launched against a target, we and third parties associated with us may be unable to anticipate these techniques or to implement adequate preventative measures. Cyber-attacks can originate from a wide variety of sources, including organized crime, hackers, activists, terrorists, nation-states, nation-state supported actors and others, any of which may see their effectiveness enhanced by the use of AI.

In addition, certain global geopolitical events can increase our cybersecurity risk. For example, due to the ongoing Russia-Ukraine conflict, there have been publicized threats to increase cyber-attack activity against the critical infrastructure of any nation or organization that retaliates against Russia for its invasion of Ukraine. There have also been similar publicized threats in connection with the geopolitical tension with the Iranian regime and more specifically in connection with the terror attacks by Hamas on Israel, since October 7<sup>th</sup> 2023. These threats include threats to harm Western countries’ infrastructure and assets. The costs to us to reduce the risk of or alleviate cybersecurity breaches and vulnerabilities could be significant.

Any type of security breach, attack or misuse of data, whether actual or perceived, and whether experienced by us or an associated third party, could harm our reputation or deter existing or prospective customers from using our products and applications, increase our operating expenses in order to contain and remediate the incident, expose us to unbudgeted or uninsured liability, disrupt our operations, divert management focus away from other priorities, increase our risk of regulatory scrutiny, result in litigation from customers, employees or other third parties, lead to the imposition of penalties, reporting obligations and fines under state, federal and foreign laws or by payment networks or adversely affect our continued payment network registration and financial institution sponsorship. Moreover, any such compromise of our information security could result in the loss, misappropriation, corruption or unauthorized publication of our confidential business or proprietary information or personal or sensitive information, or that of other parties with which we do business, an interruption or other failure of our information technology, systems, networks or operations, the unauthorized transfer of cash or other of our assets, the unauthorized release of customer or employee data or a violation of laws, regulations, industry standards or other legal or contractual obligations related to privacy, data protection and information security. Computer programmers and hackers also may be able to develop and deploy viruses, worms and other malicious software programs that attack our products, or that otherwise exploit any security vulnerabilities, and any such attack, if successful, could expose us to liability to customer claims. In addition, our ability to monitor our third-party service providers' data security is limited. Some of our third-party service providers may store or have access to our data and may not have effective controls, processes, or practices to protect our information from loss, unauthorized disclosure, unauthorized use or misappropriation or other cyber-attacks or other disruptions to or breaches of information security. A vulnerability in our third-party service providers' software or information technology, systems or networks, a failure of our third-party service providers' safeguards, policies or procedures, or a cyber-attack or other disruption to or breach of information security affecting any of these third parties could irreparably damage our reputation and business. The costs related to significant cyber-attacks or other disruptions to or breaches of our information technology, systems or networks could be material and cause us to incur significant expenses. If the information technology, systems or networks of third parties associated with us become subject to cyber-attacks or other disruptions or security breaches, we may have insufficient recourse against such third parties and we may have to expend significant resources to mitigate the impact of such an event, and to develop and implement protections to prevent future events of this nature from occurring. Any of the foregoing could irreparably damage our reputation and business, which could have a material adverse effect on our results of operations.

We cannot ensure that any limitation of liability provisions in our agreements with customers, service providers, business partners and other third parties with which we do business would be enforceable or adequate or would otherwise protect us from any liabilities or damages with respect to any particular claim in connection with a cyber-attack or other disruption to or breach of information security. Additionally, we cannot be certain that our insurance coverage will be adequate for cybersecurity liabilities actually incurred, that insurance will continue to be available to us on economically reasonable terms, or at all, or that our insurer will not deny coverage as to any future claim.

***There may exist deficiencies in internal financial reporting controls and disclosure procedures that could adversely affect the accuracy and reliability of our periodic reporting.***

Prior to September 30, 2021, Valens was a private company with limited accounting personnel and other resources with which to address our internal controls and procedures. Our independent registered public accounting firm has not conducted an audit of the effectiveness of our internal control over financial reporting.

As a public company, we are required pursuant to Section 404(a) of the Sarbanes-Oxley Act to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting. This assessment includes disclosure of any material weaknesses identified by our management in our internal control over financial reporting. In addition, our independent registered public accounting firm will be required to attest to the effectiveness of our internal control over financial reporting in our first annual report required to be filed with the SEC following the date we are no longer an "emerging growth company" pursuant to Section 404(b) of the Sarbanes-Oxley Act.

The company has designed disclosure controls and procedures to provide reasonable assurance that information we must disclose in reports we file or submit under the Exchange Act is accumulated and communicated to management, and recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. However, despite the disclosure and compliance procedures, there may from time to time exist deficiencies in our control systems that could adversely affect the accuracy and reliability of our periodic reporting. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by an unauthorized override of the controls. Accordingly, because of the inherent limitations in our control system, misstatements due to error or fraud may occur and not be detected. Imperfections in our periodic reporting could create uncertainty regarding the reliability of our results of operations and financial results, which in turn could have a material adverse impact on our reputation or share price. Furthermore, as a public company, our reporting obligations may place a significant strain on our management, operational and financial resources and systems for the foreseeable future.

## Risks Related to Laws and Regulation

***Our global business requires us to comply with laws and regulations in countries across the world and exposes us to international business risks that could adversely affect our business.***

We are subject to environmental, labor, health, safety, anti-corruption, tax, corporate governance, imports and exports, and other laws and regulations in Israel, the United States and other jurisdictions in which we operate. We are also required to obtain environmental permits and other authorizations or licenses from governmental authorities for certain of our operations and have to protect our intellectual property worldwide. In the jurisdictions where we operate, we need to comply with differing standards and varying practices of regulatory, tax, judicial and administrative bodies.

The business environment is also subject to many uncertainties, including the following international business risks:

- negative economic developments in economies around the world and the instability of governments, currently for example the sovereign debt situation in certain European countries;
- social and political instability in a number of countries around the world, uncertain economic, legal and political conditions in the Middle East, China, Europe and other regions where we do business, including, for example, changes in China-Taiwan relations, the military conflict between Russia and Ukraine and the related sanctions and other penalties imposed on Russia by the United States, the European Union, the United Kingdom and other countries, and the threat of war, terrorist attacks in the United States, in Europe, Middle East and Africa (EMEA), or Asia Pacific (APAC);
- pandemics or national and international environmental or other disasters, which may adversely affect our workforce, as well as our local suppliers and customers;
- adverse changes in governmental policies, especially those affecting trade and investment;
- foreign currency exchange, in particular with respect to the U.S. dollar, and transfer restrictions, in particular in Greater China; and
- threats that our operations or property could be subject to nationalization and expropriation.

No assurance can be given that we have been or will be at all times in complete compliance with the laws and regulations to which we are subject or that we have obtained or will obtain the permits and other authorizations or licenses that we need. If we violate or fail to comply with laws, regulations, permits and other authorizations or licenses, we could be fined or otherwise sanctioned by regulators. In addition, if any of the international business risks were to materialize or become worse, they could also have a material adverse effect on our business, financial condition and results of operations.

***We are subject to governmental regulations and other legal obligations, particularly related to privacy, data protection and information security, across different markets where we conduct our business. Our actual or perceived failure to comply with such regulations and obligations could harm our business.***

In Israel, the United States and other jurisdictions in which we operate, we are subject to various laws, industry standards, regulations and other legal and contractual obligations related to privacy, data protection and information security. Such laws and regulations are constantly evolving, subject to uncertain and inconsistent interpretation and enforcement, and also may be expanded. If we are found to have breached any such laws, standards, regulations or obligations, in any such jurisdiction, we may be subject to enforcement actions that require us to change our business practices in a manner which may negatively impact our revenue, as well as expose us to litigation, fines, civil and/or criminal penalties and adverse publicity that could cause our customers to lose trust in us, negatively impacting our reputation and business in a manner that harms our financial position.

As part of our business development, we collect, maintain, transmit, store and otherwise process information about individuals, also referred to as personal information, and other potentially sensitive and/or regulated data from our customers. Laws, regulations and standards in Israel, the United States and around the world restrict how personal information is collected, stored, used, disclosed and otherwise processed, as well as, among other things, set standards for its security, implement notice requirements regarding privacy practices, and provide individuals with certain rights regarding the use, disclosure and sale of their protected personal information.

For example, in the United States, various federal and state regulators, including governmental agencies like the Federal Trade Commission, have adopted, or are considering adopting, laws and regulations concerning privacy, data protection and information security. Certain state laws may be more stringent or broader in scope, or offer greater individual rights, with respect to personal information than federal, international or other state laws, and such laws may differ from each other, all of which may complicate compliance efforts. For example, the California Consumer Privacy Act of 2018, as amended by the California Privacy Rights Act of 2020 (collectively, “CCPA”) provides for certain privacy rights for California residents and imposes obligations on companies that process their personal information (including device identifiers, IP addresses, cookies and geo-location). Among other things, the CCPA requires covered companies to provide disclosures to California residents and provide such residents data protection and privacy rights, including the ability to opt-out of certain sales of personal information. The CCPA provides for civil penalties for violations, as well as a private right of action for certain data breaches that result in the loss of personal information. A number of other states have also recently adopted, or are considering adopting, comprehensive data privacy, data protection and information security laws similar to the CCPA. Additionally, many statutory requirements, both in the United States and other jurisdictions, include obligations for companies to notify individuals of data breaches involving certain personal information. For example, laws in all 50 U.S. states require businesses to provide notice to residents whose personal information has been disclosed as a result of a data breach. State laws are changing rapidly and there is discussion in Congress of a new comprehensive federal data privacy law to which we would become subject if it is enacted.

Internationally, laws, regulations and standards in many jurisdictions apply broadly to the collection, use, retention, security, disclosure, transfer and other processing of personal information. For example, the EU General Data Protection Regulation (“GDPR”), which became effective in May 2018, greatly increased the European Commission’s jurisdictional reach of its laws and adds a broad array of requirements for handling personal data (including online identifiers and location data). EU member states are tasked under the GDPR to enact, and have enacted, certain implementing legislation that adds to and/or further interprets the GDPR requirements and potentially extends our obligations and potential liability for failing to meet such obligations. The GDPR, together with national legislation, regulations and guidelines of the EU member states governing the processing of personal data, impose strict obligations and restrictions on the ability to collect, use, retain, protect, disclose, transfer and otherwise process personal data. In particular, the GDPR includes obligations and restrictions concerning the consent and rights of individuals to whom the personal data relates, the transfer of personal data out of the European Economic Area (“EEA”), security breach notifications and the security and confidentiality of personal data. The GDPR authorizes fines for certain violations of up to 4% of global annual revenue or €20 million, whichever is greater. Legal developments in the EEA, including rulings from the Court of Justice of the European Union and from various EU member state data protection authorities, have also created complexity and uncertainty regarding transfers of personal data from the EEA to the United States and other so-called third countries outside the EEA. While we have taken steps to mitigate the impact on us, the efficacy and longevity of these mechanisms remains uncertain. In addition, some countries are considering or have passed legislation implementing data protection requirements or requiring local storage and processing of data or similar requirements that could increase the cost and complexity of delivering our services.

In addition, in Israel, the Privacy Protection Law, 5741-1981 (“PPL”), and the regulations enacted thereunder, including the Privacy Protection Regulations (Data Security), 5777-2017 (“Data Security Regulations”), as well as guidelines issued by the Israeli Privacy Protection Authority, and Amendment No. 40 to the Communications Law (Telecommunications and Broadcasting), 5742-1982, impose obligations with respect to the manner certain personal data is processed, maintained, transferred, disclosed, accessed and secured. Failure to comply with the PPL, its regulations and guidelines issued by the Israeli Privacy Protection Authority may expose us to administrative fines, civil claims (including class actions) and in certain cases criminal liability.

Current pending legislation may result in a change of the current enforcement measures and sanctions and may also require us to modify the manner personal data is collected, processed and maintained by us. The Israeli Privacy Protection Authority may initiate administrative inspection proceedings, from time to time, without any suspicion of any particular breach of the PPL, as it has done in the past with respect to dozens of Israeli companies in various business sectors. In addition, to the extent that any administrative supervision procedure is initiated by the Israeli Privacy Protection Authority and reveals certain irregularities with respect to our compliance with the PPL, in addition to our exposure to administrative fines, civil claims (including class actions) and in certain cases criminal liability, we may also need to take certain remedial actions to rectify such irregularities, which may increase our costs.

We make public statements about our use and disclosure of personal information through our privacy policies, information on our website and press statements. Although we endeavor to comply with our public statements and documentation, we may at times fail to do so or be alleged to have failed to do so. The publication of our privacy policies and other statements that provide promises and assurances about privacy and data security can subject us to potential government or legal action if they are found to be deceptive, unfair or misrepresentative of our actual practices. Any concerns about our privacy and data security practices, even if unfounded, could damage our reputation and adversely affect our business.

Restrictions on the collection, use, sharing, disclosure or other processing of personal information or additional requirements and liability for security and data integrity could require us to modify our data processing practices and policies and our solutions and features, possibly in a material manner, could limit our ability to develop new products and features and could subject us to increased compliance costs and obligations and regulatory scrutiny. Our failure to comply with applicable laws, regulations and other legal obligations, or to protect personal data, could result in enforcement or litigation action against us, including fines, sanctions, penalties, judgments, imprisonment of our officers and public censure, claims for damages by residents and other affected individuals, damage to our reputation and loss of goodwill, any of which could have a material adverse impact on our business, financial condition and results of operations.

***Failure to comply with the Foreign Corrupt Practices Act, other applicable anti-corruption and anti-bribery laws, and applicable trade control laws could subject us to penalties and other adverse consequences.***

We have extensive international operations and a substantial portion of our business, particularly with respect to our manufacturing processes, is conducted outside of the United States. Our operations are subject to the U.S. Foreign Corrupt Practices Act (the “FCPA”), as well as the anti-corruption and anti-bribery laws in the countries where we do business. The FCPA prohibits covered parties from offering, promising, authorizing or giving anything of value, directly or indirectly, to a “foreign government official” with the intent of improperly influencing the official’s act or decision, inducing the official to act or refrain from acting in violation of lawful duty, or obtaining or retaining an improper business advantage. The FCPA also requires publicly traded companies to maintain records that accurately and fairly represent their transactions, and to have an adequate system of internal accounting controls. In addition, other applicable anti-corruption laws prohibit bribery of domestic government officials, and some laws that may apply to our operations prohibit commercial bribery, including giving or receiving improper payments to or from non-government parties, as well as so-called “facilitation” payments. In addition, we are subject to U.S. and other applicable trade control regulations that restrict with whom we may transact business, including the trade sanctions enforced by the U.S. Treasury, Office of Foreign Assets Control.

Though we maintain policies, internal controls and other measures reasonably designed to promote compliance with applicable anticorruption and anti-bribery laws and regulations, and certain safeguards designed to ensure compliance with U.S. trade control laws, our employees or agents may nevertheless engage in improper conduct for which we might be held responsible. Any violations of these anti-corruption or trade controls laws, or even allegations of such violations, can lead to an investigation and/or enforcement action, which could disrupt our operations, involve significant management distraction, and lead to significant costs and expenses, including legal fees. If we, or our employees or agents acting on our behalf, are found to have engaged in practices that violate these laws and regulations, we could suffer severe fines and penalties, profit disgorgement, injunctions on future conduct, securities litigation, bans on transacting government business, delisting from securities exchanges and other consequences that may have a material adverse effect on our business, financial condition and results of operations. In addition, our reputation, our net sales or our share price could be adversely affected if we become the subject of any negative publicity related to actual or potential violations of anti-corruption, anti- bribery or trade control laws and regulations.

***Environmental, health and safety (EHS) laws and regulations may expose us to liability, and such liability and compliance with these laws and regulations may adversely affect our business.***

The semiconductor industry is subject to a variety of international, federal, state, local and non-U.S. laws and regulations governing pollution, environmental protection and occupational health and safety, including those relating to the release, storage, use, discharge, handling, generation, transportation, disposal, and labeling of, and human exposure to, hazardous and toxic materials, product composition, and the investigation and cleanup of contaminated sites, including sites we currently or formerly owned or operated, due to the release of hazardous materials, regardless of whether we caused such release. We are also required to obtain environmental permits from governmental authorities for some of our operations. We cannot be assured that we have been or will be at all times in complete compliance with such EHS laws, regulations and permits. Failure to comply with such EHS laws and regulations could subject us to civil or criminal costs, obligations, sanctions or property damage or personal injury claims, or suspension of our facilities' operating permits.

Changes in EHS laws or regulations may require us to invest in costly equipment or make manufacturing process changes and may adversely affect the sourcing, supply and pricing of materials used in our products. In particular, climate change concerns and the potential resulting environmental impact may result in new or more stringent EHS laws and regulations that may affect us, our suppliers, and our customers.

In addition, we may be strictly liable for joint, and several costs associated with investigation and remediation of sites at which we have arranged for the disposal of hazardous wastes if such sites become contaminated, even if we fully comply with applicable environmental laws and regulations. Compliance with current or future environmental and occupational health and safety laws and regulations could restrict our ability to expand our business or require us to modify processes or incur other substantial expenses which could harm our business.

In the event of an incident involving hazardous materials, we could be liable for damages and such liability could exceed the amount of any liability insurance coverage and the resources of our business. In addition, in the event of the discovery of contaminants or the imposition of clean up obligations for which we are responsible, we may be required to take remedial or other measures which could have a material adverse effect on our business, financial condition and results of operations. In response to environmental concerns, some customers and government agencies impose requirements for the elimination and/or labeling of hazardous substances, such as lead (which is widely used in soldering connections in the process of semiconductor packaging and assembly), in electronic equipment, as well as requirements related to the take-back of products discarded by customers.

EHS laws and regulations have tended to become more stringent over time, causing a need to redesign technologies, imposing greater compliance costs and increasing risks and penalties associated with violations, which could seriously harm our business.

Scientific examination of political attention to and rules and regulations on issues surrounding the existence and extent of climate may result in an increase in the cost of production due to increase in the prices of energy and introduction of energy or carbon tax. A variety of regulatory developments have been introduced that focus on restricting or managing the emission of carbon dioxide, methane and other greenhouse gases. Enterprises may need to purchase at higher costs new equipment or raw materials with lower carbon footprints. These developments and further legislation that is likely to be enacted could affect our operations negatively.

In addition, increasingly regulators, customers, investors, employees and other stakeholders are focusing on environmental, social and governance (ESG) matters and related disclosures. These changing rules, regulations and stakeholder expectations have resulted in, and are likely to continue to result in, increased general and administrative expenses and increased management time and attention spent complying with or meeting such regulations and expectations.

***The Internal Revenue Service (IRS) may not agree that Valens should be treated as a non-U.S. corporation for U.S. federal income tax purposes.***

Under current U.S. federal income tax law, a corporation generally will be considered to be a U.S. corporation for U.S. federal income tax purposes if it is created or organized in the United States or under the law of the United States or of any state. Accordingly, under generally applicable U.S. federal income tax rules, Valens, which is incorporated and tax resident in Israel, would generally be classified as a non-U.S. corporation for U.S. federal income tax purposes. Section 7874 of the Internal Revenue Code of 1986, as amended (the “Code”) and the Treasury regulations promulgated thereunder, however, contain specific rules that may cause a non-U.S. corporation to be treated as a U.S. corporation for U.S. federal income tax purposes. If it were determined that Valens is treated as a U.S. corporation for U.S. federal income tax purposes under Section 7874 of the Code and the Treasury regulations promulgated thereunder, Valens would be liable for U.S. federal income tax on its income in the same manner as any other U.S. corporation and certain distributions made by Valens to non-U.S. investors generally would be subject to U.S. withholding tax.

As more fully described in the section titled “*Material U.S. Federal Income Tax Considerations—U.S. Federal Income Tax Treatment of Valens—Tax Residence of Valens for U.S. Federal Income Tax Purposes*,” based on the terms of the Business Combination (as defined in Item 4A to this Annual Report) and certain facts and factual assumptions, Valens does not believe that it should be treated as a U.S. corporation for U.S. federal income tax purposes under Section 7874 of the Code after the Business Combination. However, the application of Section 7874 of the Code is complex, subject to detailed Treasury regulations (the application of which is uncertain in various respects and would be impacted by changes in such regulations with possible retroactive effect) and subject to certain factual uncertainties.

Accordingly, there can be no assurance that the IRS will not challenge the status of Valens as a non-U.S. corporation for U.S. federal income tax purposes under Section 7874 of the Code or that such challenge would not be sustained by a court.

If the IRS were to successfully challenge Valens’ status as a non-U.S. corporation for U.S. federal income tax purposes, Valens and certain Valens shareholders may be subject to significant adverse tax consequences, including a higher effective corporate income tax rate on Valens and the application of U.S. withholding taxes on dividends paid on Valens ordinary shares to non-U.S. shareholders, subject to reduction under an applicable income tax treaty.

See “*Material U.S. Federal Income Tax Considerations—U.S. Federal Income Tax Treatment of Valens*” for a more detailed discussion of the application of Section 7874 of the Code to Valens. Investors should consult their own tax advisors regarding the application of Section 7874 of the Code to the Business Combination and the tax consequences to Valens and its shareholders if the classification of Valens as a non-U.S. corporation is not respected.

***Changes to tax laws or regulations in Israel, the United States and other jurisdictions expose us to tax uncertainties and could adversely affect our results of operations or financial condition.***

As a multinational business, operating in multiple jurisdictions such as Israel, the United States, the EU, Japan and China, we may be subject to taxation in several jurisdictions around the world with increasingly complex tax laws, the application of which can be uncertain. Changes to tax laws or regulations in the jurisdictions in which we operate, or in the interpretation of such laws or regulations, could significantly increase our effective tax rate and reduce our cash flow from operating activities and otherwise have a material adverse effect on our financial condition. Since a significant portion of our operations are located in Israel, changes in tax laws or regulations in Israel could significantly affect our operating results. Further changes in the tax laws of foreign jurisdictions could arise, in particular, as a result of different initiatives undertaken by the Organization for Economic Co-operation and Development (the “OECD”). Any changes in the OECD policy or recommendations, if adopted, could increase tax uncertainty and may adversely affect our provision for income taxes and increase our tax liabilities. In addition, other factors or events, including business combinations and investment transactions, changes in the valuation of our deferred tax assets and liabilities, adjustments to taxes upon finalization of various tax returns or as a result of deficiencies asserted by taxing authorities, increases in expenses not deductible for tax purposes, changes in available tax credits, changes in transfer pricing methodologies, other changes in the apportionment of our income and other activities among tax jurisdictions, and changes in tax rates, could also increase our effective tax rate.

We are subject to regular review and audit by Israeli and other foreign tax authorities. Although we believe our tax estimates are reasonable, the authorities in these jurisdictions could review our tax returns and impose additional taxes, interest, linkage and penalties, and the authorities could claim that various withholding requirements apply to us or our subsidiaries or assert that benefits of tax treaties are not available to us or our subsidiaries, any of which could materially affect our income tax provision, net income, or cash flows in the period or periods for which such determination and settlement is made. We may also be liable for taxes in connection with businesses we acquire. Our determinations are not binding on any taxing authorities, and accordingly the final determination in an audit or other proceeding may be materially different than the treatment reflected in our tax provisions, accruals and returns. An assessment of additional taxes because of an audit could have a material adverse effect on our business, financial condition, results of operations and cash flows.

***Transfer pricing rules may adversely affect our corporate income tax expenses.***

Many of the jurisdictions in which we conduct business have detailed transfer pricing rules, which require contemporaneous documentation establishing that all transactions with non-resident related parties be priced using arm’s length pricing principles. The tax authorities in these jurisdictions could challenge our related party transfer pricing policies and as a consequence the tax treatment of corresponding expenses and income. International transfer pricing is an area of taxation that depends heavily on the underlying facts and circumstances and generally involves a significant degree of judgment. If any of these tax authorities were to be successful in challenging our transfer pricing policies, we may be liable for additional corporate income tax, and penalties and interest related thereto, which may have a significant impact on our results of operations and financial condition.

***Changes in government trade policies, including the imposition of tariffs and export restrictions, could limit our ability to sell our products to certain customers or demand from certain customers, which may materially and adversely affect our sales and results of operations.***

The U.S. government has in the past made public statements indicating possible significant changes in U.S. trade policy and have taken certain actions that may impact U.S. trade policy, including imposing new or increased tariffs on certain goods imported into the United States. Since our current products are manufactured outside the United States, such changes, if adopted, could have a disproportionate impact on our business and make our products more expensive and less competitive in the U.S. market. Furthermore, changes in U.S. trade policy could trigger retaliatory actions by affected countries, which could impose restrictions on our ability to do business in or with affected countries or prohibit, reduce or discourage purchases of our products by foreign customers, leading to increased costs of components contained in our products, increased costs of manufacturing our products, and higher prices for our products in foreign markets. For example, there are risks that the Chinese government may, among other things, require the use of local suppliers in place of non - Chinese suppliers like us, compel companies that do business in China to partner with local companies to conduct business and provide incentives to government-backed local customers to buy from local suppliers. Changes in, and responses to, U.S. trade policy could reduce the competitiveness of our products and cause our sales to decline, which could materially and adversely impact our business, financial condition and results of operations. The U.S. or foreign governments may take administrative, legislative or regulatory action that could materially interfere with our ability to sell products in certain countries and/or to certain customers, particularly in China. We cannot predict what actions may ultimately be taken with respect to tariffs or trade relations between the United States and China or other countries, what products may be subject to such actions, or what actions may be taken by the other countries in retaliation. The institution of trade tariffs both globally and between the United States and China specifically carries the risk of negatively impacting China’s overall economic condition, which could have negative repercussions for our business.

***We will be subject to legal and regulatory consequences if we do not comply with applicable export control laws and regulations.***

Products developed in Israel and other locations are subject to export controls of the applicable nation. Obtaining export licenses can be difficult, costly and time-consuming and we may not always be successful in obtaining necessary export licenses, and our failure to obtain required import or export approval for our products or limitations on our ability to export or sell our products imposed by these laws may harm our international and domestic revenues. Noncompliance with these laws could have negative consequences, including government investigations, penalties and reputational harm. The absence of comparable restrictions on competitors in other countries may adversely affect our competitive position. Failure to obtain export licenses for our products or having one or more of our customers be restricted from receiving exports from us could significantly reduce our net sales and materially and adversely affect our business, financial condition and results of operations.

***Changing foreign exchange rates may have an adverse effect on our financial results.***

We have operations and assets in Israel, the United States and other foreign jurisdictions. We prepare our consolidated financial statements in U.S. dollars, but a portion of our expenditures are denominated in NIS and other currencies. We therefore must translate our foreign assets, liabilities, revenue and expenses to U.S. dollars at applicable exchange rates. Consequently, fluctuations in the value of the NIS and other foreign currencies relative to the U.S. dollar may negatively affect the value of these items in our financial statements. Additionally, currency exchange rates have been especially volatile in the recent past due to several factors, including interest rate changes and political and economic uncertainty, and these currency fluctuations may make it difficult for us to predict the prospective impact of exchange rate fluctuations. Although we engage in foreign currency hedging activity, we may be unable to hedge all of our foreign currency risk. To the extent we fail to manage our foreign currency exposure adequately, we may suffer losses in the value of our net foreign currency investment, and our business, financial condition, results of operations and cash flows may be negatively affected.

### **Risks Related to Being a Public Company**

***Valens incurs increased costs as a result of operating as a public company, and its management is required to devote substantial time to new compliance initiatives.***

As of September 30, 2021, Valens became a public company subject to reporting requirements in the United States, and it will incur significant legal, accounting, insurance and other expenses that it did not incur as a private company, and these expenses may increase even more after Valens is no longer an emerging growth company, as defined in Section 2(a) of the Securities Act. As a public company, Valens is subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act, as well as rules adopted, and to be adopted, by the SEC and the NYSE. Valens' management and other personnel will need to devote a substantial amount of time to these compliance initiatives. Moreover, Valens expects these rules and regulations to substantially increase its legal and financial compliance costs and to make some activities more time-consuming and costly. For example, Valens expects these rules and regulations to make it more difficult and more expensive for it to obtain director and officer liability insurance and it may be forced to accept reduced policy limits or incur substantially higher costs to maintain the same or similar coverage. Valens cannot accurately predict or estimate the full amount or timing of additional costs it may incur to respond to these requirements. The impact of these requirements could also make it more difficult for Valens to attract and retain qualified people to serve on its board of directors, its board committees or as executive officers.

***A market for Valens' securities may not be sustained.***

The price of Valens' securities may fluctuate significantly due to general market and economic conditions. Between January 1, 2023, and December 31, 2023, the closing price of our share price has fluctuated from a low of \$2.01 to a high of \$5.90, and the daily average trading volume in that period was 422,875 shares. An active trading market for Valens' securities may not be sustained. In addition, the price of Valens' securities can vary due to general economic conditions and forecasts, Valens' general business condition and the release of Valens' financial reports. The following factors may also cause significant fluctuations in the market price of our ordinary shares:

- negative fluctuations in our quarterly revenues and earnings or those of our competitors;
- pending sales into the market due to the sale of large blocks of shares, due to, among other reasons, the expiration of contractual lock-up with respect to significant amounts of our ordinary shares;
- shortfalls in our operating results compared to levels forecast by us or securities analysts;
- changes in our senior management;
- mergers and acquisitions by us or our competitors;
- technological innovations;
- the introduction of new products;
- cyber-attacks or other disruptions to or breaches of our information technology, systems or networks;
- the conditions of the securities markets, particularly in the semiconductors sector; and
- political, economic and other developments in Israel and worldwide.

In addition, share prices of many technology companies in general and semiconductors companies in particular fluctuate significantly for reasons that may be unrelated or disproportionate to operating results. The factors discussed above may depress or cause volatility to our share price, regardless of our actual operating results.

Additionally, if Valens' securities become delisted from the NYSE and are quoted on the OTC Bulletin Board (an inter-dealer automated quotation system for equity securities that is not a national securities exchange), the liquidity and price of Valens' securities may be more limited than if Valens was quoted or listed on the NYSE or another national securities exchange.

The lack of an active market may impair our shareholders' ability to sell their securities at the time they wish to sell them or at a price that they consider reasonable. The lack of an active market may also reduce the fair value of our securities. An inactive market may also impair our ability to raise capital to continue to fund operations by selling ordinary shares and may impair our ability to acquire other companies or technologies by using our shares as consideration.

***Valens' internal controls over financial reporting may not be effective and its independent registered public accounting firm may not be able to attest as to their effectiveness, which could have a significant and adverse effect on Valens' business and reputation.***

Under the Sarbanes-Oxley Act, among other things, Valens is required to maintain effective disclosure controls and procedures and internal control over financial reporting. Valens is continuing to develop and refine its disclosure controls, internal control over financial reporting and other procedures that are designed to ensure that information required to be disclosed by it in the reports that it will file with the SEC is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that information required to be disclosed in reports under the Exchange Act is accumulated and communicated to Valens' principal executive and financial officers. Pursuant to Section 404(a) of the Sarbanes-Oxley Act, we are required to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting. This assessment needs to include disclosure of any material weaknesses identified by our management in an internal control over financial reporting.

Valens' current controls and any new controls that it develops may become inadequate because of changes in conditions in its business. Further, weaknesses in Valens' internal controls may be discovered in the future. Any failure to develop or maintain effective controls, or any difficulties encountered in their implementation or improvement, could adversely affect Valens' operating results or cause it to fail to meet its reporting obligations and may result in a restatement of Valens' financial statements for prior periods. Any failure to implement and maintain effective internal controls also could adversely affect the results of periodic management evaluations. Since the Company is an "emerging growth company," as defined in the Securities Act, as modified by the Jumpstart Business Startups Act of 2012 (the "JOBS Act"), it may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act. Ineffective disclosure controls and procedures and internal control over financial reporting could also cause investors to lose confidence in Valens' reported financial and other information.

In order to maintain and improve the effectiveness of its disclosure controls and procedures and internal control over financial reporting, Valens has expended and anticipates that it will continue to expend significant resources, including accounting-related costs, and provide significant management oversight. Any failure to maintain the adequacy of its internal controls, or consequent inability to produce accurate financial statements on a timely basis, could increase Valens' operating costs and could materially and adversely affect its ability to operate its business. In the event that Valens' internal controls are perceived as inadequate or that it is unable to produce timely or accurate financial statements, investors may lose confidence in Valens' operating results and the stock price of Valens may decline. In addition, if we are unable to continue to meet these requirements, we may not be able to maintain listing on the NYSE.

Our independent registered public accounting firm is not required to attest to the effectiveness of our internal control over financial reporting until after we are no longer an emerging growth company. At such time, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which Valens' controls are documented, designed or operating. Any failure to maintain effective disclosure controls and internal control over financial reporting could have a material and adverse effect on our business and operating results.

***We may be named as a party to several legal proceedings in the future, including litigation related to our patents and other intellectual property, which could subject us to liability, require us to indemnify our customers, require us to obtain or renew licenses, require us to stop selling our products or force us to redesign our products.***

We may become a party to lawsuits, government inquiries or investigations and other legal proceedings (referred to as "litigation").

The ultimate outcome of litigation could have a material adverse effect on our business and the trading price for our securities. Litigation may be time consuming, expensive, and disruptive to normal business operations, and the outcome of litigation is difficult to predict. Litigation, regardless of the outcome, may result in significant expenditures, diversion of our management's time and attention from the operation of our business and damage to our reputation or relationship with third parties, which could materially and adversely affect our business, financial condition, results of operations, cash flows and stock price.

## Risks Relating to Our Incorporation and Location 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 adversely affect our business and limit our ability to market our products, which may lead to a decrease in revenues.*

We are incorporated under the laws of the State of Israel, and our principal offices are located in Israel. Accordingly, political, economic and geopolitical instability in Israel may affect our business. Several countries, principally in the Middle East, still restrict doing business with Israel and Israeli companies, and additional countries may impose restrictions on doing business with Israel and Israeli companies if hostilities in Israel or geopolitical instability in the region continues or increases. Any hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners, or significant downturn in the economic or financial condition of Israel, could adversely affect our business.

Because most of our research and development is conducted in Israel and our management (and certain members of our board of directors) as well as a majority of our employees, are located in Israel, our business may be directly affected by economic, political, geopolitical and military conditions in Israel. Throughout the years, Israel has experienced a number of armed conflicts with 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.

In October 2023, Hamas terrorists infiltrated Israel's southern border from the Gaza Strip and conducted a series of attacks on civilian and military targets. Hamas also launched extensive rocket attacks on Israeli population. Following the attack, Israel's government declared war against Hamas and a military campaign against these terrorist organizations commenced. It is possible that other terrorist organizations, including Hezbollah in Lebanon, and Palestinian military organizations in the West Bank, as well as other hostile countries, such as Iran, will join the hostilities. Such hostilities may include terror and missile attacks. The intensity and duration of Israel's current war against Hamas is difficult to predict, as are such war's economic implications on the Company's business and on Israel's economy in general. These events may be intertwined with wider macroeconomic indications of a deterioration of Israel's economic standing, which may have a material adverse effect on our business.

While the potential adversarial risk effects in connection with these events exist, we believe they are minimized by our work in a fabless model, in which we outsource all our manufacturing operations, utilizing third-party foundry, assembly, and testing facilities. We primarily manufacture our products through contract manufacturers in Taiwan and Europe. As of today, all our silicon wafers, which are the basic element of any semiconductor product, are designed to be manufactured at TSMC, the largest foundry in the world. We use third party contract manufacturers for our assembly and test operations, including Advanced Semiconductor Engineering, UTAC and STMicroelectronics. We store our product inventory in certain locations, mainly in Asia and Europe, close to many of our customers' manufacturing facilities. Since our supply chain, including the storage of the finished goods, is located outside of Israel, we believe that while hostile events in Israel may adversely affect our business, they will have less effect on our operations and ability to supply the demand of our customers.

That said, following the Israeli government's declaration of war against Hamas, several hundred thousand Israeli military reservists were drafted to perform immediate military service. Certain of our employees in Israel have been called, and additional employees may be called, for service in the current or future wars or other armed conflicts, and such persons may be absent for an extended period of time. As a result, we may experience delays in our introduction of new technologies to the market in a timely manner, which, in turn, could adversely affect our business and ability to compete with newer generations of products introduced to the market by our competitors.

Prior to the Hamas attack in October 2023, the Israeli government pursued extensive changes to Israel's judicial system, which sparked extensive political debate and unrest. In response to such initiative, concerns were raised that the proposed changes may negatively impact the business environment in Israel. Although it appears that these initiatives are overshadowed by the current military and security conditions, it is unclear at this point whether the Israeli government will return to pursue them, in a manner that will affect the macroeconomic condition in Israel, which may in turn adversely affect our business.

Lastly, some countries around the world restrict doing business with Israel and Israeli companies, and additional countries may impose restrictions on doing business with Israel and Israeli companies if hostilities in Israel or political instability in the region continue or increase. These restrictions may limit our ability to sell our products and provide our services to companies and customers in these countries. In addition, there have been increased efforts by activists to cause companies and consumers to boycott Israeli goods and services. Such efforts, particularly if they become more widespread, may materially and adversely impact our ability to sell and provide our products and services outside of Israel.

**Investors' rights and responsibilities as our shareholders will be governed by Israeli law, which differs in some respects from the rights and responsibilities of shareholders of non-Israeli companies.**

We were incorporated under Israeli law and the rights and responsibilities of our shareholders are governed by our articles of association and Israeli law. These rights and responsibilities differ in some respects from the rights and responsibilities of shareholders of U.S. and other non-Israeli corporations. In particular, a shareholder of an Israeli company has a duty to act in good faith and in a customary manner in exercising its rights and performing its obligations towards the company and other shareholders and to refrain from abusing its power in the company, including, among other things, in voting at the general meeting of shareholders on certain matters, such as an amendment to the company's articles of association, an increase of the company's authorized share capital, a merger of the company and approval of related party transactions that require shareholder approval. A shareholder also has a general duty to refrain from discriminating against other shareholders. In addition, a controlling shareholder or a shareholder who knows that it possesses the power to determine the outcome of a shareholders' vote or to appoint or prevent the appointment of an office holder in the company has a duty to act in fairness towards the company. These provisions may be interpreted to impose additional obligations and liabilities on our shareholders that are not typically imposed on shareholders of U.S. corporations.

***Provisions of Israeli law and our amended and restated articles of association may delay, prevent or make undesirable an acquisition of all or a significant portion of our shares or assets.***

Provisions of Israeli law and our amended and restated articles of association could have the effect of delaying or preventing a change in control and may make it more difficult for a third-party to acquire us or our shareholders to elect different individuals to our board of directors, even if doing so would be considered to be beneficial by some of our shareholders, and may limit the price that investors may be willing to pay in the future for our ordinary shares. Among other things:

- Israeli corporate law regulates mergers and requires that a tender offer be effected when more than a specified percentage of shares in a company are purchased;
- Israeli corporate law requires special approvals for certain transactions involving directors, officers or significant shareholders and regulates other matters that may be relevant to these types of transactions;
- Israeli corporate law does not provide for shareholder action by written consent for public companies, thereby requiring all shareholder actions to be taken at a general meeting of shareholders;
- our amended and restated articles of association divide our directors into three classes, each of which is elected once every three years;
- our amended and restated articles of association generally require a vote of the holders of a majority of our outstanding ordinary shares entitled to vote present and voting on the matter at a general meeting of shareholders (referred to as simple majority), and the amendment of a limited number of provisions, such as the provision dividing our directors into three classes, requires a vote of the holders of 65% of the total voting power of our shareholders;

- our amended and restated articles of association do not permit a director to be removed except by a vote of the holders of at least 65% of the total voting power of our shareholders; and
- our amended and restated articles of association provide that director vacancies may be filled by our board of directors.

Further, Israeli tax considerations may make potential transactions undesirable to us or some of our shareholders whose country of residence does not have a tax treaty with Israel granting tax relief to such shareholders from Israeli tax. For example, Israeli tax law does not recognize tax-free share exchanges to the same extent as U.S. tax law. With respect to mergers, Israeli tax law allows for tax deferral in certain circumstances but makes the deferral contingent on the fulfillment of numerous conditions, including, a holding period of two years from the date of the transaction during which certain sales and dispositions of shares of the participating companies are restricted. Moreover, with respect to certain share swap transactions, the tax deferral is limited in time, and when such time expires, the tax becomes payable even if no disposition of the shares has occurred.

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

Unless we agree otherwise, the competent courts of Tel Aviv, Israel shall be the exclusive forum for (i) any derivative action or proceeding brought on behalf of the Company, (ii) any action asserting a claim of breach of fiduciary duty owed by any director, officer, or other employee of the Company to the Company or the Company's shareholders, or (iii) any action asserting a claim arising pursuant to any provision of the Companies Law or the Israeli Securities Law. Such exclusive forum provision in our amended and restated articles of association will not relieve the Company of its duties to comply with federal securities laws and the rules and regulations thereunder, and shareholders of the Company will not be deemed to have waived the Company's compliance with these laws, rules and regulations. This exclusive forum provision may limit a shareholder's ability to bring a claim in a judicial forum of its choosing for disputes with the Company or its directors or other employees which may discourage lawsuits against the Company, its directors, officers and employees. The foregoing exclusive forum provision is intended to apply to claims arising under Israeli law and would not apply to claims for which the federal courts would have exclusive jurisdiction, whether by law (as is the case under the Exchange Act) or pursuant to our amended and restated articles of association, including claims under the Securities Act for which there is a separate exclusive forum provision in our amended and restated articles of association. However, the enforceability of similar forum provisions (including exclusive federal forum provisions for actions, suits or proceedings asserting a cause of action arising under the Securities Act) in other companies' organizational documents has been challenged in legal proceedings and there is uncertainty as to whether courts would enforce the exclusive forum provisions in our amended and restated articles of association. If a court were to find the choice of forum provision contained in our amended and restated articles of association to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could materially adversely affect our business, financial condition and results of operations.

***Our amended and restated articles of association provide that unless we consent to an alternate forum, the federal district courts of the United States shall be the exclusive forum of resolution of any claims arising under the Securities Act which may impose additional litigation costs on our shareholders.***

Our amended and restated articles of association provide that the federal district courts of the United States shall be the exclusive forum for the resolution of any claims arising under the Securities Act or the federal forum provision in our amended and restated articles of association (the "Federal Forum Provision"). While the Federal Forum Provision does not restrict the ability of our shareholders to bring claims under the Securities Act, nor does it affect the remedies available thereunder if such claims are successful, we recognize that it may limit shareholders' ability to bring a claim in the judicial forum that they find favorable and may increase certain litigation costs which may discourage the filing of claims under the Securities Act against the Company, its directors and officers. However, the enforceability of similar forum provisions (including exclusive federal forum provisions for actions, suits or proceedings asserting a cause of action arising under the Securities Act) in other companies' organizational documents has been challenged in legal proceedings and there is uncertainty as to whether courts would enforce the exclusive forum provisions in our amended and restated articles of association. If a court were to find the choice of forum provision contained in our amended and restated articles of association to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could materially adversely affect our business, financial condition and results of operations.

***We have received Israeli government grants for certain research and development activities. The terms of those grants require us to satisfy specified conditions as defined in Israel's Encouragement of Research, Development and Technological Innovation in Industry Law, 5744-1984 (the "Innovation Law").***

We received Israeli government grants for certain of our research and development activities. When a company develops know-how, technology or products using grants from the Israel Innovation Authority of the Israeli Ministry of Innovation, Science and Technology (formerly known as Office of Chief Scientist) ("IIA"), the terms of these grants and the Innovation Law restrict the transfer or license of such know-how, and the transfer of manufacturing or manufacturing rights of such products, technologies or know-how outside of Israel, without the prior approval of the IIA. Therefore, the discretionary approval of an IIA committee would be required for any transfer or license to third parties inside or outside of Israel of know how or for the transfer outside of Israel of manufacturing or manufacturing rights related to those aspects of such technologies. We may not receive those approvals, in the future, while in the past the Company did receive approvals of requests submitted by it according to the Innovation Law, including for the manufacturing of Company products outside of Israel.

Furthermore, the IIA may impose certain conditions on any arrangement under which it permits us to transfer technology or development outside of Israel.

The transfer or license of IIA-supported technology or know-how outside of Israel and the transfer of manufacturing of IIA-supported products, technology or know-how outside of Israel, may require payment to the IIA of amounts which are determined taking into consideration the following elements: (i) the value of the transferred or licensed technology or know-how; (ii) our research and development expenses; (iii) the amount of IIA accumulated grants. Over the years, Valens has received various grants from the IIA in the total amount of \$6 million, out of which the latest grants in the amount of \$2.05 million were received from the IIA in 2016; (iv) accumulated revenue-based royalties already paid by the Company; and (v) the time that has passed since the completion of IIA supported period and other factors. These restrictions and requirements for payment may impair our ability to sell, license or otherwise transfer our technology assets outside of Israel or to outsource or transfer development or manufacturing activities with respect to any product or technology outside of Israel. Furthermore, despite the fact that as of December 31, 2019 the Company paid in full all the grants received from the IIA, Valens remains subject to the restrictions and obligations under the Innovation Law described above, and the net consideration available to our shareholders in certain transactions (such as a merger or similar change of control transaction) involving the transfer outside of Israel of technology or know-how developed with IIA funding may be reduced by any amounts that we may be required to pay to the IIA.

***Certain tax benefits that may be available to Valens, if obtained by Valens, would require it to continue to meet various conditions and may be terminated or reduced in the future, which could increase Valens' costs and taxes.***

Valens may be eligible for certain tax benefits provided to "Preferred Technological Enterprises" under the Israeli Law for the Encouragement of Capital Investments, 5719-1959, referred to as the Investment Law. If Valens obtains tax benefits under the "Preferred Technological Enterprises" regime then, in order to remain eligible for such tax benefits, it will need to continue to meet certain conditions stipulated in the Investment Law and its regulations, as amended. If these tax benefits are reduced, cancelled or discontinued, Valens' Israeli taxable income may be subject to the Israeli corporate tax rate of 23% in 2023 and thereafter. Additionally, if Valens increases its activities outside of Israel through acquisitions, for example, its activities might not be eligible for inclusion in future Israeli tax benefit programs. See "*Certain Material Israeli Tax Considerations*."

***It may be difficult to enforce a U.S. judgment against Valens, its officers and directors in Israel or the United States, or to assert U.S. securities laws claims in Israel or serve process on Valens' officers and directors.***

Most of Valens' directors or officers are not residents of the United States and most of their and Valens' assets are located outside the United States. Service of process upon Valens or its non-U.S. resident directors and officers and enforcement of judgments obtained in the United States against Valens or its non-U.S. directors and executive officers may be difficult to obtain within the United States, although our amended and restated articles of association provide that unless we consent to an alternate forum, the federal district courts of the United States shall be the exclusive forum of resolution of any claims arising under the Securities Act. Israeli courts may refuse to hear a claim based on a violation of U.S. securities laws against Valens or its non-U.S. officers and directors because Israel may not be the most appropriate forum to bring such a claim. In addition, even if an Israeli court agrees to hear a claim, it may determine that Israeli law and not U.S. law is applicable to the claim. If U.S. law is found to be applicable, the content of applicable U.S. law must be proved as a fact, which can be a time-consuming and costly process. Certain matters of procedure will also be governed by Israeli law. There is little binding case law in Israel addressing the matters described above. Israeli courts might not enforce judgments rendered outside Israel, which may make it difficult to collect on judgments rendered against Valens or its non-U.S. officers and directors.

Moreover, among other reasons, including but not limited to, fraud or absence of due process, or the existence of a judgment which is at variance with another judgment that was given in the same matter if a suit in the same matter between the same parties was pending before a court or tribunal in Israel, an Israeli court will not enforce a non-Israeli judgment if it was given in a state whose laws do not provide for the enforcement of judgments of Israeli courts (subject to exceptional cases) or if its enforcement is likely to prejudice the sovereignty or security of the State of Israel. For more information, see “*Enforceability of Civil Liabilities.*”

### **Risks Related to Ownership of Our Shares and Warrants**

***Valens' Articles and Israeli law could prevent a takeover that shareholders consider favorable and could also reduce the market price of Valens ordinary shares.***

Certain provisions of Israeli law and Valens' Articles could have the effect of delaying or preventing a change in control and may make it more difficult for a third party to acquire Valens or for Valens' shareholders to elect different individuals to its board of directors, even if doing so would be beneficial to its shareholders and may limit the price that investors may be willing to pay in the future for Valens' ordinary shares. For example, Israeli corporate law regulates mergers and requires that a tender offer be affected when certain thresholds of percentage ownership of voting power in a company are exceeded (subject to certain conditions). Further, Israeli tax considerations may make potential transactions undesirable to Valens or to some of its shareholders whose country of residence does not have a tax treaty with Israel granting tax relief to such shareholders from Israeli tax. Payment of dividends may be subject to Israeli withholding taxes. See Item 10.E. “*Taxation—Taxation and government programs—Israeli tax considerations and government programs*” for additional information.

We have never declared or paid any cash dividends. Further, we do not intend to pay dividends for the foreseeable future. We currently intend to retain all available funds and any future earnings for use in the operation of our business and do not anticipate paying any dividends on our ordinary shares in the foreseeable future.

Our board of directors has sole discretion whether to pay dividends. If Valens' board of directors decides to pay dividends, the form, frequency, and amount will depend upon its future, operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that its directors may deem relevant. The Israeli Companies Law, 5759-1999 (the “Companies Law”) imposes restrictions on Valens' ability to declare and pay dividends. See “*Description of share capital and articles of association—Dividend and liquidation rights*” for additional information.

***The market price and trading volume of Valens' ordinary shares may be volatile and could decline significantly.***

The stock markets, including the NYSE on which our ordinary shares and warrants are listed under the symbol "VLN" and "VLNW" respectively, have from time-to-time experienced significant price and volume fluctuations. The market price of our ordinary shares and warrants may be volatile and could decline significantly. In addition, the trading volume in our ordinary shares and warrants may fluctuate and cause significant price variations to occur. If the market price of our ordinary shares and warrants declines significantly, shareholders may be unable to resell their shares or warrants at or above the market price of the ordinary shares and warrants. The market price of our ordinary shares and warrants might fluctuate widely or decline significantly in the future in response to a number of factors, including, among others, the following:

- the realization of any of the risk factors presented in this Annual Report;
- actual or anticipated differences in Valens' estimates, or in the estimates of analysts, for Valens' revenues, earnings, results of operations, level of indebtedness, liquidity or financial condition;
- additions and departures of key personnel;
- failure to comply with the requirements of the NYSE;
- failure to comply with the Sarbanes-Oxley Act or other laws or regulations;
- publication of research reports about Valens;
- the performance and market valuations of other similar companies;
- failure of securities analysts to initiate or maintain coverage of Valens, changes in financial estimates by any securities analysts who follow Valens or Valens' failure to meet these estimates or the expectations of investors;
- new laws, regulations, subsidies, or credits or new interpretations of existing laws applicable to Valens;
- commencement of, or involvement in, litigation involving Valens;
- broad disruptions in the financial markets, including sudden disruptions in the credit markets;
- speculation in the press or investment community;
- actual, potential or perceived control, accounting or reporting problems;
- changes in accounting principles, policies and guidelines; and
- other events or factors, including those resulting from infectious diseases, health epidemics and pandemics (including the ongoing COVID-19 public health emergency), natural disasters, war, cyber-attacks or other disruptions to or breaches of our information technology, systems or networks, acts of terrorism or responses to these events.

In the past, securities class-action litigation has often been instituted against companies following periods of volatility in the market price of their shares. This type of litigation could result in substantial costs and divert our management's attention and resources, which could have a material adverse effect on us.

***If securities or industry analysts do not publish or cease publishing research or reports about Valens, its business, or its market, or if they change their recommendations regarding Valens' ordinary shares adversely, then the price and trading volume of Valens' ordinary shares could decline.***

The trading market for Valens' ordinary shares will be influenced by the research and reports that industry or financial analysts publish about its business. Valens does not control these analysts, or the content and opinions included in their reports. As a new public company, Valens cannot guarantee a wide research coverage and the analysts who publish information about Valens ordinary shares will have relatively little experience with Valens, which could affect their ability to accurately forecast Valens' results and make it more likely that Valens fails to meet their estimates. In the event Valens obtains industry or financial analyst coverage, if any of the analysts who cover Valens issues an inaccurate or unfavorable opinion regarding it, Valens' share price would likely decline. In addition, the share prices of many companies in the technology industry have declined significantly after those companies have failed to meet, or significantly exceed, the financial guidance publicly announced by the companies or the expectations of analysts. If Valens' financial results fail to meet, or significantly exceed, its announced guidance or the expectations of analysts or public investors, analysts could downgrade their ratings of Valens ordinary shares or publish unfavorable research about it. If one or more of these analysts cease coverage of Valens or fail to publish reports on it regularly, Valens' visibility in the financial markets could decrease, which in turn could cause its share price or trading volume to decline.

***Valens' failure to meet the continued listing requirements of the NYSE could result in a delisting of its Securities.***

If Valens fails to satisfy the continued listing requirements of the NYSE such as the corporate governance requirements or the minimum closing bid price requirement, the NYSE may take steps to delist its securities. Such a delisting would likely have a negative effect on the price of the securities and would impair your ability to sell or purchase the securities when you wish to do so. In the event of a delisting, Valens can provide no assurance that any action taken by it to restore compliance with listing requirements would allow its securities to become listed again, stabilize the market price or improve the liquidity of its securities, prevent its securities from dropping below the NYSE minimum bid price requirement or prevent future non-compliance with the NYSE's listing requirements. Additionally, if Valens' securities become delisted from the NYSE for any reason, and are quoted on the OTC Bulletin Board, an inter-dealer automated quotation system for equity securities that is not a national securities exchange, the liquidity and price of Valens' securities may be more limited than if it were quoted or listed on the NYSE or another national securities exchange. You may be unable to sell your securities unless a market can be established or sustained.

Valens is an emerging growth company within the meaning of the Securities Act and takes advantage of certain exemptions from disclosure requirements available to emerging growth companies, this could make Valens' securities less attractive to investors and may make it more difficult to compare Valens' performance with other public companies.

Valens is treated as an emerging growth company, as defined in Section 2(a) of the Securities Act, as modified by the JOBS Act. Under the JOBS Act, emerging growth companies can delay adopting new or revised financial accounting standards until such time as those standards apply to private companies. Valens intends to take advantage of this extended transition period under the JOBS Act for adopting new or revised financial accounting standards.

For as long as Valens continues to be an emerging growth company, it may also take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act. As a result, its shareholders may not have access to certain information that they may deem important. Valens could be an emerging growth company for up to five years, although circumstances could cause it to lose that status earlier, including if its total annual gross revenue exceeds \$1.235 billion, if it issues more than \$1.0 billion in non-convertible debt securities during any three-year period, or if before that time it is a "large accelerated filer" under U.S. securities laws.

Valens cannot predict if investors will find Valens ordinary shares less attractive because it may rely on these exemptions. If some investors find Valens ordinary shares less attractive as a result, there may be a less active trading market for Valens ordinary shares and Valens' share price may be more volatile. Further, there is no guarantee that the exemptions available to Valens under the JOBS Act will result in significant savings. To the extent that Valens chooses not to use exemptions from various reporting requirements under the JOBS Act, it will incur additional compliance costs, which may impact Valens' financial condition.

***We are a foreign private issuer and, as a result, are not subject to U.S. proxy rules but are subject to Exchange Act reporting obligations that, to some extent, are more lenient and less frequent than those of a U.S. issuer.***

Because we qualify as a foreign private issuer under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and although we follow Israeli laws and regulations with regard to such matters, we are exempt from certain provisions of the Exchange Act that are applicable to U.S. public companies, including: (i) the sections of the Exchange Act regulating the solicitation of proxies, consents or authorizations in respect of a security registered under the Exchange Act (ii) the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and liability for insiders who profit from trades made in a short period of time and (iii) the rules under the Exchange Act requiring the filing with the SEC of quarterly reports on Form 10-Q containing unaudited financial and other specified information, or current reports on Form 8-K, upon the occurrence of specified significant events. In addition, foreign private issuers will be required to file their annual report on Form 20-F by 120 days after the end of each fiscal year, while U.S. domestic issuers that are accelerated filers are required to file their annual report on Form 10-K within 75 days after the end of each fiscal year. Foreign private issuers are also exempt from the Regulation Fair Disclosure, aimed at preventing issuers from making selective disclosures of material information. As a result of the above, even though we are contractually obligated and intend to make interim reports available to our shareholders, copies of which we are required to furnish to the SEC on a Form 6-K, and even though we are required to file reports on Form 6-K disclosing whatever information we have made or are required to make public pursuant to Israeli law or distribute to our shareholders and that is material to our company, you may not have the same protections afforded to shareholders of companies that are United States domestic issuers.

***We may lose our foreign private issuer status in the future, which could result in significant additional costs and expenses.***

As discussed above, we are a foreign private issuer, and therefore, we are not required to comply with all of the periodic disclosure and current reporting requirements of the Exchange Act. The determination of foreign private issuer status is made annually on the last business day of an issuer’s most recently completed second fiscal quarter, and, accordingly, the next determination will be made with respect to us on June 30, 2024. In the future, we would lose our foreign private issuer status if (1) more than 50% of our outstanding voting securities are owned by U.S. residents and (2) a majority of our directors or executive officers are U.S. citizens or residents, or we fail to meet additional requirements necessary to avoid loss of foreign private issuer status. If we lose our foreign private issuer status, we will be required to file with the SEC periodic reports and registration statements on U.S. domestic issuer forms, which are more detailed and extensive than the forms available to a foreign private issuer. We will also have to mandatorily comply with U.S. federal proxy requirements, and our officers, directors and principal shareholders will become subject to the short-swing profit disclosure and recovery provisions of Section 16 of the Exchange Act. In addition, we will lose our ability to rely upon exemptions from certain corporate governance requirements under the listing rules of the New York Stock Exchange. As a U.S. listed public company that is not a foreign private issuer, we will incur significant additional legal, accounting and other expenses that we will not incur as a foreign private issuer.

***As we are a “foreign private issuer” and follow certain home country corporate governance practices, our shareholders may not have the same protections afforded to shareholders of companies that are subject to all New York Stock Exchange corporate governance requirements.***

As a foreign private issuer, we have the option to follow certain home country corporate governance practices rather than those of the NYSE, provided that we disclose the requirements we are not following and describe the home country practices we are following. We rely on this “foreign private issuer exemption” with respect to the NYSE rules requiring shareholder approval. We may in the future elect to follow home country practices with regard to other matters. As a result, our shareholders may not have the same protections afforded to shareholders of companies that are subject to all NYSE corporate governance requirements.

***Due to fluctuations in the market price of Valens’ ordinary shares, there is a significant risk that Valens may be a passive foreign investment company (“PFIC”) for U.S. federal income tax purposes for 2024 or one or more future taxable years, which could result in adverse U.S. federal income tax consequences to U.S. investors in Valens ordinary shares or Valens warrants.***

A non-U.S. corporation generally will be treated as a PFIC for U.S. federal income tax purposes for any taxable year if either (1) at least 75% of its gross income for such year is passive income or (2) at least 50% of the value of its assets (generally based on an average of the quarterly values of the assets) during such year is attributable to assets that produce, or are held for the production of, passive income (including cash). For purposes of the above calculations, a non-U.S. corporation that directly or indirectly owns at least 25% by value of the shares of another corporation is treated as if it held its proportionate share of the assets of the other corporation and received directly its proportionate share of the income of the other corporation. Passive income generally includes dividends, interest, rents, royalties and capital gains. Goodwill is generally treated as an active asset to the extent associated with business activities that produce active income.

Although Valens has not obtained independent valuations of its assets (including goodwill) for its taxable year ending 2023, and thus is not in a position to make a definitive determination as to whether it was a PFIC in 2023, based on the composition of its income and assets during 2023 and the estimated value of its assets (which is based on its average market capitalization during 2023), Valens believes that it was not a PFIC for 2023. However, there can be no assurances in this regard. The application of the PFIC rules is subject to uncertainty in several respects, and Valens cannot assure you that the IRS will not take a contrary position or that a court will not sustain such a challenge by the IRS. Furthermore, because of the substantial decline in Valens's market capitalization in 2023, whether Valens will be a PFIC for 2024 and future taxable years is uncertain. The determination of whether Valens is a PFIC is an annual factual determination that depends on, among other things, the composition of Valens' income and assets, and the value of its and its subsidiaries' shares and assets from time to time (including the value of Valens' goodwill, which may be determined, in large part, by reference to the market price of Valens' ordinary shares from time to time, which has been, and may continue to be, volatile and in decline). As a result, the average value of Valens' goodwill and other active assets may not be sufficiently large in relation to the average value of its passive assets for any taxable year. In particular, because the value of Valens' goodwill may be determined by reference to the market price of Valens ordinary shares from time to time, and because Valens holds and may continue to hold significant amounts of cash and other passive assets, if Valens' market capitalization continues to decline, then there is a significant risk that Valens may be a PFIC for 2024.

If Valens is a PFIC for any taxable year, a U.S. investor who owns Valens ordinary shares or Valens warrants may be subject to adverse tax consequences and additional information reporting obligations. For a further discussion, see *“Material U.S. Federal Income Tax Considerations—U.S. Federal Income Tax Considerations of Ownership and Disposition of Valens Ordinary Shares and Valens Warrants to U.S. Holders—Passive Foreign Investment Company Rules.”* U.S. investors who own Valens ordinary shares and/or Valens warrants should consult their tax advisors regarding the potential application of these rules to Valens and the ownership of Valens ordinary shares and/or Valens warrants.

***If a U.S. investor is treated for U.S. federal income tax purposes as owning at least 10% of Valens' ordinary shares, such U.S. investor may be subject to adverse U.S. federal income tax consequences.***

For U.S. federal income tax purposes, if a U.S. investor who is a United States person is treated for U.S. federal income tax purposes as owning (directly, indirectly or constructively) at least 10% of the value or voting power of Valens' ordinary shares, such U.S. investor may be treated as a “United States shareholder” with respect to Valens, or any of its non-U.S. subsidiaries, if Valens or such subsidiary is a “controlled foreign corporation.” A non-U.S. corporation is considered a controlled foreign corporation if more than 50% of (1) the total combined voting power of all classes of stock of such corporation entitled to vote, or (2) the total value of the stock of such corporation is owned or is considered as owned by applying certain constructive ownership rules, by United States shareholders on any day during the taxable year of such non-U.S. corporation. As Valens has U.S. subsidiaries, certain of Valens' non-U.S. subsidiaries could be treated as controlled foreign corporations regardless of whether Valens is treated as a controlled foreign corporation.

Certain United States shareholders of a controlled foreign corporation may be required to report annually and include in their U.S. federal taxable income their pro rata share of the controlled foreign corporation's “Subpart F income” and, in computing their “global intangible low-taxed income,” “tested income” and a pro rata share of the amount of certain U.S. property (including certain stock in U.S. corporations and certain tangible assets located in the United States) held by the controlled foreign corporation regardless of whether such controlled foreign corporation makes any distributions. The amount includable by a United States shareholder under these rules is based on a number of factors, including potentially, but not limited to, the controlled foreign corporation's current earnings and profits (if any), tax basis in the controlled foreign corporation's assets, and foreign taxes paid by the controlled foreign corporation on its underlying income. Failure to comply with these reporting obligations (or related tax payment obligations) may subject such United States shareholder to significant monetary penalties and may extend the statute of limitations with respect to such United States shareholder's U.S. federal income tax return for the year for which reporting (or payment of tax) was due. Valens does not intend to assist U.S. investors in determining whether Valens or any of its non-U.S. subsidiaries are treated as a controlled foreign corporation for U.S. federal income tax purposes or whether any U.S. investor is treated as a United States shareholder with respect to any of such controlled foreign corporations or furnish to any holder information that may be necessary to comply with reporting and tax paying obligations if Valens, or any of its non-U.S. subsidiaries, is treated as a controlled foreign corporation for U.S. federal income tax purposes. U.S. investors who actually or constructively own 10% or more of the combined voting power or value of Valens ordinary shares are strongly encouraged to consult their tax advisors regarding the U.S. tax consequences of owning or disposing of Valens ordinary shares.

## ITEM 4. INFORMATION ON THE COMPANY

### A. HISTORY AND DEVELOPMENT OF THE COMPANY

We were incorporated on October 26, 2006, as a private limited liability company under the laws of the State of Israel. We are registered under the Companies Law as Valens Semiconductor Ltd., and our registration number with the Israeli Registrar of Companies is 51-388704-2.

We are domiciled in Israel and our registered office is currently located at 8 Hanagar St. POB 7152, Hod Hasharon 4501309, Israel, also currently serving as our principal executive offices. Our telephone number is +972-(9)762-6900.

On May 25, 2021, PTK entered into the Business Combination Agreement with Valens and Merger Sub. Pursuant to the Business Combination Agreement, Merger Sub merged with and into PTK, with PTK surviving the merger (the merger and other transactions contemplated by Business Combination Agreement are referred to herein as the “Transactions”). As a result of the Transactions, PTK became a wholly owned subsidiary of Valens, with the securityholders of PTK becoming securityholders of Valens (the “Business Combination”).

Our capital expenditures amounted to \$1.2 million, \$1.1 million, and \$1.4 million during the fiscal years ended December 31, 2023, 2022 and 2021, respectively, primarily consisting of expenditures related to Research & Development (“R&D”) equipment. For information on the Company’s current capital expenditures, see “Part I, Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources.”

We are subject to certain of the informational filing requirements of the Exchange Act. Our SEC filings are available to you on the SEC’s website at <http://www.sec.gov.com>, which contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC (including, in our case, our annual reports on Form 20-F, our reports of foreign private issuer on Form 6-K, any amendments to these reports, as well as certain other SEC filings). We also make available on our website, free of charge, all such SEC filings as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. Our website address is <https://www.valens.com/>. The references to the SEC’s and our website are inactive textual references only, and information contained therein or connected thereto is not incorporated into this Annual Report. Since we are a “foreign private issuer,” we and our officers, directors and principal shareholders are exempt from certain rules and regulations under the Exchange Act. For more information, see “Part II, Item 10. Additional Information—H. Documents on Display.”

### B. BUSINESS OVERVIEW

#### Our Mission

Our mission is to be a leading global provider of high-performance connectivity solutions. We aim to transform digital connectivity across industries, by providing reliable, resilient and optimized solutions for long distance connectivity over simple, low-cost wiring infrastructure, enabling cutting-edge innovation across verticals in the automotive, audio-video and other adjacent markets. As data rates continue to increase massively, we will continue to enhance our technology continues to evolve to empower the digital applications of the future.

#### Our Company

Valens is a fabless leading provider of high-performance connectivity solutions, pushing the boundaries of connectivity by enabling resilient long-reach, high-performance video and data distribution across verticals in the automotive, audio-video and other adjacent markets.

Tens of millions of Valens chipsets are deployed in millions of audio-video applications globally, across multiple verticals, such as corporate, education, medical, industrial, command-and-control and signage with a customer base that is comprised of the world’s major consumer electronic companies. Valens is the incumbent provider for wired high-performance audio-video connectivity products, compliant with the HDBaseT standard. Our HDBaseT technology’s ability to transmit various signals and power over a single long-reach cable has gained us a market leadership position in the professional audio-video market, providing exceptional digital experiences for which our technology was awarded multiple awards, including an Emmy award. The standard is backed by the HDBaseT Alliance, and co-managed by Valens, LG, Samsung and Sony Pictures.

Valens chipsets are installed in systems manufactured by leading customers and are also embedded in millions of vehicles around the world. In the automotive industry, Valens is a key enabler of the evolution of Advanced Driver-Assistance Systems (“ADAS”) and autonomous driving, supporting Automated Driving Systems (“ADS”), infotainment, telematics and other in-vehicle applications requiring high performance connectivity. The Company’s underlying technology, which offers an exceptionally resilient solution, combining high bandwidth and long link distance, was selected in 2020 by the MIPI Alliance as the basis for the industry standard for high-speed automotive video connectivity (MIPI A-PHY). In 2021, the IEEE standards association also adopted A-PHY as an automotive standard. The A-PHY ecosystem’ continues to evolve, and includes dozens of Tier 1s, camera sensor manufacturers, RaDAR and LiDAR suppliers, component manufacturers, and testing equipment vendors, that are working to serve the growing demand for increased safety in today and tomorrow’s cars, with Valens’ VA7000 MIPI A-PHY chipsets. As data rates rise with the proliferation of sensors and displays in vehicles, OEMs are facing technological barriers in their quest for optimal in-vehicle connectivity. For this need, Valens’ VA7000 chipset family provides a reliable solution, including for vision-based systems, which are key enablers for ADAS and 360-degree perception sensors, as well as for applications such as auto-pilot, surround-view, parking assist, and reverse assist.

## *Audio-Video*

Valens set the standard for long-range wired connectivity in the audio-video market. The company's connectivity technology, supports the digitization of wired connectivity and is used by key leading audio-video product manufacturers, including Crestron, EPSON, Extron, Harman, Legrand | AV, LG Electronics, Logitech, NEC, Panasonic, Samsung, Siemens, Sony, and many more. These companies have created thousands of electronic devices that embed Valens' technology as part of their connectivity solution, in millions of products globally, across a variety of verticals such as videoconferencing, education, industrial, medical, digital signage, and more.

The Company's high performance connectivity technology enables the simultaneous delivery of ultra-high-definition digital video and audio, Ethernet, USB, control signals, and power, all through a single low cost, long-reach cable. The technology is a hardware-based solution, with no high-level software dependency, enabling true plug-and-play digital connectivity, converging these multiple interfaces over the simplest cabling infrastructure, ultimately providing in a lower total cost of ownership, a seamless user experience without compromising on quality. This includes connecting ultra-HD video sources and remote displays, such as high-resolution projectors and displays, audio-source and outputs and other USB peripherals, such as high-resolution cameras and recording devices.

In 2023 Valens launched its VS6320, a groundbreaking long-reach high-performance single-chip for extension of USB3.2 Gen1 peripherals, for distances of up to 100 meters, or 328 feet, enabling the multi-gig extension of uncompressed 4K USB cameras. In medical applications, for example, this solution can be used for extending high-quality images from medical cameras to video processing units in surgery rooms, or for robotics-assisted guided surgery systems. Shortly after the introduction of this solution, the Company began shipping engineering samples to select customers, and some have begun embedding Valens' unique low-power, single-chip USB3.2 Gen1 extension into their products for videoconferencing, IT, industrial, and medical applications. In the short period since its introduction the Company's new chip has been named a CES® 2024 Innovation Awards Honoree, awarded the "Best of Innovation" distinction at the CES Tradeshow Owned and produced by the Consumer Technology Association (CTA)® ("CES"), as well as the prestigious TNT (Top New Technology) award and AV Technology Magazine's Best of Show in the 2024 ISE (Integrated Systems Europe) exhibition. Valens expects to capture a substantial share in the market for high performance USB extensions with this much anticipated product.

The Audio-Video business is characterized by a diversified set of targeted applications in various verticals. This diversification creates many business opportunities for the Company across many verticals, such as corporate, education, medical, and industrial, among others. The increasing need for remote collaboration and communication across these verticals creates constantly evolving business opportunities for Valens. For example, more and more corporations are implementing return-to-office policies, alongside hybrid work models. To promote in-office presence and ensure effective interaction that bridges the physical and virtual divide, corporations will need to invest in their videoconferencing platforms. Valens' offerings are increasingly relevant for all types of meeting rooms, from large corporate board rooms to huddle rooms, and small office/home office setups (known as SoHo). Valens' solutions can be deployed wherever long-distance high-definition connectivity solutions are required, for time sensitive applications that require zero latency (a few micro-seconds of latency are commonly perceived in the industry as "zero latency" and referred to herein as "Zero Latency"). As the market leader for long-range connectivity in audio-video, we believe we are well positioned to capitalize on the opportunities the markets present.

The trend of educational entities utilizing hybrid models to enable students and staff to switch and combine between onsite and remote learning is driving the course of more and more classrooms around the world equipped with video collaboration systems. Hybrid learning enables the continuity of teaching and learning. It increases equitability by providing students the access to additional education options and opportunities that meet their academic needs, and Valens' technology democratizes opportunity and contributes to equity.

The industrial market represents another important vertical for Valens Semiconductor. In addition to the continuously growing need to connect compute-units with displays, we are also seeing an increasing demand to connect computers to various types of cameras and other sensors. Cameras are essential for multiple industrial applications including machine vision. One example of a machine vision industrial application that is clearly becoming dominant is Quality and Assurance, where connected cameras augment or replace the human eye to visually inspect and identify faulty products. As connectivity in the industrial environment is challenging, the demand for distribution of massive amounts of data, in a secure and efficient manner, over long distances, requires robust connectivity technology. Industrial cameras leveraging a USB3.2 interface, can effectively deliver high resolution and wide dynamic range, making these systems more accurate, smaller, and cheaper. This is where our new chip, the VS6320, comes into play, as it's perfectly designed to connect multiple extended USB3.2 Gen1 peripherals like high resolution 4K cameras.

In the medical space, we continue to see growing interest in our data-extension capabilities. Our chipsets deliver a high-level of safety with Zero Latency, and high-bandwidth uncompressed video connectivity, which is required for medical imaging devices such as MRIs, CTs, X-Rays, robotic surgery, and endoscopy. Another need in the medical space is the extension of high-quality images from the cameras to the video processing units and visual displays, which requires greater bandwidth. An example is high-quality medical procedure recording. Another example is robotics assisted guided surgery, with training services before the procedure and recordings after, all done without breaking the sterile field as the processes can securely and accurately be done from a distance. We believe these offer opportunities for the new VS6320, USB3.2 extension solution.

Industrial and Medical machine vision both deliver trusted and precise operation through systems that have more data to be transferred, higher resilience, and increased bandwidth. At the same time, faster communication interfaces must provide the highest standards of reliability, safety, and electromagnetic compatibility ("EMC"), among others to support the increasing need of Artificial Intelligence (AI) based applications in robust connectivity solutions. For example, commonly used remote communication platforms are increasingly integrating AI-based decision-making features that select the best view or audio of in-room participants from multiple cameras and audio sources, increasing the potential quality, clarity and resolution of the video and audio streams in the meeting, enabling better remote communication and collaboration. Valens connectivity solutions enable this evolution of AI-based applications, positioning Valens to capture growing business opportunities arising from this evolution.

### *Automotive*

Valens entered the automotive market through its engagement with Mercedes Benz, leveraging the core technology used in its audio-video chipsets, by providing data connectivity for in-vehicle infotainment and telematics systems. Revenues from this engagement have increased substantially between 2021 to 2023, as the Company's chips have been deployed in a broad range of Mercedes-Benz passenger car models.

Valens' position as a standard-setter was once again confirmed with the selection in 2020 of Valens' high-performance connectivity technology by the MIPI Alliance as the baseline for its high-speed in-vehicle video connectivity standard (MIPI A-PHY). The MIPI Alliance is the standardization body which develops and drives connectivity specifications for streams widely used by carmakers around the world. Companies that participated in the development of the standard included Intel, MediaTek, ON Semiconductor, Qualcomm, Robert Bosch GmbH, ST Microelectronics, Synopsys, Toshiba and others.

In 2021, the IEEE Standards Association also adopted A-PHY as an IEEE standard. In late 2021, Valens introduced the VA7000 chipset product family, the first-in-industry A-PHY standard compliant chipsets, providing a reliable and resilient solution for high-speed in-vehicle connectivity requirements, over low-cost wire harness. The VA7000 chipset product family provides a connectivity solution for high resolution cameras to compute units, vision-based systems, which are key enablers for ADAS and 360-degree perception sensors, as well as for applications such as auto-pilot, surround-view, parking assist, and reverse assist. Samples of the VA7000 were shipped to leading automotive OEMs, Tier 1s and Tier 2s in December 2021. Since then, we continued to make progress with the involvement of many leading players, including, OEMs, Tier 1s, and manufacturers of System on Chip ("SoC"), camera sensor, RaDAR and LiDAR in the evaluation of our A-PHY-based solutions and the pipeline of opportunities continued to expand. . Although we are witnessing slower and longer decision making around new technology adoption, we believe that these evaluations will eventually mature to the selection of our A-PHY technology by OEMs, following the completion of their evaluations and decision-making processes.

The VA7000 ecosystem continued to evolve, as reflected, for example, by the following:

- In Japan, Hosiden Corporation, a comprehensive electronic component manufacturer, and a global player in the automotive equipment component industry, has completed the validation of Hosiden's connectors and cables with Valens Semiconductor's VA7000 chipset, demonstrating the momentum of A-PHY in the automotive market in Japan. This followed the passing of the VA7000 of rigorous EMC testing by the Japan Automotive Software Platform and Architecture (JASPAR) organization, the network of Japanese OEMs and Tier 1s, including Toyota, Nissan, Honda, Mazda, and DENSO, marking an important milestone for the integration of these chipsets into safety critical ADAS. The strong EMC immunity results, demonstrating the resilience of Valens' technology, were further validated by leading European labs, at the request of leading automotive OEMs that are evaluating Valens technology.
- Valens announced a collaboration with Intel to fabricate Valens' MIPI A-PHY compatible chipsets using Intel's advanced process nodes, after being identified by IFS as a technology with a potential for broad market adoption that can help advance automotive performance and safety and further the autonomous vision.
- Partnership with Leopard Imaging Inc., a global leader in embedded vision systems design and manufacturing, to design a camera module that will enable automotive OEMs and Tier 1s to significantly reduce time-to-market for their A-PHY-based systems.
- Successful completion of a joint interoperability testing session between a transmitter developed by Sony Semiconductor Solutions and a Valens receiver. Testing included high-speed data transmission, demonstrating key A-PHY communication features including error correction and retransmission mechanisms.
- The expansion of the A-PHY ecosystem continues with the involvement of leading players such as, among others, Mobileye, SONY Semiconductor Solutions, Intel, Aptiv, Denso, G-Pulse Electronics Technology, a wholly owned subsidiary of Intron Technology Holdings, Jaspas, LG Innotek, Nippon Chemi-Con, Sumitomo Electric, and Sunny Optical Technology, and test equipment vendors, such as Keysight. These players are all working to address the growing need for standardized reliable and resilient high-speed, error-free, zero latency, connectivity solutions for the automotive industry. Valens' VA7000 A-PHY compliant chipsets satisfy these needs. The need is even more urgent in face of an increasing electro-magnetic compatibility (EMC) challenge characterizing the automotive environment, with a growing concern as the cables used for in-vehicle connectivity applications degrade as a result of aging, temperature changes and physical impact. The involvement of these leading players is an additional testimony for the growing acceptance of A-PHY in the automotive market.

Valens' Digital Signal Processing ("DSP") based technology, provides one of the safest, most resilient, ultra-high-speed in-vehicle connectivity solutions, all transmitted through standard, simple, low-cost, low-weight wires, and connectors, enabling advanced electronics architecture in cars. Valens' superior physical layer ("PHY") technology enables powerful bandwidth over long-reach and low-cost infrastructure, while maintaining error-free links (MIPI A-PHY targets worst case Packet Error Rate ("PER") of  $1E^{-19}$  ( $10^{-19}$ )) which translates to mean-time between packet errors of approximately ~80,000 years for a 16Gbps link and EMC performance, hence providing the safety and resilience required to handle the harsh automotive environment.

Valens' chipsets meet the stringent requirements of the automotive industry which is undergoing a major transformation towards sensor fusion and transition to software-defined vehicles. To enable these evolutions, cars are anticipated to:

- be equipped with a growing number of sensors
- combine multiple sensor types – cameras, LiDARs and RaDARs, and
- to be supported by intelligently connected architectures, which will require increased link bandwidth to deliver aggregated sensor data, video and functionality required by safety applications, in real time.

Valens' solution is scalable, allowing it to bolster the evolution of car architecture and the growing need for in-vehicle high-speed connectivity. Valens' chipsets address the needs of the increasingly interconnected centralized vehicle computer systems, such as ADAS, ADS, infotainment, and telematics as well as applications such as auto-pilot, surround-view, parking assist, and reverse assist.

As the automotive industry continues to advance towards the next stages in the evolution of autonomous driving by integrating more cameras, LiDARs, RaDAR, and other sensors for safety applications, the amount of data being generated within the car will continue rising exponentially, requiring a reliable, high-speed connectivity solution. Valens chipsets will allow OEMs to transmit data at multi-gigabit bandwidth over error-free links with Zero Latency, all with a low total system cost.

Valens has made significant inroads in the automotive market and its high-speed symmetric connectivity solution is the only multi-gigabit connectivity solution over Unshielded Twisted Pair (“UTP”) wiring that is currently deployed in vehicles, supporting the aggregation of multiple interfaces for feature-rich infotainment and telematics systems. Valens partnered with Mercedes-Benz to power the infotainment and telematics systems in most of its car models, starting with the S-Class and currently in the S, C and E-class models, including in the Electric Vehicle (“EV”) models.

Building on in-lab and field-testing results that validated the resilience of our A-PHY-based connectivity solutions, Valens announced the VA700R, based on the VA7000 chipset family. We believe the VA700R provides a connectivity infrastructure upon which innovative, safety-critical visibility solutions can be designed for truck drivers, offering a high-bandwidth, long distance solution for medium and long vehicle sensor connectivity, while supplying power and bi-directional control over the cable. This solution further supports applications such as surround view and rear-view visibility in a market that suffers from a lack of reliable visibility solutions due to the complex technical challenge of long-distance connectivity in a rough EMC environment. This new solution is in addition to our collaboration with Stoneridge, a leading designer and manufacturer of highly engineered electrical and electronic vehicle systems, to enhance tractor-trailer safety, through advanced connectivity and vision solutions, continued in 2023 began live on-road stringent evaluations by fleets.

## **Our Technology**

Valens chipsets are helping to advance innovation in the audio-video and automotive industries. Our connectivity technology was adopted and integrated into several industry standards and is recognized as a market leader.

Valens invented the HDBaseT connectivity technology and co-founded the HDBaseT Alliance, together with LG, Samsung, and Sony Pictures, as a standards association promoting HDBaseT technology. HDBaseT provides the most optimized solution for a myriad of verticals and applications, addressing the market connectivity needs for long distance transmission, convergence, low-cost and simplicity. HDBaseT is the global standard for the convergence and distribution of ultra-high-definition video & audio, Ethernet, control signals, USB and up to 100W of power over a single, low cost commonly used cable for up to 328 feet/100 meters. HDBaseT eliminates cable clutter without compromising performance or high quality.

Valens technology was specifically designed to distribute high-performance video and data in challenging EMC environments, which is becoming increasingly vital in the automotive industry as data rates rise with the proliferation of sensors and displays in vehicles. With the formation of the Automotive business unit, the core technology originally developed by Valens for audio-video markets, was adapted to also serve the automotive market and was selected by Mercedes-Benz, with its symmetric chipsets, to power newer-model Mercedes-Benz’s infotainment and telematics systems.

Furthermore, Valens asymmetric technology was selected as the baseline of the MIPI Alliance’s standard for high-speed video connectivity in cars. Our superior connectivity mechanisms ensure connectivity resilience with “on-line” error correction, adaptive equalization, and real-time noise cancelers. Valens’ highly efficient hardware-based solution is optimized for asymmetric links, with no software stack, leading to a simplified architecture, which in turn guarantees reduction in cost and wire harness complexity. The data transmission is done without any compression at Zero Latency, for very long distances while providing diagnostic capabilities on the link’s quality. These are all the foundations for enhanced ADAS applications and software defined vehicle architectures that require powerful sensor data aggregation and software/data separation.

Valens engineering samples and evaluation kits (“EVKs”) of the VA7000 family asymmetric A-PHY compliant chipsets are being evaluated by leading OEMs, Tier 1s and Tier 2s as they make significant progress with their much-required transition from legacy solutions to new connectivity solutions that provide a resilient, high-bandwidth, long distance connectivity solutions that are able to address the increasing in-vehicle connectivity challenges.

In 2023, Valens achieved another milestone as it overcame yet another technological barrier of extending USB3.2 Gen1 with a new chipset for applications such as high-resolution cameras, storage devices, and recording and streaming devices. In the short period since its introduction this new chip, Valens VS6320, has been named a CES® 2024 Innovation Awards Honoree, awarded the “Best of Innovation” distinction, as well as the prestigious TNT (Top New Technology) award in the 2024 ISE (Integrated Systems Europe) exhibition.

We believe the following attributes collectively differentiate our technology and create a higher barrier to entry:

- Validated as baseline for different connectivity standards.
- Multi-gigabit bandwidth of uncompressed content with Zero Latency and error-free links over long distances.
- Valens' superior PHY with integrated DSP ensures safety and resilience in error correction, adaptive equalization, and real-time noise cancelers, as it is specifically designed to transmit high-performance video and data in challenging EMC environments.
- Robust and adaptive mechanisms that are able to deal with automotive-related challenges such as cable aging, temperature changes, and more, while guaranteeing safety even in the harsh automotive environment.
- Valens' chipsets simplify connectivity between multiple applications deployed over the same link, including the unique capability and flexibility to support and extend a variety of protocols (such as USB and Ethernet) for both symmetric and asymmetric applications.

Given the business opportunities we have identified in both the automotive and audio-video markets, we expect to invest further in research and development of new products to ensure that we maximize our considerable market opportunity.

### Our Strengths

Valens operates in highly competitive markets. As a groundbreaker in advanced connectivity solutions, we believe that by anticipating market trends in our customers' end markets, effectively navigating technology transitions and maintaining close customer and partner relationships, we have established a leadership position in the audio-video market. Valens is also well-positioned to capture a meaningful share in the automotive space after entering this market through an engagement with Mercedes Benz, with our Company's chips being deployed in an ever-since growing range of Mercedes-Benz passenger car models.

We believe that our competitive advantages are based on the following key strengths:

- ***An industry standard leader in two large and growing markets—audio-video and automotive.*** We set the standard for long-range connectivity and gained market share in the audio-video market with our HDBaseT technology and are well positioned to repeat this success in the even larger automotive industry with our VA7000 A-PHY compliant chipsets. Our solution utilizes the technology that underpins the MIPI A-PHY standard for in-vehicle video connectivity, which has also been adopted by the IEEE standard association extending our potential market reach with our standardized products.
- ***Disruptive technological solutions.*** Our technological solutions are based on advanced, scalable, resilient to noise, secured DSP. This allows us to provide one of the safest, most resilient, high-speed and reliable in-vehicle connectivity solutions, all transmitted through standard, simple, low cost, low weight wires and connectors, enabling advanced electronic architecture in cars, such as software-defined vehicles, that require powerful sensor data aggregation and software/data separation. Our technology's ability to provide a reliable connectivity solution even in the face of the increasing electro-magnetic compatibility (EMC) challenge in the automotive environment is another competitive advantage of Valens. At the CES Tradeshows in January 2024 Valens showcased a head-to-head EMC demo against a competing proprietary solution, highlighting the pressing issue of EMC as automotive OEMs integrate systems that require higher bandwidth than ever before.
- ***High quality products.*** We continuously strive to provide the highest quality products in all markets in which we operate. Since we have started to serve the Automotive market, we adopted measures to meet the relevant automotive industry standards (such as AEC-Q100 Qualification), and our customers' specific quality control requirements. We are also certified for ISO-26262 (Road Vehicle Functional Safety). These quality measures contributed to the improvement of our quality control over our entire product portfolio. In addition, we implement an Automotive Quality Excellence program, with an internal goal to constantly improve our product quality by actively acting to minimize the Defect Parts Per Million ("DPPM"). Being a fabless company, we are compliant with VDA6.3 and have successfully passed several automotive Tier 1's and OEM's quality audits. As part of our subcontractor quality management, it is our requirement that all the subcontractors along our supply chain meet the applicable standards, and periodically, we perform audits based on these standards.

- ***Our ability to power cross-industry innovation by leveraging our technologies and products.*** We penetrated the automotive market with chipsets that were based on the technology originally used for the audio-video market. In parallel, we are seeing a demand from our non-automotive customers for the advanced connectivity products that we designed for automotive applications, allowing us to expand in other lucrative verticals (such as corporate, industrial, and medical), that may require high-bandwidth, resilience, and Zero Latency connectivity. We are doing so with relatively low R&D investment, by diversifying our existing products to new applications. This expands our offering to an even wider range of customers and applications, and thereby accelerates the return on our development investment. Our ability to leverage technologies and products from the two business units will enable us to expand in an efficient manner and was the basis of our plan to improve operational efficiency that was introduced and completed in 2023. This plan included the alignment of our R&D resources by streamlining our development platforms. One example of such leverage is the potential uses in the Audio-Video market for our VA7000 chipset family, designed for in-vehicle connectivity applications, which is also ideal for extending multiple cameras in videoconferencing systems applications. In 2023 Valens announced a collaboration with Taiwan-based iCatch Technology, a leading Artificial Intelligence (AI) image processing IC (Integrated Chip) fabless semiconductor design company, to develop a multi-camera videoconferencing solution that will provide an improved and consistent user experience in-and-across conference rooms. Furthermore, as the VA7000 is an automotive-grade chipset, it is ideal not only for videoconferencing, but also for medical and industrial applications. In January 2024, iCatch announced their plans to introduce an AI-enhanced multi-channel surround view monitoring system for the automotive industry, which is also based on our VA7000 MIPI A-PHY high-performance automotive connectivity solution. This demonstrates our vision for a holistic strategy that leverages Valens' core technology to power cross-industry innovation.
- ***Strong relationships with customers and partners.*** We currently supply components in mass volume to Mercedes-Benz, a leading automotive OEM, which embeds our chipsets in multiple platforms, through various Tier 1 suppliers such as Bosch, Continental, Harman, and Valeo, and we continue to work on strengthening these relationships. As data rates in the automotive industry rise and applications such as auto-pilot, surround-view, parking assist, reverse assist and other ADAS and ADS systems become mainstream, we believe that our growing reputation in the automotive space will enable us to continue success and further grow our automotive business. In the audio-video field, we maintain strong relationships with our long-term customers, among them are key leading audio-video product manufacturers, including Crestron, EPSON, Extron, Legrand | AV, LG Electronics, Logitech, Panasonic, Samsung, Sony and many more.
- ***Building a strong ecosystem momentum towards adoption by Automotive OEMs and Tier 1s.*** In 2023 the number of prospective automotive customers and partners evaluating our VA7000 A-PHY compliant chipsets, continued to grow, after we shipped VA7000 evaluation kits to more than 30 potential customers and partners, including leading OEMs and Tier 1 players and significant progress was made in existing evaluation processes. For more information, see this "*Part I, Item 4. Information on the Company—B. Business Overview, Our Company, Automotive*".
- ***Leading market position in audio-video connectivity.*** We are the incumbent and vendor of choice for major players in the audio-video connectivity space. These companies drive the market trends, and we are there to support them in driving the change. We believe that our leading market position strengthens our ability to continue serving this core market and capitalize on growing demand for high-performance connectivity solutions, also in adjacent markets where needs are rising, such as industrial, education, medical and other verticals that will emerge in the future. The advantages of our technology make it an optimal connectivity solution to support the increasing need for Artificial Intelligence (AI) based applications in robust connectivity solutions that allow the distribution of ever-increasing data.
- ***Established technological leadership, strong intellectual property, and system-level expertise with no software stack.*** We believe our technology leadership is based on our strong intellectual property portfolio. Our core competence is in our superior physical (PHY) layer that enables us to provide the most optimized connectivity solution for a wide variety of applications and speed, by utilizing advanced DSP with no software stack, which is a burden that commonly characterizes solutions competing with the connectivity solutions we offer. Additionally, we believe our integration capabilities coupled with our system-level knowledge, due to close customer collaboration, enables us to understand our customers' specific system requirements and more quickly and effectively develop advanced solutions to meet their long-term needs.
- ***Proven management team:*** We have a strong track record of execution and an experienced management team. Our executive management team's experience in effectively guiding companies through various industry cycles and technology transitions provides us with steady, reliable leadership, uniquely capable of identifying strong investments, executing through change, and maintaining stability during market uncertainty. Our management successfully and responsibly navigated the Company through global challenges that affected the markets in which we operate in recent years and will continue to do so in the face of future challenges we may experience.

## Our Growth Opportunities/Strategies

We intend to grow our business through the following key areas:

### General:

- Enrich market offerings to address growing needs in the diversified markets we serve, among them are corporate, medical, industrial, education and digital signage. In 2023 we introduced a new chipset addition, Valens VS6320, a USB3.2 Gen1 high-performance and efficient long-distance single-chip extension solution that enables the connectivity of 4K uncompressed USB cameras and addresses critical needs in the global videoconferencing, information technology (IT), industrial and medical markets and have shipped engineering samples to select customers. USB3.2 Gen1 has emerged as the go-to interface for devices used in videoconferencing and IT and is increasingly being used in industrial and medical applications. Customers deploying the highly integrated chipset in their products will benefit from a resilient, long-distance, reduced power consumption, smaller size, and lower-cost solution supporting all USB3.2 Gen1 data transfer types. In the automotive market, Valens intends to provide a wide range of solutions, as this growing market undergoes structural changes in favor of greater electronic and data-processing capabilities, particularly in the application of our products for ADAS and AD systems, which are steadily becoming mainstream. We currently focus on developing products that will comply with industry standards, as car makers seek trusted suppliers to deliver standard, highly reliable, safety-focused solutions. We intend to introduce complimentary products to support end-to-end high-speed connectivity applications as well as focus on our collaboration with Intel to fabricate our next generation A-PHY based solution, building on Intel's advanced processes to enable significant cost and power reductions for this chipset family while achieving the highest-performance and Electromagnetic Compatibility (EMC).
- **Expand and diversify our addressable markets, in large, growing, and disruptive industries**, by introducing our technology, creating, and becoming the de facto choice, thereby attracting dominant industry players, we aim to establish a broad ecosystem, capture market share and foster the overall addressable markets. We believe that the introduction of our VS6320 USB3.2 Gen1 extension and VA7000 CSI-2 extension chipsets will increase our market diversification, as it is relevant to many applications that require such a solution.
- **Increase our global presence.** We sell our products globally, both directly and through local distributors. We intend to continue strengthening our relationships with our existing customers and distributors, while also enabling our channel partners to support demand creation and fulfillment for smaller customers. We believe we can efficiently scale our business to accelerate growth by enabling our channels to become an extension of our demand generation and customer support efforts. Our operations are global, and we intend to continue expanding our presence worldwide to serve the needs of customers in additional geographies. We are currently present in select regions in North America, Europe and multiple countries in the APAC region.

### Audio-Video:

- Valens' HDBaseT technology is a leading standard for long-reach, high performance connectivity. Valens HDBaseT products provide the most optimized solution for a myriad of verticals and applications, addressing the needs of the audio-video market, including long distance transmission, convergence, low-cost and simplicity. The HDBaseT Alliance and the wider ecosystem remains strong with hundreds of companies developing new products and promoting the use of this technology in the audio-video market. Valens helps the HDBaseT Alliance strengthen its relationships with end customers, safeguard the quality of HDBaseT-enabled products, and educate the market on the technology by generating continuous awareness and demand for these products.
- Continue the momentum of expansion into additional markets. We intend to continue expanding our offerings in Corporate (videoconferencing for large and smaller conference rooms), Education (hybrid and remote learning), Industrial (camera sensors and computer vision systems), medical applications (medical imaging, diagnostic and surgical equipment, disposable medical devices, operating room video distribution, etc.) and signage applications, among others. We believe that as the need for higher connectivity bandwidth and lower cost alternatives for these applications increases, there will be significant opportunity to expand our business and customer base.
- Our VS3000 chipset family capabilities, leveraging the Dual HDBaseT Digital Interface (DHDI) Chip-to-Chip interconnect. DHDI enables new applications for the growing verticals of Unified Communications & Collaboration (UC&C) and digital signage. The Chip-to-Chip interconnect efficiently extends content in a simplified network topology, over a single cable. When applied in UC&C applications it can extend signals from multiple media sources, displays, and other accessories, which is key for next-generation videoconferencing installations. It can also be implemented in digital signage applications for transportation, retail, sports stadiums, digital-out-of-home (DOOH) markets and more.

- Professional grade extension solutions for USB3.2 Gen1 peripherals - our various USB extension solutions enable vendors to develop innovative products that support the increasing need for remote collaboration and communication across various verticals that we serve for applications such as high-resolution cameras, storage devices, as well as in recording and streaming devices. We believe the technology at the core of our solutions makes them the optimized, reliable solutions-of-choice to transform the digital experience over low cost, single cables over longer distances.
- Leveraging new products from automotive to the non-automotive applications enhances efficiency and allows us to provide innovative products to such markets. This includes, for example, VA6000-based USB extension solutions as well as innovative videoconferencing multi-camera solution based on the VA7000 chipset Camera Serial Interface (“CSI”) extension technology, which enables the high-performing, uncompressed distribution of multiple cameras in a very cost-efficient manner.

#### **Automotive:**

- The MIPI A-PHY standard, announced in September 2020, was developed to address a need for higher bandwidth and performance requirements. Existing analog-based technologies are struggling to meet the evolving automotive industry requirements as they lack DSP capabilities, are not scalable, and are incapable of reliably increasing speed over longer cables. The MIPI A-PHY standard is optimized for the implementation of in-vehicle connectivity for high bandwidth applications. The specification reduces wiring cost and weight, as high-speed data, control data, and power all share the same physical wiring. This enables designers to optimize systems for reliable performance, cost, and complexity required by their use cases and provides scalability and flexibility to meet a broad range of speed and design needs. The MIPI A-PHY standard serves as the foundation of software-defined vehicle architectures and systems designed to decouple software stacks from the hardware infrastructure and simplify the integration of various sensors and displays, while also incorporating functional safety, security and demonstrating a strong solution for EMC challenges.
- The MIPI A-PHY standard was developed by the MIPI A-PHY Working Group; Valens was a key contributor to the definition of this standard, which is largely based upon Valens technology. We believe that the adoption of this connectivity standard by OEMs and Tier 1s, as well as other automotive technology suppliers will position A-PHY-based solutions as the leading high-speed connectivity solution in cars. Adoption of A-PHY will be driven in part by the fact that available legacy solutions for in-vehicle video connectivity are proprietary, while the market is looking to deploy standard-based products.
- Valens’ VA7000 product family, is the first on the market to comply with the MIPI A-PHY standard, positioning us to capture automotive opportunities for ADAS, ADS and other surround-sensor applications, including cameras, radars, and LiDARs. The VA7000 product family is a hardware-based solution, optimized for asymmetric links with no software stack. It guarantees a high-performing, simplified architecture, leading to a reduction in wire harness complexity and lower total system costs. The current VA7000 chipset family has been designed to support a wide range of bandwidth levels as defined in the MIPI A-PHY standard.
- Since December 2021, we shipped our VA7000 family chipset evaluation kits and engineering samples to more than 30 potential customers and partners who are evaluating our technology among them are OEMs that are considering selecting the VA7000 for their new car platforms and are making significant progress in its evaluation.
- Our A-PHY technology is getting recognition in the Japanese market, as JASPAR, the network of Japanese OEMs and Tier 1s known for their high-quality requirements, successfully completed rigorous testing for EMC of Valens VA7000 A-PHY compliant chipsets, marking an important milestone for the integration of these chipsets into safety-critical ADAS’ systems. Hosiden also completed its validation of its connectors and cables with Valens’ VA7000 chipset.
- We expect to expand our serviceable market in automotive with our VA700R, based on the VA7000 chipset family, which provides a connectivity long distance solution for medium and long vehicle sensor connectivity. This solution supports applications such as surround view and rear-view visibility in a market that suffers from a lack of reliable visibility solutions due to the complex technical challenge of long-distance connectivity in a rough EMC environment.
- We expect our collaboration with Intel to play a significant role in boosting the vision for a chiplet architecture in the automotive industry. With its reliance on advanced package integration and the use of standardized interfaces such as UCIE, we expect that the future chiplet architecture will be complimented by MIPI A-PHY as the standardized connectivity interface. This will allow next-generation silicon architecture, powered, among others, by A-PHY-based connectivity, to meet the automotive market’s growing requirements for high reliability, high performance, and low latency connectivity. Our A-PHY compliant solutions well-position us to capture this business opportunity.

## Company Products

Our product portfolio includes over 20 products across a range of high-performance semiconductors and other components that are in turn integrated in a range of technological applications, including:

|                | Audio-Video                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Automotive                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| PRODUCT SERIES | <ul style="list-style-type: none"><li>● <b>VS100™ family</b> — Valens’ first chipsets, which revolutionized the audio-video market by enabling transmission of uncompressed ultra-high-definition video, audio, control, and power, with near-zero latency, over a single LAN cable, according to the HDBaseT Alliance’s Spec 1.0.</li><li>● <b>VS2000™ family</b> — Second generation of HDBaseT chipsets (Spec 2.0), supporting the transmission of ultra-HD video, audio, Ethernet, controls, USB 2.0, and power, over a LAN or fiber cable, with near-zero latency. It enables point-to-point, daisy-chaining, and multi-streaming.</li><li>● <b>VS3000™ family</b> — The first and only Application Specific Integrated Circuit (“ASIC”) in the industry that enables the long-distance transmission of uncompressed 4K@60Hz 4:4:4. It enables transmission of HDMI 2.0 (18Gbps) including HDCP, based on Spec 3.0 of HDBaseT technology, convergence of audio, video, 1Gbps Ethernet, USB 2.0, controls, and power, with Zero Latency, over a category cable (e.g., Cat 6A).</li><li>● <b>VA6000™ family</b> — (originally developed for automotive) small-form factor chipset; a cost-effective and flexible solution that enables the convergence of multiple interfaces, including audio (I2S, S/PDIF), Ethernet, USB 2.0, and controls with Zero Latency, over a single Unshielded Twisted Pair (“UTP”) cable. Its use in audio-video applications demonstrates our ability to leverage technologies and power cross-industry innovations.</li><li>● <b>VA7000™ family</b> — (originally developed for automotive) Low-power, small-form factor chipset that supports camera serial interface (“CSI”) extension over low-cost cable infrastructure, making it ideal for extending multiple cameras in Industrial, Medical, and videoconferencing applications.</li><li>● <b>Valens USB and Power Extender</b> — a plug and play solution to extend USB and power over a single standard category cable, for distances of up to 328ft/100m.</li><li>● <b>Valens VS6320, USB 3.2 Gen1 extension chipset</b> — a high-performance and efficient long-distance single-chip extension solution solving the increasing demand for higher bandwidth for USB peripherals in videoconferencing, IT, industrial and medical applications, providing extension for high-performance USB3.2 Gen1 at up to 328ft/100m (Superspeed 5Gbps) and USB2 (480Mbps), as well as all types of USB transfer protocols (BULK, ISO, INT, Control) and dedicated control signals (UART, GPIO), all over simple category cables.</li></ul> | <ul style="list-style-type: none"><li>● <b>VA6000™ family</b> — Valens’ first chipsets for Automotive. The highest bandwidth long-reach symmetric solution deployed in vehicles today, supporting the aggregation of multiple interfaces for feature-rich infotainment and telematics systems. The chipsets are designed to deliver resilient, multi-gig, long-distance connectivity over the simplest wiring and connector infrastructure. VA6003 is a derivative product of the VA6000, which brings significant power reduction, with a very efficient cost performance. It is designed to fit advanced infotainment use-cases and next generation of telematics units and smart antennas, requiring low power and resilient connectivity.</li><li>● <b>VA7000™ family</b> — Valens’ asymmetric automotive chipsets, which supports connectivity of CSI-2-based cameras, radars, LiDARs, and other sensors, with link speeds of up to 8Gbps. Operates over standard, cost-effective, in-vehicle wires for up to 15 meters (50 feet), with 4 inline connectors. First product on the market that complies with the MIPI A-PHY standard, and first to support multi-gig connectivity over low-cost unshielded cables and connectors. Our VA700R, based on the technology of this chipset family, provides a resilient connectivity solution for medium and long vehicles.</li></ul> |

| Market Segments                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Applications                                                                                                                                       | Product Series |        |        |        |        |             |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|----------------|--------|--------|--------|--------|-------------|
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                    | VS100          | VS2000 | VS3000 | VS6320 | VA6000 | VA7000      |
| <b>Video Conferencing</b><br>Offering a complete suite of multimedia distribution solutions, Valens is a market leader with chipsets that power innovation and meet the evolving needs of the hybrid video conferencing market.                                                                                                                                                                                                                                      | <ul style="list-style-type: none"> <li>▪ UC&amp;C</li> <li>▪ Multi-camera Systems</li> <li>▪ Projectors &amp; Displays</li> </ul>                  | ✓              | ✓      | ✓      | ✓      | ✓      | ✓           |
| <b>Education</b><br>Classrooms are digitizing, with the proliferation of cameras, interactive whiteboards, and more. Valens has the versatile, plug-and-play media distribution solution to support hybrid classrooms.                                                                                                                                                                                                                                               | <ul style="list-style-type: none"> <li>▪ Hybrid Classrooms</li> <li>▪ Interactive Whiteboards</li> <li>▪ Projectors</li> </ul>                     | ✓              | ✓      | ✓      | ✓      | ✓      | ✓           |
| <b>Digital Signage</b><br>Smart and simple digital signage architectures with uncompressed, zero-latency connectivity for longer link distances and reliable 24/7 operation.                                                                                                                                                                                                                                                                                         | <ul style="list-style-type: none"> <li>▪ Video Walls</li> <li>▪ Outdoor Displays</li> <li>▪ Interactive Kiosks</li> </ul>                          | ✓              | ✓      | ✓      | ✓      |        |             |
| <b>Medical</b><br>In an industry that cannot compromise on quality, Valens chipsets support the highest resolution video imaging with no latency, enabling robotic surgeries, disposal endoscopies, and digital operating rooms.                                                                                                                                                                                                                                     | <ul style="list-style-type: none"> <li>▪ Medical Imaging</li> <li>▪ Medical Cameras &amp; Endoscopes</li> <li>▪ Digital Operating Rooms</li> </ul> | ✓              | ✓      | ✓      | ✓      | ✓      | ✓           |
| <b>Industrial</b><br>With a rich offering of high performance connectivity solutions, Valens guarantees seamless factory automation and machine vision for the industrial market.                                                                                                                                                                                                                                                                                    | <ul style="list-style-type: none"> <li>▪ Industrial PC</li> <li>▪ Machine Vision</li> </ul>                                                        | ✓              | ✓      | ✓      | ✓      | ✓      | ✓           |
| <b>Entertainment</b><br>The highest performance connectivity solution for entertainment setups, from home theaters to super-size immersive video walls and projection mapping.                                                                                                                                                                                                                                                                                       | <ul style="list-style-type: none"> <li>▪ Museums &amp; Exhibits</li> <li>▪ Sports &amp; Live Events</li> <li>▪ Home Theatres</li> </ul>            | ✓              | ✓      | ✓      | ✓      | ✓      |             |
| <b>ADAS &amp; Autonomous</b><br>As data rates rise with the proliferation of sensors and displays in vehicles, OEMs are facing technological barriers on their quest to reach higher levels of autonomy. Valens' high-performance connectivity chipsets are the foundation upon which OEMs can level up. Valens chipsets support high bandwidth, zero latency and flawless performance, meeting the evolving requirements for enhances ADAS and safety applications, | <ul style="list-style-type: none"> <li>▪ Cameras</li> <li>▪ Centralized Radar</li> <li>▪ LiDAR</li> </ul>                                          |                |        |        |        |        | ✓           |
| <b>In-Cabin</b><br>Cars have become entertainment centers on wheels, leading to a need for a connectivity solution that can reliably handle the high bandwidth requirements of next-generation digital cockpits. Valens chipsets form the data foundation for an enhance and seamless in-cabin experience.                                                                                                                                                           | <ul style="list-style-type: none"> <li>▪ Infotainment</li> <li>▪ Driver monitoring (including surround view)</li> <li>▪ E-mirrors</li> </ul>       |                |        |        |        | ✓      | ✓           |
| <b>Long Vehicles</b><br>With industry leading resilience and link distance, Valens chipsets bring unprecedented visibility to truck drivers around the world.                                                                                                                                                                                                                                                                                                        | <ul style="list-style-type: none"> <li>▪ Rear-view visibility</li> <li>▪ Sensor aggregation</li> <li>▪ Front/side cameras</li> </ul>               |                |        |        |        | ✓      | ✓<br>VA700R |

We work in a fabless model, i.e., we outsource all our manufacturing operations, utilizing third-party foundry, assembly, and testing facilities. We primarily manufacture our products through contract manufacturers in Taiwan and Europe. As of today, all our silicon wafers, which are the basic element of any semiconductor product, are designed to be manufactured at TSMC, the largest foundry in the world. We use third party contract manufacturers for our assembly and test operations, including Advanced Semiconductor Engineering, STMicroelectronics and UTAC. Lastly, all chips are tested in accordance with specially designed programs developed specifically for each product family. Along the product life cycle, we continuously invest in the improvement of testing to improve manufacturing yield and reduce production costs. We store our product inventory in certain locations, mainly in Asia and Europe, close to many of our customers' manufacturing facilities.

During the period in which the semiconductor industry experienced challenging supply constraints, we have succeeded in managing our supply and have not had delays in fulfilling our obligations to customers. We have managed to do this utilizing two main strategies:

- *Risk Averse and planning*– Even before the shortage, Valens took a conservative approach to inventory management. The trigger for the purchase of inventory for Valens has not exclusively been based on customer purchase orders, but rather on a combination of our assessments of demand based on purchase orders, and forecasts of demand from our sales teams.
- *Capturing capacity allocation from the supply chain vendors*– Amid the shortage, we have made necessary adjustments to our supply and demand planning, with the goal of capturing capacity allocation within the supply chain vendors. In order to do so, during 2021 and 2022, we placed longer- term purchase orders for raw materials and manufacturing services, even into the first quarter of 2023. Later in 2023, the macro environment shifted, with high interest rates, inflation, and inventory adjustments that caused customers to transition to a mode of slow digestion of inventories.

We expect the inventory levels incurred, as of the end of 2023, to be consumed over the coming quarters as our customers continue to cautiously manage their supply chains in light of the global economic uncertainties.

## **Sales, Marketing and Customer Support**

We sell our products worldwide through multiple sales channels, including through our direct sales force and through distributors and independent sales representatives, which resell our products to numerous end customers. Approximately 37% and 50% of our net sales in fiscal years 2023 and 2022 respectively, were made to distributors.

Our direct sales force and applications engineers provide our customers with specialized technical support. We believe that maintaining a close relationship with our customers and serving their specific technical needs improves their level of satisfaction and enables us to anticipate and influence their future product needs. We provide ongoing technical training to our distributor and sales representatives to keep them informed of our existing and new products.

Our internal marketing organization is responsible for increasing our brand awareness and promoting our products to prospective customers and partners. This includes the creative management of our website, market research and analytics, and development of demand generation strategies and materials such as product announcements, brochures, training and videos, as well as securing thought leadership through published technical and trend articles and advertisements, and active engagement in key industry events.

## **Customers**

Our installed customer base consists of major players in the audio-video space, automotive OEMs and Tier 1 suppliers. In the audio-video market, we serve the leading manufacturers of video distribution equipment, displays, projectors, industrial equipment, and healthcare equipment. We have a wide distribution of our revenues across our more than 100 customers. In 2023 and 2022, our three largest customers, in each year, collectively represented approximately 36% and 32% of our total revenue, respectively.

In the automotive space, we typically promote our products to the OEMs who are in most cases the final decision makers on the technology that will be deployed in their cars, as well as to Tier 2 automotive suppliers, with actual sales made to Tier 1s. Our contracts are typically based on short-term purchase orders that comply with our products' lead time.

## **Competition**

The semiconductor industry is highly competitive and is characterized by constant and rapid technological change. Our competitors range from large, international companies offering a wide range of products to smaller companies specializing in narrow markets. The competitive landscape is changing as a result of a trend toward consolidation within many industries, as some of our competitors have merged with or been acquired by other competitors, while others have begun collaborating with each other. We expect this consolidation trend to continue. We expect competition in the markets in which we participate to continue to increase as existing competitors improve or expand their product offerings and as new companies enter the market. Additionally, our ability to compete in this industry depends on many factors, including our ability to identify emerging markets and technology trends in an accurate and timely manner, introduce new and innovative technologies and products, implement advanced manufacturing technologies at a sustainable pace, maintain the performance and quality of our products, and manufacture our products in a cost-effective manner.

## **Intellectual Property**

We consider the strength of our intellectual property portfolio to be among our most significant competitive advantages. The protection of our technology and intellectual property and proprietary rights is therefore an important aspect of our business. We rely on a combination of patent, trade secret, trademark and copyright laws, confidentiality and non-disclosure agreements, and technical measures to establish, maintain and protect our intellectual property rights and proprietary technologies and processes. As of February 1, 2024, we owned approximately 120 issued patents, and 10 pending patent applications in USA, China, Japan, South Korea and the European Patent Office (EPO). Our patents generally cover a wide variety of areas relevant to our products, specifically covering our innovation in the areas of convergence of multiple-data types/multi-stream over the same wires and robust operation under severe electromagnetic interference ("EMI").

Our proprietary, internally developed know-how is an important element of our intellectual property portfolio. The development of technological solutions requires sophisticated coordination among many specialized employees. We believe that duplication of this coordination by competitors or individuals seeking to copy our platform would be difficult. The risk of a competitor effectively replicating the functionality of our platform is further mitigated by the fact that our service product offerings do not include exposure of source code, as our solution is based on hardware (integrated circuits) and software that is delivered as binary code. However, it is possible that competitors or unauthorized third parties may obtain, copy, use or disclose, illegally or otherwise, our proprietary technologies and processes, despite our efforts to protect such proprietary technologies and processes.

We cannot guarantee that any of our pending patent applications will be granted, that our current or subsequently issued patents or trademarks will be effective to protect our intellectual property rights, that any of our pending patent applications will result in issued patents, that any of our intellectual property rights will provide us with any meaningful protection or commercial advantage, or that others will not infringe, misappropriate, or violate our intellectual property rights. In addition, while there is no active litigation involving any of our patents or other intellectual property rights, we may be required to enforce or defend our intellectual property rights against third parties in the future.

For additional information on risks associated with our intellectual property, see sections titled "Risk Factors—Risks Related to Our Business and Industry—"We may not be able to adequately obtain, maintain, protect, defend or enforce our intellectual property rights, which could harm our competitive position," "Risk Factors—Risks Related to Our Business and Industry—Our ability to compete successfully depends in part on our ability to commercialize our products without infringing, misappropriating or otherwise violating intellectual property rights of others," "Risk Factors—Risks Related to Our Business and Industry—If we fail to comply with our obligations under license or technology agreements with third parties, or if we cannot license rights to use technologies on reasonable terms, we could be required to pay damages, lose license rights that are critical to our business or be unable to commercialize new products in the future," and "Risk Factors—Risks Related to Being a Public Company—We may be named as a party to several legal proceedings in the future, including litigation related to our patents and other intellectual property, which could subject us to liability, require us to indemnify our customers, require us to obtain or renew licenses, require us to stop selling our products or force us to redesign our products."

## Regulation

Our operations are subject to various environmental, labor, health, safety, export control and other laws and regulations in Israel, the United States and other jurisdictions in which we operate. We are also required to obtain authorizations or licenses from governmental authorities for certain of our operations and have to protect our intellectual property worldwide. In the jurisdictions in which we operate, we need to comply with differing standards and varying practices of regulatory, tax, judicial and administrative bodies for joint and several costs associated with investigation and remediation of sites at which we have arranged for the disposal of hazardous wastes if such sites become contaminated, even if we fully comply with applicable environmental laws and regulations. We are also subject to various federal, state, local, international and non-U.S. laws and regulations relating to occupational health and safety. Any failure on our part to comply with these laws and regulations may subject us to significant fines or other civil or criminal costs, obligations, sanctions or property damage or personal injury claims, or suspension of our facilities' operating permits. Compliance with current or future environmental and occupational health and safety laws and regulations could restrict our ability to expand our business or require us to modify processes or incur other substantial expenses which could harm our business.

As part of our business development, we also collect information about individuals, also referred to as personal information, and other potentially sensitive and/or regulated data from our customers. Laws and regulations in Israel, the United States and around the world restrict how personal information is collected, stored, used, disclosed, and otherwise processed, as well as, among other things, set standards for its security, implement notice requirements regarding privacy practices, and provide individuals with certain rights regarding the use, disclosure and sale of their protected personal information.

For example, in the United States, various federal and state regulators, including governmental agencies like the Federal Trade Commission, or the FTC, have adopted, or are considering adopting, laws and regulations concerning privacy, data protection and information security. Certain state laws may be more stringent or broader in scope, or offer greater individual rights, with respect to personal information than federal, international, or other state laws, and such laws may differ from each other, all of which may complicate compliance efforts. For example, the California Consumer Privacy Act of 2018 (as amended by the California Privacy Rights Act of 2020, or the CPRA), or the CCPA, which increases privacy rights for California residents and imposes obligations on companies that process their personal information (including device identifiers, IP addresses, cookies and geo-location), came into effect on January 1, 2020. Among other things, the CCPA requires covered companies to provide new disclosures to California residents and provide such residents new data protection and privacy rights, including the ability to opt-out of certain sales of personal information. The CCPA provides for civil penalties for violations, as well as a private right of action for certain data breaches that result in the loss of personal information. Additionally, the CPRA, which came into effect on January 1, 2023, significantly modifies the CCPA, including by expanding residents' rights with respect to certain sensitive personal information. A number of other states have also recently adopted, or are considering adopting, comprehensive data privacy laws similar to the CCPA. Additionally, many statutory requirements, both in the United States and other jurisdictions, include obligations for companies to notify individuals of data breaches involving certain personal information. For example, laws in all 50 U.S. states require businesses to provide notice to residents whose personal information has been disclosed as a result of a data breach. State laws are changing rapidly and there is discussion in Congress of a new comprehensive federal data privacy law to which we would become subject if it is enacted.

Internationally, laws, regulations and standards in many jurisdictions apply broadly to the collection, use, retention, security, disclosure, transfer and other processing of personal information. For example, the EU General Data Protection Regulation, or the GDPR, which became effective in May 2018, greatly increased the European Commission's jurisdictional reach of its laws and adds a broad array of requirements for handling personal data (including online identifiers and location data). EU member states are tasked under the GDPR to enact, and have enacted, certain implementing legislation that adds to and/or further interprets the GDPR requirements and potentially extends our obligations and potential liability for failing to meet such obligations. The GDPR, together with national legislation, regulations and guidelines of the EU member states governing the processing of personal data, impose strict obligations and restrictions on the ability to collect, use, retain, protect, disclose, transfer and otherwise process personal data (it is being noted that Israel was re-affirmed by the EU Commission on January 15, 2024, confirming the adequacy of the level of protection of personal data in Israel as an "adequate" country). In particular, the GDPR includes obligations and restrictions concerning the consent and rights of individuals to whom the personal data relates, the transfer of personal data out of the European Economic Area, security breach notifications and the security and confidentiality of personal data. The GDPR authorizes fines for certain violations of up to 4% of global annual revenue or €20 million, whichever is greater. In addition, some countries are considering or have passed legislation implementing data protection requirements or requiring local storage and processing of data or similar requirements that could increase the cost and complexity of delivering our services.

In addition, in Israel, the Privacy Protection Law, 5741-1981 ("PPL"), and the regulations enacted thereunder, including the Privacy Protection Regulations (Data Security), 5777-2017 ("Data Security Regulations"), as well as guidelines issued by the Israeli Privacy Protection Authority, and Amendment No. 40 to the Communications Law (Telecommunications and Broadcasting), 5742-1982, impose obligations with respect to the manner certain personal data is processed, maintained, transferred, disclosed, accessed and secured. Failure to comply with the PPL, its regulations and guidelines issued by the Israeli Privacy Protection Authority may expose us to administrative fines, civil claims (including class actions) and in certain cases criminal liability.

Current pending legislation may result in a change of the current enforcement measures and sanctions and may also require us to modify the manner personal data is collected, processed and maintained by us. The Israeli Privacy Protection Authority may initiate administrative inspection proceedings, from time to time, without any suspicion of any particular breach of the PPL, as it has done in the past with respect to dozens of Israeli companies in various business sectors. In addition, to the extent that any administrative supervision procedure is initiated by the Israeli Privacy Protection Authority and reveals certain irregularities with respect to our compliance with the PPL, in addition to our exposure to administrative fines, civil claims (including class actions) and in certain cases criminal liability, we may also need to take certain remedial actions to rectify such irregularities, which may increase our costs.

Restrictions on the collection, use, sharing, disclosure or other processing of personal information or additional requirements and liability for protection and information security could require us to modify our solutions and features, possibly in a material manner, could limit our ability to develop new products and features and could subject us to increased compliance obligations and regulatory scrutiny. See “*Risk Factors—Risks Related to Laws and Regulation.*”

## Human Capital

Our success depends on our continued ability to attract, motivate and retain our workforce. As the source of our technological and product innovations, our engineering and technical personnel are a significant asset. Competition for these and other talented employees is significant in Israel where we are headquartered and operate. We measure our employees’ engagement by our voluntary attrition rate and employee feedback.

As of December 31, 2023, we had 241 employees and contractors, primarily based in Israel, compared to 313 employees and contractors, as of December 31, 2022. During the third quarter of 2023 we have completed our plan to improve operational efficiency, which included a reduction in force. Our research and development team draws from a broad spectrum of backgrounds and experiences, across technology, with strong engineering, analog mix signal, DSP, VLSI, and software capabilities. We foster an entrepreneurial culture so that we may remain focused and innovative over time, as we strive to serve our customers with openness, transparency, and humility.

## Facilities

Our principal executive office is located in Hod Hasharon, Israel. In addition to our Israeli headquarters, we have offices in the northern part of Israel, in the United States, Asia and Europe. We lease each of our offices. We believe that our current facilities are adequate to meet our immediate needs.

## Legal Proceedings

From time to time, we may become a party to various litigation matters incidental to the conduct of our business. We are not presently party to any legal proceedings the resolution of which we believe would have a material adverse effect on our business, prospects, financial condition, liquidity, results of operation, cash flows or capital levels.

## C. ORGANIZATIONAL STRUCTURE

The Company has subsidiaries in the United States, China, Germany and Japan, which are listed below, as of December 31, 2023 (all subsidiaries are 100% owned by Valens Semiconductor Ltd.)

| Name of Subsidiary                    | Jurisdiction of Organization |
|---------------------------------------|------------------------------|
| Valens Semiconductor Inc.             | U.S. (Delaware)              |
| Valens Merger Sub Inc. (“Merger Sub”) | U.S. (Delaware)              |
| Valens Trading (Shanghai) Co. Ltd.    | China                        |
| Valens Semiconductor GmbH             | Germany                      |
| Valens Japan Ltd.                     | Japan                        |

## D. PROPERTY, PLANTS AND EQUIPMENT

Our corporate headquarter is in Hod Hasharon, Israel, where we occupy an office space totaling approximately 59,201 square feet (5,500 square meter), under a lease agreement that expires in February 2025, that we are currently negotiating the extension of until February 2029.

In addition, we have offices in:

1. Texas, USA, where we occupy an office space totaling approximately 1,760 square feet, under a lease agreement that expires in December 2024.
2. Tokyo, Japan, where we occupy an office space totaling approximately 280 square feet, under a lease agreement that expires in November 2025.
3. Shenzhen, China, where we occupy an office space totaling approximately 2,152 square feet, under a lease agreement that expires in October 2024.

Our offices outside of Israel support functions across sales and marketing, as well as services, research and development.

## E. UNRESOLVED STAFF COMMENTS

Not applicable.

## ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

### A. OPERATING RESULTS

*This operating and financial review should be read together with the section captioned “Part I, Item 4, Information on the Company—B. Business Overview” and our consolidated financial statements and the related notes to those statements prepared in accordance with U.S. GAAP and included elsewhere in this Annual Report. Among other things, those financial statements include more detailed information regarding the basis of preparation for the following information. This discussion contains forward-looking statements that involve risks and uncertainties. As a result of many factors, such as those set forth under “Part I, Item 3.D. Risk Factors” and elsewhere in this Annual Report, our actual results may differ materially from those anticipated in these forward-looking statements. Please see “Special Note About Forward-Looking Statements and Risk Factor Summary” in this Annual Report.*

#### Overview

Valens is a fabless leading provider of high-performance connectivity solutions, pushing the boundaries of connectivity by enabling resilient long-reach, high-performance video and data distribution across verticals in the automotive, audio-video and other adjacent markets.

Tens of millions of Valens chipsets are deployed in millions of audio-video applications globally, across multiple verticals, such as corporate, education, medical, industrial, command-and-control and signage with a customer base that is comprised of the world’s major consumer electronic companies. Valens is the incumbent provider for wired high-performance audio-video connectivity products, compliant with the HDBaseT standard. Our HDBaseT technology’s ability to transmit various signals and power over a single long-reach cable has gained us a market leadership position in the professional audio-video market, providing exceptional digital experiences for which our technology was awarded multiple awards, including an Emmy award. The standard is backed by the HDBaseT Alliance, and co-managed by Valens, LG, Samsung and Sony Pictures.

Valens chipsets are installed in systems manufactured by leading customers and are also embedded in millions of vehicles around the world. In the automotive industry, Valens is a key enabler of the evolution of Advanced Driver-Assistance Systems (“ADAS”) and autonomous driving, supporting Automated Driving Systems (“ADS”), infotainment, telematics and other in-vehicle applications requiring high performance connectivity. The Company’s underlying technology, which offers an exceptionally resilient solution, combining high bandwidth and long link distance, was selected in 2020 by the MIPI Alliance as the basis for the industry standard for high-speed automotive video connectivity (MIPI A-PHY). In 2021, the IEEE standards association also adopted A-PHY as an automotive standard. The A-PHY ecosystem’ continues to evolve, and includes dozens of Tier 1s, camera sensor manufacturers, RaDAR and LiDAR suppliers, component manufacturers, and testing equipment vendors, that are working to serve the growing demand for increased safety in today and tomorrow’s cars, with Valens’ VA7000 MIPI A-PHY chipsets. As data rates rise with the proliferation of sensors and displays in vehicles, OEMs are facing technological barriers in their quest for optimal in-vehicle connectivity. For this need, Valens’ VA7000 chipset family provides a reliable solution, including for vision-based systems, which are key enablers for ADAS and 360-degree perception sensors, as well as for applications such as auto-pilot, surround-view, parking assist, and reverse assist.

#### Audio-Video

Valens set the standard for long-range wired connectivity in the audio-video market. The Company’s HDBaseT technology supports the digitization of wired connectivity and key leading audio-video product manufacturers, including Crestron, EPSON, Extron, LG Electronics, Logitech, Panasonic, Samsung, Sony and many more. These companies have created thousands of electronic devices that embed Valens’ HDBaseT technology as part of their connectivity solution in millions of products globally, across a variety of verticals, such as videoconferencing, education, medical, digital signage, entertainment and industrial.

HDBaseT enables the simultaneous delivery of ultra-high-definition digital video and audio, Ethernet, USB, control signals, and power, all through a single low cost, long-reach cable of up to 328 feet/100 meters. HDBaseT technology is a hardware-based solution, with no high-level software dependency, enabling true plug-and-play digital connectivity between ultra-HD video sources and remote displays, such as high-resolution projectors and displays. As a market leader for long-range high-performance connectivity, we believe we are well-positioned to capitalize on the continuous opportunities in the various verticals. Valens' audio-video solutions can be deployed wherever long-distance high-definition video systems are required, for time sensitive applications that require zero latency (a few micro-seconds of latency are commonly perceived in the industry as "zero latency") (referred to herein as "Zero Latency"), with applications spanning the medical, education and industrial sectors, among others.

Over the past few years, when WFH, remote services, remote and hybrid education became a common practice, the demand for videoconferencing surged, leading to a significant uptick in demand for Valens' connectivity solutions. In corporations, videoconferencing technology remains essential for office space, video meetings and remote work. This is an ongoing trend, and while the install base is still relatively small, corporates continue to plan how they want to ensemble rooms. In the educational and medical space, we continue to see growing interest in our data-extension capabilities. Our chipsets deliver a high level of safety with Zero Latency, and high-bandwidth uncompressed video connectivity, which is required for medical imaging devices such as MRIs, CTs, X-Rays, robotic surgery, and endoscopy. We introduced our latest connectivity solution in that regard in 2023 when we announced the launch of the VS6320 chipset, a USB3.2 Gen1 extension solution, which provides a high-performance and efficient long-distance single-chip extension solution that addresses a critical need in the global videoconferencing, information technology (IT), industrial and medical markets. USB3.2 has emerged as the go-to interface for devices used in videoconferencing and IT and is increasingly being used in industrial and medical applications. We believe that this addition to our product portfolio will cement our market-leader position in providing high-performance, long-reach connectivity solutions for audio-video applications, and now, also where USB 3.2 extension solutions are required.

#### *Automotive*

Valens has made significant inroads in the automotive market. Its high-performance symmetric connectivity solution is the only multi-gigabit connectivity solution over UTP wiring that is currently deployed in vehicles, supporting the aggregation of multiple interfaces for feature-rich infotainment and telematics systems. Mercedes-Benz selected Valens products to power Mercedes-Benz's infotainment systems in most of its models, including in electric vehicles.

Valens' solution is scalable, allowing it to support the evolution of car architecture and the growing need for in-vehicle high-speed, resilient connectivity. Valens chipsets address the needs of the increasingly interconnected vehicle computer systems, such as ADAS, AD, infotainment, and telematics as well as enabling other safety-enhancement applications. It will also enable the deployment of software-defined vehicles of the future.

The demand for a global standard for ultra-high-speed in-vehicle connectivity is accelerating. As the automotive industry continues to advance towards the next stages in the evolution of autonomous driving by integrating more cameras, RaDARs and LiDARs, and other sensors for safety applications, the amount of data being generated within the car will rise exponentially. This requires a reliable, high-performance connectivity solution. Valens chipsets allow car makers to transmit data at multi-gigabit bandwidth over error-free links with Zero Latency, all with a low total system cost.

After setting the standard in the audio-video market, Valens did the same in the much larger automotive market, providing it a first-mover advantage. The MIPI Alliance – the standardization body controlling vital connectivity streams, widely used by car makers around the world, announced in September 2020 a new standard governing automotive connectivity, called MIPI A-PHY, which is fundamentally based on Valens technology.

Since its adoption, MIPI A-PHY continues to gain momentum within the automotive industry. In 2021, the IEEE Standards Association has adopted A-PHY as an IEEE standard. As early as late 2021, Valens introduced the VA7000 product family, the first-in-industry A-PHY standard compliant chipsets for the connectivity of vehicle safety sensors to compute units. Samples of VA7000 were shipped to leading automotive OEMs, Tier 1s and Tier 2s.

Since 2021, a growing number of Tier 1s, leading System-on-Chip (SoC), camera sensor, RaDARs and LiDAR component manufacturers stated that they will integrate A-PHY into their products going forward. In addition, automotive OEMs continue to explore the implementation of VA7000 chipsets in their next generation car models.

In 2022 and 2023, we continued to see the expansion of the VA7000 ecosystem as reflected in multiple engagements described in "*Part I, Item 4. Information on the Company – B. Business overview*".

Valens' technology provides one of the safest, most resilient, ultra-high- performance in-vehicle connectivity solutions, all transmitted through standard, simple, low-cost, low-weight wires and connectors, enabling advanced electronics architecture in cars. Valens' superior PHY technology enables powerful bandwidth over long-reach and low-cost infrastructure, while maintaining error-free links (MIPI A-PHY targets worst case PER of  $1E^{-19}$  ( $10^{-19}$ ) which translates to mean-time between packet errors of ~80,000 years for a 16Gbps link and EMC performance, hence providing the safety and resilience required to handle the harsh automotive environment.

Valens' chipsets meet the stringent requirements of the automotive industry which is undergoing a major transformation towards increase in links bandwidth, sensor fusion and transition to software-defined vehicles. To enable these evolutions, cars are anticipated to be equipped with a growing number of sensors, combining multiple sensor types – cameras, LiDARs and RaDARs, and to be supported by intelligently connected architectures, to deliver data, video and functionality required by safety applications, in real time, all in an increasingly electro-magnetic challenging environment.

As the automotive industry continues to advance towards the next stages in the evolution of autonomous driving by integrating more cameras, LiDARs, RaDARs, other sensors for safety applications, and additional safety-enhancing applications, the amount of data being generated within the car will continue rising exponentially, requiring a reliable, high-performance, resilient connectivity solution. Valens chipsets will allow OEMs to resiliently transmit data at multi-gigabit bandwidth over error-free links with Zero Latency, all with a low total system cost.

Valens high-speed symmetric connectivity solution supports the aggregation of multiple interfaces for feature-rich infotainment and telematics systems. Valens partnered with Mercedes-Benz to power Mercedes-Benz's infotainment and telematics systems, which started with the S-Class model in the fourth quarter of 2020, and can now be found in the S, C and E-class models, including in the Electric Vehicle (EV) models.

For the trucking market, Valens tackled unaddressed safety and operational market needs. We have two offerings which enable the deployment of innovative visibility solutions for truck drivers under the harshest conditions – a new surround view and ADAS application which is suitable for medium and long vehicles, and a rear-view safety solution, for tractor-trailers.

Valens connectivity solutions for the surround view and ADAS applications provides industry leading bandwidth and link distance, allowing sensor connectivity at up to 4Gbps for distances of up to 40 meters/130 feet, while supplying power and bi-directional control over the cable. The trucking industry has suffered from a lack of visibility due to the complex technical challenge of long-distance connectivity in a rough Electromagnetic Compatibility (EMC) environment. Valens is uniquely capable of overcoming this challenge, with this solution which provides for the performance needed for enhanced surround view and ADAS systems in long vehicles.

In recent years Valens has been working with Stoneridge, a leading designer and manufacturer of highly engineered electrical and electronic vehicle systems, to enhance tractor-trailer safety, through advanced connectivity and vision solutions and in 2023, this solution was deployed for in-roads vehicle testing.

### **Key Factors and Trends Affecting Our Performance**

We believe that our performance and future success depend on several factors that present significant opportunities for us but also pose risks and challenges, including those discussed below and in the section entitled "*Risk Factors*."

### **Design Wins with New and Existing Customers**

Valens' technology is a key enabling technology for both audio-video applications and the automotive market. Since our solutions are sold as part of a broader platform developed by the OEMs and system vendors, it is critical that we achieve a deep level of cooperation, partnership, and joint planning by technical and strategic teams to win designs with these customers. Our customers are continuously developing new products in existing and new application areas, and we work closely with them to understand their product roadmaps and strategies. The time required to achieve design wins varies based on the market and application. The design cycle in the automotive market tends to be substantially longer and more onerous than, in general, in the audio-video market, with the exception of the medical and industrial verticals that may require longer times. For new products, the time from design initiation and manufacturing until we generate revenue can be lengthy, typically within three years in the audio-video market and up to five years in the automotive space. As a result, our future revenue is highly dependent on our continued investment in new products and our success at winning design awards from our customers. We consider design wins to be critical to our future success and anticipate being increasingly dependent on revenue from newer design wins for our newer products. The selection process is typically lengthy and may require us to incur significant design and development expenditures in pursuit of a design win with no assurance that our solutions will be selected. As a result, the loss of any key design win or any significant delay in the ramp-up of volume production of the customer's products into which our product is embedded could adversely affect our business. In addition, volume production is contingent upon the successful market introduction and acceptance of our customer's end products, which may be affected by several factors beyond our control.

In the audio-video space, Valens continues to gain new design wins with both its mature chipset product families (VS1xx and VS2xxx), and with the VS3000 more recent chipset family for audio-video applications. The VS3000 supports technological innovation for audio-video, bringing to the industry a truly uncompressed 4K60@4:4:4 video distribution solution. This product is one of the most advanced, highly integrated chipsets for high bandwidth (e.g., uncompressed HDMI2.0) long-range connectivity solutions in the market. The versatility of our VS3000, enables our customers to innovate, and design differentiated products across a number of industries, including the growing videoconferencing, digital signage, education, medical imaging and industrial verticals. During 2023, we enhanced the sales of our VA6000 chipsets, originally designed for automotive, for USB extension applications in the audio-video market, and towards the end of 2023 we shipped engineering samples of our new VS6320 chip, a USB3.2 high-performance and efficient long-distance single-chip extension solution that addresses a critical need in the global videoconferencing, information technology (IT), industrial and medical markets and have started seeing orders for this product even before the start of the mass production of this newest addition.

In the automotive space, Valens is in mass production with Mercedes-Benz for the connectivity of certain infotainment and telematics systems. Starting late 2020, our products have been deployed in mass production in most Mercedes-Benz car models. While Mercedes-Benz selected our technology for use in its cars, Valens sells its products to certain Tier 1 suppliers that serve Mercedes-Benz for this project. In 2023 we had record sales of the VA6000 as it was the first full year in which Mercedes Benz expanded the use of the infotainment system which includes this chip to a broad range of car models, including in Evs.

With respect to future business opportunities, Valens is mainly focused on achieving design wins by leading automotive OEMs and Tier 1s, which, if achieved, are expected to create for Valens a long-term recurring revenue stream. In addition to automotive uses, the VA7000 chipset family is well suited for applications in markets served by the audio-video business unit such as medical and industrial. We also expect to focus on achieving design wins in the trucking market with our new high-performance resilient solutions for vision and safety systems that address safety-critical issues in the trucking industry.

### **Continuing to Acquire New Customers**

Our operating results and growth opportunity depend, in part, on our ability to attract new customers. We currently have over 100 paying customers, and we continue to focus our efforts on increasing the number of customers that use our products.

We continuously seek to better the connectivity solutions offered by us, at higher speeds, bandwidth, Zero Latency, and lower costs. We believe this creates significant opportunities, as detailed below.

For ADAS and autonomous driving, the use of an increasing number of sensors, cameras and displays in the vehicle in conjunction with the shift towards centralized compute, sensor fusion, zonal architecture, and software-defined vehicles, is driving the unprecedented demand for high-performance connectivity and data processing capabilities. The amount of data distributed and processed throughout the vehicle has resulted in enormous bandwidth requirements. We believe this bandwidth is expected to continue to grow exponentially in the coming years. Since more ADAS systems are being deployed in cars, together with an increasing volume of electronic hardware components to support software-defined vehicles, and as this trend continues to accelerate, high-speed and error-free links with zero latency will be of the utmost importance. The need for even greater passenger safety remains a top priority for automotive OEMs. This is driving the trend for integrating more ADAS systems in each vehicle, increasing the number and different types of sensors (cameras, radars, and LIDARs), high resolution displays and other high-speed, resilient connections, all of which are required to ensure safety in cars with advanced driving assistance systems and ultimately, in the autonomous cars. Valens is completely agnostic as to the types of sensors being deployed in cars, since they all require long-reach high-speed connectivity and, more importantly, zero latency in order to detect and act upon safety events within micro-seconds.

### **Customer Demand, Orders and Forecasts**

The economic slowdown in 2023 resulted in a decrease in the demand for our semiconductor audio-video products, while the demand for our automotive VA6000 solution by Mercedes-Benz increased, with its deployment in additional car models. Currently, the macroeconomic headwinds continue, and the semiconductor industry is facing demand weakness alongside inventory burn. As this economic environment phenomenon continues, we continue to carefully monitor our supply chain as well as the implications of the macroeconomic environment on our operations. Our ability to quantify the future impact of the macroeconomic challenges on our business is limited and its effects on our business are unlikely to be fully realized, or reflected in our financial results, until future periods.

## **Product and Research & Development**

We view research and development expenditures as investments that enable us to grow our business over time. These investments consist primarily of costs incurred in performing research and development activities including compensation, pre-production engineering mask costs, engineering services, development tools cost, third parties' intellectual property (IP) license fees, depreciation of equipment, prototype wafers, packaging, test costs as well as overhead costs. Development of a product is deemed complete when it is qualified through reviews and tests for performance and reliability. Post qualification, product costs are included in cost of goods sold.

## **Cyclical Nature of the Semiconductor Industry**

The semiconductor industry is cyclical in nature and characterized by increasingly rapid technological change, product obsolescence, competitive pricing pressures, evolving standards, short product life cycles and fluctuations in product supply and demand. New technology may result in sudden changes in system designs or platform changes that may render some of our audio-video and automotive connectivity products obsolete and require us to devote significant research and development resources to compete effectively. Periods of rapid growth and capacity expansion are occasionally followed by significant market corrections in which sales decline, inventories accumulate, and facilities go underutilized, as the industry has witnessed in 2023. During periods of expansion, our margins generally improve as fixed costs are spread over higher manufacturing volumes and unit sales.

In 2022 the semiconductor industry experienced a significant upturn following the supply imbalance that resulted in record revenues, higher average selling prices ("ASPs") and per-product profitability. In 2023 this upcycle was followed by a downturn. Historically, such down-cycles have been characterized by reduced demand for end-user products, high inventory levels and periods of inventory adjustment, under-utilization of manufacturing capacity, changes in revenue mix, and erosion of average selling prices.

Shortages in the semiconductor industry have been attributed to a variety of factors, including the COVID-19 pandemic, trade disputes among the United States and China, weakness in demand in certain markets, supply chain capacity challenges, price increases for semiconductors across applications and excess inventory. These factors had a direct impact on our business, as has been the case with many other companies, suppliers, distributors, and customers in the semiconductor industry. Prolonged or significant downturns in the semiconductor industry could negatively affect our sales, production by our suppliers, productivity and margins.

Conversely, significant upturns can cause us to be unable to satisfy demand in a timely and cost-efficient manner and could result in increased competition for access to third-party foundry and assembly capacity. In the event of such an upturn, we may not be able to procure adequate capacity within our semiconductor supply chains, resources and raw materials, or locate suitable third-party suppliers or other third-party subcontractors to respond effectively to changes in demand for our existing products, all of which may lead to extended lead-times beyond our standard lead time and our business, financial condition and results of operations could be adversely affected.

## **Manufacturing Costs and Product Mix**

Gross margins have been, and will continue to be, affected by a variety of factors, including ASPs of our products, product mix in a given period (which is composed of the product mix between our audio-video products and automotive chips and the mix of different product generations within the audio-video segment), material costs, yields, manufacturing costs and efficiencies. We believe the primary driver of gross margin is the ASP negotiated between us and our customers relative to material costs and yields. To maintain the competitiveness of our products, we are required from time to time to adjust our products' ASPs. We continually monitor and work to reduce the cost of our products and improve the potential value of the solutions provided to our customers, as we target new design win opportunities and manage the product life cycles of our existing customer designs. Nevertheless, in recent years, following the global shortage in the semiconductor industry and the surge of inflation rates, we have seen an increase in prices from our supply chain vendors (after many years of continuous price reductions) that forced us to pass on such price increases to our customers. We also maintain a close relationship with our suppliers and subcontractors to improve quality, increase yields and lower manufacturing costs. Our gross margin may fluctuate on a quarterly basis, due to changes in ASPs, product mix, new product introductions, transition ramp-up of manufacturing, customer demand and other manufacturing costs.

## Key Financial and Operating Metrics

We regularly monitor several financial and operating metrics in order to measure our current performance and project our future performance. These metrics for the years ended December 31, 2023, 2022 and 2021 aid us in developing and refining our growth strategies and making strategic decisions.

|                                                | Year Ended December 31, |          |          |
|------------------------------------------------|-------------------------|----------|----------|
|                                                | 2023                    | 2022     | 2021     |
|                                                | (dollars in thousands)  |          |          |
| Revenues                                       | 84,161                  | 90,715   | 70,684   |
| Gross profit                                   | 52,592                  | 63,390   | 50,579   |
| % Gross margin                                 | 62.5%                   | 69.9%    | 71.6%    |
| Net loss                                       | (19,661)                | (27,667) | (26,534) |
| Net loss margin                                | (23.4)%                 | (30.5)%  | (37.5)%  |
| Working capital                                | 158,763                 | 163,721  | 183,332  |
| Cash, cash equivalents and short-term deposits | 142,020                 | 148,387  | 174,359  |
| Net cash used in operating activities          | (6,359)                 | (22,095) | (21,609) |
| <b>Non-GAAP Financial Data:</b>                |                         |          |          |
| Adjusted EBITDA loss <sup>(1)</sup>            | (10,259)                | (14,903) | (16,098) |
| Adjusted EBITDA Margin <sup>(1)</sup>          | (12.2)%                 | (16.4)%  | (22.8)%  |
| Book to bill                                   | 0.64                    | 0.84     | 1.69     |

(1) Non-GAAP measure. Refer to “Non-GAAP Financial Measures”. See below for an explanation and reconciliation to closest equivalent GAAP metrics.

### Revenues

See “—Components of Our Results of Operations—Revenues.”

### Gross Margin

See “—Components of Our Results of Operations—Gross Profit.”

### Net income (loss)

Net income (loss) is calculated as presented on our consolidated statement of income (loss) for the periods presented.

### Net income (loss) margin

Net income (loss) margin is net income (loss) divided by our revenues.

### Working Capital

Working capital is calculated as Total Current Assets, less Total Current Liabilities, as of the last day of the period.

### Cash, cash equivalents and short-term deposits

Cash, cash equivalents and short-term deposits is as of the last day of the period.

### Adjusted EBITDA

We calculate Adjusted EBITDA as net profit (loss) before financial income, net, income tax, equity in earnings of investee and depreciation and amortization, further adjusted to exclude share-based compensation and the change in fair value of 1,006,250 Ordinary Shares issued by the Company as part of the Business Combination that are subject to forfeiture if certain price targets for Valens’ Ordinary Shares are not achieved within a certain period of time after the Closing Date or if a Merger & Acquisition (“M&A”) Transaction (as defined in the merger agreement), does not occur at a certain minimum price (the “Forfeiture Shares”), which may vary from period-to-period.

### ***Adjusted EBITDA Margin***

We calculate Adjusted EBITDA Margin as Adjusted EBITDA divided by revenues.

### ***Book-to-bill Ratio***

We calculate the book-to-bill ratio as the ratio of orders received to the revenues, for a specific period, usually one quarter or one year. This metric is widely used in the semiconductor industry, where the semiconductor book-to-bill ratio is considered an important leading indicator of demand trends.

### ***Cash and Cash Equivalents and Short-term Deposits***

Cash equivalents are short-term highly liquid investments that are readily convertible to cash with original maturities of three months or less. Short-term deposits are bank deposits with maturities over three months and up to one year. As of December 31, 2023, and 2022, short-term deposits denominated in U.S. Dollars and New Israeli Shekel (NIS), bore average interest rate of 5.8% and 4.2%, respectively. Short-term deposits are presented on the balance sheet at their cost, including accrued interest.

### ***Non-GAAP Financial Measures***

We are presenting the following non-GAAP financial measures because we use them, among other things, as key measures for our management and board of directors in managing our business and evaluating our performance. We believe they also provide supplemental information that may be useful to investors. The use of these measures may improve comparability of our results over time by adjusting for items that may vary from period to period or not be representative of our ongoing operations.

These non-GAAP measures are subject to significant limitations, including those identified below. In addition, other companies may use similarly titled measures but calculate them differently, which reduces their usefulness as comparative measures. Non-GAAP measures should not be considered in isolation or as a substitute for GAAP measures. They should be considered as supplementary information in addition to GAAP operating and financial performance measures.

### ***Adjusted EBITDA***

We believe that Adjusted EBITDA is useful because it allows us and others to measure our performance without regard to items such as share-based compensation expense, depreciation, amortization and financial income, net and income taxes, as well as other items that can vary substantially depending on our financing and capital structure, and the method by which assets are acquired. We use Adjusted EBITDA and GAAP financial measures for planning purposes, including the preparation of our annual operating budget, as a measure of performance and the effectiveness of our business strategies, and in communications with our board of directors. We also use Adjusted EBITDA as a metric for determining payment of cash or other incentive compensation.

Limitations on the use of Adjusted EBITDA include the following:

- Although depreciation expense is a non-cash charge, the assets being depreciated may have to be replaced in the future, and Adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- Adjusted EBITDA excludes share-based compensation expense, which has been, and will continue to be for the foreseeable future, a significant recurring expense for our business and an important part of our compensation strategy;
- Adjusted EBITDA does not reflect, to the extent applicable for a period presented: (1) changes in, or cash requirements for, our working capital needs; (2) interest expense, or the cash requirements necessary to service interest or if applicable principal payments on debt, which reduces cash available to us; or (3) tax payments that may represent a reduction in cash available to us; and the expenses and other items that we exclude in our calculation of Adjusted EBITDA may differ from the expenses and other items, if any, that other companies may exclude from Adjusted EBITDA when they report their operating results.

We calculate Adjusted EBITDA as net loss before net financial expense, income tax expenses and depreciation and amortization, further adjusted to exclude share-based compensation and change in fair value of 1,006,250 Forfeiture Shares issued by the Company as part of the Business Combination that are subject to forfeiture if certain price targets for Valens' Ordinary Shares are not achieved within a certain period of time after the Closing Date or if an M&A Transaction (as defined in the merger agreement), does not occur at a certain minimum price, which may vary from period-to-period.

The following table provides a reconciliation of net loss to Adjusted EBITDA.

|                                           | Year Ended December 31, |          |          |
|-------------------------------------------|-------------------------|----------|----------|
|                                           | 2023                    | 2022     | 2021     |
|                                           | (dollars in thousands)  |          |          |
| Net loss                                  | (19,661)                | (27,667) | (26,534) |
| Adjusted to exclude the following:        |                         |          |          |
| Financial expenses (income), net          | (5,637)                 | 1,770    | (1,102)  |
| Change in fair value of Forfeiture Shares | (1,713)                 | (2,907)  | 173      |
| Income Taxes                              | 112                     | 451      | 407      |
| Equity in earnings of investee            | (18)                    | (16)     | (10)     |
| Depreciation                              | 1,632                   | 1,377    | 1,099    |
| Stock-based compensation expenses         | 15,026                  | 12,089   | 9,869    |
| Adjusted EBITDA loss                      | (10,259)                | (14,903) | (16,098) |

### ***Components of Our Results of Operations Revenues***

The vast majority of our revenues are generated from selling products, mainly semiconductor products (chips). Revenues from product sales are recognized when our customers (which include our distributors) obtain control over our product, typically upon shipment to such customer. Taxes collected from customers relating to product sales and remitted to governmental authorities are excluded from revenues.

### ***Cost of Revenues***

Our cost of revenue includes cost of materials, such as the cost of wafers, costs associated with packaging and assembly, testing costs as well as shipping cost, depreciation cost of production equipment, cost of personnel (including stock-based compensation), cost of logistics and quality assurance and other expenses associated with manufacturing support. In addition, we incur royalty payment expenses for certain third-party IP embedded in our chips, which represent between 0.5% and 2% of revenue earned, plus up to \$0.10 per chip depending on the chip.

During the shortage in the semiconductor industry in 2021 and 2022, we successfully and carefully managed our inventory levels and were able to fulfill all our customers' demand in these years. In 2023, as the global economy trends shifted, with the rise of interest rates, and as our customers were focused on carefully managing their inventory levels, we continued to carefully manage our inventories, and have effectively reduced them throughout the year.

### ***Gross Profit***

Gross profit, calculated as revenues less cost of revenues, has been, and will continue to be, affected by the following factors: balance and product mix between our audio-video products and automotive products; the mix of products with different pricing model; and the balance of direct customers versus indirect sales through distributors.

The gross margin of our audio-video products is higher than the gross margin of our automotive products. Hence, as our product mix shifts towards a higher percentage of automotive revenue, we expect to experience some erosion in our gross margin.

### ***Operating Expenses***

#### ***Research and development expenses***

Research and development expenses consist primarily of personnel costs, including salaries, bonuses, share-based compensation and employee benefits costs, allocated facilities costs, professional services, IP and development tools licenses, and depreciation. In 2023, we announced a plan to improve operational efficiency, which resulted in lower R&D expenses. Nevertheless, our long-term growth opportunities remain strong and we expect research and development expenses to increase in future periods to support our growth. This will include our continuing to invest in optimization, accuracy and reliability of our products and other technology improvements to support and drive operational efficiency. These expenses may vary from period to period as a percentage of revenue, depending primarily upon when we choose to make more significant investments.

In 2022 and 2023, most of our research and development expenses derived from the development of:

1. The MIPI A-PHY standard compliant VA7000 chipset family product which is composed of a transmitter and a receiver for various automotive high-performance, resilient applications. In 2022-2023 the Company enhanced the feature set of the VA7000, preparing it for mass production, with vast majority of the expenses for this activity incurred in 2022.

2. The new VS6320 chipset is intended for the audio-video market. It is the first highly integrated, professional grade single chip targeted for extending the full capabilities of USB3.2 Gen1 and USB2.0 over a single 100 meter/328 feet Category cable. In addition, the VS6320 embeds the necessary control signals like I2C, Universal asynchronous receiver-transmitter ("UART"), and other General-purpose input/outputs ("GPIOs"). The VS6320 is a cost and power optimized solution, making it ideal for embedding it into products designed for video conferencing, as well as the industrial and medical markets.
3. The VS3000 product family, which is intended for the audio-video market, enables faster implementation for customers triggered by its rich features and higher level of integration. The development expenses were focused on the enrichment of the product feature set, the improvement of production yield, as well as the development of the firmware required for the product.
4. A system-based solution, Valens' USB and Power Extender. Valens' USB and Power Extender integrates seamlessly with the Logitech Rally Camera, or any other Logitech USB device. Extension and connection through this product is fast and easy, requiring only a single, standard field terminated Category cable, and no nearby receiver-side AC power outlet. The product allows the freedom to place USB devices anywhere in the room and connect them over a single, standard Category cable.
5. Our next-generation audio-video chipset family, extending multiple high-speed interfaces like video, audio and USB in a single chip, including on chip PHY, which will support the growing need for high bandwidth connectivity over standard cabling and will enable our customers to build innovative products to connect between cameras and other video and audio sources with display or compute products. In 2023, we purchased IP rights for use with this next-gen product which contributed to the increase of our research and development expenses in the audio-video segment.

### ***Sales and marketing expenses***

Sales and marketing expenses consist of sales commissions, advertising costs, travel costs, overhead expenses, payroll, and other personnel related costs, including salaries, share-based compensation, and employee benefits. In the future, we expect to increase sales and marketing expenses to support the overall growth of our business.

### ***General and administrative expenses***

General and administrative expenses consist of payroll and other personnel-related costs, including salaries, share-based compensation, employee benefits and expenses for executive management insurance and other expenses. In addition, general and administrative expenses include fees for professional services and occupancy costs. The 2023 general and administrative expenses were substantially lower than our 2022 expenses, mainly due to the reduction in D&O policy's premium. While we expect our general and administrative expenses to increase to support the growth of our business, we expect some of this increase to be offset by a certain decrease in insurance and professional services expenses.

### ***Financial income (expense), net***

Financial income (expense), net, primarily consists of interest income from deposits and gains/losses from foreign exchange fluctuations. In 2023, due to rising inflation rates, we have seen an increase in our financial income.

### ***Change in fair value of Forfeiture Shares***

Reflects expenses or income related to costs attributed to the change in fair value of Forfeiture Shares. The Company classifies these Forfeiture Shares as liabilities which are presented at their fair value. This liability is subject to re-measurement at each balance sheet date until the contingency settlement, and any change in fair value is recognized in the Company's statement of operations. In 2023, there was a decrease in the fair value of the Forfeiture Shares, mainly due to a decrease in our stock price.

### ***Income taxes***

The statutory corporate tax rate in Israel is 23% for fiscal years 2023 and 2022. For the years ended December 31, 2023, and 2022, Valens operated at a loss position and therefore had no corporate tax liability other than current tax payments due to non-deductible expenses. During 2022, the Company received a final tax assessment for fiscal years 2016-2017 from the Israeli Tax Authorities.

As of December 31, 2023, Valens had a net operating loss carry forward of approximately \$116 million, compared to \$99 million as of December 31, 2022. The increase in the net operating loss carry forward is driven by changes in the currency exchange rate of New Israeli Shekel compared to U.S. Dollar (Valens is taxed in New Israeli Shekel ('NIS'), which is different from its functional currency (U.S. Dollar)), together with our assessment of the Company's 2023 tax results. As of 2024, the Company will file its tax return in U.S. Dollar.

### ***Equity in earnings of investee***

In March 2010, the Company incorporated, together with LG Electronics, Samsung Electronics and Sony Pictures Technologies Inc., the HDBaseT Licensing LLC (the “LLC”) in Oregon, USA. The Company holds a 25% stake in the LLC. The LLC’s purposes are (i) to hold, obtain, license and/or acquire rights to certain IP associated with or connected to or related to technical specifications developed by the HDBaseT Alliance, an Oregon nonprofit mutual benefit corporation (hereafter the “Alliance”), to enter into licensing arrangements for such intellectual property as required by the IP rights policy of the Alliance.

Investment in which the Company exercises significant influence, and which is not considered a subsidiary is accounted for using the equity method, whereby the Company recognizes its proportionate share of the investee’s net income or loss after the date of investment.

### **Segment reporting**

The chief operating decision maker (“CODM”) is the Company’s Chief Executive Officer, who makes resource allocation decisions and assesses performance based on financial information prepared on a consolidated basis, accompanied by disaggregated information about revenues, gross profit and operating loss by the two identified reportable segments. The Company’s business includes two operating segments, based on the two markets the Company serves:

- **Audio-video:** The Company’s wired connectivity solutions for the audio-video market deliver superior, plug-and-play convergence and distribution of different interfaces, through a single long-distance category cable. The products sold to enterprise, education, industrial, digital signage and medical markets.
- **Automotive:** Valens Automotive products enable safe and resilient high-speed in-vehicle wired connectivity for advanced car architectures, realizing the vision of connected and autonomous cars.

For the purpose of evaluating financial performance and allocating resources, the CODM reviews financial information presented on a consolidated basis accompanied by disaggregated information on revenues, gross profit and operating loss by the two identified reportable segments, to make decisions about resources to be allocated to the segments and assess their performance.

Revenues and cost of revenues are directly associated with the activities of a specific segment. Operating expenses directly, including general and administrative expenses, associated with the activities of a specific segment are charged to that segment. General and administrative expenses that cannot be attributed directly are allocated evenly between segments. Other operating expenses are allocated to segments based on a headcount ratio.

## Results of Operations

The following table provides our consolidated statements of operations for the years ended December 31, 2023, and 2022. For further discussion regarding our consolidated statements of operations for the years ended December 31, 2021, including a year-to-year comparison between 2022 and 2021, and a discussion of our liquidity and capital resources for the year ended December 31, 2021, refer to “Item 5. Operating and Financial Review and Prospectus” in our Annual Report on Form 20-F for the year ended December 31, 2022.

|                                                      | Year Ended December 31, |          | \$       | %        |
|------------------------------------------------------|-------------------------|----------|----------|----------|
|                                                      | 2023                    | 2022     | Change   | Change   |
|                                                      | (dollars in thousands)  |          |          |          |
| Revenues                                             |                         |          |          |          |
| <i>Audio-Video</i>                                   | 57,411                  | 74,540   | (17,129) | (23.0)%  |
| <i>Automotive</i>                                    | 26,750                  | 16,175   | 10,575   | 65.4%    |
| <i>Consolidated</i>                                  | 84,161                  | 90,715   | (6,554)  | (7.2)%   |
| Cost of revenues                                     |                         |          |          |          |
| <i>Audio-Video</i>                                   | (13,149)                | (16,115) | 2,966    | (18.4)%  |
| <i>Automotive</i>                                    | (18,420)                | (11,210) | (7,210)  | 64.3%    |
| <i>Consolidated</i>                                  | (31,569)                | (27,325) | (4,244)  | 15.5%    |
| Gross profit                                         |                         |          |          |          |
| <i>Audio-Video</i>                                   | 44,262                  | 58,425   | (14,163) | (24.2)%  |
| <i>Automotive</i>                                    | 8,330                   | 4,965    | 3,365    | 67.8%    |
| <i>Consolidated</i>                                  | 52,592                  | 63,390   | (10,798) | (17.0)%  |
| Operating expenses                                   |                         |          |          |          |
| Research and development expenses:                   |                         |          |          |          |
| <i>Audio-Video</i>                                   | (25,620)                | (20,901) | (4,719)  | 22.6%    |
| <i>Automotive</i>                                    | (22,551)                | (37,306) | 14,755   | (39.6)%  |
| <i>Consolidated</i>                                  | (48,171)                | (58,207) | 10,036   | (17.2)%  |
| Sales and marketing expenses                         |                         |          |          |          |
| <i>Audio-Video</i>                                   | (7,410)                 | (7,290)  | 120      | 1.6%     |
| <i>Automotive</i>                                    | (9,904)                 | (9,669)  | (235)    | 2.4%     |
| <i>Consolidated</i>                                  | (17,314)                | (16,959) | (355)    | 2.1%     |
| General and administrative expenses:                 |                         |          |          |          |
| <i>Audio-Video</i>                                   | (7,062)                 | (8,259)  | 1,197    | (14.5)%  |
| <i>Automotive</i>                                    | (6,962)                 | (8,334)  | 1,372    | (16.5)%  |
| <i>Consolidated</i>                                  | (14,024)                | (16,593) | 2,569    | (15.5)%  |
| Total operating expenses                             | (79,509)                | (91,759) | (12,250) | (13.4)%  |
| Operating income (loss) before financial income, net |                         |          |          |          |
| <i>Audio-Video</i>                                   | 4,170                   | 21,975   | (17,805) | (81.0)%  |
| <i>Automotive</i>                                    | (31,087)                | (50,344) | 19,257   | (38.3)%  |
| <i>Consolidated</i>                                  | (26,917)                | (28,369) | 1,452    | (5.1)%   |
| Change in fair value of Forfeiture Shares            | 1,713                   | 2,907    | (1,194)  | (41.1)%  |
| Financial income (expenses), net                     | 5,637                   | (1,770)  | 7,407    | (418.5)% |
| Loss before income taxes                             | (19,567)                | (27,232) | 7,665    | (28.1)%  |
| Income taxes                                         | (112)                   | (451)    | 339      | (75.2)%  |
| Loss after income taxes                              | (19,679)                | (27,683) | 8,004    | (28.9)%  |
| Equity in earnings of investee                       | 18                      | 16       | 2        | 12.5%    |
| Net loss                                             | (19,661)                | (27,667) | 8,006    | (28.9)%  |

## Revenues

Revenues decreased by \$6.6 million, or 7.2%, for the year ended December 31, 2023, compared to the year ended December 31, 2022. This reduction is driven by a decrease in demand for our audio-video products due to customers' high inventory levels and slow inventory digestion in 2023.

Audio-video revenues decreased by \$17.1 million, or 23.0%, for the year ended December 31, 2023, compared to the year ended December 31, 2022. The decrease was primarily driven by the decrease in units sold to our Audio-video customers.

Automotive revenues increased by \$10.6 million, or 65.4%, for the year ended December 31, 2023, compared to the year ended December 31, 2022. The increase was primarily driven by the increase of units sold to our automotive customers for the Mercedes-Benz project with the expansion of our solution into additional car models, including EV.

## Cost of revenues

Cost of revenues increased by \$4.2 million, or 15.5%, for the year ended December 31, 2023, compared to the year ended December 31, 2022. The increased cost includes inventory write-offs in the amount of \$1.1 million, however, was primarily due to higher portion of automotive chipsets sold during 2023.

Audio-video cost of revenues decreased by \$3.0 million, or 18.4%, for the year ended December 31, 2023, compared to the year ended December 31, 2022. The decrease was primarily driven by the decrease in units sold to our Audio-video customers. At the same time, the Automotive cost of revenues increased by \$7.2 million, or 64.3%, for the year ended December 31, 2023, compared to the year ended December 31, 2022, due to the increase in units sold to our automotive customers for the Mercedes-Benz project, with the expansion of our solution into additional car models, including EV.

## Gross profit and gross margin

Gross profit was \$52.6 million, or 62.5% of revenues, for the year ended December 31, 2023, compared to \$63.4 million, or 69.9% of revenues, for the year ended December 31, 2022. The change in gross profit mainly resulted from the decrease in product volume shipment; and the increase in the portion of the automotive revenue, compared to the audio-video segment which incurs higher gross margins (automotive contributed 31.8% and 17.8% of the total 2023 and 2022 revenues, respectively, and 15.8% and 7.8% of the 2023 and 2022 gross margin, respectively).

Gross profit for audio-video was \$44.3 million, or 77.1% of audio-video revenues, for the year ended December 31, 2023, compared to \$58.4 million, or 78.4% of audio-video revenues, for the year ended December 31, 2022.

Gross profit for automotive was \$8.3 million, or 31.1% of automotive revenues, for the year ended December 31, 2023, up from a gross profit of \$5.0 million, or 30.7% of automotive revenues, for the year ended December 31, 2022. The slight increase in gross profit in the automotive segment was due to the increase in our 2023 automotive volumes, compared to 2022, which contributed to the improved production yield, and which have increased the profitability rate per chipset; and in 2023, the fixed costs of production remained relatively stable, and coupled with the higher revenues, the gross margin of the automotive segment increased.

## Operating expenses

### Research and development expenses

Research and development expenses decreased by \$10.0 million, or 17.2%, for the year ended December 31, 2023, compared to the year ended December 31, 2022. While Audio-Video research and development expenses increased by \$4.7 million, or 22.6%, Automotive research and development expenses decreased by \$14.8 million, or 39.6%, for the year ended December 31, 2023, compared to the year ended December 31, 2022. These results are mainly driven by a shift of the workload between the segments, as well as the IP and tape-out expenses attributed to products from each segment, coupled with a reduction in our payroll expenses as a result of implementing an efficiency plan in 2023, as more fully detailed below:

1. Decrease in payroll expenses – In June 2023, we announced the implementation of a plan to improve efficiency by reduction in force, which was fully implemented by the end of the third quarter. In addition, payroll expenses decreased due to the revaluation of the U.S. dollar compared to the New Israeli Shekel (NIS), which is the currency used to pay our engineering staff in Israel. During 2023 the revaluation of the U.S. dollar to the NIS was 6.4%. As a consequence, payroll and payroll related expenses decreased by an overall amount of \$6.1 million.
2. In 2023 and 2022, we invested in the development of the VA7000 chipset family, to provide a richer feature set and enhanced performance, in line with our plan for the VA7000 to be ready for mass production (this included an expense of \$4.2 million for product-manufacturing mask-sets). The majority of these expenses were incurred in 2022.
3. In 2023, we invested in the development of our next generation audio-video solution, which included an expense of \$3.1 million in IP rights purchasing.

### ***Sales and marketing expenses***

Sales and marketing expenses increased by \$0.4 million, or 2.1%, for the year ended December 31, 2023, compared to the year ended December 31, 2022.

Sales and marketing expenses for audio-video increased by \$0.1 million, or 1.6%, for the year ended December 31, 2023, compared to the year ended December 31, 2022. Sales and marketing expenses for automotive increased by \$0.2 million, or 2.4%, for the year ended December 31, 2023, compared to the year ended December 31, 2022.

The increase in sales and marketing expenses in 2023, was primarily due to an increase in expenses related to participation in tradeshow and exhibitions following the reduction of these expenses in 2022, following the pandemic, when the Company was forced to reduce attendance in in-person conferences, which were replaced by virtual marketing activities.

### ***General and administrative expenses***

General and administrative expenses decreased by \$2.6 million for the year ended December 31, 2023, compared to the year ended December 31, 2022, reflecting a decrease of 15.5%.

General and administrative expenses for audio-video decreased by \$1.2 million, or 14.5% and General and administrative expenses for automotive decreased by \$1.4 million, or 16.5%, respectively for the year ended December 31, 2023, compared to the year ended December 31, 2022.

The Directors and Officers ("D&O") insurance premium in 2023 and 2022 totaled \$1.5 million and \$3.7 million respectively, reflecting the fact that the Company renewed its D&O insurance at a significantly reduced premium.

In addition, a decrease of \$0.3 million in payroll expenses was due to the revaluation of the U.S. dollar compared to the NIS.

### ***Financial income (expense), net***

Finance income for the year ended December 31, 2023, was \$5.6 million compared to finance expenses of \$1.8 million for the year ended December 31, 2022, reflecting an increase of \$7.4 million, or 418.5%, for the year ended December 31, 2023, compared to the year ended December 31, 2022. The net increase was primarily driven by the following reasons:

- The currency of the primary economic environment in which we conduct our operations is the U.S. Dollar. Accordingly, the Company uses the U.S. Dollar as its functional and reporting currency. Foreign currency assets and liabilities are remeasured into U.S. Dollars, at the end-of-period exchange rates, except for non-monetary assets and liabilities, which are remeasured at historical exchange rates. Expenses in foreign currency (mainly payroll to Israeli employees and overhead expenses of the Israeli office), are remeasured at the exchange rate in effect during the period the transaction occurred, except for those expenses related to balance sheet amounts, which are remeasured at historical exchange rates. The impact of the devaluation of the NIS compared to the U.S. dollar. In 2023 the Company booked a financial expense of \$1.1 million, compared to expense of \$4.4 million in 2022 related to foreign currency exchange differences.
- During 2023 interest rates applied to U.S. dollar and the NIS deposits, increased significantly. Considering our cash position, we benefited from these interest rate changes. Our interest income in 2023 and 2022 amounted to \$6.7 million and \$2.3 million, respectively.

### ***Loss before income taxes***

Loss before income taxes decreased by \$7.7 million, or 28.1%, for the year ended December 31, 2023, compared to the year ended December 31, 2022. The decrease in loss was primarily driven by the following factors:

- the decrease of \$10.8 million in gross profit;
- the decrease of the total operating expenses by \$12.2 million from 2022 to 2023;
- the decrease of \$1.2 million related to the change of the fair value of Forfeiture Shares; and
- the increase of \$7.4 million in financial income (expenses).

### ***Income taxes***

Income taxes decreased by \$0.3 thousand, or 75.2%, for the year ended December 31, 2023, compared to the year ended December 31, 2022. The decrease was primarily driven by taxes recorded in 2022, that were related to the conclusion of tax assessments for the years 2016 and 2017.

### **B. Liquidity and Capital Resources**

As of December 31, 2023, we reported an accumulated shareholders' equity in the amount of \$164.3 million, compared to \$167.4 million on December 31, 2022.

The decrease in shareholders' equity during 2023 is mainly driven by the net loss in the amount of \$19.7 million, offset by an increase of the additional paid-in capital, due to stock-based compensation expenses of \$15.0 million; and the exercise of stock options by grantees in the amount of \$1.5 million.

Our primary cash needs are for working capital, contractual obligations, and other commitments. During the years 2023 and 2022, the net cash outflows from our operating activities totaled at \$ 6.4 million and \$22.1 million, respectively.

Our working capital balance as of December 31, 2023, and December 31, 2022, were \$158.8 million and \$163.7 million respectively, of which our cash, cash equivalents and short-term deposits balance as of December 31, 2023, and December 31, 2022, were \$142.0 million and \$148.4 million, respectively. The cash balances are deposited mainly in major Israeli financially sound institutions.

As part of our growth strategy, we have made and expect to continue to make significant investments in research and development and in our technology platform. We also consider potential future acquisitions. Depending on the magnitude and timing of our growth investments and the potential size and structure of any future acquisitions, we may decide to supplement our available cash from operations with the issuance of additional equity or debt securities and/or secure other loans, which could be material.

We believe the cash, cash equivalents and short-term deposits as of December 31, 2023, which totaled at \$142.0 million are sufficient to support the working capital needs of the Company for at least the 12-month period from the date of this report.

Our future capital requirements and the adequacy of available funds will depend on many factors, including those set forth under "Risk Factors."

## Cash Flows

The following table summarizes our cash flows for the periods indicated:

|                                                              | Year Ended<br>December 31, |          |
|--------------------------------------------------------------|----------------------------|----------|
|                                                              | 2023                       | 2022     |
|                                                              | (dollars in thousands)     |          |
| Cash Flow Data:                                              |                            |          |
| Net cash used in operating activities                        | (6,359)                    | (22,095) |
| Net cash provided by (used in) investing activities          | 1,352                      | (11,729) |
| Net cash provided by financing activities                    | 1,498                      | 822      |
| Effect of exchange rate changed on cash and cash equivalents | 746                        | (3,765)  |
| Net decrease in cash and cash equivalents                    | (2,763)                    | (36,767) |

### Operating Activities

During the year ended December 31, 2023, the net cash used in operating activities was \$6.4 million, primarily resulting from a net loss of \$19.7 million, offset by adjustments to reconcile net loss to net cash used in operating activities, in the amount of \$13.3 million (which includes mainly a decrease in inventories and non-cash expenses of depreciation, stock-based compensation). The inventory balance, as of December 31, 2023, totaled to \$13.8 million, compared to \$23.8 million, as of December 31, 2022.

### Investing Activities

During the year ended December 31, 2023, net cash provided by investing activities was \$1.4 million, consisting of \$2.6 million, net, generated from short term deposits and an additional amount of \$1.2 million used for purchases of property and equipment.

During the year ended December 31, 2022, net cash used in investing activities was \$11.7 million, consisting of \$10.6 million, net, invested in short term deposits and an additional amount of \$1.1 million used for purchases of property and equipment.

### Financing Activities

During the year ended December 31, 2023, net cash provided by financing activities was \$1.5 million, due to proceeds received from stock options exercised by grantees.

During the year ended December 31, 2022, net cash provided by financing activities was \$0.8 million, due to proceeds received from stock options exercised by grantees.

### Contractual Obligations

The following table discloses aggregate information about material contractual obligations and the periods in which they are due, as of December 31, 2023. Future events could cause actual payments to differ from these estimates (figures in the table are dollars in thousands).

|                                                                | 2024            | 2025            | 2026          | Thereafter  |
|----------------------------------------------------------------|-----------------|-----------------|---------------|-------------|
| Operating Leases                                               | \$ 417          | \$ 133          | \$ 14         | \$ -        |
| Non-cancellable purchase obligations:                          |                 |                 |               |             |
| To supply chain vendors                                        | \$ 4,951        | \$ -            | \$ -          | \$ -        |
| To intellectual property vendors (including development tools) | \$ 3,148        | \$ 2,221        | \$ 144        | \$ -        |
| <b>Total contractual obligations</b>                           | <b>\$ 8,516</b> | <b>\$ 2,354</b> | <b>\$ 158</b> | <b>\$ -</b> |

The commitment amounts in the table above are associated with contracts and/or outstanding purchase orders to certain vendors of the Company that are enforceable and legally binding and that specify all significant terms, including fixed or minimum services to be used, fixed, minimum, or variable price provisions, and the approximate timing of the actions under such contracts. The table does not include obligations under purchase orders that we can cancel without a significant penalty or royalty payments based on sales volumes.

The table above further does not include future rental payments of future extension periods of \$1,349 thousand and \$42 thousand for the years ended on December 31, 2024, and 2025.

### **Off-Balance Sheet Arrangements**

During the periods presented, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K, such as the use of unconsolidated subsidiaries, structured finance, special purpose entities or variable interest entities.

### **C. Research and Development, Patents and Licenses, etc.**

See “Item 4. Information on the Company – B. Business overview” and “Item 5. Operating and financial review and prospects –A. Operating results – results of operations.”

### **D. Trend Information**

See “Item 5. Operating and financial review and prospects – A. Operating results.”

### **E. Critical Accounting Policies and Estimates**

Our discussion and analysis of the financial condition results of operations are based upon our consolidated financial statements included elsewhere in this Annual Report. The preparation of our consolidated financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. We base our estimates on past experience and other assumptions that we believe are reasonable under the circumstances, and we evaluate these estimates on an ongoing basis. Actual results may differ from those estimates.

Our critical accounting policies are those that materially affect our consolidated financial statements and involve difficult, subjective or complex judgments by management. A thorough understanding of these critical accounting policies is essential when reviewing our consolidated financial statements. We believe that the critical accounting policies listed below involve the most difficult management decisions because they require the use of significant estimates and assumptions as described above.

In prior year periods, there were no material differences between management’s estimates and actual results, reflecting management’s long-term experience in leading semiconductor operations and in accurately estimating the Company’s performance.

See Note 2 to our audited consolidated financial statements included elsewhere in this Annual Report for more information.

### ***Revenue Recognition***

We apply ASC 606, “Revenue from Contracts with Customers” (“ASC 606”). Under ASC 606, we recognize revenue when a customer obtains control of promised goods or services, in an amount that reflects the consideration that we expect to receive in exchange for those goods or services. To determine revenue recognition for arrangements that we determine are within the scope of ASC 606, we perform the following five steps:

- (i) Identify the contract(s) with a customer;
- (ii) Identify the performance obligations in the contract;
- (iii) Determine the transaction price;
- (iv) Allocate the transaction price to the performance obligations in the contract;
- (v) Recognize revenue when (or as) the performance obligation is satisfied.

We use the following practical expedients that are permitted under the rules:

- We recognize the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets that we otherwise would have recognized is one year or less. These costs are included in sales and marketing expenses.
- When a contract with a customer includes a material right to acquire future goods or services that are similar to the original goods or services in the contract and are provided in accordance with the terms of the original contract, we allocate the transaction price to the optional goods or services by reference to the goods or services expected to be provided and the corresponding expected consideration.
- We apply the practical expedient of allowing us to disregard the effects of a financing component if the period between when we transfer the promised services to the customer and when the customer pays for the services will be one year or less.

We generate revenues from selling products, mainly semiconductor products (or “chips”). Revenues from product sales are recognized when the customer (which includes distributors) obtains control over our product, typically upon shipment to the customer. Taxes collected from our customers relating to product sales and remitted to governmental authorities are excluded from revenues.

We do not grant a right of return, refund, cancelation or termination. From time to time, to incentivize certain distributors to increase demand, we provide them with the right to free or discounted products in future periods that provides a right to the customer subject to meeting pre-defined volume conditions. In recognizing the revenue from the sale to such distributors, prior to the actual meeting of such volume conditions, the Company recognizes only the portion of the revenue that is certain, assuming that such conditions have been met in full. The Company recognizes the full revenue in such engagements upon the earlier of: (i) the transfer of the entire volume, including the free or discounted products and (ii) the right expires without exercise by the distributor. As of December 31, 2023, and December 31, 2022, the deferred revenues for such rights were \$0 thousand and \$0 thousand, respectively.

We generally provide our customers a limited warranty assurance that the sold products are in compliance with the applicable specifications at the time of delivery. Under our standard terms and conditions of sale, liability for certain failures of product during the stated warranty periods are usually limited to repair or replacement of defective items.

### **Stock-Based Compensation**

We account for stock-based compensation in accordance with ASC718-10. Under ASC718-10, stock-based awards, including stock options and restricted stock units (“RSU”), are recorded at fair value as of the grant date and recognized to expense over the employee’s, directors, and consultants’ requisite service period (generally the vesting period) which we have elected to amortize on a straight-line basis. ASC718-10 also requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. We use historical data as well as trends in the employment market to estimate pre-vesting option forfeitures.

We use the Black-Scholes option-pricing model to determine the fair value of stock options using the following assumptions:

|                                                                | Year Ended December 31, |             |
|----------------------------------------------------------------|-------------------------|-------------|
|                                                                | 2023                    | 2022        |
| Volatility                                                     | 48.4%-63.8%             | 46.7%-47.7% |
| Risk-free interest                                             | 3.62%-4.21%             | 1.31%-3.00% |
| Dividend yield                                                 | 0%                      | 0%          |
| Expected Term (in years)                                       | 4-5                     | 4-6         |
| Portion of Forfeited Options (based on management estimations) | 3.5%                    | 3.5%-4.5%   |

*Fair Value of Valens Ordinary Shares.*

Prior to September 30, 2021 (the listing day): As Valens ordinary shares have not been publicly traded, the fair value of Valens' ordinary shares underlying our equity awards was determined by our board of directors, with input from management, which was assisted by third-party valuation specialists. The valuations of our ordinary shares were determined in accordance with the guidelines outlined in the American Institute of Certified Public Accountants Practice Aid, Valuation of Privately-Held-Company Equity Securities Issued as Compensation (the "Guidelines").

The assumptions we used in the valuation models include, inter alia, the following factors:

- the prices, rights, preferences, and privileges of our preferred shares relative to our ordinary share;
- our operating and financial performance;
- current business conditions and projections;
- the likelihood of achieving a liquidity event, such as an initial public offering or sale of our company, including the timing of such events, given prevailing market conditions;
- any adjustment necessary to recognize a lack of marketability of Valens' Ordinary Shares underlying the granted options; and
- the market performance of comparable publicly traded companies.

In valuing Valens ordinary shares, absent an arm's-length current/recent round of financing, the fair value of our business, or equity value, was determined using both the income approach and an Initial Public Offering (IPO) scenario. The income approach estimates value based on the expectation of future cash flows that the company will generate, together with the Company's estimates with respect to the required capital expenses (CAPEX). These future cash flows were discounted to their present values using a discount rate (weighted average cost of capital ("WACC")) based on the capital rates of return for comparable publicly traded companies and was adjusted to reflect the risks inherent in the Company's cash flows relative to those inherent in the companies utilized in the discount rate calculation. The IPO scenario estimated value based on a comparison of the Company to comparable public companies in a similar line of business. If the Company had made different assumptions than those used with these two approaches, then the valuation of the Company's Ordinary Shares could have been different, therefore, its share-based compensation expense, net loss and net loss per ordinary share could vary. For example, the Company attributed a higher probability for then on-IPO scenario, based on the management's assessment as of the valuation date. In addition, the Company's management assumed different discount rates due to lack of marketability in both scenarios.

Company's valuations were prepared in accordance with the Guidelines, which prescribe several valuation approaches for setting the value of an enterprise, such as the cost, income and IPO scenario, and various methodologies for allocating the value of an enterprise to the Company's ordinary shares. The option pricing method (OPM), which treats Company's security classes as call options on total equity value and allocated its equity value across its security classes based on the rights and preferences of the securities within the capital structure under an assumed liquidation event. The OPM method was used when the range of possible future outcomes was difficult to predict, and forecasts were highly speculative. The Company believed this method was applicable given the expectation of various potential liquidity outcomes and the difficulty of selecting appropriate enterprise values given no public market for Company's shares. Beginning on January 1, 2020, for options granted as of such date, the Company utilized a hybrid model of two scenarios: (1) the OPM that was based on a Discount Cash Flow method (DCF); and (2) Probability Weighted Expected Return Method ("PWERM").

DCF: The DCF method relied on the premise that the value of an investment is equal to the present value of the income that it can expect to generate going forward. From an investor's standpoint, these future income streams represent the dividend paying (i.e., distribution-paying) capacity of the company, or in the case of a leveraged company, monies available for all invested capital (i.e., interest -bearing debt plus owner's capital).

PWERM: Considered the management's expectations regarding a future IPO event and the likelihood of such event to occur by December 31, 2021, in light of the progress in discussions in connection with PTK for potential business combination transaction. Then, an incremental lack of marketability discount (different than the one used in the OPM method) was applied to the value of the Company's Ordinary Shares to arrive at the fair value per ordinary share under each method.

**After September 30, 2021:** After completion of the Business Combination, Valens' ordinary shares and warrants are now publicly traded. We calculate the fair market value of granted stock options based on a Black-Scholes valuation method, at an exercise price per share equal to the average stock market price of the 30-trading day period preceding the date of the grant.

*Risk-Free Interest Rate.* The risk-free interest rate for the expected term of the options is based on the Black-Scholes option-pricing model on the yields of U.S. Treasury securities with maturities appropriate for the expected term of employee share option awards.

*Expected Term.* The expected term is calculated using the simplified method, as we have concluded that our historical share option exercise experience does not provide a reasonable basis to estimate the expected option term.

*Expected Volatility.* We estimate the volatility of our ordinary shares by using the volatility rates of our peer companies.

*Expected Dividend Yield.* We do not anticipate paying any cash dividends in the foreseeable future and therefore use an expected dividend yield of zero in our option-pricing models.

## **Restricted Share Units ("RSU")**

We recognize compensation expense for time-based RSUs using the straight-line amortization method based on the fair value of RSUs on the date of grant. The fair value of RSUs is the closing market price of Valens ordinary shares on the date of grant.

## **Fair Value of Financial Instruments and Forfeiture Shares**

The FASB ASC Topic 820, Fair Value Measurements and Disclosures ("Topic 820"), establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under Topic 820 are described below:

**Level 1**—Quoted prices in active markets for identical assets or liabilities.

**Level 2**—Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

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

The Company's financial instruments consist of cash, cash equivalents, short-term bank deposits, trade accounts receivable and trade accounts payable and Forfeiture Shares liabilities. Other than the Forfeiture Shares liability (see below), the recorded amounts approximate their respective fair value because of the liquidity and short period of time to maturity, receipt or payment of these instruments.

The Company's financial instrument which is considered as a Level 3 measurement is the warrants liability and the Forfeiture Shares. The Guidelines that served as a basis for the Ordinary Shares valuation and the Company share price, as a public company, were used for determining the liability attributed to the Forfeiture Shares that were valued using the Monte Carlo method. If the Company had made different assumptions than those used in preparing these valuations then the Forfeiture Shares liability could have been different, therefore, the Company's financial expenses, net loss and net loss per ordinary share could vary.

### ***Inventories***

Inventories are comprised of finished goods as well as work in process that is planned to be sold to our customers and is presented at the lower of cost or net realizable value, based on the "first-in, first-out" basis. Most inventories are stored at the last production sites and are distributed from these locations. Inventories are reduced for write-downs based on periodic reviews for evidence of slow-moving or obsolete parts.

The determination of the valuation of our inventories involve consideration by the management of the Company with respect to:

- (1) quantities of finished goods and work in process required for the fulfillment of customers' demand.
- (2) the date of manufacturing of the inventories ("date code") and the Company's ability to sell such inventories prior to their expiry date, as well as their applicable net realizable value. In 2023 the inventory write-down totaled to \$1.1 million (representing 3.5% of the cost of revenues), and in 2022 inventory write-down totaled to \$23 thousands (representing 0.1% of the cost of revenues).
- (3) potential schedule delays by customers may affect inventories valuation.
- (4) the need to increase inventories as experienced for example in 2022, due to the shortage in the global semiconductor market, as well as the increase of lead time from the supply chain, together with the need to maintain sufficient inventory levels to ensure competitive performance, as we experienced then and may experience again in the future, are balanced against the risk of inventory obsolescence due to rapidly changing technology and customer requirements.

### ***Recent Accounting Pronouncements***

See the section titled "Summary of Significant Accounting Policies" in note 2 of the notes to our consolidated financial statements as of December 31, 2023.

### ***Quantitative and Qualitative Disclosures about Market Risk***

Market risk represents the risk of loss that may impact our financial position because of adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of exposure resulting from potential changes in inflation, exchange rates or interest rates. We do not hold financial instruments for trading purposes.

#### **Foreign Currency Exchange Risk**

The U.S. dollar is our functional currency. All our revenues were denominated in U.S. dollars for the years ended December 31, 2023, and 2022, however certain operating expenses were denominated in the New Israeli Shekel (NIS), mainly payroll to the team that works in the Company headquarters in Israel.

Future increases or decreases of the NIS, which is the main non-U.S. dollar currency that is primarily used to pay the Israeli payroll, as well as some of the overhead expenses in Israel (e.g., office leases and municipal taxes), against the U.S. dollar may have significant impact on the Consolidated Statements of Income (loss).

#### **Interest Rate Risk**

Interest rate risk is the risk that the value or yield of fixed-income investments may decline if interest rates change. Fluctuations in interest rates may impact the level of interest expense recorded on future borrowings, as well as interest income from short-term deposits. We do not enter into derivative financial instruments, including interest rate swaps, for hedging or speculative purposes.

#### **Credit Risk**

Credit risk with respect to accounts receivable is generally not significant, as we routinely assess the credit worthiness of our partners and customers. We have not experienced any losses related to receivables from customers during the years ended December 31, 2023, and 2022. We do ask our customers to provide us with any collateral against their account receivable. Due to these factors, no additional credit risk is believed by management to be probable in our accounts receivable as of December 31, 2023.

As of December 31, 2023, we maintained, in banks, primarily in the United States and Israel, cash balances and other short term, highly liquid investments with original maturities of less than one year at the time of purchase.

In the United States, our funds are maintained with a commercial bank, which is insured by the U.S. Federal Deposit Insurance Corporation, or FDIC (currently up to a maximum of \$250,000). In Israel, commercial banks do not have government-sponsored deposit insurance. At various times, we have deposits in excess of the maximum amounts insured by the FDIC. Historically we have not experienced losses related to these balances and believe our credit risk in this area is minimal.

### ***Emerging Growth Company Status***

We are an emerging growth company, as defined in the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”). Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. We have elected to use this extended transition period for complying with new or revised accounting standards that have different effective dates for public and private companies until the earlier of the date that it is no longer an emerging growth company or (ii) affirmatively and irrevocably opt out of the extended transition period provided in the JOBS Act. As a result, our financial statements may not be comparable to companies that comply with the new or revised accounting pronouncements as of public company effective dates.

## **ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

### **A. DIRECTORS AND SENIOR MANAGEMENT**

The following persons serve as Valens’ executive officers and directors. Biographies of the executive officers and directors are also included below.

| <b>Name</b>               | <b>Age</b> | <b>Position</b>                      |
|---------------------------|------------|--------------------------------------|
| <i>Executive Officers</i> |            |                                      |
| Gideon Ben Zvi            | 63         | Chief Executive Officer and Director |
| Guy Nathanzon             | 51         | Chief Financial Officer              |
| Amir Boim                 | 48         | SVP, Operations and PMO              |
| Gideon Kedem              | 64         | SVP, Head of Automotive Business     |
| David Chairman            | 54         | SVP, R&D                             |
| <i>Directors</i>          |            |                                      |
| Peter Mertens             | 63         | Chairman of the Board                |
| Yahal Zilka               | 65         | Director                             |
| Dr. Eyal Kishon           | 63         | Director                             |
| Dror Jerushalmi           | 63         | Director                             |
| Moshe Lichtman            | 66         | Director                             |
| Michael Linse             | 49         | Director                             |
| Peter Kuo                 | 52         | Director                             |
| Adi Toledano Yarel        | 49         | Director                             |

### **Executive Officers**

*Gideon Ben Zvi* has served as the Chief Executive Officer of Valens since 2020 and had served as a member of the board of directors of Valens since 2011. Mr. Ben Zvi brings more than 30 years of experience as a serial entrepreneur. Prior to Valens, Mr. Ben Zvi founded and led four companies as CEO or Chairman, achieving three exit events: Ligature through M&A, Wizcom’s IPO and BriefCam’s acquisition by Canon. From 2007 to 2020, Mr. Ben Zvi served as a venture partner at Aviv Venture Capital. In addition, Mr. Ben Zvi served as Chairman of the board of directors of Cellium and co-founded Aristagora VC. Mr. Ben Zvi also serves as a board member at Bezalel Academy of Arts and Design in Jerusalem and served as a board member and chair of committees at Jerusalem Transport Master Plan Team (JTMT). Mr. Ben Zvi holds a BSc in Computer Science and Math from Hebrew University Jerusalem (HUJI) and an MBA from HUJI.

*Guy Nathanzon* joined Valens in 2024 as its Chief Financial Officer, and as such is responsible for Valens' finance, accounting, and strategic financial planning. Mr. Nathanzon has a vast experience across a variety of technology companies, including nearly 13 years in the semiconductor industry, over five years in medical device industry and three years in aerospace and defense industry. Before joining Valens, Mr. Nathanzon was the CFO at Scpio Labs Ltd a medical imaging and deep learning AI company, COO of Syqe Medical Ltd, a -med-tech company, CFO of TAT Technologies (NASDAQ:TATT), publicly traded company in the aerospace and defense industry, CFO of Altair Semiconductor Ltd, fabless semiconductor company in the communication industry and CFO of Provigent Inc, fabless semiconductor company in the wireless infrastructure industry that was acquired by Broadcom. Mr. Nathanzon is a Certified Public Accountant and holds an MBA and a B.A in Accounting and Economics and in Law Studies (L.L.B), all from Tel-Aviv University.

*Amir Boim* joined Valens in 2016. Amir is SVP Operations and manages the Operations of Valens since 2020. In this capacity, Mr. Boim is responsible for the mass production of Valens' products, supply chain management, production testing and overall company and silicon device quality. Mr. Boim holds a B.Sc. (Summa Cum Laude) in Electrical Engineering from the Technion and an MBA from the Tel-Aviv University.

*Gideon Kedem* has led Valens' Automotive Business team since 2020. Mr. Kedem brings over 30 years of experience in the Semiconductor and EDA industry, serving in leading companies like Intel, Cadence and Xilinx. Prior to joining Valens in 2020, Mr. Kedem managed sales and business development at Xilinx activities across EMEA, Israel and India, with revenue responsibilities exceeding \$200M. Mr. Kedem holds a B.Sc. in Electrical Engineering and an MBA, both from Tel Aviv University.

*David Chairman* joined Valens in 2016 and manages the R&D of Valens since 2021. In this capacity Mr. Chairman is responsible for the development of Valens' products. Mr. Chairman brings over 28 years of experience in the Semiconductor and System development, serving in leading companies like Motorola Semiconductor, Cisco-System, and few start-ups. Mr. Chairman holds a B.Sc. and M.Sc. in Physics, both from Tel Aviv University.

## **Directors**

*Peter Mertens* has served as the Chairperson of Valens' Board of Directors since 2020. Mr. Mertens brings more than 35 years of experience in the automotive industry, having held senior positions with major OEMs, including CTO at Volvo Cars for six years, General Motors Global Line Executive for eight years, various management positions at Mercedes-Benz, and member of the Board of Management of Audi AG, responsible for Technical Development and Design. Mr. Mertens also served as member of the Board of Directors of several companies, such as Polestar SE, Zenuety SE, Audi Sport GmbH, Audi China, Volkswagen Financial Service, Recogni Inc. and Faurecia. Mr. Mertens is the founding Chairman of AID/Argo AI Europe. Mr. Mertens serves as the chairman of the board of Aurora Labs and is a member of the board of directors of proteanTecs and V-HOLA. Mr. Mertens was a Fulbright scholar at Virginia Polytechnic Institute, USA. He holds a Master of Science in Industrial Engineering and Operations Research and a PhD in Production Engineering and Industrial Engineering from the University of Kaiserslautern where he served as a Member of the staff. Mr. Mertens is a valuable member of Valens' Board of Directors because of his extensive experience in the automotive industry and his prior track record as a senior executive and director.

*Yahal Zilka* has served as a member of the board of directors of Valens since 2007. Mr. Zilka is a co-founder of 10D and serves as a co-Managing Partner, since 2019, and also a co-founder of Magma Venture Partners ("Magma") and since 1999, served as co-Managing Partner of Magma. Prior to co-founding Magma Venture Partners, Mr. Zilka served as CFO of VocalTec Communications and led it from seed to its public offering on NASDAQ. Mr. Zilka brings many years of experience as an entrepreneur, mentor and executive with strong financial, operational, and hands-on management experience, as well as strategic relationships with industry leaders. Mr. Zilka currently serves as Director on the boards of Gloat, Exodigo, Obligo, ScyllaDB, DayTwo, StuffThatWorks, Pente Networks, MyZorro. Previously, Mr. Zilka was on the boards of Waze (acquired by Google, NASDAQ: GOOG), Onavo (acquired by Facebook, NASDAQ:FB), DesignArt Networks (acquired by Qualcomm, NASDAQ: QCOM) and Phonetic Systems (acquired by Nuance, NASDAQ: NUAN), Argus (acquired by Continental), Applitools (acquired by Thoma Bravo in 2021), Sightera-Magisto (acquired by Vimeo, NASDAQ: VMEO) and Optimal Plus (acquired by National Instruments, NASDAQ: NATI). Mr. Zilka is a valuable member of Valens' Board of Directors because of his extensive experience in venture capital and his prior track record as a director.

*Dr. Eyal Kishon* has served as a member of the board of Valens since 2007 and in addition, Dr. Kishon serves as a director on the board of directors of Riskified (NYSE: RSKD). From 1996, Dr. Kishon has been the Founding & Managing Partner of Genesis Partners, an Israeli-based venture capital fund. Prior to that Dr. Kishon served as a Research Fellow in the Multimedia Department of IBM Science & Technology and in the Robotics Research Department of AT&T Bell Laboratories. Dr. Kishon served as a director at AudioCodes (Nasdaq AUDC) and at Allot Communications (Nasdaq ALLT). In addition, he serves on various private companies including JoyTunes, Worthy and Addionics. Dr. Kishon holds a B.A. in Computer Science from the Technion—Israel Institute of Technology and a M.Sc. and Ph.D. in Computer Science from the Courant Institute of Mathematical Sciences at NYU. Mr. Kishon is a valuable member of Valens' Board of Directors because of his extensive experience in venture capital, technical background and his prior track record as a director.

*Dror Jerushalmi* co-founded and led Valens as its CEO for over 13 years, led its rounds of funding, and the adoption of Valens' HDBaseT technology as a standard for connectivity in the audio-video and automotive markets. In parallel to his employment in Valens, Mr. Jerushalmi serves as the CEO of Cellium. Mr. Jerushalmi earned his Bachelor's and his Masters, Cum Laude in Electrical and Computer Engineering from Ben-Gurion University, as well as his MBA from Heriot-Watt University, Israel branch. Mr. Jerushalmi is a valuable member of Valens' Board of Directors because of his extensive experience as a co-founder and his prior track record as a senior executive and director.

*Moshe Lichtman* has served as a member of the Board of Valens since 2017. Mr. Lichtman brings close to 40 years of product and leadership experience and 25 years of investment experience in the global high-tech industry. Mr. Lichtman is co-founder and general partner of IGP Capital and serves on the boards of its portfolio companies as well as boards of several other tech companies. Prior to that Mr. Lichtman was Corporate VP at Microsoft where he led several global consumer and enterprise businesses. As head of MSN's international business in the late 90's, Mr. Lichtman was responsible for quadrupling the business to become the #1 network in Europe, Canada, Australia and many other international markets. Under his leadership in the early 2000's, Microsoft's TV business became the leading provider of IPTV platforms to telecom operators globally. Upon returning to Israel in 2006, as President of Microsoft's R&D center in Israel, Mr. Lichtman was responsible for turning the Israel operation into one of the three largest strategic innovation hubs outside the US. Mr. Lichtman was also among the leaders of the Windows 95 team and President of Softimage, a leader in media creation software. Prior to Microsoft, Mr. Lichtman held software development and management positions in several high-tech startups. Mr. Lichtman is the co-author of the best-selling book "The complete guide to the C language" and holds a BSc Cum Laude in Computer Engineering from the Technion – Israel Institute of Technology, and an MBA from the MIT Sloan School. Mr. Lichtman is a valuable member of Valens' Board of Directors because of his extensive experience as an entrepreneur and his prior track record as a senior executive.

*Michael Linse* has served as a member of the Board of Valens since 2018. Mr. Linse has also served as the founder and managing director of Linse Capital LLC since October 2015, a growth equity firm investing in late-stage technology companies, and Levitate Capital, a venture capital firm, since March 2017. Mr. Linse serves as a director at ChargePoint Inc. (NYSE: CHPT). Prior to founding Linse Capital, Mr. Linse served as a partner at Kleiner Perkins Caufield & Byers ("KPCB") from 2009 until March 2016. Prior to joining KPCB, Mr. Linse worked at Goldman Sachs for over a decade, most recently as Managing Director of the alternative energy investing team. Mr. Linse holds a B.A. in Economics from Harvard University and an MBA from Harvard Business School. Mr. Linse is a valuable member of Valens' Board of Directors because of his extensive experience in venture capital and technology investment.

*Peter Kuo* co-founded PTK Technologies, LLC with Mr. Zhang, previous board member of Valens, and serves as PTK's Chief Executive Officer and Director. He has over 20 years of experience in global multi-national technology investing and tech banking and was essential in the successful execution of Valens Semiconductor's becoming a public company in September 2021. Mr. Kuo is also a co-founding partner of Canyon Bridge, a private equity firm focused on technology transactions. Prior to co-founding Canyon Bridge, Mr. Kuo was a managing director at the financial services firms Lazard and Cowen. He began his investment career at Pacific Venture Group, an Asia-based VC firm and also practiced law at Davis Polk & Wardwell. Mr. Kuo holds a J.D. from Harvard Law School and a B.S. in Foreign Service from Georgetown and was a Fulbright Scholar.

*Adi Yarel Toledano* has served as a general partner and a CFO at TLV Partners, a leading Israeli venture capital since 2018. Ms. Yarel Toledano has two decades of experience with global financial management, private fundraising, merger & acquisitions and portfolio management. At TLV Partners Ms. Yarel Toledano is in charge of all finance, legal and operations related matters including fund planning, deals structuring, fundraising, reporting, compliance, portfolio monitoring, risk management. Before joining TLV Partners Ms. Yarel Toledano was a partner CFO at Magma Ventures Partners for 14 years. Through her years as a general partner Ms. Yarel Toledano has worked closely with dozens of portfolio companies' management and financial teams helping them grow from seed to global market leaders. Ms. Yarel Toledano is a Certified Public Accountant (CPA) in Israel and holds her B.A. in Accounting and Business Administration from the College of Management of Tel Aviv, Israel. Ms. Yarel Toledano is a valuable member of Valens' Board of Directors because of her extensive experience in venture capital and her prior track record as a senior executive.

## **Family Relationships**

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

## **Arrangements for Election of Directors and Members of Management**

There are no arrangements or understandings with major shareholders or others pursuant to which any of our executive officers or directors are selected.

## **B. COMPENSATION**

### **Compensation of Directors and Executive Officers**

#### *Directors*

Under the Companies Law, the compensation of a public company's directors requires the approval of (i) its compensation committee, (ii) its board of directors and (iii) the approval of its shareholders at a general meeting, unless exempted pursuant to regulations promulgated under the Companies Law. In addition, if the compensation of a public company's directors is inconsistent with the company's compensation policy, then those inconsistent provisions must be separately considered by the compensation committee and board of directors, and approved by the shareholders by a special vote in one of the following two ways:

- at least a majority of the shares held by all shareholders who are not controlling shareholders and do not have a personal interest in such matter, present and voting at such meeting, vote in favor of the inconsistent provisions of the compensation package, excluding abstentions; or
- the total number of shares of non-controlling shareholders and shareholders who do not have a personal interest in such matter voting against the inconsistent provisions of the compensation package does not exceed two percent (2%) of the aggregate voting rights in the Company.

#### *Executive Officers other than the Chief Executive Officer*

The Companies Law requires the approval of the compensation of a public company's executive officers (other than the Chief Executive Officer) in the following order: (i) the compensation committee, (ii) the company's board of directors, and (iii) only if such compensation arrangement is inconsistent with the company's stated compensation policy, the company's shareholders (by a special majority vote as discussed above with respect to the approval of director compensation). However, if the shareholders of the company decline to approve a compensation arrangement with an executive officer that is inconsistent with the company's stated compensation policy, the compensation committee and board of directors may override the shareholders' decision if each of the compensation committee and the board of directors provide detailed reasons for their decision.

An amendment to an existing arrangement with an office holder requires only the approval of the compensation committee, if the compensation committee determines that the amendment is not material in comparison to the existing arrangement. However, according to regulations promulgated under the Companies Law, an amendment to an existing arrangement with an office holder (who is not a director) who is subordinate to the Chief Executive Officer shall not require the approval of the compensation committee, if (i) the amendment is approved by the Chief Executive Officer, (ii) the company's compensation policy provides that a non-material amendment to the terms of service of an office holder (other than the Chief Executive Officer) may be approved by the Chief Executive Officer and (iii) the engagement terms are consistent with the company's compensation policy.

#### *Chief Executive Officer*

Under the Companies Law, the compensation of a public company's chief executive officer is required to be approved by: (i) the company's compensation committee, (ii) the company's board of directors and (iii) the company's shareholders (by a special vote as discussed above with respect to the approval of director compensation that is inconsistent with the compensation policy). However, if the shareholders of the company do not approve the compensation arrangement with the chief executive officer, the compensation committee and board of directors may override the shareholders' decision provided that they each document the basis for their decision and the compensation is in accordance with the company's compensation policy.

In the case of a new chief executive officer, the compensation committee may waive the shareholder approval requirement with regard to the compensation of a candidate for the chief executive officer position if the compensation committee determines that: (i) the compensation arrangement is consistent with the company's compensation policy, (ii) the chief executive officer candidate did not have a prior business relationship with the company or a controlling shareholder of the company and (iii) subjecting the approval of the engagement to a shareholder vote would impede the company's ability to employ the chief executive officer candidate. However, if the chief executive officer candidate will serve as a member of the board of directors, such candidate's compensation terms as chief executive officer must be approved in accordance with the rules applicable to approval of compensation of directors.

## Aggregate Compensation of Executive Officers and Directors

The aggregate compensation expensed, including share-based compensation and other compensation expensed by us, to our directors and executive officers with respect to the year ended December 31, 2023, was \$6.4 million. This amount includes approximately \$0.2 million aside or accrued to provide pension, severance, retirement, or similar benefits, but does not include business travel, relocation, professional and business association dues, and expenses reimbursed to office holders, and other benefits commonly reimbursed or paid by companies in Israel.

As of December 31, 2023, options to purchase 5,176,736 Ordinary Shares granted to our executive officers and directors as a group were outstanding under our equity incentive plans at a weighted average exercise price of \$1.24 per Ordinary Share as well as 569,738 Restricted Stock Units (RSUs).

For so long as we qualify as a foreign private issuer, we are not required to comply with the proxy rules applicable to U.S. domestic companies, including the requirement applicable to certain domestic issuers that do not qualify as emerging growth companies to disclosure on an individual, rather than an aggregate basis, the compensation of our named executive officers as defined in Item 402 of Regulation S-K. Nevertheless, the Companies Law requires that we disclose the annual compensation of our five most highly compensated Covered Officers (as defined under the Companies Law, the “Covered Officers”) for the relevant fiscal year, on an individual basis, as such compensation is represented in that year’s annual financial. Under the Companies Law regulations, this disclosure is required to be included in the annual proxy statement for our annual meeting of shareholders each year, which we will furnish to the SEC under cover of a Report of Foreign Private Issuer on Form 6-K. Because of that disclosure requirement under Israeli law, we are also including such information in this annual report, pursuant to the disclosure requirements of Form 20-F.

The table below sets forth the compensation paid to our five most highly compensated Covered Officers for and with respect to the year ended December 31, 2023. All amounts reported reflect the cost to the Company as recognized in our financial statements for the year ended December 31, 2023. U.S. dollar amounts indicated for compensation of our Covered Officers are in thousands of dollars.

For purposes of the table and the summary below, “compensation” includes base salary, bonuses, equity-based compensation, retirement or termination payments, benefits and perquisites such as car, phone and social benefits and any undertaking to provide such compensation.

### Summary Compensation Table

#### Information Regarding the Covered Executive (1) (thousands of dollars)

| Name and Principal | Position (2)                     | Base salary | Benefits and perquisites (3) | Bonus payments | Equity-based compensation (4) | Total |
|--------------------|----------------------------------|-------------|------------------------------|----------------|-------------------------------|-------|
| Gideon Ben Zvi     | CEO                              | 332         | 56                           | -              | 1,723                         | 2,111 |
| Dror Heldenberg    | Former CFO(5)                    | 221         | 42                           | -              | 545                           | 808   |
| Gideon Kedem       | SVP, Head of Automotive Business | 220         | 46                           | -              | 520                           | 786   |
| David Chairman     | SVP, R&D                         | 214         | 45                           | -              | 407                           | 666   |
| Amir Boim          | SVP, Operations and PMO          | 194         | 44                           | -              | 318                           | 556   |

- (1) In accordance with Israeli law, all amounts reported in the table are in terms of cost to our company, as recorded in our financial statements.
- (2) All current executive officers listed in the table are full-time employees. Cash compensation amounts denominated in currencies other than the U.S. dollar were converted into U.S. dollars at an average conversion rate of U.S Dollar to New Israeli shekel, for the year ended December 31, 2023 of 1:3.708;
- (3) Amounts reported in this column include benefits and perquisites, including those mandated by applicable law. Such benefits and perquisites may include, to the extent applicable to each executive, payments, contributions and/or allocations for savings funds, pension, severance, vacation, car or car allowance, medical insurances and benefits, risk insurances (such as life, disability and accident insurances), convalescence pay, payments for social security, tax gross-up payments and other benefits and perquisites consistent with our guidelines.
- (4) Amounts reported in this column represent the expense recorded in our financial statements for the year ended December 31, 2023, with respect to equity-based compensation. Assumptions and key variables used in the calculation of such amounts are described in Note 10 to our audited consolidated financial statements, which are included in this Annual Report. The relevant amounts underlying the equity awards granted to our officers during 2023, will continue to be expensed in our financial statements over a four-year period during the years 2023-2027 on account of the 2023 grants in similar annualized amounts. All equity-based compensation grants to our Covered Executives were approved by the company’s compensation committee and board of directors.
- (5) Mr. Dror Heldenberg stepped down from the CFO role on September 1<sup>st</sup> 2023, replaced by Mrs. Yael Rozenberg Haine as Interim CFO and later on by Mr. Guy Nathanzon who assumed the CFO position in February 1<sup>st</sup> 2024.

## ***Non-Employee Directors' Compensation***

We pay each of our non-employee directors (other than the Chairperson of the board) an annual cash payment of \$ 40,000. The Chairperson of the board is entitled to an annual cash payment of (i) \$80,000; or (ii) if, prior to the listing day, such Chairperson received an annual cash payment from the Company that is higher than the amount set forth in sub-clause(i), such higher amount, in which case, he will not be entitled to an additional payment for his membership in any board committee or for serving in the chair position thereof. Accordingly, we pay our Chairperson, Mr. Mertens, an amount of \$96,000. In addition, we pay each of our non-employee directors who serves on a board committee, the following annual payment in addition to the annual cash payment mentioned above: per membership of the audit committee, \$10,000 (or \$15,000 for the chairperson); per membership of the compensation committee \$8,000 (or \$12,000 for the chairperson); per membership of the nominating, governance and sustainability committee, \$7,000 (or \$10,000 for the Chairperson), and per membership of a general committee, \$5,000 (or \$7,000 for the chairperson). In addition, upon election (provided the director is still in office), non-employee directors, shall be granted with equity awards under our incentive plan at a value of \$175,000 (composed of restricted share unites at a fair market value of \$116,725 and options to purchase ordinary shares with a fair market value of up to \$58,275) which shall vest on a quarterly basis over a period of three years (the "Welcome Equity Grant"), and as of the fiscal year thereafter (provided the director is still in office), with annual equity awards at a value of \$150,000 (composed of restricted share unites at a fair market value of \$100,000 and options to purchase ordinary shares with a fair market value of up to \$50,000) which shall vest on a quarterly basis over a period of one year (the "Annual Equity Grant"). The awards shall be accelerated in certain change of control events. The fair market value of restricted share unites is calculated in accordance with the definition included in our 2021 share incentive plan and the exercise price of the options equals to the average stock market price of the 30-trading day period preceding the date of the grant.

## **Employment Agreements with Executive Officers**

We have entered into written employment agreements with each of our executive officers. These agreements provide for notice periods of varying duration for termination of the agreement by us or by the relevant executive officer, during which time the executive officer will continue to receive base salary and benefits. These agreements also contain customary provisions regarding non-competition, confidentiality of information and assignment of inventions. However, the enforceability of the non-competition provisions may be limited under applicable law.

### **Equity Incentive Plans**

#### ***2007 Share Option Plan***

Valens' 2007 Share Option Plan (the "**2007 Plan**") was adopted by its board of directors on October 25, 2007. The 2007 Plan provides for the grant of options to our employees, directors, office holders, service providers and consultants of Valens.

*Authorized Shares.* As of December 31, 2023, there were options to purchase 800,828 Ordinary Shares outstanding under the 2007 Plan. Ordinary shares subject to options granted under the 2007 Plan that expire or become unexercisable without having been exercised in full will become available again for future grant under the 2021 Share Incentive Plan (the "**2021 Plan**").

*Administration.* Valens' board of directors, or a duly authorized committee of Valens' board of directors, administers the 2007 Plan. Under the 2007 Plan, the administrator has the authority, subject to applicable law, to interpret the terms of the 2007 Plan and any notices of grant or options granted thereunder, designate recipients of option grants, determine and amend the terms of options, including the exercise price of an option, the fair market value of an Ordinary Share, the time and vesting schedule applicable to an option grant or the method of payment for an option, accelerate or amend the vesting schedule applicable to an option grant, prescribe the forms of agreement for use under the 2007 Plan and take all other actions and make all other determinations necessary for the administration of the 2007 Plan. If the administrator is a duly authorized committee of our board of directors, Valens' board of directors will determine the grant of options to be made, if any, to members of such committee.

The administrator also has the authority to amend and rescind rules and regulations relating to the 2007 Plan or terminate the 2007 Plan at any time before the date of expiration of its ten-year term.

*Eligibility.* The 2007 Plan provides for granting options under various tax regimes, including, without limitation, in compliance with Section 102 ("**Section 102**") of the Israeli Income Tax Ordinance (New Version), 5721-1961 (the "**Ordinance**") and unapproved Section 102 options.

Section 102 of the Ordinance allows employees, directors and officers who are not “controlling shareholders” (as used under the Ordinance) and are considered Israeli residents to receive favorable tax treatment for compensation in the form of shares or options under certain terms and conditions. Section 102 includes two alternatives for tax treatment involving the issuance of options or shares to a trustee for the benefit of the grantees and also includes an additional alternative for the issuance of options or shares directly to the grantee. Section 102(b)(2) of the Ordinance, the most favorable tax treatment for the grantee, permits the issuance to a trustee under the “capital gain track”.

*Grant.* All options granted pursuant to the 2007 Plan are evidenced by an option agreement, in a form approved, from time to time, by the administrator, in its sole discretion. The option agreement sets forth the terms and conditions of the option, including the type of option, number of shares subject to such option, vesting schedule and conditions (including performance goals or measures) and the exercise price, if applicable. Each option will expire ten years from the date of the grant thereof, unless such shorter term of expiration is otherwise designated by the administrator.

*Awards.* The 2007 Plan provides for options to purchase shares which may be made available from the authorized but unissued shares of Valens or from shares held in Valens’ treasury and not reserved for some other purpose.

*Exercise.* An option under the 2007 Plan may be exercised by providing Valens with a written notice of exercise and full payment of the exercise price for such shares underlying the option, if applicable, in such form and method as may be determined by the administrator and permitted by applicable law. Such notice is irrevocable and may not be resigned or revised once it has been delivered to Valens its representative. An option may not be exercised for a fraction of a share. With regard to tax withholding, exercise price and purchase price obligations arising in connection with options under the 2007 Plan, the administrator may, in its discretion, among others, accept cash or otherwise provide for net withholding of shares in a cashless exercise mechanism.

*Transferability.* Neither the options nor any right in connection with such options are assignable or transferable.

*Termination of Employment.* In the event of termination of a grantee’s employment or service with Valens, all vested and exercisable options held by such grantee as of the date of termination may be exercised within three months after such date of termination, unless otherwise determined by the administrator. After such three-month period, all such unexercised options will terminate and the shares covered by such options shall again be available for issuance under the 2007 Plan.

In the event of termination of a grantee’s employment or service with Valens due to such grantee’s death, retirement or “disability” (as defined in the 2007 Plan), all vested and exercisable options held by such grantee as of the date of termination may be exercised by the grantee or the grantee’s legal representative or authorized assignee, as applicable, within (i) 12 months after such date death or the Termination Date due to disability (as the case may be) or (ii) the expiration date. Any options which are unvested as of the date of such termination or which are vested but not then exercised within the 12 months period following such date, will terminate and the shares covered by such options shall again be available for issuance under the 2007 Plan.

Notwithstanding any of the foregoing, if a grantee’s employment or services with Valens is terminated for “cause” (as defined in the 2007 Plan), all outstanding options held by such grantee (whether vested or unvested) will terminate on the date of such termination and the shares covered by such options shall again be available for issuance under the 2007 Plan.

*Liquidation.* In the event of the proposed dissolution or liquidation of the Company, all options will expire immediately prior to the consummation of such proposed action, unless otherwise provided by the administrator.

*Structural Change.* In the event of a merger, acquisition, shares sale or assets sale, then without the consent of the grantee, the administrator may, but is not required to, (i) cause any outstanding option to be assumed or substituted by such successor corporation, or (ii) provide for an exchange of outstanding options or shares for a monetary compensation; and/or (iii) determine that all unvested options and un-exercised vested Options shall expire on the date of such Structural Change. Notwithstanding the foregoing, the administrator may upon such event amend, modify or terminate the terms of any option as it shall deem, in good faith, appropriate.

## **2012 Share Option Plan**

Valens’ 2012 Share Option Plan (the “**2012 Option Plan**”) was adopted by its board of directors on February 15, 2012. The 2012 Option Plan provides for the grant of options to our employees, directors, office holders, service providers and consultants of Valens.

*Authorized Shares.* As of December 31, 2023, there were options outstanding to purchase 10,099,099 Ordinary Shares under the 2012 Option Plan. Ordinary shares subject to options granted under the 2012 Option Plan that expire or become un-exercisable without having been exercised in full will become available again for future grant under the 2021 Plan.

*Administration.* Valens' board of directors, or a duly authorized committee of Valens' board of directors, administers the 2012 Option Plan. Under the 2012 Option Plan, the administrator has the authority, subject to applicable law, to interpret the terms of the 2012 Option Plan and any notices of grant or options granted thereunder, designate recipients of option grants, determine and amend the terms of options, including the exercise price of an option, the fair market value of an Ordinary Share, the time and vesting schedule applicable to an option grant or the method of payment for an option, accelerate or amend the vesting schedule applicable to an option grant, prescribe the forms of agreement for use under the 2012 option Plan and take all other actions and make all other determinations necessary for the administration of the 2012 Option Plan. If the administrator is a duly authorized committee of our board of directors, Valens' board of directors will determine the grant of options to be made, if any, to members of such committee.

The administrator also has the authority to amend and rescind rules and regulations relating to the 2012 Option Plan or terminate the 2012 Option Plan at any time before the date of expiration of its ten-year term.

*Eligibility.* The 2012 Option Plan provides for granting options under various tax regimes, including, without limitation, in compliance with Section 102 of the Ordinance, unapproved Section 102 options, and Section 3(i) of the Ordinance.

Section 102 of the Ordinance allows employees, directors and officers who are not "controlling shareholders" (as used under the Ordinance) and are considered Israeli residents to receive favorable tax treatment for compensation in the form of shares or options under certain terms and conditions. Our non-employee service providers and controlling shareholders who are considered Israeli residents may only be granted options under section 3(i) of the Ordinance, which does not provide for similar tax benefits. Section 102 includes two alternatives for tax treatment involving the issuance of options or shares to a trustee for the benefit of the grantees and also includes an additional alternative for the issuance of options or shares directly to the grantee. Section 102(b)(2) of the Ordinance, the most favorable tax treatment for the grantee, permits the issuance to a trustee under the "capital gain track".

*Grant.* All options granted pursuant to the 2012 Option Plan are evidenced by an option agreement, in a form approved, from time to time, by the administrator, in its sole discretion. The option agreement sets forth the terms and conditions of the option, number of shares subject to such option, vesting schedule and conditions (including performance goals or measures) and the exercise price, if applicable. Each option will expire ten years from the date of the grant thereof, or upon the earlier termination of the grantee's employment, unless such shorter term of expiration is otherwise designated by the administrator.

*Awards.* The 2012 Option Plan provides for options to purchase shares which may be made available from the authorized but unissued shares of Valens or from shares held in Valens' treasury and not reserved for some other purpose.

*Vesting of Options.* Unless otherwise determined by the Administration with respect to any, some or all options, each option shall vest over a 4-year period from the date of grant, with one quarter of such options becoming vested on the first anniversary of such grant, and the remaining portion in equal parts every quarter from the first anniversary and until the fourth anniversary of such grant or as otherwise indicated in the grantee's option agreement. An option may be subject to such other terms and conditions on the time or times when it may be exercised (including by way of performance conditions), as the Administration may deem appropriate. The vesting provisions of individual options may vary.

Unless otherwise determined by the Administration, the vesting of an option shall be postponed during any un-paid leave of absence (excluding paid vacation, sick leave, paid maternity leave, infant care leave, medical emergency leave, military reserve duty). Upon return to service, the vesting shall continue and the vesting dates shall be postponed in accordance with the period of un-paid leave. Additionally, the vesting of an option shall continue upon any transfer of a grantee between the Company and any affiliate (or between affiliates), as well as upon any change of grantee's engagement status with the Company or an affiliate from employee to consultant or vice versa.

*Exercise.* An option under the 2012 Option Plan may be exercised by providing Valens with a written notice of exercise and full payment of the exercise price for such shares underlying the option, if applicable, in such form and method as may be determined by the administrator and permitted by applicable law. Such notice is irrevocable and may not be resigned or revised once it has been delivered to Valens its representative. An option may not be exercised for a fraction of a share. With regard to tax withholding, exercise price and purchase price obligations arising in connection with options under the 2012 Option Plan, the administrator may, in its discretion, among others, accept cash or otherwise provide for net withholding of shares in a cashless exercise mechanism.

*Transferability.* Neither the options nor any right in connection with such options are assignable or transferable.

*Termination of Employment.* In the event of termination of a grantee's employment or service with Valens or any of its affiliates, all vested and exercisable options held by such grantee as of the date of termination may be exercised within three months after such date of termination, unless otherwise determined by the administrator. After such three-month period, all such unexercised options will terminate and the shares covered by such options shall again be available for issuance under the 2012 Option Plan.

In the event of termination of a grantee's employment or service with Valens or any of its affiliates due to such grantee's death, retirement or "disability" (as defined in the 2012 Option Plan), all vested and exercisable options held by such grantee as of the date of termination may be exercised by the grantee or the grantee's legal representative or authorized assignee, as applicable, within 12 months after such date of termination, unless otherwise provided by the administrator. Any options which are unvested as of the date of such termination or which are vested but not then exercised within the 12 months period following such date, will terminate and the shares covered by such options shall again be available for issuance under the 2012 Option Plan.

Notwithstanding any of the foregoing, if a grantee's employment or services with Valens or any of its affiliates is terminated for "cause" (as defined in the 2012 Option Plan), all outstanding options held by such grantee (whether vested or unvested) will terminate on the date of such termination and the shares covered by such options shall again be available for issuance under the 2012 Option Plan.

*Liquidation.* In the event of the proposed dissolution or liquidation of the Company, all Options will expire immediately prior to the consummation of such proposed action.

*M&A Transaction.* In the event of a merger, acquisition, shares sale or assets sale (each, an "**M&A Transaction**"), then without the consent of the grantee, the administrator may, at its sole discretion, (i) cause any outstanding option to be assumed or substituted by such successor corporation, (ii) provide for an exchange of options or shares for a monetary compensation; (iii) determine that all unvested Options and un-exercised vested Options shall expire on the date of such M&A Transaction; and/or (iv) determine that the exchange, assumption, conversion or purchase detailed above will be made subject to any payment or escrow arrangement, or any other arrangement determined within the scope of the M&A Transaction in relation to the ordinary shares of the Company. Notwithstanding the foregoing, the administrator may upon such event amend, modify or terminate the terms of any option as it shall deem, in good faith, appropriate.

### **2021 Share Incentive Plan**

The 2021 Share Incentive Plan (the "**2021 Plan**"), was adopted by our board of directors on August 15, 2021. The 2021 Plan provides for the grant of equity-based incentive awards to our employees, directors, officers, consultants, advisors and other persons or entities who provide services to us in order to incentivize them to increase their efforts on behalf of the Company and to promote the success of the Company's business.

*Shares Available for Grants.* As of December 31, 2023, there were 5,869,329 Ordinary Shares underlying outstanding awards (including options and RSUs) under the 2021 Plan, and 3,323,912 Ordinary Shares available for future grant under the 2021 Plan. The maximum number Ordinary shares available for issuance under the 2021 Plan is equal to the sum of (i) 9,193,241 shares, (ii) any shares subject to awards under the 2007 and the 2012 Option Plans that expire, or are cancelled, terminated, forfeited or settled in cash in lieu of issuance of shares or became un-exercisable without having been exercised (in an amount not to exceed 10,899,927 shares under the 2007 and the 2012 Option Plans), and (iii) an annual increase on the first day of each year beginning in 2022 and on January 1st of each calendar year thereafter during the term of the 2021 Plan, equal to the lesser of (a) 5% of the outstanding Ordinary shares of the Company on the last day of the immediately preceding calendar year, and (b) provided that on each January 1st, an amount of at least five percent (5%) of the total number of Company Ordinary Shares, on a fully diluted basis, will be available for grant under the 2021 Plan, such smaller amount of Shares as is determined by the Board, if so determined prior to the January 1st of the calendar year in which the increase will occur (in each case, without the need to amend the Plan in case of such determination). If permitted by our board of directors, shares tendered to pay the exercise price or withholding tax obligations with respect to an award granted under the 2021 Plan, the 2012 Option Plan or the 2007 Plan, may again be available for issuance under the 2021 Plan. Our board of directors may also reduce the number of ordinary shares reserved and available for issuance under the 2021 Plan in its discretion.

*Administration.* Our board of directors or a duly authorized committee of our board of directors will administer the 2021 Plan. Under the 2021 Plan, the administrator has the authority, subject to applicable law, to interpret the terms of the 2021 Plan and any award agreements or awards granted thereunder, designate recipients of awards, determine and amend the terms of awards, including the exercise price of an option award, the fair market value of an ordinary share, the time and vesting schedule applicable to an award or the method of payment for an award, accelerate or amend the vesting schedule applicable to an award, prescribe the forms of agreement for use under the 2021 Plan, determine the tax track for the purpose of awards subject to Section 102 of the Ordinance and take all other actions and make all other determinations necessary for the administration of the 2021 Plan.

The administrator also has the authority to approve the conversion, substitution, cancellation or suspension under and in accordance with the 2021 Plan of any or all option awards or Ordinary shares, and the authority to modify option awards to eligible individuals who are foreign nationals or are individuals who are employed outside Israel to recognize differences in local law, tax policy or custom, in order to effectuate the purposes of the 2021 Plan but without amending the 2021 Plan.

The administrator also has the authority to amend and rescind rules and regulations relating to the 2021 Plan or terminate the 2021 Plan at any time before the date of expiration of its ten-year term.

*Eligibility.* The 2021 Plan provides for grants of awards under various tax regimes, including, without limitation, in compliance with Section 102 of the Ordinance, and Section 3(i) of the Ordinance and, for awards granted to our United States employees or service providers (including those who are deemed to be residents of the United States for tax purposes), Section 422 of the Code and Section 409A of the Code. For a description of the implications of Section 102, see above under the description of the 2019 Option Plan.

*Grants.* All awards granted pursuant to the 2021 Plan will be evidenced by an award agreement, in a form approved by the administrator in its sole discretion. The award agreement will set forth the terms and conditions of the award, including the type of award, number of shares subject to such award, vesting schedule and conditions (including performance goals or measures) and the exercise price, if applicable. Certain awards under the 2021 Plan may constitute or provide for a deferral of compensation, subject to Section 409A of the Code, which may impose additional requirements on the terms and conditions of such awards.

Each Award Agreement shall provide the vesting schedule for the award as determined by the administrator. The administrator shall have the authority to determine the vesting schedule and accelerate the vesting of any outstanding award at such time and under such circumstances as it, in its sole discretion, deems appropriate.

*Awards.* The 2021 Plan provides for the grant of stock options (including incentive stock options and nonqualified stock options), Ordinary Shares, restricted shares, RSUs, stock appreciation rights and other share-based awards.

Options granted under the 2021 Plan to Company employees who are U.S. residents may qualify as “incentive stock options” within the meaning of Section 422 of the Code or may be non-qualified stock options. The exercise price of an option may not be less than the par value of the shares (if the shares bear a par value) for which such option is exercisable. The exercise price of an Incentive Stock Option may not be less than 100% of the fair market value of the underlying share on the date of grant or such other amount as may be required pursuant to the Code, and in the case of Incentive Stock Options granted to ten percent stockholders, not less than 110%.

*Exercise.* An award under the 2021 Plan may be exercised by providing the Company with a written or electronic notice of exercise and full payment of the exercise price for such shares underlying the award, if applicable, in such form and method as may be determined by the administrator and permitted by applicable law. An award may not be exercised for a fraction of a share. With regard to tax withholding, exercise price and purchase price obligations arising in connection with awards under the 2021 Plan, the administrator may, in its discretion, accept cash, provide for net withholding of shares in a cashless exercise mechanism or direct a securities broker to sell shares and deliver all or a part of the proceeds to the Company or the trustee.

*Transferability.* Other than by will, the laws of descent and distribution or as otherwise provided under the 2021 Plan, neither the options nor any right in connection with such options are assignable or transferable.

*Termination of Employment.* In the event of termination of a grantee’s employment or service with the Company or any of its affiliates (other than by reason of death or permanent disability), all vested and exercisable awards held by such grantee as of the date of termination may be exercised within three months after such date of termination, unless otherwise determined by the administrator. After such three-month period, all such unexercised awards will terminate, and the shares covered by such awards shall again be available for issuance under the 2021 Plan. In the event of termination of a grantee’s employment or service with the Company or any of its affiliates due to such grantee’s death or permanent disability, or in the event of the grantee’s death within the three-month period (or such longer period as determined by the administrator) following his or her termination of service, all vested and exercisable awards held by such grantee as of the date of termination may be exercised by the grantee or the grantee’s legal guardian, estate, or by a person who acquired the right to exercise the award by bequest or inheritance, as applicable, within one year after such date of termination, unless otherwise provided by the administrator. Any awards which are unvested as of the date of such termination or which are vested but not then exercised within the one-year period following such date, will terminate and the shares covered by such awards shall again be available for issuance under the 2021 Plan.

Notwithstanding any of the foregoing, if a grantee’s employment or services with the Company or any of its affiliates is terminated for “cause” (as defined in the 2021 Plan), all outstanding awards held by such grantee (whether vested or unvested) will terminate on the date of such termination and the shares covered by such awards shall again be available for issuance under the 2021 Plan.

*Voting Rights.* Except with respect to restricted share awards, grantees will not have the rights as a shareholder of the Company with respect to any shares covered by an award until the award has vested and/or the grantee has exercised such award, paid any exercise price for such award and becomes the record holder of the shares. With respect to restricted share awards, grantees will possess all incidents of ownership of the restricted shares, including the right to vote and receive dividends on such shares.

*Dividends.* Grantees holding restricted share awards will be entitled to receive dividends and other distributions with respect to the shares underlying the restricted share award. Any stock split, stock dividend, combination of shares or similar transaction will be subject to the restrictions of the original restricted share award. Grantees holding RSUs will not be eligible to receive dividend but may be eligible to receive dividend equivalents.

*Transactions.* In the event of a share split, reverse share split, share dividend, recapitalization, combination or reclassification of the Company’s shares, the administrator in its sole discretion may, and where required by applicable law shall, without the need for a consent of any holder, make an appropriate adjustment in order to adjust (i) the number and class of shares reserved and available for the outstanding awards, (ii) the number and class of shares covered by outstanding awards, (iii) the exercise price per share covered by any award, (iv) the terms and conditions concerning vesting and exercisability and the term and duration of the outstanding awards, and (v) the type or class of security, asset or right underlying the award (which need not be only that of the Company, and may be that of the surviving corporation or any affiliate thereof or such other entity party to any of the above transactions), and (vi) any other terms of the award that in the opinion of the administrator should be adjusted; provided that any fractional shares resulting from such adjustment shall be rounded to the nearest whole share unless otherwise determined by the administrator. In the event of a distribution of a cash dividend to all shareholders, the administrator may determine, without the consent of any holder of an award, that the exercise price of an outstanding and unexercised award shall be reduced by an amount equal to the per share gross dividend amount distributed by the Company, subject to applicable law.

In the event of a merger or consolidation of the Company, or a sale of all, or substantially all, of the Company's shares or assets or other transaction having a similar effect on the Company, or change in the composition of the board of directors, or liquidation or dissolution, or such other transaction or circumstances that the board of directors determines to be a relevant transaction, then without the consent of the grantee, (i) unless otherwise determined by the administrator, any outstanding award will be assumed or substituted by such successor corporation, or (ii) regardless of whether or not the successor corporation assumes or substitutes the award the administrator may (a) provide the grantee with the option to exercise the award as to all or part of the shares, and may provide for an acceleration of vesting of unvested awards, (b) cancel the award and pay in cash, shares of the Company, the acquirer or other corporation which is a party to such transaction or other property as determined by the administrator as fair in the circumstances, or (c) provide that the terms of any award shall be otherwise amended, modified or terminated, as determined by the administrator to be fair in the circumstances.

### **2021 Employee Share Purchase Plan**

The Employee Share Purchase Plan ("ESPP") was adopted by our board of directors on August 15, 2021. The ESPP is comprised of two distinct components: (1) the component intended to qualify for favorable U.S. federal tax treatment under Section 423 of the Code (the "**Section 423 Component**") and (2) the component not intended to be tax qualified under Section 423 of the Code to facilitate participation for employees who are not eligible to benefit from favorable U.S. federal tax treatment and, to the extent applicable, to provide flexibility to comply with non U.S. law and other considerations (the "**Non-Section 423 Component**").

*Authorized Shares.* The maximum number of shares of our common stock available for issuance under the ESPP will initially not exceed 1,400,000 shares. As of December 31, 2023, there were 1,400,000 Ordinary Shares available for purchase under the ESPP. On the first day of each fiscal year beginning with our 2022 fiscal year and ending on and including the fiscal year of 2030, such pool of Ordinary Shares shall be increased by that number of our Ordinary Shares equal to the lesser of:

- One percent (1%) of the outstanding Ordinary Shares as of the last day of the immediately preceding fiscal year, determined on a fully diluted basis; or
- such smaller amount as our board of directors may determine.

In no event will more than 14,000,000 Ordinary Shares (subject to adjustment as provided for in the ESPP) be available for issuance under the Section 423 Component.

*ESPP Administration.* Unless otherwise determined by our board of directors, the compensation committee of our board of directors (or such other committee or sub-committee to which our board of directors delegates administration of the ESPP) will administer the ESPP and will have the authority to interpret the terms of the ESPP, determine eligibility under the ESPP, determine when rights to purchase shares shall be granted and the provisions of each offering of such rights, to impose a mandatory holding period under which employees may not dispose or transfer shares under the ESPP, prescribe, revoke and amend forms, rules and procedures relating to the ESPP, and otherwise exercise such powers and to perform such acts as the administrator deems necessary or expedient to promote the best interests of the Company and its subsidiaries and to carry out the intent that the ESPP be treated as an "employee stock purchase plan" within the meaning of Section 423 of the Code for the Section 423 Component.

*Eligibility.* Participation in the Section 423 Component may be limited in the terms of any offering to exclude an employee of the Company and any of its designated subsidiaries (a) who is a highly-compensated employee (within the meaning of Section 423(b)(4)(D) of the Code), (b) who has not a service requirement set by the administrator of the ESPP pursuant to Section 423(b)(4)(A) of the Code (such requirement not to exceed two years), (c) who customarily works less than 20 hours per week, (d) whose customary employment is for less than five months per fiscal year, and/or (e) who is a citizen or resident of a non-U.S. jurisdiction and the grant of a right to purchase shares under the ESPP to such employee would be prohibited under the laws of such non-U.S. jurisdiction or the grant of a right to purchase shares under the ESPP to such employee in compliance with the laws of such non-U.S. jurisdiction would cause the ESPP to violate the requirements of Section 423 of the Code. Any of the foregoing exclusions must be applied in an identical manner to all employees under each offering period, in accordance with Treasury Regulation Section 1.423-2(e). Under the Section 423 Component, designated subsidiaries include any subsidiary (within the meaning of Section 424(f) of the Code) of the Company that has been designated by our board of directors or the compensation committee as eligible to participate in the ESPP (and if an entity does not so qualify within the meaning of Section 424(f) of the Code, it shall automatically be deemed to be a designated subsidiary in the Non-Section 423 Component). In addition, with respect to the Non-Section 423 Component, designated subsidiaries may include any corporate or noncorporate entity in which the Company has a direct or indirect equity interest or significant business relationship. Under the Section 423 Component, no employee may be granted a purchase right if, immediately after the purchase right is granted, the employee would own (or, under applicable statutory attribution rules, would be deemed to own) shares possessing 5% or more of the total combined voting power or value of all classes of shares of the Company or any of its subsidiaries. In addition, in order to facilitate participation in the ESPP, the compensation committee may provide for such special terms applicable to participants who are citizens or residents of a non-U.S. jurisdiction, or who are employed by a designated subsidiary outside of the U.S., as the compensation committee may consider necessary or appropriate to accommodate differences in local law, tax policy or custom. Except as permitted by Section 423 of the Code, with respect to the Non-Section 423 Component, such special terms may not be more favorable than the terms of rights granted under the Section 423 Component to eligible employees who are residents of the United States.

*Offering Periods.* The ESPP provides for offering periods, not to exceed 27 months each, during which we will grant rights to purchase our Ordinary Shares to our employees. The timing of the offering periods will be determined by the administrator. The terms and conditions applicable to each offering period will be set forth in an offering document adopted by the administrator for the particular offering period. The maximum number of shares that may be purchased by any eligible employee during a particular offering period is 1,500 shares, unless otherwise specified by the administrator in the offering document. The provisions of offerings during separate offering periods under the ESPP need not be identical.

*Contributions.* Our ESPP will permit participants to purchase our Ordinary Shares through contributions (in the form of payroll deductions, or otherwise, to the extent permitted by the administrator). The percentage of compensation designated by an eligible employee as payroll deductions for participation in an offering may not be less than 1% and may not be more than the maximum percentage specified by the administrator in the applicable offering document (which maximum percentage shall be 20% in the absence of any such specification). A participant may increase or decrease the percentage of compensation designated in his or her subscription agreement, or may suspend his or her payroll deductions, at any time during an offering period; provided, however, that the administrator may limit the number of changes a participant may make in the applicable offering document. In the absence of any specific designation by the administrator, a participant may decrease (but not increase) his or her payroll deduction elections one time during each offering period.

*Exercise of Purchase Right.* Amounts contributed and accumulated by the participant will be used to purchase our Ordinary Shares at the end of each offering period. Unless otherwise determined by the administrator, the purchase price of the shares will be 85% of the lower of the fair market value of our Ordinary Shares on (i) the first trading day of the offering period or (ii) the last trading day of the offering period (and may not be lower than such amount with respect to the Section 423 Component). Participants may end their participation at any time during an offering period and will be paid their accrued contributions that have not yet been used to purchase our Ordinary Shares. Participation ends automatically upon termination of employment with us.

*Non-Transferability.* A participant may not transfer contributions credited to his or her account nor any rights granted under our ESPP other than by will, the laws of descent and distribution or as otherwise provided under our ESPP.

*Corporate Transactions.* In the event of certain transactions or events such as a consolidation, merger or similar transaction, a sale or transfer of all or substantially all of the Company's assets, or a dissolution or liquidation of the Company, the administrator may, in its discretion, provide that (i) each outstanding purchase right will be (a) assumed or substituted for a right granted by the acquiror or successor corporation or by a parent or subsidiary of such entity, (b) terminated in exchange for cash or other property as determined by the administrator, (c) adjusted with respect to the number and type of shares (or other securities or property) subject to outstanding rights under the ESPP and/or in the terms and conditions of outstanding rights and rights that may be granted in the future; (d) cancelled with accumulated payroll deductions returned to each participant, or (ii) the participant's accumulated payroll deductions may be used to purchase shares prior to the end of the offering period and before the date of the proposed sale, merger or similar transaction.

*Amendment; Termination.* The administrator will have the authority to amend, suspend or terminate our ESPP. Our ESPP is not subject to a specific termination date.

## C. BOARD PRACTICES

As an Israeli company, we are subject to various corporate governance requirements under the Companies Law. However, pursuant to regulations promulgated under the Companies Law, companies with shares traded on certain U.S. stock exchanges, including NYSE, may, subject to certain conditions, “opt out” from the requirements (described below) to appoint external directors and related rules concerning the composition of the audit committee and compensation committee of the board of directors, other than the gender diversification rule, which requires the appointment of a director from the other gender if, at the time a director is appointed, all members of the board of directors are of the same gender. In accordance with these regulations, we elected to “opt out” from these requirements of the Companies Law. Under these regulations, the exemptions from such Companies Law requirements will continue to be available to us so long as: (i) we do not have a “controlling shareholder”, as such term is defined under the Companies Law, (ii) our shares are traded on certain U.S. stock exchanges, including the NYSE and NASDAQ, and (iii) we comply with the director independence requirements and the audit committee and compensation committee composition requirements under U.S. laws, including the rules of the applicable exchange, that are applicable to U.S. domestic issuers.

We are a “foreign private issuer”, as such term is defined in Rule 405 under the Securities Act. As a foreign private issuer, we are permitted to comply with Israeli corporate governance practices instead of the corporate governance rules of the NYSE, provided that we disclose which requirements we are not following and the equivalent Israeli requirement.

We rely on this “foreign private issuer exemption” with respect to the quorum requirement for shareholder meetings and with respect to NYSE shareholder approval rules. Whereas under the corporate governance rules of NYSE, a quorum requires the presence, in person or by proxy, of holders of at least 33.33% of the total issued outstanding voting power of our shares at each general meeting of shareholders, pursuant to our Amended and Restated Articles of Association, and as permitted under the Companies Law, the quorum required for a general meeting of shareholders consists of at least two shareholders present in person or by proxy in accordance with the Companies Law who hold or represent at least 33.33% of the total outstanding voting power of our shares, except if (i) any such general meeting of shareholders was initiated by and convened pursuant to a resolution adopted by the board of directors and (ii) at the time of such general meeting, we qualify as a “foreign private issuer,” in which case the requisite quorum will consist of two or more shareholders present in person or by proxy who hold or represent at least 25% of the total outstanding voting power of our shares (and if the meeting is adjourned for a lack of quorum, the quorum for such adjourned meeting will be, subject to certain exceptions, any number of shareholders). We otherwise intend to comply with the rules generally applicable to U.S. domestic companies listed on the NYSE. We may, however, in the future decide to rely upon the “foreign private issuer exemption” for purposes of opting out of some or all of the other corporate governance rules.

### **Board of Directors**

Under the Companies Law and our Amended and Restated Articles of Association, our business and affairs are managed under the direction of our board of directors. Our board of directors may exercise all powers and may take all actions that are not specifically granted to our shareholders or to executive management. Our Chief Executive Officer (referred to as a “general manager” under the Companies Law) is responsible for our day-to-day management. Our Chief Executive Officer is appointed by, and serves at the discretion of, our board of directors, subject to the employment agreement that we have entered into with him. All other executive officers are appointed by the Chief Executive Officer, subject to applicable corporate approvals, and are subject to the terms of any applicable employment or consulting agreements that we may enter into with them.

Under our Amended and Restated Articles of Association, the number of directors on our board of directors will be no less than three and no more than eleven, divided into three classes with staggered three-year terms. Each class of directors consists, as nearly as possible, of one-third of the total number of directors constituting the entire board of directors. At each annual general meeting of our shareholders, the election or re-election of directors following the expiration of the term of office of the directors of that class of directors will be for a term of office that expires on the third annual general meeting following such election or re-election. Therefore, beginning with the annual general meeting of 2022, held on November 10<sup>th</sup> 2022, each year the term of office of only one class of directors will expire.

Our directors are divided among the three classes as follows:

- the Class I directors, whose term was extended on November 10, 2022, and will expire at our annual meeting of shareholders to be held in 2025, are Eyal Kishon, Moshe Lichtman and Dror Jerushalmi;
- the Class II directors, are Yahal Zilka, Michael Linse and Gideon Ben Zvi, whose term was extended on November 22, 2023, and will expire at our annual meeting of shareholders to be held in 2026; and
- the Class III directors are Adi Yarel Toledano, Peter Kuo and Peter Mertens, their term will expire at our annual meeting of shareholders to be held in 2024.

Our directors are generally appointed by a simple majority vote of holders of Valens ordinary shares, participating and voting (in person or by proxy) at an annual general meeting of our shareholders, provided that (i) in the event of a contested election, the method of calculation of the votes and the manner in which the resolutions will be presented to our shareholders at the general meeting shall be determined by our board of directors in its discretion, and (ii) in the event that our board of directors does not or is unable to make a determination on such matter, then the directors will be elected by a plurality of the voting power represented at the general meeting in person or by proxy and voting on the election of directors.

Each director shall hold office until the annual general meeting of our shareholders for the year in which such director's term expires, unless the tenure of such director expires earlier pursuant to the Companies Law or unless such director is removed from office as described below.

Under our Amended and Restated Articles of Association, the approval of the holders of at least 65% of the total voting power of our shareholders is generally required to remove any of our directors from office or amend the provision requiring the approval of at least 65% of the total voting power of our shareholders to remove any of our directors from office. In addition, vacancies on our board of directors may be filled by a vote of a simple majority of the directors then in office. A director so appointed will hold office until the next annual general meeting of our shareholders for the election of the class of directors in respect of which the vacancy was created. In the case of a vacancy due to the number of directors being less than the maximum number of directors stated in our Amended and Restated Articles of Association, the new director filling the vacancy will serve until the next annual general meeting of our shareholders for the election of the class of directors to which such director was assigned by our board of directors.

#### *Chairperson of the Board*

Our Amended and Restated Articles of Association, provide that the board of directors shall appoint a member of the board to serve as the Chairperson. Under the Companies Law, the chief executive officer of a public company, or a relative of the chief executive officer, may not serve as the chairperson of the board of directors, and the chairperson of the board of directors, or a relative of the chairperson, may not be vested with authorities of the Chief Executive Officer unless approved by a special majority of the company's shareholders. The shareholders' approval can be effective for a period of five years following an initial public offering, and subsequently, for additional periods of up to three years.

In addition, a person who is subordinated, directly or indirectly, to the chief executive officer may not serve as the chairperson of the board of directors, the chairperson of the board of directors may not be vested with authorities that are granted to persons who are subordinated to the chief executive officer, and the chairperson of the board of directors may not serve in any other position in the company or in a controlled subsidiary, but may serve as a director or chairperson of a controlled subsidiary.

## *External Directors*

Under the Companies Law, companies incorporated under the laws of the State of Israel that are “public companies,” including companies with shares listed on the NYSE, are required to appoint at least two external directors. Pursuant to regulations promulgated under the Companies Law, companies with shares traded on certain U.S. stock exchanges, including the NYSE, which do not have a “controlling shareholder,” may, subject to certain conditions, “opt out” from the Companies Law requirements to appoint external directors and related Companies Law rules concerning the composition of the audit committee and compensation committee of the board of directors. In accordance with these regulations, we have elected to “opt out” from the Companies Law requirement to appoint external directors and related Companies Law rules concerning the composition of the audit committee and compensation committee of our board of directors.

### **Director Independence**

The NYSE listing standards require that a majority of our board of directors be independent. An “independent director” is defined generally as a person who has no material relationship with the listed company (either directly or as a partner, stockholder, or officer of an organization that has a relationship with the listed company). Our board of directors has determined that Yahal Zilka, Moshe Lichtman, Michael Linse, Peter Mertens, Eyal Kishon, Peter Kuo and Adi Toledano Yarel are “independent directors” as defined in the NYSE listing standards and applicable SEC rules.

### **Audit Committee**

#### *Companies Law Requirements*

Under the Companies Law, the board of directors of a public company must appoint an audit committee.

#### *Listing Requirements*

Under the corporate governance rules of the NYSE, we are required to maintain an audit committee consisting of at least three independent directors, each of whom is financially literate and one of whom has accounting or related financial management expertise.

Our audit committee consists of Adi Yarel-Toledano, Peter Mertens, and Peter Kuo. Adi Yarel-Toledano will serve as the chairperson of the audit committee. All members of our audit committee meet the requirements for financial literacy under the applicable rules and regulations of the SEC and the corporate governance rules of the NYSE. Our board of directors has determined that Adi Yarel is an audit committee financial expert as defined by the SEC rules and has the requisite financial experience as defined by the corporate governance rules of NYSE.

Our board of directors has determined that each member of our audit committee is “independent”, as such term is defined in Rule 10A-3(b)(1) under the Exchange Act, which is different from the general test for independence of board and committee members.

#### *Audit Committee Role*

Our board of directors has adopted an audit committee charter setting forth the responsibilities of the audit committee, which are consistent with the Companies Law, the SEC rules, and the corporate governance rules of the NYSE. These responsibilities include:

- retaining and terminating our independent auditors, subject to ratification by the board of directors, and in the case of retention, subject to ratification by the shareholders;
- pre-approving audit and non-audit services to be provided by the independent auditors and related fees and terms;

- overseeing the accounting and financial reporting processes of our company;
- managing audits of our financial statements;
- preparing all reports as may be required of an audit committee under the rules and regulations promulgated under the Exchange Act;
- reviewing with management and our independent auditor our annual and quarterly financial statements prior to publication, filing, or submission to the SEC;
- recommending to the board of directors the retention and termination of the internal auditor, and the internal auditor's engagement fees and terms, in accordance with the Companies Law, as well as approving the yearly or periodic work plan proposed by the internal auditor;
- reviewing with our general counsel and/or external counsel, as deemed necessary, legal and regulatory matters that may have a material impact on the financial statements;
- identifying irregularities in our business administration, inter alia, by consulting with the internal auditor or with the independent auditor, and suggesting corrective measures to the board of directors;
- reviewing policies and procedures with respect to transactions (other than transactions related to compensation or terms of services) between the Company and officers and directors, affiliates of officers or directors, or transactions that are not in the ordinary course of the Company's business and deciding whether to approve such acts and transactions if so required under the Companies Law; and
- establishing procedures for handling employee complaints relating to the management of our business and the protection to be provided to such employees.

## **Compensation Committee**

### *Companies Law Requirements*

Under the Companies Law, the board of directors of a public company must appoint a compensation committee.

### *Listing Requirements*

Under the corporate governance rules of the NYSE, we are required to maintain a compensation committee consisting of at least two independent directors.

Our compensation committee consists of Peter Mertens, Michael Linse and Yahal Zilka. Peter Mertens serves as chairperson of the compensation committee. Our board of directors has determined that each member of our compensation committee is independent under the corporate governance rules of the NYSE, including the additional independence requirements applicable to the members of a compensation committee.

### *Compensation Committee Role*

In accordance with the Companies Law, the responsibilities of the compensation committee are, among others, as follows:

- making recommendations to the board of directors with respect to the approval of the compensation policy for office holders and, once every three years, with respect to any extensions to a compensation policy that was adopted for a period of more than three years;

- reviewing the implementation of the compensation policy and periodically making recommendations to the board of directors with respect to any amendments or updates to the compensation policy;
- resolving whether to approve arrangements with respect to the terms of office and employment of office holders; and
- exempting, under certain circumstances, a transaction with our Chief Executive Officer from the approval of our shareholders.

Our board of directors has adopted a compensation committee charter setting forth the responsibilities of the committee, which are consistent with the corporate governance rules of the NYSE and include among others:

- recommending to our board of directors for its approval a compensation policy, in accordance with the requirements of the Companies Law, as well as other compensation policies, incentive-based compensation plans, and equity-based compensation plans, overseeing the development and implementation of such policies, and recommending to our board of directors any amendments or modifications the committee deems appropriate, including as required under the Companies Law;
- reviewing and approving the granting of options and other incentive awards to our Chief Executive Officer and other executive officers, including reviewing and approving corporate goals and objectives relevant to the compensation of our Chief Executive Officer and other executive officers, including evaluating their performance in light of such goals and objectives;
- approving and exempting certain transactions regarding office holders' compensation pursuant to the Companies Law; and
- administering our equity-based compensation plans, including without limitation, approving the adoption of such plans, amending and interpreting such plans, and the awards and agreements issued pursuant thereto, and making and determining the terms of awards to eligible persons under the plans.

#### *Compensation Policy under the Companies Law*

In general, under the Companies Law, the board of directors of a public company must approve a compensation policy after receiving and considering the recommendations of the compensation committee. In addition, our compensation policy must be approved at least once every three years, first, by our board of directors, upon recommendation of our compensation committee, and second, by a simple majority of Valens ordinary shares present, in person or by proxy, and voting (excluding abstentions) at a general meeting of shareholders, provided that either:

- the majority of such Valens ordinary shares is comprised of shares held by shareholders who are not controlling shareholders and shareholders who do not have a personal interest in such compensation policy; or
- the total number of shares of non-controlling shareholders and shareholders who do not have a personal interest in the compensation policy voting against the policy does not exceed two percent (2%) of the aggregate voting rights in the company.

Under special circumstances, the board of directors may approve the compensation policy despite the objection of the shareholders on the condition that the compensation committee and then the board of directors decide on the basis of detailed grounds, and after discussing again with the compensation policy, that approval of the compensation policy, despite the objection of shareholders, is for the benefit of the company.

If a company adopts a compensation policy in advance of its initial public offering (or in our case, prior to the closing of the merger) and describes such compensation policy in the prospectus for such offering, then such compensation policy shall be deemed a validly adopted policy in accordance with the Companies Law requirements described above. Furthermore, if the compensation policy is established in accordance with the aforementioned relief, then it will remain in effect for a term of five years from the date such company becomes a public company.

The compensation policy must be based on certain considerations, include certain provisions and reference certain matters as set forth in the Companies Law. The compensation policy must serve as the basis for decisions concerning the financial terms of employment or engagement of office holders, including exculpation, insurance, indemnification, or any monetary payment or obligation of payment in respect of employment or engagement. The compensation policy must be determined and later reevaluated according to certain factors, including: the advancement of the company's objectives, business plan and long-term strategy; the creation of appropriate incentives for office holders, while considering, among other things, the company's risk management policy; the size and the nature of the company's operations; and with respect to variable compensation, the contribution of the office holder towards the achievement of the company's long-term goals and the maximization of its profits, all with a long-term objective and according to the position of the office holder. The compensation policy must furthermore consider the following additional factors:

- the education, skills, experience, expertise, and accomplishments of the relevant office holder;
- the office holder's position and responsibilities;
- prior compensation agreements with the office holder;
- the ratio between the cost of the terms of employment of an office holder and the cost of the employment of other employees of the company, including employees employed through contractors who provide services to the company; in particular the ratio between such cost to the average and median salary of such employees of the company, as well as possible impacts of compensation disparities between them on the work relationships in the company;
- if the terms of employment include variable components, the possibility of reducing variable components at the discretion of the board of directors and setting a limit on the value of non-cash variable equity-based components; and
- if the terms of employment include severance compensation, the term of employment or office of the office holder, the terms of the office holder's compensation during such period, the company's performance during such period, the office holder's individual contribution to the achievement of the company goals and the maximization of its profits, and the circumstances under which the office holder is leaving the company.

The compensation policy must also include, among other things:

- with regards to variable components:
- with the exception of office holders who report to the chief executive officer, a means of determining the variable components on the basis of long-term performance and measurable criteria; provided that the company may determine that an immaterial part of the variable components of the compensation package of an office holder shall be awarded based on non-measurable criteria, or if such amount is not higher than three months' salary per annum, taking into account such office holder's contribution to the company; or
- the ratio between variable and fixed components, as well as the limit of the values of variable components at the time of their payment, or in the case of equity-based compensation, at the time of grant.
- a condition under which the office holder will refund to the company, according to conditions to be set forth in the compensation policy, any amounts paid as part of the office holder's terms of employment, if such amounts were paid based on information later to be discovered to be wrong, and such information was restated in the company's financial statements;
- the minimum holding or vesting period of variable equity-based components to be set in the terms of office or employment, as applicable, while taking into consideration long-term incentives; and
- a limit to retirement grants.

Our compensation policy is designed to retain and motivate our directors and executive officers, incentivize superior individual excellence, align the interests of our directors and executive officers with our long-term performance, and provide a risk management tool. To that end, a portion of our executive officer compensation package is targeted to reflect our short and long-term goals, as well as the executive officer's individual performance. Our compensation policy also includes measures designed to reduce the executive officer's incentives to take excessive risks that may harm the Company in the long-term, such as limits on the value of cash bonuses and equity-based compensation, limitations on the ratio between the variable and the total compensation of an executive officer, and minimum vesting periods for equity-based compensation.

Our compensation policy also addresses our executive officers' individual characteristics (such as their respective position, education, scope of responsibilities, and contribution to the attainment of our goals) as the basis for compensation variation among our executive officers and considers the internal ratios between compensation of our executive officers and directors and other employees. Pursuant to our compensation policy, the compensation that may be granted to an executive officer may include base salary, annual bonuses, and other cash bonuses (such as a signing bonus and special bonuses with respect to any special achievements, such as outstanding personal achievement, outstanding personal effort, or outstanding company performance), equity-based compensation, benefits and retirement and termination of service arrangements. All cash bonuses are limited to a maximum amount linked to the executive officer's base salary.

An annual cash bonus may be awarded to executive officers upon the attainment of pre-set periodic objectives and individual targets. The annual cash bonus that may be granted to our executive officers, other than our Chief Executive Officer, will be based on performance objectives and a discretionary evaluation of the executive officer's overall performance by our Chief Executive Officer and subject to minimum thresholds. The annual cash bonus that may be granted to executive officers, other than our Chief Executive Officer, may alternatively be based entirely on a discretionary evaluation. Furthermore, our Chief Executive Officer is entitled to approve performance objectives for executive officers who report to him.

The measurable performance objectives of our Chief Executive Officer is determined annually by our compensation committee and board of directors. A non-material portion of the Chief Executive Officer's annual cash bonus, as provided in our compensation policy, may be based on a discretionary evaluation of the Chief Executive Officer's overall performance by the compensation committee and the board of directors.

Under our compensation policy, our executive officers' (including members of our board of directors) equity-based compensation is designed in a manner consistent with the underlying objectives in determining the base salary and the annual cash bonus, with its main objectives being to enhance the alignment between the executive officers' interests with our long-term interests and those of our shareholders and to strengthen the retention and the motivation of executive officers in the long term. Our compensation policy provides for executive officer compensation in the form of share options or other equity-based awards, such as restricted shares and restricted share units, in accordance with our then-current equity incentive plan. All equity-based incentives granted to executive officers shall be subject to vesting periods in order to promote long-term retention of those executive officers. Equity-based compensation shall be granted from time to time and be individually determined and awarded according to the performance, educational background, prior business experience, qualifications, role, and the personal responsibilities of the executive officer.

In addition, our compensation policy contains compensation recovery provisions which allow us, under certain conditions, to recover bonuses paid in excess, enable our Chief Executive Officer to approve an immaterial change in the terms of employment of an executive officer who reports directly him (provided that such changes are in accordance with our compensation policy), and allow us to exculpate, indemnify, and insure our executive officers and directors to the maximum extent permitted by Israeli law subject to certain limitations set forth therein.

Our compensation policy also provides for compensation to the members of our board of directors either (i) in accordance with the amounts provided in the Companies Regulations (Rules Regarding the Compensation and Expenses of an External Director), 5760-2000, as amended by the Companies Regulations (Relief for Public Companies Traded in Stock Exchange Outside of Israel), 5760-2000, as such regulations may be amended from time to time, or (ii) in accordance with the amounts determined in our compensation policy.

## Nominating, Governance and Sustainability Committee

Our nominating, governance and sustainability committee consists of Moshe Lichtman, Eyal Kishon and Michael Linse. Moshe Lichtman serves as chairperson of the nominating, governance and sustainability committee. Our board of directors has adopted a nominating, governance and sustainability committee charter setting forth the responsibilities of the committee, which include:

- overseeing and assisting our board in reviewing and recommending nominees for election of directors;
- assessing the performance of the members of our board;
- overseeing the Company's ESG policies, programs, and strategies; and
- establishing and maintaining effective corporate governance policies and practices, including, but not limited to, developing and recommending to our board a set of corporate governance guidelines applicable to our business.

## Internal Auditor

Under the Companies Law, the board of directors of a public company must appoint an internal auditor based on the recommendation of the audit committee. The role of the internal auditor is, among other things, to review the company's compliance with applicable law and orderly business procedure. Under the Companies Law, the internal auditor cannot be an interested party, an office holder, or a relative of an interested party or an office holder. Nor may the internal auditor be the company's independent auditor or its representative. An "interested party" is defined in the Companies Law as (i) a holder of 5% or more of the issued share capital or voting power in a company, (ii) any person or entity who has the right to designate one or more directors or to designate the chief executive officer of the company, or (iii) any person who serves as a director or as chief executive officer of the company. As of December 31, 2023, Ms. Dafna Barzilai, CPA from Dafna Barzilai & Co., is acting as our internal auditor.

## Approval of Related Party Transactions under Israeli Law

### *Fiduciary Duties of Directors and Executive Officers*

The Companies Law codifies the fiduciary duties that office holders owe to a company. An office holder is defined in the Companies Law as a general manager, chief business manager, deputy general manager, vice general manager, any other person assuming the responsibilities of any of these positions regardless of such person's title, a director, and any other manager directly subordinate to the general manager. Each person listed in the table under "Management—Management and Board of Directors" is an office holder under the Companies Law.

An office holder's fiduciary duties consist of a duty of care and a duty of loyalty. The duty of care requires an office holder to act with the level of care with which a reasonable office holder in the same position would act under the same circumstances. The duty of care includes, among other things, a duty to use reasonable means, in light of the circumstances, to obtain:

- information on the business advisability of a given action brought for the office holder's approval or performed by virtue of the office holder's position; and
- all other important information pertaining to such action.

The duty of loyalty requires an office holder to act in good faith and in the best interests of the Company, and includes, among other things, the duty to:

- refrain from any act involving a conflict of interest between the performance of the office holder's duties in the company and the office holder's other duties or personal affairs;
- refrain from any activity that is competitive with the business of the company;

- refrain from exploiting any business opportunity of the company for the purpose of gaining a personal advantage for the office holder or others; and
- disclose to the company any information or documents relating to the company's affairs which the office holder received as a result of the office holder's position.

Under the Companies Law, a company may approve an act, specified above, which would otherwise constitute a breach of the office holder's fiduciary duty, provided that the office holder acted in good faith, neither the act nor its approval harms the company, and the personal interest of the office holder is disclosed a sufficient time before the approval of such act. Any such approval is subject to the terms of the Companies Law setting forth, among other things, the appropriate bodies of the company required to provide such approval and the methods of obtaining such approval.

#### *Disclosure of Personal Interests of an Office Holder and Approval of Certain Transactions*

The Companies Law requires that an office holder promptly disclose to the board of directors any personal interest and all related material information known to such office holder concerning any existing or proposed transaction with the company. A personal interest includes an interest of any person in an act or transaction of a company, including a personal interest of one's relative or of a corporate body in which such person or a relative of such person is a 5% or greater shareholder, director, or general manager or in which such person has the right to appoint at least one director or the general manager, but excluding a personal interest stemming solely from one's ownership of shares in the company. A personal interest includes the personal interest of a person for whom the office holder holds a voting proxy or the personal interest of the office holder with respect to the officer holder's vote on behalf of a person for whom he or she holds a proxy even if such shareholder has no personal interest in the matter.

If it is determined that an office holder has a personal interest in a non-extraordinary transaction (meaning any transaction that is in the ordinary course of business, on market terms or that is not likely to have a material impact on the company's profitability, assets or liabilities), approval by the board of directors is required for the transaction unless the company's articles of association provide for a different method of approval. Any such transaction that is adverse to the company's interests may not be approved by the board of directors.

Approval first by the company's audit committee and subsequently by the board of directors is required for an extraordinary transaction (meaning any transaction that is not in the ordinary course of business, not on market terms or that is likely to have a material impact on the company's profitability, assets or liabilities) in which an office holder has a personal interest.

A director and any other office holder who has a personal interest in a transaction which is considered at a meeting of the board of directors or the audit committee may generally (unless it is with respect to a transaction which is not an extraordinary transaction) not be present at such a meeting or vote on that matter unless a majority of the directors or members of the audit committee, as applicable, have a personal interest in the matter. If a majority of the members of the audit committee or the board of directors have a personal interest in the matter, then all of the directors may participate in deliberations of the audit committee or board of directors, as applicable, with respect to such transaction and vote on the approval thereof and, in such case, shareholder approval is also required.

Certain disclosure and approval requirements apply under Israeli law to certain transactions with controlling shareholders, certain transactions in which a controlling shareholder has a personal interest, and certain arrangements regarding the terms of service or employment of a controlling shareholder. For these purposes, a controlling shareholder is any shareholder that has the ability to direct the company's actions, including any shareholder holding 25% or more of the voting rights if no other shareholder owns more than 50% of the voting rights in the company. Two or more shareholders with a personal interest in the approval of the same transaction are deemed to be one shareholder.

### *Shareholder Duties*

Pursuant to the Companies Law, a shareholder has a duty to act in good faith and in a customary manner toward the company and other shareholders and to refrain from abusing his or her power with respect to the company, including, among other things, in voting at a general meeting and at shareholder class meetings with respect to the following matters:

- an amendment to the company's articles of association;
- an increase of the company's authorized share capital;
- a merger; or
- interested party transactions that require shareholder approval.

In addition, a shareholder has a general duty to refrain from discriminating against other shareholders.

Certain shareholders also have a duty of fairness toward the company. These shareholders include any controlling shareholder, any shareholder who knows that it has the power to determine the outcome of a shareholder vote, and any shareholder who has the power to appoint or to prevent the appointment of an office holder of the company or exercise any other rights available to it under the company's articles of association with respect to the company. The Companies Law does not define the substance of this duty of fairness, except to state that the remedies generally available upon a breach of contract will also apply in the event of a breach of the duty of fairness.

### *Exculpation, Insurance and Indemnification of Office Holders*

Under the Companies Law, a company may not exculpate an office holder from liability for a breach of the duty of loyalty. An Israeli company may exculpate an office holder in advance from liability to the company, in whole or in part, for damages caused to the company as a result of a breach of duty of care, but only if a provision authorizing such exculpation is included in its articles of association. Our Amended and Restated Articles of Association include such a provision. An Israeli company may not exculpate a director from liability arising out of a prohibited dividend or distribution to shareholders.

An Israeli company may indemnify an office holder from the following liabilities and expenses incurred for acts performed as an office holder, either in advance of an event or following an event, provided a provision authorizing such indemnification is contained in its articles of association:

- a financial liability imposed on him or her in favor of another person pursuant to a judgment, including a settlement or arbitrator's award approved by a court. However, if an undertaking to indemnify an office holder with respect to such liability is provided in advance, then such an undertaking must be limited to events which, in the opinion of the board of directors, can be foreseen based on the company's activities when the undertaking to indemnify is given, and to an amount or according to criteria determined by the board of directors as reasonable under the circumstances, and such undertaking shall detail the above mentioned events and amount or criteria;
- reasonable litigation expenses, including legal fees, incurred by the office holder (1) as a result of an investigation or proceeding instituted against him or her by an authority authorized to conduct such investigation or proceeding, provided that (i) no indictment was filed against such office holder as a result of such investigation or proceeding; and (ii) no financial liability, such as a criminal penalty, was imposed upon him or her as a substitute for the criminal proceeding as a result of such investigation or proceeding or, if such financial liability was imposed, it was imposed with respect to an offense that does not require proof of criminal intent; and (2) in connection with a monetary sanction;
- reasonable litigation expenses, including legal fees, incurred by the office holder or imposed by a court in proceedings instituted against him or her by the company, on its behalf or by a third-party or in connection with criminal proceedings in which the office holder was acquitted or as a result of a conviction for an offense that does not require proof of criminal intent; and

- expenses, including reasonable litigation expenses and legal fees, incurred by an office holder in relation to an administrative proceeding instituted against such office holder, or certain compensation payments made to an injured party imposed on an office holder by an administrative proceeding, pursuant to certain provisions of the Israeli Securities Law, 5728-1968 (the “Israeli Securities Law”); and
- expenses, including reasonable litigation expenses and legal fees, incurred by an office holder in relation to an administrative proceeding instituted against such office holder pursuant to certain provisions of the Israeli Economic Competition Law, 5748-1988.

An Israeli company may insure an office holder against the following liabilities incurred for acts performed as an office holder if and to the extent provided in the company’s articles of association:

- a breach of the duty of loyalty to the company, to the extent that the office holder acted in good faith and had a reasonable basis to believe that the act would not prejudice the Company;
- a breach of the duty of care to the company or to a third-party, including a breach arising out of the negligent conduct of the office holder;
- a financial liability imposed on the office holder in favor of a third-party;
- a financial liability imposed on the office holder in favor of a third-party harmed by a breach in an administrative proceeding; and
- expenses, including reasonable litigation expenses and legal fees, incurred by the office holder as a result of an administrative proceeding instituted against him or her, pursuant to certain provisions of the Israeli Securities Law.
- an Israeli company may not indemnify or insure an office holder against any of the following:
  - a breach of the duty of loyalty, except to the extent that the office holder acted in good faith and had a reasonable basis to believe that the act would not prejudice the company;
  - a breach of the duty of care committed intentionally or recklessly, excluding a breach arising out of the negligent conduct of the office holder;
  - an act or omission committed with intent to derive illegal personal benefit; or
  - a fine, monetary sanction, or forfeit levied against the office holder.

Under the Companies Law, exculpation, indemnification, and insurance of office holders must be approved by the compensation committee and the board of directors (and, with respect to directors and the chief executive officer, by the shareholders). However, under regulations promulgated under the Companies Law, the insurance of office holders shall not require shareholder approval and may be approved by only the compensation committee if the engagement terms are determined in accordance with the company’s compensation policy, which was approved by the shareholders by the same special majority required to approve a compensation policy, provided that the insurance policy is on market terms and the insurance policy is not likely to materially impact the company’s profitability, assets, or obligations.

Our Amended and Restated Articles of Association allow us to exculpate, indemnify, and insure our office holders for any liability imposed on them as a consequence of an act (including any omission) which was performed by virtue of being an office holder. Our office holders are currently covered by a directors and officers’ liability insurance policy.

We have entered into agreements with each of our directors and executive officers exculpating them in advance, to the fullest extent permitted by law, from liability to us for damages caused to us as a result of a breach of duty of care, and undertaking to indemnify them to the fullest extent permitted by law. This indemnification is limited to events determined as foreseeable by the board of directors based on our activities and to an amount or according to criteria determined by the board of directors as reasonable under the circumstances.

The maximum indemnification amount set forth in such agreements is limited to an amount equal to the higher of \$100 million and 25% of our total shareholders' equity as reflected in our most recent consolidated financial statements prior to the date on which the indemnity payment is made. The maximum amount set forth in such agreements is in addition to any amount paid (if paid) under insurance and/or by a third-party pursuant to an indemnification arrangement.

In the opinion of the SEC, indemnification of directors and office holders for liabilities arising under the Securities Act, however, is against public policy and therefore unenforceable.

#### **D. EMPLOYEES**

As of December 31, 2023, we had 241 employees and contractors, primarily in our headquarter in Israel.

In regard to our Israeli employees, Israeli labor laws govern the length of the workday, minimum wages for employees, procedures for hiring and dismissing employees, determination of severance pay, annual leave, sick days, advance notice of termination of employment, equal opportunity and anti-discrimination laws and other conditions of employment. Subject to certain exceptions, Israeli law generally requires severance pay upon the retirement, death or dismissal of an employee, and requires us and our employees to make payments to the National Insurance Institute, which is similar to the U.S. Social Security Administration. Our employees have pension plans that comply with the applicable Israeli legal requirements, and we make monthly contributions to severance pay funds for all employees, which cover potential severance pay obligations (for additional information see Note 2(I) to the financial statements attached to this Annual Report).

None of our employees work under any collective bargaining agreements. Extension orders issued by the Israeli Ministry of Economy and Industry apply to us and affect matters such as cost of living adjustments to salaries, length of working hours and week, recuperation pay, travel expenses and pension rights.

We have never experienced labor-related work stoppages or strikes.

#### **E. SHARE OWNERSHIP**

For information regarding the share ownership of directors and officers, see Item 7.A. *“Major Shareholders and Related Party Transactions—Major Shareholders.”* For information as to our equity incentive plans, see Item 6.B. *“Director, Senior Management and Employees—Compensation—Equity incentive plans.”*

#### **F. DISCLOSURE OF A REGISTRANT’S ACTION TO RECOVER ERRONEOUSLY AWARDED COMPENSATION**

Not applicable.

### **ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

#### **A. MAJOR SHAREHOLDERS**

The following table sets forth information relating to the beneficial ownership of our Ordinary Shares as of February 14, 2024, by:

- each person, or group of affiliated persons, known by us to beneficially own more than 5% of outstanding Ordinary Shares;
- each of our directors;

- each of our executive officers; and
- all of our directors and executive officers as a group.

The SEC has defined “beneficial ownership” of a security to mean the possession, directly or indirectly, of voting power and/or investment power over such security. A shareholder is also deemed to be, as of any date, the beneficial owner of all securities that such shareholder has the right to acquire within 60 days after that date through (i) the exercise of any option, warrant or right, (ii) the conversion of a security, (iii) the power to revoke a trust, discretionary account or similar arrangement, or (iv) the automatic termination of a trust, discretionary account or similar arrangement. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, Ordinary Shares subject to options or other rights (as set forth above) held by that person that are currently exercisable, or will become exercisable within 60 days thereafter, are deemed outstanding, while such shares are not deemed outstanding for purposes of computing percentage ownership of any other person. Each person named in the table has sole voting and investment power with respect to all of the Ordinary Shares shown as beneficially owned by such person, except as otherwise indicated in the table or footnotes below.

The percentage of Ordinary Shares beneficially owned is computed on the basis of 105,211,368 Ordinary Shares outstanding as of February 14, 2024.

Unless otherwise indicated, we believe that all persons named in the table have sole voting and investment power with respect to all of our ordinary shares beneficially owned by them.

| Name                                                   | Beneficially<br>Owned | % out of<br>Issued |
|--------------------------------------------------------|-----------------------|--------------------|
| <b>5% Holders:</b>                                     |                       |                    |
| Linse Capital LLC (1)                                  | 11,190,619            | 10.64%             |
| Value Base Ltd. (2)                                    | 10,449,348            | 9.93%              |
| <b>Executive Officers and Directors:</b>               |                       |                    |
| Gideon Ben-Zvi (3)                                     | 2,851,351             | 2.71%              |
| Guy Nathanzon (4)                                      | -                     | (*)                |
| Gabi Shriki (5)                                        | 251,605               | (*)                |
| Gideon Kedem (6)                                       | 319,743               | (*)                |
| David Chairman (7)                                     | 177,955               | (*)                |
| Peter Mertens (8)                                      | 450,557               | (*)                |
| Yahal Zilka (9)                                        | 79,553                | (*)                |
| Eyal Kishon (10)                                       | 417,629               | (*)                |
| Dror Jerushalmi (11)                                   | 2,481,733             | 2.36%              |
| Moshe Lichtman (12)                                    | 3,597,229             | 3.42%              |
| Michael Linse (13)                                     | 11,270,158            | 10.71%             |
| Peter Kuo (14)                                         | 682,560               | (*)                |
| Adi Yarel Toledano (15)                                | 191,866               | (*)                |
| <b>All Executive Officers and Directors as a Group</b> | <b>22,771,939</b>     |                    |

\* Less than 1%.

- (1) Based on information reported on a Schedule 13G filed on February 11, 2022, consists of 11,190,619 shares held by Linse Capital VAL, LLC (“Linse VAL”). Linse Capital LLC (“Linse Capital”) is the manager of Linse VAL. Michael Linse (“Linse”) is the managing director of Linse Capital. Mr. Linse otherwise disclaims beneficial ownership over the shares beneficially owned by Linse Capital. The address for Linse Capital LLC is 53 Calle Palmeras, Suite 601, San Juan, Puerto Rico 00901.
- (2) Based on information reported on a Schedule 13G filed on February 13, 2024, consists of 10,449,348 shares held by Value Base Fund Limited Partnership, a Caymanian partnership. The general partner of Value Base Fund Limited Partnership is Value Base Fund General Partner Ltd., an Israeli private company (the “General Partner”), which has delegated its management responsibilities to a management company, Value Base Fund Management Ltd., an Israeli private company (the “Management Company”). Both the General Partner and the Management Company are controlled by Value Base Ltd., which directly and indirectly holds a majority of the shares of both companies. Value Base Ltd., an Israeli company, is controlled by Messrs Victor Shamrich and Ido Nouberger. Messrs Victor Shamrich and Ido Nouberger otherwise disclaim beneficial ownership over the shares beneficially owned by Value Base Ltd.
- (3) Consists of (i) 156,621 Ordinary Shares, and (ii) 2,694,730 Ordinary Shares underlying options to acquire Ordinary Shares exercisable within 60 days of February 14, 2024.
- (4) Consists of (i) 0 Ordinary Shares, and (ii) 0 Ordinary Shares underlying options to acquire Ordinary Shares exercisable within 60 days of February 14, 2024.
- (5) Consists of (i) 8,294 Ordinary Shares, and (ii) 243,311 Ordinary Shares underlying options to acquire Ordinary Shares exercisable within 60 days of February 14, 2024.
- (6) Consists of (i) 34,992 Ordinary Shares, and (ii) 284,751 Ordinary Shares underlying options to acquire Ordinary Shares exercisable within 60 days of February 14, 2024.
- (7) Consists of (i) 52,488 Ordinary Shares, and (ii) 125,467 Ordinary Shares underlying options to acquire Ordinary Shares exercisable within 60 days of February 14, 2024.
- (8) Consists of (i) 39,916 Ordinary Shares, and (ii) 410,641 Ordinary Shares underlying options to acquire Ordinary Shares exercisable within 60 days of February 14, 2024.
- (9) Consists of (i) 39,930 Ordinary Shares, and (ii) 39,623 Ordinary Shares underlying options to acquire Ordinary Shares exercisable within 60 days of February 14, 2024.
- (10) Consists of (i) 378,006 Ordinary Shares, and (ii) 39,623 Ordinary Shares underlying options to acquire Ordinary Shares exercisable with 60 days of February 14, 2024.
- (11) Consists of (i) 1,106,428 Ordinary Shares, and (ii) 1,375,305 Ordinary Shares underlying options to acquire Ordinary Shares exercisable with 60 days of February 14, 2024.
- (12) Consists of (i) 67,816 Ordinary Shares, and (ii) 39,623 Ordinary Shares underlying options to acquire Ordinary Shares exercisable within 60 days of February 14, 2024. In addition, Mr. Lichtman is a General Partner of IGP Connectivity Solutions, and may be deemed to share voting and dispositive power of 3,489,790 Ordinary Shares. Mr. Lichtman otherwise disclaims beneficial ownership over the shares beneficially owned by IGP Connectivity Solutions.
- (13) Consists of (i) 39,916 Ordinary Shares, and (ii) 39,623 Ordinary Shares underlying options to acquire Ordinary Shares exercisable within 60 days of February 14, 2024. In addition, Michael Linse is the founder and Managing Director of Linse Capital LLC and may be deemed to share voting and dispositive power of the shares held by Linse Capital LLC described above. Mr. Linse otherwise disclaims beneficial ownership over the shares beneficially owned by Linse Capital described above.
- (14) Consists of (i) 671,028 Ordinary Shares, and (ii) 11,532 Ordinary Shares underlying options to acquire Ordinary Shares exercisable within 60 days of February 14, 2024.
- (15) Consists of (i) 149,295 Ordinary Shares, and (ii) 42,571 Ordinary Shares underlying options to acquire Ordinary Shares exercisable within 60 days of February 14, 2024.

## **Registered Holders**

Based on a review of the information provided to us by our transfer agent, as of December 31, 2023, there were 10 registered holders of our shares in the United States, one of which Cede & Co., the nominee of the Depository Trust Company is a United States registered holder, holding approximately 75% of our outstanding Ordinary Shares.

## **B. RELATED PARTY TRANSACTIONS**

The below is a description of all reportable related party transactions since January 1, 2023.

### ***Rights of Appointment***

Valens' board of directors consists of nine directors. Pursuant to Valens' articles of association as in effect immediately prior to the Business Combination, certain of Valens' shareholders, including related parties, had rights to appoint directors and observers to its board of directors. As part of the Business Combination, Mr. Peter Kuo joined Valens' board of directors.

All rights to appoint directors and observers terminated upon the closing of the Business Combination.

### ***Agreements with Officers and Directors***

*Employment Agreements.* Valens has entered into employment agreements with each of its executive officers, specifying the terms of each individual's employment or service, as applicable. These agreements provide for notice periods of varying duration for termination of the agreement by us or by the relevant executive officer, during which time the executive officer will continue to receive base salary and benefits. These agreements also contain customary provisions regarding noncompetition, confidentiality of information and assignment of inventions. However, the enforceability of the noncompetition provisions may be limited under applicable law.

In February 2020, the Company changed the employment terms of Mr. Dror Jerushalmi, who is also a member of the Board of Directors, into a fixed term employment of 5 years, ending in January 2025.

*Non-Employee Director Compensation.* During the years ended as of December 31, 2023 and 2022, the Company paid to the non-employee directors, a total amount of \$0.4 million, annually. . The payment was made in accordance with the Non-Employee Directors Compensation Package. For more information see "Part I, Item 6. Directors, Senior Management and Employees- B. Compensation".

*CEO Compensation Package.* For more information see "Part I, Item 6. Directors, Senior Management and Employees- B. Compensation".

*Options and RSUs.* Since Valens' inception, Valens has granted options to purchase Valens ordinary shares and RSUs to its executive officers and directors.

*Exculpation, indemnification, and insurance.* Valens' Amended and Restated Articles of Association permit it to exculpate, indemnify and insure certain of its officeholders (as such term is defined under the Companies Law) to the fullest extent permitted by the Companies Law. Valens entered into agreements with certain officeholders, exculpating them from a breach of their duty of care to Valens to the fullest extent permitted by law and undertaking to indemnify them to the fullest extent permitted by law, subject to certain exceptions, including with respect to liabilities resulting from the closing of the Business Combination to the extent that these liabilities are not covered by insurance.

### ***Investors' Rights Agreement***

Concurrently with the execution of the Business Combination Agreement dated May 25, 2021, Valens, PTK Holdings LLC (the "Sponsor") and certain shareholders of Valens entered into the Investors' Rights Agreement pursuant to which, following completion of the Transactions, Valens agreed to register for resale upon demand certain Valens ordinary shares that are held by the parties thereto from time to time. In certain circumstances, various parties to the Investors' Rights Agreement will also be entitled to customary piggyback registration rights, in each case subject to certain limitations set forth in the Investors' Rights Agreement. In addition, the Investors' Rights Agreement provides that Valens will pay certain expenses relating to such registrations and indemnify the shareholders against certain liabilities. The rights granted under the Investors' Rights Agreement supersede any prior registration, qualification, or similar rights of the parties with respect to Valens securities, and all such prior agreements shall be terminated.

### ***Loans Granted to Members of the Board of Directors or Executive Management***

As of the date of this Annual Report, we have no outstanding loan or guarantee commitments to members of the board of directors or management.

### ***Indemnification Agreements***

We have entered into indemnification agreements with our directors and executive officers. See "Management—Exculpation, Insurance and Indemnification of Directors and Officers."

### ***Other Related Party Transactions***

As of December 31, 2023, and 2022, the Company accrued \$0 and \$142, for services provided to the PTK Acquisition Corp. by its Sponsor in connection with the Merger.

### ***Approval of Related Party Transactions under Israeli Law***

For a discussion of the approval of related party transactions under Israeli law, see "Management—Approval of Related Party Transactions under Israeli Law."

## **C. INTERESTS OF EXPERTS AND COUNSEL**

Not applicable.

## **ITEM 8. FINANCIAL INFORMATION**

### **A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION**

See Item 18 of this Annual Report for consolidated financial statements and other financial information.

### **Legal Proceedings**

From time to time, Valens may become involved in legal proceedings or be subject to claims arising in the ordinary course of its business. Valens is not currently a party to any legal proceedings, the outcome of which, if determined adversely to Valens, would individually or in the aggregate have a material effect on its business or financial condition.

## **B. SIGNIFICANT CHANGES**

None.

## **ITEM 9. THE OFFER AND LISTING**

### **A. OFFER AND LISTING DETAILS**

The Ordinary Shares and Warrants are listed on The New York Stock Exchange under the symbols “VLN” and “VLNW”, respectively.

### **B. PLAN OF DISTRIBUTION**

Not applicable.

### **C. MARKETS**

See “Part I, Item 9. The Offer and Listing—A. Offer and Listing Details.”

### **D. SELLING SHAREHOLDERS**

Not applicable.

### **E. DILUTION**

Not applicable.

### **F. EXPENSES OF THE ISSUE**

Not applicable.

## **ITEM 10. ADDITIONAL INFORMATION**

### **A. SHARE CAPITAL**

Not applicable.

### **B. MEMORANDUM AND ARTICLES OF ASSOCIATION**

A copy of our Amended Articles is attached as Exhibit 1.1 to this Annual Report. The information called for by this Item is set forth in Exhibit 2.1 to this Annual Report and is incorporated by reference into this Annual Report.

#### **Share Capital**

As of December 31, 2023, we had 104,160,646 ordinary shares outstanding, including 1,006,250 Forfeiture Shares.

### **C. MATERIAL CONTRACTS**

The following is a summary of each material contract, other than material contracts entered into in the ordinary course of business, to which we are or have been a party, for the two years immediately preceding the date of this Annual Report:

- Form of Indemnification Agreement. See Item 6. “Directors, Senior Management and Employees” for more information about this document.
- Compensation Policy for Directors and Officers. See Item 6. “Directors, Senior Management and Employees” for more information about this document.

- Valens Semiconductor Ltd. 2007 Option Plan. See Item 6. “Directors, Senior Management and Employees” for more information about this document.
- Valens Semiconductor Ltd. 2012 Option Plan. See Item 6. “Directors, Senior Management and Employees” for more information about this document.
- Valens Semiconductor Ltd. 2021 Share Incentive Plan. See Item 6. “Directors, Senior Management and Employees” for more information about this document.
- Valens Semiconductor Ltd. 2021 Employee Stock Purchase Plan. See Item 6. “Directors, Senior Management and Employees” for more information about this document.
- For more information concerning our material contracts, see “Part I, Item 4. Information on the Company” and “Part I, Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions.”

#### **D. EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING SECURITYHOLDERS**

Israeli law and regulations do not impose any material foreign exchange restrictions on non-Israeli holders of our Ordinary Shares and Warrants. There are currently no Israeli currency control restrictions on payments of dividends or other distributions with respect to our Ordinary Shares or the proceeds from the sale of the Ordinary Shares or Warrants, except for the obligation of Israeli residents to file reports with the Bank of Israel regarding certain transactions. However, legislation remains in effect pursuant to which currency controls can be imposed by administrative action at any time.

The ownership or voting of our Ordinary Shares and Warrants by non-residents of Israel, except with respect to citizens of countries which are in a state of war with Israel, is not restricted in any way by our Amended Articles or by the laws of the State of Israel.

#### **E. TAXATION**

##### **MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS**

The following discussion is a summary of the material U.S. federal income tax considerations for U.S. Holders (as defined below) concerning the ownership and disposition of Valens’ ordinary shares and Valens’ warrants, as well as the potential application of Section 7874 of the U.S. Internal Revenue Code of 1986, as amended (the “Code”) to Valens as a result of the Business Combination. This discussion applies only to Valens’ ordinary shares and Valens’ warrants, as the case may be, that are held as “capital assets” within the meaning of Section 1221 of the Code (generally, property held for investment).

The following does not purport to be a complete analysis of all potential tax considerations arising in connection with the ownership and disposition of Valens’ ordinary shares and Valens’ warrants. The effects of and consequences under other U.S. federal tax laws, such as estate and gift tax laws, alternative minimum tax or Medicare contribution tax consequences and any applicable state, local or non-U.S. tax laws are not discussed. This discussion is based on the Code, Treasury regulations promulgated thereunder, judicial decisions, published rulings and administrative pronouncements of the U.S. Internal Revenue Services (the “IRS”) and the income tax treaty between the United States and Israel (the “Treaty”), in each case in effect as of the date hereof. These authorities may change or be subject to differing interpretations. Any such change or differing interpretation may be applied retroactively in a manner that could adversely affect the tax consequences discussed below. Valens has not sought and will seek any rulings from the IRS regarding the matters discussed below. There can be no assurance the IRS will not take or a court will not sustain a contrary position to that discussed below regarding the tax consequences discussed below.

This discussion does not address all U.S. federal income tax consequences relevant to a holder's particular circumstances. In addition, it does not address consequences relevant to holders subject to special rules, including, without limitation:

- banks, insurance companies, and certain other financial institutions;
- regulated investment companies and real estate investment trusts;
- dealers or traders in securities that use a mark to market method of accounting;
- tax-exempt entities, "individual retirement accounts" or "Roth IRAs";
- persons holding Valens ordinary shares and/or Valens warrants as part of a straddle, integrated or similar transaction;
- persons subject to special tax accounting rules as a result of any item of gross income with respect to Valens ordinary shares and/or Valens warrants, as the case may be, being taken into account in an applicable financial statement;
- persons that actually or constructively own 10% or more (by vote or value) of the outstanding Valens ordinary shares;
- persons holding Valens ordinary shares or Valens warrants in connection with a trade or business outside the United States.
- an entity or arrangement treated as a partnership for U.S. federal income tax purposes (and investors therein);
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar; and
- persons who hold or received Valens' ordinary shares and/or Valens' warrants, as the case may be, pursuant to the exercise of any employee stock option or otherwise as compensation.

For purposes of this discussion, a "U.S. Holder" is, for U.S. federal income tax purposes, any beneficial owner of Valens' ordinary shares or Valens' warrants, that is:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation) created or organized in or under the laws of the United States, any state therein or the District of Columbia; or
- an estate or trust the income of which is subject to U.S. federal income tax regardless of its source.

If an entity that is treated as a partnership for U.S. federal income tax purposes holds Valens' ordinary shares or Valens' warrants, the tax treatment of a partner in such partnership will depend on the status of the partner and the activities of the partnership. Accordingly, partnerships owning Valens' ordinary shares or Valens' warrants and the partners in such partnerships should consult their tax advisors regarding the U.S. federal income tax consequences to them of owning and disposing of Valens' ordinary shares or Valens' warrants.

**YOU ARE URGED TO CONSULT YOUR TAX ADVISOR REGARDING THE U.S. FEDERAL, STATE, AND LOCAL, AND NON-U.S. INCOME AND OTHER TAX CONSEQUENCES TO YOU, IN LIGHT OF YOUR PARTICULAR INVESTMENT OR TAX CIRCUMSTANCES, OF OWNING AND DISPOSING OF VALENS' ORDINARY SHARES AND VALENS' WARRANTS.**

## **U.S. Federal Income Tax Treatment of Valens**

### ***Tax Residence of Valens for U.S. Federal Income Tax Purposes***

Although Valens is incorporated and tax resident in Israel, the IRS may assert that it should be treated as a U.S. corporation (and therefore a U.S. tax resident) for U.S. federal income tax purposes pursuant to Section 7874 of the Code. For U.S. federal income tax purposes, a corporation is generally considered a U.S. “domestic” corporation (or U.S. tax resident) if it is organized in the United States, and a corporation is generally considered a “foreign” corporation (or non-U.S. tax resident) if it is not organized in the United States. Because Valens is an entity incorporated and tax resident in Israel, it would generally be classified as a foreign corporation (or non-U.S. tax resident) under these rules. However, Section 7874 of the Code provides an exception under which a foreign incorporated and foreign tax resident entity may, in certain circumstances, be treated as a U.S. corporation for U.S. federal income tax purposes.

Under Section 7874 of the Code, a corporation created or organized outside the United States (i.e., a foreign corporation) will nevertheless be treated as a U.S. corporation for U.S. federal income tax purposes when (i) the foreign corporation directly or indirectly acquires substantially all of the assets held directly or indirectly by a U.S. corporation (including the indirect acquisition of assets of the U.S. corporation by acquiring the outstanding shares of the U.S. corporation), (ii) the former shareholders of the acquired U.S. corporation hold or are treated as holding, by vote or value, at least 80% (or 60% where in a transaction related to the acquisition described in (i) above the foreign acquiring corporation acquires another foreign corporation, and after the transaction, the foreign acquiring corporation is not a tax resident in the jurisdiction in which the foreign acquired corporation was resident prior to the transaction, which should not be applicable to the Business Combination) of the shares of the foreign acquiring corporation after the acquisition by reason of holding shares in the U.S. acquired corporation (the “Section 7874 Percentage”), and (iii) the foreign corporation’s “expanded affiliated group” does not have substantial business activities in the foreign corporation’s country of tax residency relative to such expanded affiliated group’s worldwide activities (the “Substantial Business Activities Exception”). In order to satisfy the Substantial Business Activities Exception, at least 25% of the employees (by headcount and compensation), real and tangible assets and gross income of the foreign acquiring corporation’s “expanded affiliated group” must be based, located and derived, respectively, in the country in which the foreign acquiring corporation is a tax resident after the acquisition. The Treasury regulations promulgated under Section 7874 of the Code (the “Section 7874 Regulations”) provide for a number of special rules that aggregate multiple acquisitions of U.S. corporations for purposes of Section 7874 of the Code as part of a plan or conducted over a 36-month period. Certain acquisitions of U.S. corporations over a 36-month period will impact the Section 7874 Percentage, making it more likely that Section 7874 of the Code will apply to a foreign acquiring corporation. Moreover, former PTK securityholders will be deemed to own an amount of Valens ordinary shares in respect to certain redemptions by PTK of shares of PTK common stock prior to the Business Combination for purposes of determining the Section 7874 Percentage.

Valens has indirectly acquired substantially all of the assets of PTK as a result of the Business Combination. As such, Section 7874 of the Code may apply to cause Valens to be treated as a U.S. corporation for U.S. federal income tax purposes following the Business Combination depending on whether the Section 7874 Percentage equals or exceeds 80% or whether the Substantial Business Activities Exception is met.

Based upon the terms of the Business Combination, the rules for determining share ownership under Section 7874 of the Code and the Section 7874 Regulations, and certain factual assumptions, Valens believes that the Section 7874 Percentage of the PTK stockholders in Valens should have been less than 80% after the Business Combination. Accordingly, Valens is not expected to be treated as a U.S. corporation for U.S. federal income tax purposes under Section 7874 of the Code. The calculation of the Section 7874 Percentage is complex and is subject to detailed regulations (the application of which is uncertain in various respects and would be impacted by changes in such Treasury regulations with possible retroactive effect) and is subject to certain factual uncertainties. Accordingly, there can be no assurance that the IRS will not challenge the status of Valens as a foreign corporation under Section 7874 of the Code or that such challenge would not be sustained by a court.

If the IRS were to successfully challenge, under Section 7874 of the Code, Valens’ status as a foreign corporation for U.S. federal income tax purposes, Valens and certain Valens shareholders generally would be subject to significant adverse tax consequences, including a higher effective corporate income tax rate on Valens and potential future withholding taxes on distributions to non-U.S. Valens shareholders, depending on the application of any income tax treaty that might apply to reduce such withholding taxes.

However, even if the Section 7874 Percentage was such that Valens were still respected as a foreign corporation under Section 7874 of the Code, Valens may be limited in using its equity to engage in future acquisitions of U.S. corporations over a 36-month period following the Business Combination. If Valens were to be treated as acquiring substantially all of the assets of a U.S. corporation within a 36-month period after the Business Combination, the Section 7874 Regulations would exclude certain shares of Valens attributable to the Business Combination for purposes of determining the Section 7874 Percentage of that subsequent acquisition, making it more likely that Section 7874 of the Code would apply to such subsequent acquisition.

The remainder of this discussion assumes that Valens will not be treated as a U.S. corporation for U.S. federal income tax purposes under Section 7874 of the Code.

***Utilization of PTK's Tax Attributes and Certain Other Adverse Tax Consequences to Valens and Valens' Shareholders.***

Following the acquisition of a U.S. corporation by a foreign corporation, such as in the Business Combination, Section 7874 of the Code can limit the ability of the acquired U.S. corporation and its U.S. affiliates to use U.S. tax attributes (including net operating losses and certain tax credits) to offset U.S. taxable income resulting from certain transactions, as well as result in certain other adverse tax consequences, even if the acquiring foreign corporation is respected as a foreign corporation for purposes of Section 7874 of the Code. Specifically, Section 7874 of the Code can apply in this manner if (i) the foreign corporation acquires, directly or indirectly, substantially all of the properties held directly or indirectly by a U.S. corporation, (ii) after the acquisition, the former shareholders of the acquired U.S. corporation hold or are treated as holding at least 60% (by vote or value) but less than 80% (by vote and value) of the shares of the foreign acquiring corporation by reason of holding shares in the acquired U.S. corporation, and (iii) the foreign corporation's "expanded affiliated group" does not meet the Substantial Business Activities Exception.

Based upon the terms of the Business Combination, the rules for determining share ownership under Section 7874 of the Code and the Section 7874 Regulations, and certain factual assumptions, Valens currently believes that the Section 7874 Percentage should have been less than 60% after the Business Combination. Accordingly, the limitations and other rules described above and below are not expected to apply to Valens after the Business Combination.

If the Section 7874 Percentage applicable to the Business Combination is at least 60% but less than 80%, Valens and certain of Valens' shareholders may be subject to adverse tax consequences including, but not limited to, restrictions on the use of tax attributes with respect to "inversion gain" recognized over a 10-year period following the transaction, disqualification of dividends paid from preferential "qualified dividend income" rates and the requirement that any U.S. corporation owned by Valens include as "base erosion payments" that may be subject to a minimum U.S. federal income tax any amounts treated as reductions in gross income paid to certain related foreign persons. Furthermore, certain "disqualified individuals" (including officers and directors of a U.S. corporation) may be subject to an excise tax on certain stock-based compensation held thereby at a rate of 20%. PTK did not have tax attributes to offset any inversion gain which might exist, regardless of whether PTK had any amount of inversion gain. However, as a blank check company whose assets are primarily comprised of cash and cash equivalents, Valens does not believe that PTK had a significant amount of inversion gain as a result of the Business Combination. Moreover, if it is determined that the Section 7874 Percentage is at least 60% (but less than 80%) and that Valens is tax resident in a jurisdiction other than Israel, Valens would be treated as a U.S. corporation under Section 7874 of the Code in the same manner as described above under "*Tax Residence of Valens for U.S. Federal Income Tax Purposes.*"

The above determination, however, is subject to detailed Treasury regulations (the application of which is uncertain in various respects and would be impacted by future changes in such Treasury regulations, with possible retroactive effect) and is subject to certain uncertainties. There can be no assurance that the IRS will not challenge whether Valens is subject to the above rules or that such a challenge would not be sustained by a court. If the IRS successfully applied these rules to Valens, significant adverse tax consequences would result for Valens and for certain Valens' shareholders, including a higher effective corporate tax rate on Valens.

The remainder of this discussion assumes that the limitations and other rules described above do not apply to Valens after the Business Combination.

## U.S. Federal Income Tax Considerations of Ownership and Disposition of Valens' Ordinary Shares and Valens

### Warrants to U.S. Holders

#### *Distributions on Valens' Ordinary Shares*

If Valens makes distributions of cash or property on Valens' ordinary shares, such distributions will be treated for U.S. federal income tax purposes first as a dividend to the extent of Valens' current or accumulated earnings and profits (as determined for U.S. federal income tax purposes), and then as a tax-free return of capital to the extent of the U.S. Holder's tax basis, with any excess treated as capital gain from the sale or exchange of the shares. As Valens does not calculate its earnings and profits under U.S. federal income tax principles, a U.S. Holder should expect all cash distributions to be reported as dividends for U.S. federal income tax purposes. Any dividend will not be eligible for the dividends received deduction allowed to corporations in respect of dividends received from U.S. corporations.

Subject to the discussions above under “—*Utilization of PTK's Tax Attributes and Certain Other Adverse Tax Consequences to Valens and Valens' Shareholders*” and below under “—*Passive Foreign Investment Company Rules*,” dividends received by certain non-corporate U.S. Holders (including individuals) may be “qualified dividend income,” which is taxed at the lower applicable capital gains rate, provided that:

- either (a) the ordinary shares are readily tradable on an established securities market in the United States (such as the NYSE, where Valens' ordinary shares are listed), or (b) Valens is eligible for the benefits of a qualifying income tax treaty with the United States that includes an exchange of information program;
- Valens is neither a PFIC (as discussed below under below under “—*Passive Foreign Investment Company Rules*”) nor treated as such with respect to the U.S. Holder for Valens' taxable year in which the dividend is paid or the preceding taxable year;
- the U.S. Holder satisfies certain holding period requirements; and
- the U.S. Holder is not under an obligation to make related payments with respect to positions in substantially similar or related property.

There can be no assurances that Valens will be eligible for the benefits of the Treaty. Furthermore, Valens will not constitute a “qualified foreign corporation” for purposes of these rules if it is a PFIC for its taxable year in which it pays a dividend or for the preceding taxable year. See “—*Passive Foreign Investment Company Rules*.” U.S. Holders should consult their own tax advisors regarding the availability of the lower rate for dividends paid with respect to Valens ordinary shares.

The amount of any dividend distribution paid in foreign currency will be the U.S. dollar amount calculated by reference to the applicable exchange rate in effect on the date of actual or constructive receipt, regardless of whether the payment is in fact converted into U.S. dollars at that time. A U.S. Holder may have foreign currency gain or loss if the dividend is converted into U.S. dollars after the date of receipt.

Dividends paid by a non-U.S. corporation are generally treated as foreign source income for foreign tax credit limitation purposes. However, if Valens is a “United States-owned foreign corporation,” subject to certain exceptions the portion of any dividend payments allocable to Valens' U.S.-source earnings and profits may be re-characterized as U.S. source for foreign tax credit purposes. A “United States owned foreign corporation” is any foreign corporation in which United States persons own, directly or indirectly, 50% or more of the stock (by vote or by value).

For U.S. federal income tax purposes, the amount of dividend income will include any amounts withheld in respect of any Israeli taxes. Israeli taxes withheld from dividend payments (at a rate not exceeding any applicable rate provided by the Treaty in the case of a U.S. Holder eligible for Treaty benefits) generally will be creditable against the U.S. Holder's U.S. federal income tax liability. If such dividends are qualified dividend income (as discussed above), the amount of the dividend taken into account for purposes of calculating the foreign tax credit limitation will be limited to the gross amount of the dividend, multiplied by a fraction, the numerator of which is the reduced rate applicable to qualified dividend income and the denominator of which is the highest rate of tax normally applicable to dividends. The limitation on non-U.S. taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends distributed by Valens with respect to Valens' ordinary shares generally will constitute "passive category income" but could, in the case of certain U.S. Holders, constitute "general category income." The rules governing the treatment of foreign tax credits are complex. For example, Treasury regulations provide that, in the absence of an election to apply the benefits of an applicable income tax treaty, in order for foreign taxes to be creditable the relevant foreign income tax rules must be consistent with certain U.S. federal income tax principles, and we have not determined whether the Israeli income tax system meets these requirements. However, the IRS has released notices that provide relief from certain of the provisions of the Treasury regulations described above for taxable years ending before the date that a notice or other guidance withdrawing or modifying the temporary relief is issued (or any later date specified in such notice or other guidance). U.S. Holders should consult their tax advisors about the impact of these rules in their particular situation. In lieu of claiming a foreign tax credit, U.S. Holders may elect to deduct non-U.S. taxes (including Israeli taxes) in computing their taxable income, subject to applicable limitations. An election to deduct creditable non-U.S. taxes instead of claiming foreign tax credits applies to all such non-U.S. taxes paid or accrued in the taxable year.

#### ***Sale, Exchange, Redemption or Other Taxable Disposition of Valens' Ordinary Shares and Valens' Warrants***

Subject to the discussion below under "*Passive Foreign Investment Company Rules*," a U.S. Holder generally will recognize gain or loss on any sale, exchange, redemption or other taxable disposition of Valens' ordinary shares or Valens' warrants in an amount equal to the difference between (i) the amount realized on the disposition and (ii) such U.S. Holder's adjusted tax basis in such Valens' ordinary shares or Valens' warrants. Any gain or loss recognized by a U.S. Holder on a taxable disposition of Valens' ordinary shares or Valens' warrants generally will be capital gain or loss. A non-corporate U.S. Holder, including an individual, who has held Valens' ordinary shares or Valens' warrants for more than one year generally will be eligible for reduced tax rates for such long-term capital gains. The deductibility of capital losses is subject to limitations.

Any such gain or loss recognized generally will be treated as U.S. source gain or loss for foreign tax credit purposes. Under Treasury regulations, Israeli taxes imposed on gain from the sale or other disposition of Valens' ordinary shares or Valens warrants generally will not be creditable against a U.S. Holder's U.S. federal income tax liability. However, such Israeli taxes, if any, may be deductible or reduce the amount realized upon a sale or disposition. U.S. Holders should consult their tax advisors regarding the consequences of any Israeli taxes imposed on a sale or other disposition of Valens ordinary shares or Valens warrants.

#### ***Exercise or Lapse of a Valens Warrant***

Except as discussed below with respect to the cashless exercise of a Valens' warrant, a U.S. Holder generally will not recognize gain or loss upon the acquisition of a Valens' ordinary share on the exercise of a Valens warrant for cash. A U.S. Holder's tax basis in a Valens ordinary shares received upon exercise of Valens' warrant generally should be an amount equal to the sum of the U.S. Holder's tax basis in Valens' warrant exercised and the exercise price. The U.S. Holder's holding period for a Valens ordinary share received upon exercise of Valens' warrant will generally begin on the date following the date of exercise (or possibly the date of exercise) of Valens' warrant and will not include the period during which the U.S. Holder held the Valens warrant. If a Valens warrant is allowed to lapse unexercised, a U.S. Holder that has otherwise received no proceeds with respect to such Valens warrant generally will recognize a capital loss equal to such U.S. Holder's tax basis in the Valens warrant. The tax consequences of a cashless exercise of a Valens warrant are not clear under current U.S. federal income tax law. A cashless exercise may be tax-deferred, either because the exercise is not a realization event or because the exercise is treated as a recapitalization for U.S. federal income tax purposes. In either situation, a U.S. Holder's basis in Valens' ordinary shares received would generally equal the U.S. Holder's basis in the Valens warrants exercised for such shares. If the cashless exercise is not treated as a realization event, a U.S. Holder's holding period in Valens' ordinary shares would generally be treated as commencing on the date following the date of exercise (or possibly the date of exercise) of the Valens warrants. If the cashless exercise were treated as a recapitalization, the holding period of Valens' ordinary shares would generally include the holding period of the Valens warrants exercised therefor.

It is also possible that a cashless exercise of a Valens warrant could be treated in part as a taxable exchange in which gain or loss would be recognized in the manner set forth above under “—*Sale, Exchange, Redemption or Other Taxable Disposition of Valens Ordinary Shares and Valens Warrants.*” In such event, a U.S. Holder could be deemed to have surrendered warrants having an aggregate fair market value equal to the exercise price for the total number of warrants to be exercised. The U.S. Holder would recognize capital gain or loss in an amount generally equal to the difference between (i) the fair market value of the Valens warrants deemed surrendered and (ii) the U.S. Holder’s tax basis in such Valens warrants deemed surrendered. In this case, a U.S. Holder’s tax basis in Valens’ ordinary shares received would equal the sum of (i) U.S. Holder’s tax basis in Valens’ warrants deemed exercised and (ii) the exercise price of such Valens warrants. A U.S. Holder’s holding period for Valens’ ordinary shares received in such case generally would commence on the date following the date of exercise (or possibly the date of exercise) of the Valens warrants.

Due to the absence of authority on the U.S. federal income tax treatment of a cashless exercise of warrants, there can be no assurance which, if any, of the alternative tax consequences and holding periods described above would be adopted by the IRS or a court of law. Accordingly, U.S. Holders should consult their own tax advisors regarding the tax consequences of a cashless exercise of Valens warrants.

#### ***Possible Constructive Distributions***

The terms of each Valens warrant provide for an adjustment to the number of Valens ordinary shares for which the Valens warrant may be exercised or to the exercise price of the Valens warrant in certain events. An adjustment which has the effect of preventing dilution generally is not taxable. A U.S. Holder of a Valens warrant would, however, be treated as receiving a constructive distribution from Valens if, for example, the adjustment increases the holder’s proportionate interest in Valens’ assets or earnings and profits (for instance, through an increase in the number of Valens ordinary shares that would be obtained upon exercise of such warrant) as a result of a distribution of cash or other property such as other securities to the holders of Valens’ ordinary shares which is taxable to the U.S. Holders of such shares as described under “—*Distributions on Valens Ordinary Shares*” above. Such constructive distribution would be subject to tax as described under that section in the same manner as if the U.S. Holder of such Valens warrant received a cash distribution from Valens equal to the fair market value of such increased interest.

#### ***Passive Foreign Investment Company Rules***

The treatment of U.S. Holders of Valens’ ordinary shares or Valens warrants could be materially different from that described above if Valens is a PFIC for U.S. federal income tax purposes. A non-U.S. entity treated as a corporation for U.S. federal income tax purposes generally will be a PFIC for U.S. federal income tax purposes for any taxable year if either:

- at least 75% of its gross income for such year is passive income; or
- at least 50% of the value of its assets (generally based on an average of the quarterly values of the assets) during such year is attributable to assets that produce passive income or are held for the production of passive income (including cash).

For this purpose, Valens will be treated as owning its proportionate share of the assets and earning its proportionate share of the income of any other entity treated as a corporation for U.S. federal income tax purposes in which Valens owns, directly or indirectly, 25% or more (by value) of the stock. Passive income generally includes dividends, interest, rents, royalties and capital gains. Goodwill is generally treated as an active asset to the extent associated with business activities that produce active income.

Although Valens has not obtained independent valuations of its assets for its taxable year ending 2023, and thus is not in a position to make a definitive determination as to whether it was a PFIC in 2023, based on the composition of its income and assets during 2023 and the estimated value of its assets (which is based on its average market capitalization during 2023), Valens believes that it was not a PFIC for 2023. However, the application of the PFIC rules is subject to uncertainty in several respects, and Valens cannot assure you that the IRS will not take a contrary position or that a court will not sustain such a challenge by the IRS. Furthermore, because of the substantial decline in Valens's market capitalization in 2023, whether Valens will be a PFIC for 2024 and future taxable years is uncertain. The determination of whether Valens is a PFIC is an annual factual determination that depends on, among other things, the composition of Valens' income and assets, and the value of its and its subsidiaries' shares and assets from time to time (including the value of Valens' goodwill, which may be determined, in large part, by reference to the market price of Valens' ordinary shares from time to time, which has been, and may continue to be, volatile and in decline). As a result, the average value of Valens' goodwill and other active assets may not be sufficiently large in relation to the average value of its passive assets for any taxable year. In particular, because the value of Valens' goodwill may be determined by reference to the market price of Valens' ordinary shares from time to time, and because Valens holds and may continue to hold significant amounts of cash and other passive assets, if Valens' market capitalization continues to decline, then there is a significant risk that Valens could be a PFIC for 2024, depending on the composition and average value of its assets for 2024 (which cannot be determined until after 2024).

Under the PFIC rules, if Valens is a PFIC at any time that a U.S. Holder owns Valens ordinary shares or Valens warrants, Valens will continue to be treated as a PFIC with respect to such investment unless (i) it ceases to be a PFIC and (ii) the U.S. Holder makes a "deemed sale" election under the PFIC rules. If such election is made, a U.S. Holder will be deemed to have sold its Valens ordinary shares and/or Valens warrants at their fair market value on the last day of the last taxable year in which Valens is classified as a PFIC, and any gain from such deemed sale would be subject to the consequences described below, but any loss would not be recognized. After the deemed sale election, Valens' ordinary shares or Valens warrants with respect to which the deemed sale election was made will not be treated as shares in a PFIC unless Valens subsequently becomes a PFIC.

For each taxable year that Valens is treated as a PFIC with respect to a U.S. Holder's Valens ordinary shares or Valens warrants, the U.S. Holder will be subject to special tax rules with respect to any "excess distribution" (as defined below) received and any gain realized from a sale or disposition (including a pledge) of its Valens ordinary shares (collectively the "Excess Distribution Rules"), unless the U.S. Holder makes a valid QEF election or mark-to-market election as discussed below. Distributions received by a U.S. Holder in a taxable year that are greater than 125% of the average annual distributions received during the shorter of the three preceding taxable years or the U.S. Holder's holding period for Valens' ordinary shares will be treated as excess distributions. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over the U.S. Holder's holding period for Valens' ordinary shares;
- the amount allocated to the current taxable year, and any taxable years in the U.S. Holder's holding period prior to the first taxable year in which Valens is a PFIC, will be treated as ordinary income; and
- the amount allocated to each other taxable year will be subject to the highest tax rate in effect for individuals or corporations, as applicable, for each such year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

Under the Excess Distribution Rules, the tax liability for amounts allocated to taxable years prior to the year of disposition or excess distribution cannot be offset by any net operating losses, and gains (but not losses) realized on the sale of Valens' ordinary shares or Valens warrants cannot be treated as capital gains, even though the U.S. Holder holds Valens' ordinary shares or Valens warrants as capital assets.

Certain of the PFIC rules may impact U.S. Holders with respect to equity interests in subsidiaries and other entities which Valens may hold, directly or indirectly, that are PFICs (collectively, “Lower-Tier PFICs”) if Valens is treated as a PFIC. There can be no assurance, however, that Valens does not own, or will not in the future acquire, an interest in a subsidiary or other entity that is or would be treated as a Lower-Tier PFIC. U.S. Holders should consult their own tax advisors regarding the application of the PFIC rules to any of Valens’ subsidiaries.

If Valens is a PFIC, a U.S. Holder of Valens ordinary shares (but not Valens warrants) may avoid taxation under the Excess Distribution Rules described above by making a “qualified electing fund” (“QEF”) election. However, a U.S. Holder may make a QEF election with respect to its Valens ordinary shares only if Valens provides its U.S. Holders on an annual basis with certain financial information specified under applicable U.S. Treasury regulations. At the request (and sole cost) of any U.S. Holders, Valens will endeavor to provide the required information on an annual basis to allow U.S. Holders to make a QEF election with respect to the Valens ordinary shares in the event Valens is treated as a PFIC for any taxable year. There can be no assurance, however, that Valens will timely provide such information for the current year or subsequent years. The failure to provide such information on an annual basis could prevent a U.S. Holder from making a QEF election or result in the invalidation or termination of a U.S. Holder’s prior QEF election. In addition, U.S. Holders of Valens warrants will not be able to make a QEF election with respect to their warrants.

In the event Valens is a PFIC, a U.S. Holder that makes a QEF election with respect to its Valens ordinary shares would generally be required to include in income for each year that Valens is treated as a PFIC the U.S. Holder’s pro rata share of Valens’ ordinary earnings for the year (which would be subject to tax as ordinary income) and net capital gains for the year (which would be subject to tax at the rates applicable to long-term capital gains), without regard to the amount of any distributions made in respect of Valens’ ordinary shares. Any net deficits or net capital losses of Valens for a taxable year would not be passed through and included on the tax return of the U.S. Holder, however. A U.S. Holder’s basis in Valens’ ordinary shares would be increased by the amount of income inclusions under the qualified electing fund rules. Dividends actually paid on Valens’ ordinary shares generally would not be subject to U.S. federal income tax to the extent of prior income inclusions and would reduce the U.S. Holder’s basis in Valens’ ordinary shares by a corresponding amount.

If Valens owns any interests in a Lower-Tier PFIC, a U.S. Holder generally must make a separate QEF election for each Lower-Tier PFIC, subject to Valens’ providing the relevant tax information for each Lower-Tier PFIC on an annual basis.

If a U.S. Holder does not make a QEF election (or a mark-to-market election, as discussed below) effective from the first taxable year of a U.S. Holder’s holding period for Valens’ ordinary shares in which Valens is a PFIC, then Valens’ ordinary shares will generally continue to be treated as an interest in a PFIC, and the U.S. Holder generally will remain subject to the Excess Distribution Rules. A U.S. Holder that first makes a QEF election in a later year may avoid the continued application of the Excess Distribution Rules to its Valens ordinary shares by making a “deemed sale” election. In that case, the U.S. Holder will be deemed to have sold Valens’ ordinary shares at their fair market value on the first day of the taxable year in which the QEF election becomes effective, and any gain from such deemed sale would be subject to the Excess Distribution Rules described above. A U.S. Holder that is eligible to make a QEF election with respect to its Valens ordinary shares generally may do so by providing the appropriate information to the IRS in the U.S. Holder’s timely filed tax return for the year in which the election becomes effective.

U.S. Holders should consult their own tax advisors as to the availability and desirability of a QEF election in case Valens is a PFIC for any taxable year.

Alternatively, a U.S. Holder of “marketable stock” (as defined below) may make a mark-to-market election for its Valens ordinary shares to elect out of the Excess Distribution Rules discussed above if Valens is treated as a PFIC. If a U.S. Holder makes a mark-to-market election with respect to its Valens ordinary shares, such U.S. Holder will include in income for each year that Valens is treated as a PFIC with respect to such Valens ordinary shares an amount equal to the excess, if any, of the fair market value of Valens’ ordinary shares as of the close of the U.S. Holder’s taxable year over the adjusted basis in Valens’ ordinary shares. A U.S. Holder will be allowed a deduction for the excess, if any, of the adjusted basis of Valens’ ordinary shares over their fair market value as of the close of the taxable year. However, deductions will be allowed only to the extent of any net mark-to-market gains on Valens’ ordinary shares included in the U.S. Holder’s income for prior taxable years. Amounts included in income under a mark-to-market election, as well as gain on the actual sale or other disposition of Valens’ ordinary shares, will be treated as ordinary income. Ordinary loss treatment will also apply to the deductible portion of any mark-to-market loss on Valens’ ordinary shares, as well as to any loss realized on the actual sale or disposition of Valens’ ordinary shares, to the extent the amount of such loss does not exceed the net mark-to-market gains for such Valens ordinary shares previously included in income. A U.S. Holder’s basis in Valens’ ordinary shares will be adjusted to reflect any mark-to-market income or loss. If a U.S. Holder makes a mark-to-market election, any distributions Valens makes would generally be subject to the rules discussed above under “—*Distributions on Valens’ ordinary shares*,” except the lower rates applicable to qualified dividend income would not apply. U.S. Holders of Valens warrants will not be able to make a mark-to-market election with respect to their Valens warrants.

The mark-to-market election is available only for “marketable stock,” which is stock that is regularly traded on a qualified exchange or other market, as defined in applicable U.S. Treasury regulations. Valens’ ordinary shares, which are listed on the NYSE, are expected to qualify as marketable stock for purposes of the PFIC rules, but there can be no assurance that Valens’ ordinary shares will be “regularly traded” for purposes of these rules. Because a mark-to-market election cannot be made for equity interests in any Lower-Tier PFICs the shares of which are not “marketable stock”, a U.S. Holder that does not make the applicable QEF elections generally will continue to be subject to the Excess Distribution Rules with respect to its indirect interest in any Lower-Tier PFICs as described above, even if a mark-to-market election is made for Valens.

If a U.S. Holder does not make a mark-to-market election (or a QEF election, as discussed above) effective from the first taxable year of a U.S. Holder’s holding period for Valens’ ordinary shares in which Valens is a PFIC, then the U.S. Holder generally will remain subject to the Excess Distribution Rules. A U.S. Holder that first makes a mark-to-market election with respect to Valens’ ordinary shares in a later year will continue to be subject to the Excess Distribution Rules during the taxable year for which the mark-to-market election becomes effective, including with respect to any mark-to-market gain recognized at the end of that year. In subsequent years for which a valid mark-to-market election remains in effect, the Excess Distribution Rules generally will not apply. A U.S. Holder that is eligible to make a mark-to-market with respect to its Valens’ ordinary shares may do so by providing the appropriate information on IRS Form 8621 and timely filing that form with the U.S. Holder’s tax return for the year in which the election becomes effective. U.S. Holders should consult their own tax advisors as to the availability and desirability of a mark-to-market election, as well as the impact of such election on interests in any Lower-Tier PFICs.

A U.S. Holder of a PFIC may be required to file an IRS Form 8621 on an annual basis. U.S. Holders should consult their own tax advisors regarding any reporting requirements that may apply to them if Valens is a PFIC.

U.S. Holders are strongly encouraged to consult their tax advisors regarding the application of the PFIC rules to their particular circumstances.

#### *Foreign Account Tax Compliance Act*

The United States Foreign Account Tax Compliance Act, or FATCA, imposes a reporting regime and, potentially, a 30% withholding tax on certain payments made to certain non-U.S. financial institutions and non-financial institutions that fail to comply with certain information reporting, account identification, withholding, certification and other FATCA related requirements in respect of their direct and indirect United States shareholders and/or United States accountholders. To avoid becoming subject to FATCA withholding, Valens may be required to report information to the IRS regarding the holders of Valens’ ordinary shares and to withhold on a portion of payments with respect to its ordinary shares to certain holders that fail to comply with the relevant information reporting requirements (or that hold our ordinary shares directly or indirectly through certain non-compliant intermediaries). This withholding tax made with respect to Valens’ ordinary shares will not apply to payments made before the date that is two years after the date of publication of final regulations defining the term “foreign passthru payment”.

An intergovernmental agreement between the United States and another country may also modify these requirements. FATCA is particularly complex and its application is uncertain at this time. Holders of Valens’ ordinary shares should consult their tax advisors to obtain a more detailed explanation of FATCA and to learn how FATCA might affect each holder in its particular circumstances.

## *Information Reporting and Backup Withholding*

Information reporting requirements may apply to dividends received by U.S. Holders of Valens' ordinary shares and the proceeds received on sale or other taxable disposition of Valens' ordinary shares or Valens' warrants effected within the United States (and, in certain cases, outside the United States), in each case other than U.S. Holders that are exempt recipients (such as corporations). Backup withholding (currently at a rate of 24%) may apply to such amounts if the U.S. Holder fails to provide an accurate taxpayer identification number (generally on an IRS Form W-9 provided to the paying agent of the U.S. Holder's broker) or is otherwise subject to backup withholding. Any redemptions treated as dividend payments with respect to Valens' ordinary shares and proceeds from the sale, exchange, redemption or other disposition of Valens' ordinary shares or Valens' warrants may be subject to information reporting to the IRS and possible U.S. backup withholding. U.S. Holders should consult their own tax advisors regarding the application of the U.S. information reporting and backup withholding rules.

Backup withholding is not an additional tax. Amounts withheld as backup withholding generally may be credited against the taxpayer's U.S. federal income tax liability, and a taxpayer may obtain a refund of any excess amounts withheld under the backup withholding rules by timely filing the appropriate claim for a refund with the IRS and furnishing any required information.

## **MATERIAL ISRAELI TAX CONSIDERATIONS**

### **Israeli tax considerations**

The following is a brief summary of the material Israeli tax laws applicable to Valens, and certain Israeli Government programs that benefit Valens. This section also contains a discussion of material Israeli tax consequences concerning the ownership and disposition of Valens ordinary shares or warrants purchased by investors. This summary does not discuss all the aspects of Israeli tax law that may be relevant to a particular investor in light of his or her personal investment circumstances or to some types of investors subject to special treatment under Israeli law. Examples of such investors include residents of Israel or traders in securities, trusts or foundations, partnerships, controlled foreign corporations and any other type of taxpayer that are subject to special tax regimes not covered in this discussion. To the extent that the discussion is based on new tax legislation that has not yet been subject to judicial or administrative interpretation, Valens cannot assure you that the appropriate tax authorities or the courts will accept the views expressed in this discussion. The discussion below is subject to change, including due to amendments under Israeli law or changes to the applicable judicial or administrative interpretations of Israeli law, which change could affect the tax consequences described below.

### **General corporate tax structure in Israel**

Israeli companies are generally subject to corporate tax. In December 2016, the Israeli Parliament approved the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years) which reduces the corporate income tax rate from 25% to 24% effective from January 1, 2017, and to 23% effective from January 1, 2018. However, the effective tax rate payable by a company that derives income from an Approved Enterprise, a Preferred Enterprise, a Beneficiary Enterprise or a Technological Enterprise (as discussed below) may be considerably less. Capital gains derived by an Israeli company are generally subject to the prevailing corporate tax rate.

### **Law for the Encouragement of Industry (Taxes), 5729-1969**

The Law for the Encouragement of Industry (Taxes), 5729-1969, generally referred to as the Industry Encouragement Law, provides several tax benefits for "Industrial Companies".

The Industry Encouragement Law defines an "Industrial Company" as an Israeli resident-company, incorporated in Israel, of which 90% or more of its income in any tax year, other than income from certain defense loans, is derived from an "Industrial Enterprise" owned by it and located in Israel or in the "Area", in accordance with the definition under section 3A of the Israeli Income Tax Ordinance (New Version) 1961, or the "Ordinance". An "Industrial Enterprise" is defined as an enterprise which is held by an Industrial Company whose principal activity in a given tax year is industrial production.

Following are the main tax benefits available to Industrial Companies:

- Amortization of the cost of purchased patent, rights to use a patent, and know-how, that were purchased in good faith and are used for the development or advancement of the Industrial Enterprise, over an eight-year period, commencing on the year in which such rights were first exercised;
- Under limited conditions, an election to file consolidated tax returns with controlled Israeli Industrial Companies;
- Expenses related to a public offering are deductible in equal amounts over three years commencing on the year of the offering.

Eligibility for benefits under the Industry Encouragement Law is not contingent upon approval of any governmental authority.

### **Tax benefits and grants for research and development**

Israeli tax law allows, under certain conditions, a tax deduction for expenditures, including capital expenditures, related to scientific research and development for the year in which they are incurred. Expenditures are deemed related to scientific research and development projects, if:

- The expenditures are approved by the relevant Israeli government ministry, determined by the field of research;
- The research and development must be for the promotion of the company; and
- The research and development is carried out by or on behalf of the company seeking such tax deduction.

However, the amount of such deductible expenses is reduced by the sum of any funds received through government grants for the finance of such scientific research and development projects. No deduction under these research and development deduction rules is allowed if such deduction is related to an expense invested in an asset depreciable under the general depreciation rules of the Ordinance. Expenditures that are unqualified under the conditions above are deductible in equal amounts over three years.

Every year, we may apply to the Israel Innovation Authority of the Israeli Ministry of Economy and Industry (formerly known as Office of Chief Scientist) (“IIA”) for approval to allow a tax deduction for all or most of research and development expenses during the year incurred. There can be no assurance that such application, if made, will be accepted. If we are not able to deduct research and development expenses during the year they were incurred, we will be able to deduct research and development expenses during a period of three years commencing in the year of the payment of such expenses.

### **Law for the Encouragement of Capital Investments, 5719-1959**

The Law for the Encouragement of Capital Investments, 5719-1959, generally referred to as the Investment Law, provides certain eligible companies with incentives for capital investments in production facilities (or other eligible assets) and certain tax benefits with respect to certain eligible income.

The Investment Law was significantly amended effective as of April 1, 2005 (the “2005 Amendment”), as of January 1, 2011 (the “2011 Amendment”) and as of January 1, 2017 (the “2017 Amendment”). Pursuant to the 2005 Amendment, tax benefits granted in accordance with the provisions of the Investment Law prior to its revision by the 2005 Amendment remain in force but any benefits granted subsequently are subject to the provisions of the amended Investment Law. Similarly, the 2011 Amendment introduced new benefits to replace those granted in accordance with the provisions of the Investment Law in effect prior to the 2011 Amendment. However, companies entitled to benefits under the Investment Law as in effect prior to January 1, 2011 were entitled to choose to continue to enjoy such benefits, provided that certain conditions are met, or instead irrevocably, elect to forego such benefits and apply the benefits of the 2011 Amendment apply. The 2017 Amendment introduces new benefits for Preferred or Special Preferred Technological Enterprises, alongside the existing tax benefits.

The following discussion is a summary of the Investment Law following its most recent and amendments:

### **Tax benefits under the 2011 amendment that became effective on January 1, 2011**

The 2011 Amendment canceled the availability of the benefits granted to Industrial Companies under the Investment Law prior to 2011 and, instead, introduced new benefits for income generated by a “Preferred Company” through its “Preferred Enterprise” (as such terms are defined in the Investment Law) as of January 1, 2011. The definition of a Preferred Company includes a company incorporated in Israel that is not fully owned by a governmental entity, and that has, among other things, Preferred Enterprise status and is controlled and managed from Israel.

Pursuant to the 2011 Amendment, a Preferred Company was entitled to a reduced corporate tax rate of 15% with respect to its income derived by its Preferred Enterprise in 2011 and 2012, unless the Preferred Enterprise was located in a specified development zone, in which case the rate will be 10%. Under the 2011 Amendment, such corporate tax rate was reduced from 15% and 10%, respectively, to 12.5% and 7%, respectively, in 2013, 16% and 9% respectively, in 2014, 2015 and 2016, and 16% and 7.5%, respectively, in 2017 and thereafter. Income derived by a Preferred Company from a “Special Preferred Enterprise” (as such term is defined in the Investment Law) would be entitled, during a benefits period of 10 years, to further reduced tax rates of 8%, or 5% if the Special Preferred Enterprise is located in a certain development zone. Since January 1, 2017, the definition for “Special Preferred Enterprise” includes less stringent conditions.

Dividends distributed from income which is attributed to a “Preferred Enterprise” will be subject to withholding tax at source at the following rates: (i) Israeli resident corporations—0%, (although, if such dividends are subsequently distributed to individuals or a non-Israeli company the below rates and conditions detailed in sub sections (ii) and (iii) shall apply) (ii) Israeli resident individuals—20% (iii) non-Israeli residents (individuals and corporations)—20%, (subject to the receipt in advance of a valid certificate from the ITA allowing for a reduced tax rate of 20%, or such lower tax rate under the provisions of an applicable double tax treaty).

The 2011 Amendment also provided transitional provisions to address companies already enjoying existing tax benefits under the Investment Law. These transitional provisions provide, among other things, that unless an irrevocable request is made to apply the provisions of the Investment Law as amended in 2011 with respect to income to be derived as of January 1, 2011, a Beneficiary Enterprise can elect to continue to benefit from the benefits provided to it before the 2011 Amendment came into effect, provided that certain conditions are met.

As of December 31, 2023, Valens did not apply the new benefits under the Preferred Enterprise regime.

### **New tax benefits under an amendment that became effective on January 1, 2017**

The 2017 Amendment was enacted as part of the Economic Efficiency Law that was published on December 29, 2016, and is effective as of January 1, 2017. The 2017 Amendment provides new tax benefits for two types of “Technological Enterprises”, as described below, and is in addition to the other existing tax beneficial programs under the Investment Law. The 2017 Amendment will apply to a Preferred Company which meets the “Preferred Enterprise” condition and certain additional conditions, including, all the following:

- the company’s average R&D expenses in the three years prior to the current tax year must be greater than or equal to the average of 7% of its total revenue or exceed NIS 75 million per year; and
- the company must also satisfy one of the following conditions: (1) the full salary of the lowest between at least 20% of the company’s overall workforce, or at least 200 employees, was recorded and paid as R&D expenses in the company’s financial statements; (2) a venture capital investment of an amount of at least NIS 8 million was previously made in the company; or (3) a growth in sales by an average of 25% over the three years preceding the tax year (provided transactions revenue of over NIS 10 million for the said years); (4) a growth in workforce by an average of 25% over the three years preceding the tax year (provided that the company employed at least 50 employees in the said years).

A Preferred Company satisfying certain conditions (including the conditions as stated above) will qualify as a “Preferred Technological Enterprise” and will thereby enjoy a reduced corporate tax rate of 12% on income that qualifies as “Preferred Technology Income”, as defined in the Investment Law. The tax rate is further reduced to 7.5% for a Preferred Technological Enterprise located in development zone “A”. In addition, a Preferred Technological Enterprise will enjoy a reduced corporate tax rate of 12% on capital gain derived from the sale of certain “Benefitted Intangible Assets” (as defined in the Investment Law) to a related foreign company if the Benefitted Intangible Assets were acquired from a foreign company on or after January 1, 2017, for at least NIS 200 million, and the sale receives prior approval from the IIA.

The 2017 Amendment further provides that a Preferred Company satisfying certain conditions (group-consolidated revenues of at least NIS 10 billion) will qualify as a “Special Preferred Technological Enterprise” and will thereby enjoy a reduced corporate tax rate of 6% on “Preferred Technological Income” regardless of the company’s geographic location within Israel. In addition, a Special Preferred Technological Enterprise will enjoy a reduced corporate tax rate of 6% on capital gain derived from the sale of certain “Benefitted Intangible Assets” to a related foreign company if the Benefitted Intangible Assets were either developed by the Special Preferred Technological Enterprise or acquired from a foreign company on or after January 1, 2017, and the sale received prior approval from the IIA. A Special Preferred Technological Enterprise that acquires Benefitted Intangible Assets from a foreign company for more than NIS 500 million will be eligible for these benefits for at least ten years, subject to certain approvals as specified in the Investment Law.

Dividends distributed to Israeli shareholders by a Preferred Technological Enterprise or a Special Preferred Technological Enterprise to Israeli shareholders, paid out of Preferred Technological Income, are generally subject to withholding tax at source at the rate of 20% (in case of non-Israeli shareholders—subject to the receipt in advance of a valid certificate from the ITA allowing for the 20% reduced tax, or such lower rate as may be provided in an applicable tax treaty). However, if such dividends are paid to an Israeli company, no tax is required to be withheld. If such dividends are distributed to a foreign company that holds solely or together with other foreign companies 90% or more in the Israeli company and other conditions are met, the withholding tax rate will be 4% (or a lower rate under an applicable tax treaty, and subject to the receipt in advance of a valid certificate from the ITA allowing for a reduced tax rate). Please note that the reduced withholding tax rate of 4% will apply only on profits generated after the Preferred Technological Enterprise was acquired by a foreign company.

As of December 31, 2023, Valens did not apply for a tax ruling from the Israeli Tax Authority or implemented benefits under The Preferred Technological Enterprise regime.

From time to time, the Israeli Government has discussed reducing the benefits available to companies under the Investment Law. The termination or substantial reduction of any of the benefits available under the Investment Law could materially increase our tax liabilities.

#### **Taxation of our shareholders and warrant holders**

##### ***Capital gains taxes applicable to non-Israeli resident shareholders and warrant holders.***

Israeli capital gains tax is imposed on the disposition of capital assets by a non-Israeli resident if those assets (i) are located in Israel, (ii) are shares or a right to shares (e.g., Valens warrants) in an Israeli resident corporation or (iii) represent, directly or indirectly, rights to assets located in Israel, unless a tax treaty between Israel and the seller’s country of residence provides otherwise. The Israeli tax law distinguishes between “Real Capital Gain” and “Inflationary Surplus.” Inflationary Surplus is a portion of the total capital gain which is equivalent to the increase in the relevant asset’s price that is attributable to the increase in the Israeli Consumer Price Index or, in certain circumstances, a foreign currency exchange rate, between the date of purchase and the date of disposition. Inflationary Surplus is currently not subject to tax in Israel. Real Capital Gain is the excess of the total capital gain over the Inflationary Surplus. Generally, Real Capital Gain accrued by individuals on the sale of Valens ordinary shares or warrants will be taxed at the rate of 25%. However, if the shareholder is a “substantial shareholder” at the time of sale or at any time during the preceding 12- month period (or claims a deduction for interest and linkage differences expenses in connection with the purchase and holding of such shares), such gain will be taxed at the rate of 30%. A “substantial shareholder” is generally a person who alone or together with such person’s relative or another person who collaborates with such person with respect to the material matters of the corporation on a permanent basis pursuant to an agreement, holds, directly or indirectly, at least 10% of any of the “means of control” of the corporation. “Means of control” generally include the right to vote, receive profits, nominate a director or an executive officer, receive assets upon liquidation, or order someone who holds any of the aforesaid rights how to act, regardless of the source of such right. Real Capital Gain derived by corporations will be generally subject to a corporate tax rate of 23% (in 2023).

A non-Israeli resident that derives capital gains from the sale of shares or a right to shares of an Israeli resident company that were purchased after the company was listed for trading on a stock exchange outside of Israel, will be exempt from Israeli tax if the capital gains derived from the sale of the shares or right to shares were not attributed to a fixed enterprise that the non-resident maintains in Israel. However, non-Israeli corporations will not be entitled to the foregoing exemption if Israeli residents: (i) hold, whether directly or indirectly, more than 25% of the means of control, as such term is defined above, in such non-Israeli corporation or (ii) are the beneficiaries of, or are entitled to, 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly. In addition, such exemption is not applicable to a person whose gains from selling or otherwise disposing of the shares or right to shares are deemed to be business income.

Additionally, a sale of securities by a non-Israeli resident maybe exempted from Israeli capital gains tax under the provisions of an applicable tax treaty (subject to the receipt in advance of a valid certificate from the ITA). For example, under Convention Between the Government of the United States of America and the Government of the State of Israel with respect to Taxes on Income, as amended (the “United States Israel Tax Treaty”), the sale, exchange or other disposition of shares or a right to shares by a shareholder who is a United States resident (for purposes of the United States-Israel Tax Treaty) holding the shares as a capital asset and is entitled to claim the benefits afforded to such a resident by the United States-Israel Tax Treaty (a “U.S. Resident”) is generally exempt from Israeli capital gains tax unless either: (i) the capital gain arising from such sale, exchange or disposition is attributed to real estate located in Israel; (ii) the capital gain arising from such sale, exchange or disposition is attributed to royalties; (iii) the capital gain arising from the such sale, exchange or disposition is attributed to a permanent establishment in Israel, under certain terms; (iv) such U.S. Resident holds, directly or indirectly, shares representing 10% or more of the voting capital during any part of the 12 month period preceding the disposition, subject to certain conditions; or (v) such U.S. Resident is an individual and was present in Israel for 183 days or more during the relevant taxable year. In any such case, the sale, exchange or disposition of such shares or a right to shares would be subject to Israeli tax, to the extent applicable; however, under the United States-Israel Tax Treaty, a U.S. Resident would be permitted to claim a credit for such taxes against the U.S. federal income tax imposed with respect to such sale, exchange or disposition, subject to the limitations under U.S. law applicable to foreign tax credits. The United States-Israel Tax Treaty does not relate to tax credits against U.S. state or local taxes.

In some instances where our shareholders may be liable for Israeli tax on the sale of their ordinary shares or warrants, the payment of the consideration may be subject to the withholding of Israeli tax at source. Shareholders may be required to demonstrate that they are exempt from tax on their capital gains in order to avoid withholding at source at the time of sale (i.e., resident certificate or other documentation).

***Capital gains taxes applicable to Israeli resident shareholders and warrant holders.***

An Israeli resident corporation that derives capital gains from the sale of shares or a right to shares in an Israeli resident company that were purchased after the company was listed for trading on a stock exchange outside of Israel will generally be subject to tax on the real capital gains generated on such sale at the corporate tax rate of 23%. An Israeli resident individual will generally be subject to capital gain tax at the rate of 25%. However, if the individual shareholder claims deduction of interest expenditures or is a “substantial shareholder” at the time of the sale or at any time during the preceding twelve months period, such gain will be taxed at the rate of 30%. Individual holders dealing in securities in Israel for whom the income from the sale of securities is considered “business income” as defined in section 2(1) of the Ordinance are taxed at the marginal tax rates applicable to business income (up to 47% in 2022 and 2023, not including Surtax). Certain Israeli institutions who are exempt from tax under section 9(2) or section 129(C)(a)(1) of the Ordinance (such as exempt trust fund, pension fund) may be exempt from capital gains tax from the sale of the shares or a right to shares. With respect to corporate investors, capital gain tax equal to the corporate tax rate (23% starting in 2018) will be imposed on the sale of our traded shares or warrants, unless contrary provisions in a relevant tax treaty applies.

A Company Warrant generally should not recognize gain or loss upon the exercise of such warrant, if the warrant was purchased or received in return for an investment. An ordinary share acquired pursuant to the exercise of such warrant for cash generally will have a tax basis equal to the holder's tax basis in the Company Warrant, if any, increased by the amount paid to exercise the Company Warrant. The holding period of such ordinary share generally would begin on the day after the date of exercise of the warrant. If a Company Warrant is allowed to lapse unexercised, the holder generally will recognize a capital loss equal to such holder's tax basis in the warrant.

It is possible that a cashless exercise would be treated as a taxable exchange in which gain or loss is recognized. In such event, a holder could be deemed to have surrendered a number of warrants with a fair market value equal to the exercise price for the number of warrants deemed exercised. For this purpose, the number of warrants deemed exercised would be equal to the number of warrants that would entitle the holder to receive upon exercise the number of ordinary shares issued pursuant to the cashless exercise of the warrants. In this situation, the holder would recognize capital gain or loss in an amount equal to the difference between the fair market value of the warrants deemed surrendered to pay the exercise price and the holder's tax basis in the warrants deemed surrendered which will be taxable to the holders of such ordinary shares as described under "*—Taxation of our shareholders and warrant holders.*"

#### ***Taxation of Israeli shareholders on receipt of dividends.***

An Israeli resident individual is generally subject to Israeli income tax on the receipt of dividends at the rate of 25%. With respect to a person who is a "substantial shareholder" at the time of receiving the dividend or on any time during the preceding twelve months, the applicable tax rate is 30%. Such dividends are generally subject to Israeli withholding tax at a rate of 25% if the shares are registered with a nominee company (whether the recipient is a substantial shareholder or not), and 20% if the dividend is distributed from income attributed to a Preferred Enterprise or a Preferred Technological Enterprise. If the recipient of the dividend is an Israeli resident corporation such dividend income will be exempt from tax provided the income from which such dividend is distributed was derived or accrued within Israel and was received directly or indirectly from another corporation that is liable to Israeli corporate tax. An exempt trust fund, pension fund or other entity that is exempt from tax under section 9(2) or section 129(C)(a)(1) of the Israeli Tax Ordinance is exempt from tax on dividend.

#### ***Taxation of non-Israeli shareholders on receipt of dividends.***

Non-Israeli residents (either individuals or corporations) are generally subject to Israeli income tax on the receipt of dividends at the rate of 25%, which tax will be withheld at source, unless relief is provided in a treaty between Israel and the shareholder's country of residence. With respect to a person who is a "substantial shareholder" at the time of receiving the dividend or on any time during the preceding twelve months, the applicable tax rate is 30%. Such dividends are generally subject to Israeli withholding tax at a rate of 25% if the shares are registered with a nominee company (whether the recipient is a substantial shareholder or not), and 20% if the dividend is distributed from income attributed to a Preferred Enterprise or a Technological Enterprise, and 4% if the dividend is distributed from income attributed to a Technological Enterprise to a foreign company that holds solely or together with other foreign companies 90% or more in the Israeli company and other conditions are met, (please note that the reduced withholding tax rate of 4% will apply only on profits generated after the Preferred Technological Enterprise was acquired by a foreign company), unless a reduced rate is provided under an applicable tax treaty (the reduced rates stated in this paragraph are subject to the receipt in advance of a valid certificate from the Israel Tax Authority allowing for such reduced tax rates). For example, under the United States-Israel Tax Treaty, the maximum rate of tax withheld at source in Israel on dividends paid to a holder of our ordinary shares who is a U.S. Resident is 25%. However, generally, the maximum rate of withholding tax on dividends, not generated by a Preferred Enterprise, Beneficiary Enterprise, a Preferred Enterprise or a Technological Enterprise, that are paid to a United States corporation holding 10% or more of the outstanding voting capital throughout the tax year in which the dividend is distributed as well as during the previous tax year, is 12.5%, provided that not more than 25% of the gross income for such preceding year consists of certain types of dividends and interest. Notwithstanding the foregoing, dividends distributed from income attributed to an Approved Enterprise, Beneficiary Enterprise, Preferred Enterprise or a Preferred Technological Enterprise are not entitled to such reduced rate under the tax treaty but are subject to a withholding tax rate of 15% for a shareholder that is a U.S. corporation, provided that the condition related to our gross income for the previous year (as set forth in the previous sentence) is met. If the dividend is attributable partly to income derived from an Approved Enterprise, Benefited Enterprise, Preferred Enterprise or a Preferred Technological Enterprise, and partly to other sources of income, the withholding rate will be a blended rate reflecting the relative portions of the two types of income. We cannot assure you that we will designate the profits that we may distribute in a way that will reduce shareholders' tax liability. Application for the reduced tax rate requires appropriate documentation presented and specific instruction received from the Israeli Tax Authorities to the extent tax is withheld at source at the maximum rates (see above), a qualified tax treaty recipient will be required to comply with certain administrative procedures with the Israeli Tax Authorities in order to receive a refund of the excess tax withheld.

A foreign resident receiving dividend income from an Israeli company, from which the full tax was deducted, will generally be exempt from filing a tax return in Israel with respect to such income, provided that (i) such income was not generated from business conducted in Israel by the taxpayer, (ii) the taxpayer has no other taxable sources of income in Israel with respect to which a tax return is required to be filed, and (iii) the taxpayer is not obligated to pay Surtax (see below) in accordance with section 121B of the Ordinance.

#### ***Israeli Tax Withholding***

In addition to all of the above, any payment made by an Israeli resident company may be subject to Israeli withholding tax, regardless of whether the recipient should be subject to Israeli tax with respect to the receipt of such payment, unless the recipient provides the company with a valid certificate issued by the Israel Tax Authority to exempt the recipient from such withholding tax liability.

#### ***Surtax***

Subject to the provisions of an applicable tax treaty, individuals who are subject to tax in Israel (whether any such individual is an Israeli resident or non-Israeli resident) are also subject to an additional tax at a rate of 3% on annual income (including, but not limited to, dividends, interest and capital gain) exceeding NIS 698,280 for 2023 (and NIS 721,560 for 2024), which amount is linked to the annual change in the Israeli consumer price index.

#### ***Estate and Gift Tax***

Israeli law presently does not impose estate or gift taxes.

#### ***Israeli Transfer Pricing Regulations***

On November 29, 2006, Income Tax Regulations (Determination of Market Terms) promulgated under Section 85A of the Tax Ordinance, came into effect (TP Regulations). Section 85A of the Tax Ordinance and the TP Regulations generally require that all cross-border transactions carried out between related parties be conducted on an arm's length principal basis and will be taxed accordingly.

#### **F. DIVIDENDS AND PAYING AGENTS**

Not applicable.

#### **G. STATEMENT BY EXPERTS**

Not applicable.

#### **H. DOCUMENTS ON DISPLAY**

We are subject to the informational requirements of the Exchange Act. Accordingly, we are required to file reports and other information with the SEC, including annual reports on Form 20-F and reports on Form 6-K. The SEC maintains an internet website that contains reports and other information about issuers, like us, that file electronically with the SEC. The address of that website is [www.sec.gov](http://www.sec.gov).

As a foreign private issuer, we are exempt under the Exchange Act from, among other things, the rules prescribing the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we will not be required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act.

We will send our transfer agent a copy of all notices of shareholders' meetings and other reports, communications and information that are made generally available to shareholders. The transfer agent has agreed to mail to all shareholders a notice containing the information (or a summary of the information) contained in any notice of a meeting of our shareholders received by the transfer agent and will make available to all shareholders such notices and all such other reports and communications received by the transfer agent.

## **I. SUBSIDIARY INFORMATION**

Not applicable

## **ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS**

We are exposed to market risk in the ordinary course of our business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of fluctuations in foreign currency exchange rates and interest rates and inflation. We do not hold or issue financial instruments for trading purposes. For information about the effects of currency and interest rate fluctuations and how we manage currency and interest risk, see "Part I, Item 5. Operating and Financial Review and Prospects-B. Liquidity and Capital Resources."

## **ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

### **A. DEBT SECURITIES**

Not applicable.

### **B. WARRANTS AND RIGHTS**

Not applicable.

### **C. OTHER SECURITIES**

Not applicable.

### **D. AMERICAN DEPOSITARY SHARES**

Not applicable.

## PART II

### ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

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

#### Material Modifications to the Rights of Security Holders

Our Amended Articles took effect on September 29, 2021 in connection with the Business Combination. A copy of our Amended Articles is filed as Exhibit 1.1 to this Annual Report. See Item “Part I, Item 10. Additional Information-Memorandum and Articles of Association.”

#### Use of Proceeds

Not applicable.

### ITEM 15. CONTROLS AND PROCEDURES

#### A. Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (“Exchange Act”)) that are designed to ensure that information required to be disclosed in the Company’s reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures. Any controls and procedures, can provide only reasonable assurance of achieving the desired objectives of the disclosure controls and procedures. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2023. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2023, our disclosure controls and procedures were effective.

#### B. Management’s Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed 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. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company’s assets that could have a material effect on the financial statements.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2023, based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013). Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2023.

#### C. Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the year ended December 31, 2023, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## ITEM 16.

### A. AUDIT COMMITTEE AND FINANCIAL EXPERT

Our board of directors has determined that Adi Yarel Toledano is an audit committee financial expert as defined by the SEC rules and has the requisite financial experience as defined by the corporate governance rules of NYSE.

### B. CODE OF ETHICS

We have adopted a Code of Business Conduct and Ethics that applies to all our employees, officers and directors. Our Code of Business Conduct and Ethics addresses, among other things, competition and fair dealing, gifts and entertainment, conflicts of interest, international business laws, financial matters and external reporting, company assets, confidentiality and corporate opportunity requirements and the process for reporting violations of the Code of Business Conduct and Ethics. Our Code of Business Conduct and Ethics is intended to meet the definition of “code of ethics” under Item 16B of 20-F under the Exchange Act.

We will disclose on our website any amendment to, or waiver from, a provision of our Code of Business Conduct and Ethics that applies to our directors or executive officers to the extent required under the rules of the SEC or NYSE. Our Code of Business Conduct and Ethics is available on our website at <https://investors.valens.com/governance/governance-documents/default.aspx>. The information contained on or through our website, or any other website referred to herein, is not incorporated by reference in this Annual Report.

### C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

#### Fees Paid to the Auditors

The following table sets forth, for each of the years indicated, the fees billed by our independent registered public accounting firm.

|                        | 2023                   | 2022       |
|------------------------|------------------------|------------|
|                        | (dollars in thousands) |            |
| Audit fees (1)         | 315                    | 304        |
| Audit-related fees (2) | 8                      | 20         |
| Tax fees (3)           | 54                     | 58         |
| All other fees (4)     | 13                     | 1          |
| <b>Total</b>           | <b>390</b>             | <b>383</b> |

- (1) “Audit fees” include fees for services performed by our independent public accounting firm in connection with our annual audit consolidated financial statements, certain procedures regarding our quarterly financial results submitted on Form 6-K, and services that are normally provided by our independent registered public accounting firm in connection with statutory and regulatory filings, including in connection with review of registration statements and consents.
- (2) “Audit-related fees” consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our year-end financial statements and are not reported under “Audit Fees.” These services include due diligence related to mergers and acquisitions and consultation concerning financial accounting and reporting standards.
- (3) “Tax fees” include fees for professional services rendered by our independent registered public accounting firm for tax compliance and tax advice and tax planning services on actual or contemplated transactions.
- (4) “Other fees” include fees for services rendered by our independent registered public accounting firm with respect to automation tool, as well as advisory services in the framework of a VAT audit.

### ***Pre-Approval Policies and Procedures***

The advance approval of the Audit Committee or members thereof, to whom approval authority has been delegated, is required for all audit and non-audit services provided by our auditors.

All services provided by our auditors are approved in advance by either the Audit Committee or members thereof, to whom authority has been delegated, in accordance with the Audit Committee's pre-approval policy.

#### **D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Not applicable.

#### **E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

None.

#### **F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT**

Not applicable.

#### **G. CORPORATE GOVERNANCE**

We are a "foreign private issuer" (as such term is defined in Rule 3b-4 under the Exchange Act) and our ordinary shares are listed on the New York Stock Exchange. We believe the following to be the significant differences between our corporate governance practices and those applicable to U.S. companies under the NYSE listing standards. Under the New York Stock Exchange rules, listed companies that are foreign private issuers are permitted to follow home country practice in lieu of the corporate governance provisions specified by the New York Stock Exchange with limited exceptions. We rely on this "home country practice exemption" with respect to the quorum requirement for shareholder meetings and with respect to the shareholder approval requirements. As permitted under the Companies Law, pursuant to our amended and restated articles of association, the quorum required for an ordinary meeting of shareholders consists of at least two shareholders present in person, by proxy or by other voting instrument in accordance with the Companies Law, who hold at least 25% of the voting power of our shares (and in an adjourned meeting, with some exceptions, any number of shareholders), instead of 33 1/3% of the issued share capital required under the New York Stock Exchange corporate governance rules.

We otherwise comply with and intend to continue to comply with the rules generally applicable to U.S. domestic companies listed on the New York Stock Exchange. We may in the future, however, decide to use other foreign private issuer exemptions with respect to some or all of the other New York Stock Exchange listing rules. Following our home country governance practices may provide less protection than is accorded to investors under the New York Stock Exchange listing rules applicable to domestic issuers.

#### **H. MINE SAFETY DISCLOSURE**

Not applicable.

#### **I. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS**

Not applicable.

#### **J. INSIDER TRADING POLICIES**

Not applicable.

## K. CYBERSECURITY

### *Cybersecurity Risk Management and Strategy*

Cybersecurity risk management is an integral part of our overall enterprise risk management program. Our cybersecurity risk management program has been designed to follow our industry's best practices and includes a comprehensive set of enterprise security policies and procedures designed to identify, assess, mitigate and remediate cybersecurity threats and incidents. Our IT Department Security Policy outlines cybersecurity risk management procedures related to, among other areas, access rights management, access control, system management, security monitoring, risk management and IT audits.

Our cybersecurity risk management program also includes the following measures:

- Identifying and protecting our critical IT assets through actions such as hardening our servers' communications, using a dedicated system and controlling privileged accounts;
- Cybersecurity detection, control and remediation practices;
- Assessing the severity of cybersecurity threats and incidents;
- Monitoring our IT systems using penetration tests, vulnerability scanning, access rights reviews and cybersecurity IT applications; and
- Evaluating our cybersecurity risk management program's effectiveness by performing internal and external assessments.

Our cybersecurity risk management program is implemented and maintained by our IT Department, which engages in identifying and assessing risks from cybersecurity threats and incidents and monitoring cybersecurity risks on an ongoing basis. In addition, we utilize third-party cybersecurity experts for Chief Information Security Officer ("CISO") services, implementing secure configurations and other system enhancements. We and such third-party cybersecurity experts also regularly perform cybersecurity risk assessments and testing in accordance with our organizational policies.

During the onboarding process and from time to time thereafter, we conduct workforce trainings to instruct our employees on how to identify, detect and prevent cybersecurity threats and incidents.

We have also implemented practices designed to monitor and minimize cybersecurity risks across our supply chain. Under our Suppliers Security Requirements Policy, we require our suppliers to hold relevant cybersecurity certifications and to comply with certain additional cybersecurity-related requirements. Nonetheless, our control over and ability to monitor the security posture of our suppliers, third-party vendors and service providers remains limited and there can be no assurance that we can prevent, mitigate or remediate the risk of any compromise or failure in the security infrastructure owned or controlled by such third parties. Additionally, any contractual protections with such third parties, including our right to indemnification, if any at all, may be limited or insufficient to prevent a negative impact on our business from such compromise or failure.

In 2023, we did not identify any cybersecurity threats or incidents that have materially affected or are reasonably likely to materially affect our business strategy, results of operations, or financial condition. However, despite our efforts, we cannot eliminate all risks from cybersecurity threats or incidents, or provide assurances that we have not experienced an undetected cybersecurity incident. For more information about these risks, please see "Risk Factors – We may be subject to cyber-attacks or other disruptions to or breaches of our information technology, systems or networks that could irreparably damage our reputation and our business, expose us to liability and materially and adversely affect our results of operations." in this Annual Report on Form 20-F.

### *Cybersecurity Governance*

Our Chief Information Security Officer (CISO) oversees our cybersecurity risk management program and has primary responsibility for identifying, assessing and managing our exposure to cybersecurity threats and incidents. Our IT Director reports to our CISO and Chief of Operations with respect to the prevention, detection, mitigation and remediation of cybersecurity risks. Our CISO, Chief of Operations, IT Director and the dedicated personnel on their teams are certified and experienced information systems security professionals and information security managers with many years of experience. Our CISO and Chief of Operations regularly provide our senior management team with updates on the performance of the cybersecurity risk management program.

Our Board of Directors oversees the adoption and periodic review of our cybersecurity risk management program and strategies and delegates cybersecurity risk management oversight to our audit committee. Our CISO and Chief of Operations report to the audit committee on a regular basis with respect to our cybersecurity strategies and policies and on an ad hoc basis with respect to material cybersecurity risks. Further, our audit committee reports material cybersecurity risks to our full Board of Directors, based on management's assessment of risk.

## PART III

### ITEM 17. FINANCIAL STATEMENTS

See “Part III, Item 18. Financial Information.”

### ITEM 18. FINANCIAL STATEMENTS

Please refer to pages F-1 through F-35 of this Annual Report.

### ITEM 19. EXHIBITS

| Exhibit<br>Number | Description                                                                                                                                                                                                                                                                                                                             |
|-------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1.1               | <a href="#"><u>Amended and Restated Articles of Association of Valens Semiconductor Ltd. (incorporated by reference to Exhibit 1.1 to the Company’s Annual Report on Form 20-F filed on March 2, 2022).</u></a>                                                                                                                         |
| 2.1               | <a href="#"><u>Description of Securities (incorporated by reference to Exhibit 2.1 to the Company’s Annual Report on Form 20-F filed on March 2, 2022).</u></a>                                                                                                                                                                         |
| 4.1               | <a href="#"><u>Business Combination Agreement, dated as of May 25, 2021, by and among Valens, PTK and Merger Sub. (incorporated by reference to Exhibit 4.1 to the Company’s Annual Report on Form 20-F filed on March 2, 2022).</u></a>                                                                                                |
| 4.2               | <a href="#"><u>Warrant Agreement, dated as of July 13, 2020, between Continental and PTK (incorporated by reference to PTK’s Current Report on Form 8-K filed on July 21, 2020).</u></a>                                                                                                                                                |
| 4.3               | <a href="#"><u>Specimen Ordinary Share Certificate of Valens (incorporated by reference to Exhibit 4.7 to Valens Semiconductor Ltd.’s Form F-4 filed with the SEC on August 26, 2021, as amended).</u></a>                                                                                                                              |
| 4.4               | <a href="#"><u>Specimen Warrant Certificate of Valens (incorporated by reference to Exhibit 4.8 to Valens Semiconductor Ltd.’s Form F-4 filed with the SEC on August 26, 2021, as amended).</u></a>                                                                                                                                     |
| 4.5               | <a href="#"><u>Form of Amended and Restated Warrant Agreement, by and among Valens, PTK and Continental. (incorporated by reference to Exhibit 4.9 to Valens Semiconductor Ltd.’s Form F-4 filed with the SEC on August 26, 2021, as amended).</u></a>                                                                                  |
| 4.6               | <a href="#"><u>Second Amended and Restated Investors’ Rights Agreement, dated as of May 25, 2021, by and among Valens, certain equityholders of Valens and certain equityholders of PTK. (incorporated by reference to Exhibit 4.10 to Valens Semiconductor Ltd.’s Form F-4 filed with the SEC on August 26, 2021, as amended).</u></a> |
| 4.7†††            | <a href="#"><u>Valens Semiconductor Ltd. Compensation Policy (incorporated by reference to Exhibit 4.7 to the Company’s Annual Report on Form 20-F filed on March 2, 2022).</u></a>                                                                                                                                                     |
| 4.8†††            | <a href="#"><u>Form of Director and Officer Indemnification Agreement. (incorporated by reference to Exhibit 10.5 to Valens Semiconductor Ltd.’s Form F-4 filed with the SEC on August 26, 2021, as amended).</u></a>                                                                                                                   |
| 4.9               | <a href="#"><u>Form of Subscription Agreement, by and between Valens and the subscribers party thereto (incorporated by reference to Exhibit 10.4 to Valens Semiconductor Ltd.’s Form F-4 filed with the SEC on August 26, 2021, as amended).</u></a>                                                                                   |
| 4.11              | <a href="#"><u>Form of Support Agreement, dated as of May 25, 2021, by and among Valens, PTK and certain equityholders of Valens. (Incorporated by reference to Exhibit 10.2 to Valens Semiconductor Ltd.’s Form F-4 filed with the SEC on August 26, 2021, as amended).</u></a>                                                        |
| 4.12†††           | <a href="#"><u>Investment Management Trust Agreement, dated as of July 13, 2020, by and between Continental and PTK (incorporated by reference to Exhibit 10.2 to PTK’s Current Report on Form 8-K filed on July 21, 2020).</u></a>                                                                                                     |
| 4.13              | <a href="#"><u>Sponsor Letter Agreement, dated as of May 25, 2021, by certain officers, directors and initial stockholders of PTK in favor of Valens and PTK. (incorporated by reference to Exhibit 10.3 to Valens Semiconductor Ltd.’s Form F-4 filed with the SEC on August 26, 2021, as amended).</u></a>                            |
| 4.14†††           | <a href="#"><u>Valens Semiconductor Ltd. 2007 Option Plan (incorporated by reference to Exhibit 4.14 to the Company’s Annual Report on Form 20-F filed on March 2, 2022).</u></a>                                                                                                                                                       |

|          |                                                                                                                                                                                                    |
|----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4.15†††  | <a href="#"><u>Valens Semiconductor Ltd. 2012 Option Plan (incorporated by reference to Exhibit 4.15 to the Company's Annual Report on Form 20-F filed on March 2, 2022).</u></a>                  |
| 4.16†††  | <a href="#"><u>Valens Semiconductor Ltd. 2021 Share Incentive Plan (incorporated by reference to Exhibit 4.16 to the Company's Annual Report on Form 20-F filed on March 2, 2022).</u></a>         |
| 4.17†††  | <a href="#"><u>Valens Semiconductor Ltd. 2021 Employee Stock Purchase Plan (incorporated by reference to Exhibit 4.17 to the Company's Annual Report on Form 20-F filed on March 2, 2022).</u></a> |
| 8.1*     | <a href="#"><u>List of subsidiaries of Valens Semiconductor Ltd.</u></a>                                                                                                                           |
| 12.1*    | <a href="#"><u>Principal Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>                                                                        |
| 12.2*    | <a href="#"><u>Principal Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>                                                                        |
| 13.1*    | <a href="#"><u>Principal Executive Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>                                                                        |
| 13.2*    | <a href="#"><u>Principal Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>                                                                        |
| 15.1*    | <a href="#"><u>Consent of Kesselman &amp; Kesselman, independent registered public accounting firm.</u></a>                                                                                        |
| 97*      | <a href="#"><u>Valens Semiconductor Ltd. Policy For Recovery Of Erroneously Awarded Compensation.</u></a>                                                                                          |
| 101.INS* | Inline XBRL Instance Document.                                                                                                                                                                     |
| 101.SCH* | Inline XBRL Taxonomy Extension Schema Document.                                                                                                                                                    |
| 101.CAL* | Inline XBRL Taxonomy Extension Calculation Linkbase Document.                                                                                                                                      |
| 101.DEF* | Inline XBRL Taxonomy Definition Linkbase Document.                                                                                                                                                 |
| 101.LAB* | Inline XBRL Taxonomy Extension Label Linkbase Document                                                                                                                                             |
| 101.PRE* | Inline XBRL Taxonomy Extension Presentation Linkbase Document                                                                                                                                      |
| 104*     | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)                                                                                                           |

\* Filed herewith.

††† Indicates a management contract or compensatory plan.

## SIGNATURES

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

### VALENS SEMICONDUCTOR LTD.

Date: February 28, 2024

By: /s/ Gideon Ben-Zvi

Name: Gideon Ben-Zvi

Title: Chief Executive Officer

Date: February 28, 2024

By: /s/ Guy Nathanzon

Name: Guy Nathanzon

Title: Chief Financial Officer

**VALENS SEMICONDUCTOR LTD.**  
CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2023

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VALENS SEMICONDUCTOR LTD.

CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2023

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**VALENS SEMICONDUCTOR LTD.**  
**CONSOLIDATED BALANCE SHEETS**  
(U.S. dollars in thousands, except for number of shares and par value)

|                                           |             | <b>December 31</b> |                |
|-------------------------------------------|-------------|--------------------|----------------|
|                                           | <b>Note</b> | <b>2023</b>        | <b>2022</b>    |
| <b>Assets</b>                             |             |                    |                |
| <b>CURRENT ASSETS:</b>                    |             |                    |                |
| Cash and cash equivalents                 |             | 17,261             | 20,024         |
| Short-term deposits                       |             | 124,759            | 128,363        |
| Trade accounts receivables                |             | 14,642             | 11,514         |
| Prepaid expenses and other current assets |             | 4,196              | 4,793          |
| Inventories                               | 3           | 13,836             | 23,816         |
| <b>TOTAL CURRENT ASSETS</b>               |             | <b>174,694</b>     | <b>188,510</b> |
| <b>LONG-TERM ASSETS:</b>                  |             |                    |                |
| Property and equipment, net               | 4           | 2,954              | 2,790          |
| Operating lease right-of-use assets       | 6           | 2,202              | 3,824          |
| Other assets                              |             | 708                | 535            |
| <b>TOTAL LONG-TERM ASSETS</b>             |             | <b>5,864</b>       | <b>7,149</b>   |
| <b>TOTAL ASSETS</b>                       |             | <b>180,558</b>     | <b>195,659</b> |

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

**VALENS SEMICONDUCTOR LTD.**  
**CONSOLIDATED BALANCE SHEETS (continued)**  
(U.S. dollars in thousands, except for number of shares and par value)

|                                                                                                                                                                                                                                                                          | <b>Note</b> | <b>December 31</b> |                |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|--------------------|----------------|
|                                                                                                                                                                                                                                                                          |             | <b>2023</b>        | <b>2022</b>    |
| <b>Liabilities and Shareholders' Equity</b>                                                                                                                                                                                                                              |             |                    |                |
| <b>CURRENT LIABILITIES:</b>                                                                                                                                                                                                                                              |             |                    |                |
| Trade accounts payable                                                                                                                                                                                                                                                   |             | 4,950              | 10,651         |
| Accrued compensation                                                                                                                                                                                                                                                     |             | 4,257              | 6,206          |
| Current maturities of operating leases liabilities                                                                                                                                                                                                                       | 6           | 1,766              | 1,811          |
| Other current liabilities                                                                                                                                                                                                                                                | 5           | 4,958              | 6,121          |
| <b>TOTAL CURRENT LIABILITIES</b>                                                                                                                                                                                                                                         |             | <b>15,931</b>      | <b>24,789</b>  |
| <b>LONG-TERM LIABILITIES:</b>                                                                                                                                                                                                                                            |             |                    |                |
| Forfeiture Shares, no par value: 1,006,250 shares authorized, issued and outstanding as of<br>December 31, 2023, and 2022;                                                                                                                                               | 8           | 38                 | 1,751          |
| Operating leases liabilities                                                                                                                                                                                                                                             | 6           | 190                | 1,624          |
| Other long-term liabilities                                                                                                                                                                                                                                              |             | 95                 | 54             |
| <b>TOTAL LONG-TERM LIABILITIES</b>                                                                                                                                                                                                                                       |             | <b>323</b>         | <b>3,429</b>   |
| <b>COMMITMENTS AND CONTINGENT LIABILITIES</b>                                                                                                                                                                                                                            | <b>7</b>    |                    |                |
| <b>TOTAL LIABILITIES</b>                                                                                                                                                                                                                                                 |             | <b>16,254</b>      | <b>28,218</b>  |
| <b>SHAREHOLDERS' EQUITY:</b>                                                                                                                                                                                                                                             |             |                    |                |
| Ordinary shares, no par value: 700,000,000 shares authorized as of December 31, 2023 and 2022;<br>103,154,396 and 98,876,266 shares issued and outstanding as of December 31, 2023 and 2022,<br>respectively (excluding 1,006,250 Ordinary shares subject to forfeiture) | 9           | 49                 | 49             |
| Additional paid-in capital                                                                                                                                                                                                                                               |             | 341,591            | 325,067        |
| Accumulated deficit                                                                                                                                                                                                                                                      |             | (177,336)          | (157,675)      |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                                                                                                                                                                                                                                        |             | <b>164,304</b>     | <b>167,441</b> |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                                                                                                                                                                                                        |             | <b>180,558</b>     | <b>195,659</b> |

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

**VALENS SEMICONDUCTOR LTD.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(U.S. dollars in thousands, except share and per share amounts)

|                                                                                        |             | <b>Year Ended December 31</b> |             |             |
|----------------------------------------------------------------------------------------|-------------|-------------------------------|-------------|-------------|
|                                                                                        | <b>Note</b> | <b>2023</b>                   | <b>2022</b> | <b>2021</b> |
| <b>REVENUES</b>                                                                        |             | 84,161                        | 90,715      | 70,684      |
| <b>COST OF REVENUES</b>                                                                |             | (31,569)                      | (27,325)    | (20,105)    |
| <b>GROSS PROFIT</b>                                                                    |             | 52,592                        | 63,390      | 50,579      |
| <b>OPERATING EXPENSES:</b>                                                             |             |                               |             |             |
| Research and development expenses                                                      |             | (48,171)                      | (58,207)    | (46,875)    |
| Sales and marketing expenses                                                           |             | (17,314)                      | (16,959)    | (14,214)    |
| General and administrative expenses                                                    |             | (14,024)                      | (16,593)    | (16,556)    |
| <b>TOTAL OPERATING EXPENSES</b>                                                        |             | (79,509)                      | (91,759)    | (77,645)    |
| <b>OPERATING LOSS</b>                                                                  |             | (26,917)                      | (28,369)    | (27,066)    |
| Change in fair value of Forfeiture Shares                                              |             | 1,713                         | 2,907       | (173)       |
| Financial income (expenses), net                                                       | 11          | 5,637                         | (1,770)     | 1,102       |
| <b>LOSS BEFORE INCOME TAXES</b>                                                        |             | (19,567)                      | (27,232)    | (26,137)    |
| <b>INCOME TAXES</b>                                                                    | 13          | (112)                         | (451)       | (407)       |
| <b>LOSS AFTER INCOME TAXES</b>                                                         |             | (19,679)                      | (27,683)    | (26,544)    |
| Equity in earnings of investee                                                         |             | 18                            | 16          | 10          |
| <b>NET LOSS</b>                                                                        |             | (19,661)                      | (27,667)    | (26,534)    |
| <b>Basic and diluted net loss per Ordinary Share</b>                                   | 12          | (0.19)                        | (0.28)      | (1.15)      |
| <b>Weighted average number of shares used in computing net loss per Ordinary Share</b> |             | 101,985,939                   | 97,820,782  | 33,031,205  |

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

**VALENS SEMICONDUCTOR LTD.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
(U.S. dollars in thousands, except for share data)

|                                                       | <b>Ordinary shares</b> |               | <b>Additional<br/>paid-in<br/>capital</b> | <b>Accumulated<br/>deficit</b> | <b>Total</b> |
|-------------------------------------------------------|------------------------|---------------|-------------------------------------------|--------------------------------|--------------|
|                                                       | <b>Shares</b>          | <b>Amount</b> |                                           |                                |              |
| <b>BALANCE AS OF DECEMBER 31, 2020</b>                | 10,795,372             | 40            | 21,211                                    | (103,474)                      | (82,223)     |
| <b>CHANGE DURING 2021:</b>                            |                        |               |                                           |                                |              |
| Exercise of options                                   | 1,722,880              | 9             | 1,237                                     | -                              | 1,246        |
| Stock-based compensation                              | -                      | -             | 9,869                                     | -                              | 9,869        |
| Conversion of Redeemable Convertible Preferred Shares | 67,242,640             | -             | 150,179                                   | -                              | 150,179      |
| Merger transaction, net (Note 1(c))                   | (*) 17,361,513         | -             | 129,660                                   | -                              | 129,660      |
| Net loss                                              | -                      | -             | -                                         | (26,534)                       | (26,534)     |
| <b>BALANCE AS OF DECEMBER 31, 2021</b>                | (*) 97,122,405         | 49            | 312,156                                   | (130,008)                      | 182,197      |
| <b>CHANGE DURING 2022:</b>                            |                        |               |                                           |                                |              |
| Exercise of options and vesting of RSUs               | 1,753,861              | -             | 822                                       | -                              | 822          |
| Stock-based compensation                              | -                      | -             | 12,089                                    | -                              | 12,089       |
| Net loss                                              | -                      | -             | -                                         | (27,667)                       | (27,667)     |
| <b>BALANCE AS OF DECEMBER 31, 2022</b>                | (*) 98,876,266         | 49            | 325,067                                   | (157,675)                      | 167,441      |
| <b>CHANGE DURING 2023:</b>                            |                        |               |                                           |                                |              |
| Exercise of options and vesting of RSUs               | 4,278,130              | -             | 1,498                                     | -                              | 1,498        |
| Stock-based compensation                              | -                      | -             | 15,026                                    | -                              | 15,026       |
| Net loss                                              | -                      | -             | -                                         | (19,661)                       | (19,661)     |
| <b>BALANCE AS OF DECEMBER 31, 2023</b>                | (*) 103,154,396        | 49            | 341,591                                   | (177,336)                      | 164,304      |

(\*) Excluding 1,006,250 Forfeiture Shares.

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

**VALENS SEMICONDUCTOR LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(U.S. dollars in thousands)

|                                                                                                                                                                                 | <b>Year Ended December 31</b> |             |             |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|-------------|-------------|
|                                                                                                                                                                                 | <b>2023</b>                   | <b>2022</b> | <b>2021</b> |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                                                                                                                    |                               |             |             |
| Net loss                                                                                                                                                                        | (19,661)                      | (27,667)    | (26,534)    |
| Adjustments to reconcile net loss to net cash used in operating activities:                                                                                                     |                               |             |             |
| Depreciation                                                                                                                                                                    | 1,632                         | 1,377       | 1,099       |
| Stock-based compensation                                                                                                                                                        | 15,026                        | 12,089      | 9,869       |
| Exchange rate differences                                                                                                                                                       | 945                           | 4,259       | (496)       |
| Interest on short-term deposits                                                                                                                                                 | (848)                         | (1,213)     | 87          |
| Change in fair value of Forfeiture Shares                                                                                                                                       | (1,713)                       | (2,907)     | 173         |
| Reduction in the carrying amount of ROU assets                                                                                                                                  | 1,874                         | 1,726       | -           |
| Equity in earnings of investee, net of dividend received                                                                                                                        | 1                             |             | 18          |
| Changes in operating assets and liabilities:                                                                                                                                    |                               |             |             |
| Trade accounts receivable                                                                                                                                                       | (3,166)                       | (4,419)     | 1,584       |
| Prepaid expenses and other current assets                                                                                                                                       | 489                           | 3,462       | (5,286)     |
| Inventories                                                                                                                                                                     | 9,980                         | (14,494)    | (6,163)     |
| Long-term assets                                                                                                                                                                | (174)                         | 293         | (411)       |
| Trade accounts payable                                                                                                                                                          | (6,374)                       | 5,841       | 2,633       |
| Accrued compensation                                                                                                                                                            | (1,949)                       | 1,623       | 633         |
| Other current liabilities                                                                                                                                                       | (864)                         | (502)       | 1,184       |
| Change in operating lease liabilities                                                                                                                                           | (1,598)                       | (1,571)     | -           |
| Other long-term liabilities                                                                                                                                                     | 41                            | 8           | 1           |
| Net cash used in operating activities                                                                                                                                           | (6,359)                       | (22,095)    | (21,609)    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                                                                                                                    |                               |             |             |
| Investment in short-term deposits                                                                                                                                               | (206,024)                     | (214,522)   | (121,947)   |
| Maturities of short-term deposits                                                                                                                                               | 208,561                       | 203,902     | 39,227      |
| Purchase of property and equipment                                                                                                                                              | (1,185)                       | (1,109)     | (1,443)     |
| Net cash provided by (used in) investing activities                                                                                                                             | 1,352                         | (11,729)    | (84,163)    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES -</b>                                                                                                                                   |                               |             |             |
| Proceeds from Transactions related to the Merger, net                                                                                                                           | -                             | -           | 134,185     |
| Exercise of options                                                                                                                                                             | 1,498                         | 822         | 1,246       |
| Net cash provided by financing activities                                                                                                                                       | 1,498                         | 822         | 135,431     |
| <b>Effect of exchange rate changes on cash and cash equivalents</b>                                                                                                             | 746                           | (3,765)     | 816         |
| <b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                                                                                                                         | (2,763)                       | (36,767)    | 30,475      |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>                                                                                                                           | 20,024                        | 56,791      | 26,316      |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>                                                                                                                                 | 17,261                        | 20,024      | 56,791      |
| <b>SUPPLEMENT DISCLOSURE OF CASH FLOW INFORMATION -</b>                                                                                                                         |                               |             |             |
| Cash paid for taxes                                                                                                                                                             | 293                           | 214         | 417         |
| <b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>                                                                                                  |                               |             |             |
| Trade accounts payable on account on property and equipment                                                                                                                     | 611                           | 317         | 44          |
| Unpaid issuance costs classified to additional paid in capital                                                                                                                  | -                             | -           | 41          |
| Operating lease liabilities arising from obtaining operating right-of-use assets, excluding the impact of \$4.9 million recognized on initial adoption, refer also to note 2(q) | 398                           | 648         | -           |
| Conversion of Redeemable Convertible Preferred Shares                                                                                                                           | -                             | -           | 150,179     |
| Issuance of Forfeiture Shares                                                                                                                                                   | -                             | -           | 4,485       |

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

**VALENS SEMICONDUCTOR LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - GENERAL:**

- a. Valens Semiconductor Ltd. (hereafter “Valens”, and together with its wholly owned subsidiaries, the “Company”), was incorporated in Israel in 2006.

Valens is a leading provider of semiconductor products (chips), operates in the Audio-Video and Automotive industries, renowned for its Physical Layer (PHY) technologies, enabling resilient high-speed connectivity over simple, low-cost infrastructure. Valens is the inventor of the HDBaseT Technology, which enables the converged delivery of ultra-high-definition digital video and audio, Ethernet, control signals, USB and power through a single cable. In the audio-video space, Valens’ HDBaseT technology enables plug-and-play digital connectivity between ultra-HD video sources and remote displays. In the automotive domain, Valens’ product offering includes both symmetric and asymmetric connectivity solutions for high bandwidth transmission of native interfaces over a single low-cost wires and connectors. Valens’ advanced PHY technologies for the auto industry provides the safety and resilience required to handle the noisy automotive environment, addressing the needs of Advanced driver-assistance systems (ADAS), Automotive Data Solutions (ADS), infotainment, telematics and backbone connectivity.

- b. As of December 31, 2023, and 2022, the Company has wholly owned subsidiaries in the United States, Japan, China, and Germany primarily for the marketing of and support for the Company’s products.

In March 2010, the Company incorporated, together with Samsung Electronics, LG Electronics and Sony Pictures Technologies Inc., the HDBaseT Licensing LLC (the “LLC”) in Oregon, USA. The Company holds 25% of interest in the LLC. The LLC’s purposes are (i) to hold, obtain, license and/or acquire rights to certain intellectual property associated with or connected to or related to technical specifications developed by the HDBaseT Alliance, an Oregon nonprofit mutual benefit corporation (hereafter the “Alliance”), to enter into licensing arrangements for such intellectual property as required by the intellectual property rights policy of the Alliance; and (ii) to engage in any other lawful act or activity for which limited liability companies may be formed under the Act, and to do all things incidental to such purposes.

- c. On September 29, 2021 (the “Closing Date”), the Company consummated a merger transaction (referred to as the “Merger Agreement Closing”) pursuant to a merger agreement, dated May 25, 2021 (the “Merger Agreement”), by and among the Company, PTK Acquisition Corp., a Delaware corporation whose common stock and warrants were then traded on the New York Stock Exchange (“PTK” or “SPAC”) and Valens Merger Sub, Inc., a Delaware corporation and a wholly owned subsidiary of the Company (“Merger Sub”).

As a result of the Merger Agreement Closing, and upon consummation of other transactions contemplated by the Merger Agreement Closing (the “Transactions”), PTK became a wholly owned subsidiary of the Company, and (a) each of the PTK Warrants (total of 18,160,000 warrants (composed of 11,500,000 Public Warrants (“Public Warrants”) and 6,660,000 Private Warrants as both further disclosed in Note 9(b) below) convertible into 9,080,000 PTK common stock), automatically became a Company Warrant and all rights with respect to the PTK common stock underlying the PTK Warrants were automatically converted into rights with respect to Company Ordinary Shares and thereupon assumed by the Company, and (b) each PTK common stock issued and outstanding immediately prior to the Merger Agreement Closing was converted automatically into one Company Ordinary Share (for total of 5,867,763 Ordinary Shares including the Ordinary Shares subject to forfeiture). The total proceeds received by the Company as part of the above Transactions totaled to \$29.9 million.

**VALENS SEMICONDUCTOR LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 1 - GENERAL** (continued):

In connection therewith, the Company issued to the PTK's sponsor: (a) 2,875,000 Ordinary Shares; and (b) 6,660,000 warrants, each of which entitles the holder thereof to purchase one half (1/2) of a Company Ordinary Share (the "Private Warrants", refer also to Note 9(b) below) ((a) and (b) together, the "Sponsor Equity"). The Sponsor Equity is subject to certain terms and conditions, as set forth in the Merger Agreement. 35% of the Valens Ordinary Shares that the PTK sponsor received in respect of its PTK common stock (i.e., 1,006,250 Ordinary Shares), are subject to forfeiture if certain price targets for the Valens Ordinary Shares are not achieved within a certain period of time after the Closing Date or if an M&A Transaction (as defined in the Merger Agreement), does not occur at a certain minimum price (the "Forfeiture Shares"). Such Forfeiture Shares are classified as a liability and presented at fair value, although they are considered outstanding shares and are entitled to voting rights and distributions. Please refer in addition to Note 2(x).

Concurrently with the execution of the Merger Agreement, Valens and certain accredited investors, entered into a series of subscription agreements, providing for the purchase by the PIPE (Private Investment in Public Equity) Investors at the Closing Date of an aggregate of 12,500,000 Valens Ordinary Shares at a price per share of \$10.00, for gross proceeds to Valens of \$125.0 million (collectively, the "PIPE Financing").

Pursuant to the Merger Agreement Closing, and immediately prior to the consummation of the Merger and the PIPE Financing, the Company effected a recapitalization transaction whereby (i) all of the Company Preferred Shares were converted on a one-to-one basis into the Company Ordinary Shares, (ii) each Company Ordinary Share that was issued and outstanding immediately prior to the Closing Date, was reverse split into a number of the Company Ordinary Shares, such that each Company Ordinary Share had an implied value of \$10.00 per share at the Closing Date, after giving effect to a stock reverse split ratio of 0.662531-to-one Ordinary Share (the "Reverse Stock Split"), ((i) and (ii) collectively the "Recapitalization"), (iii) the Company adopted amended and restated articles of association and (iv) any outstanding stock options of the Company issued and outstanding immediately prior to the Closing Date were adjusted to give effect to the foregoing transactions and remained outstanding and their exercise prices were adjusted accordingly. In addition, the Company eliminated the par value of its Ordinary Shares.

As a result, all Ordinary Shares, options exercisable for Ordinary Shares, exercise prices and income (loss) per share amounts have been adjusted on a retroactive basis, for all periods presented in these consolidated financial statements, to reflect such Reverse Stock Split. The number of Preferred Shares has not been retrospectively adjusted in these consolidated financial statements since the conversion to Ordinary Shares occurred simultaneously with the Reverse Stock Split. The conversion of the Redeemable Convertible Preferred Shares was reflected on the Closing Date. The total number of Preferred Shares converted into Ordinary Shares on September 29, 2021, was 67,242,640 after giving effect of the Reverse Stock Split.

The net proceeds received by the Company as part of the Merger Agreement Closing and the PIPE Financing totaled to \$131.6 million; underwriting fees and issuance costs (which consist of certain legal, accounting and other costs) amounted to \$23.4 million, out of which an amount of \$20.8 million was recorded as a reduction to Shareholders' Equity, and an amount of \$2.6 million was recorded within Statements of Operations (\$2.1 million in the General and administrative expenses and \$0.5 million was recorded in the Financial income, net).

In addition, and as part of the Merger Agreement Closing and the PIPE Financing, i) the Company booked within the General and Administrative expenses an amount of approximately \$3.4 million, due to options vesting acceleration resulted from the Merger Agreement Closing (refer also to note 10); and ii) the Company recorded the Forfeiture Shares liability of \$4.5 million against the Additional Paid In Capital (refer also to note 2(x)).

- d. The Company continues to monitor the implications of the COVID-19 pandemic and macroeconomic environment on its operations and on its supply chain, and may modify its business practices and policies from time to time. The ability to quantify the impact of the pandemic on the Company's business remains limited and its effects on the business are unlikely to be fully realized, or reflected in the Company's financial results, until future periods.
- e. 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 Israel's civilian population and industrial centers along Israel's border with the Gaza Strip and in the Central District of Israel. Following the attack, Israel's security cabinet declared war against Hamas and a military campaign against the organization as Hamas has continued its rocket and terror attacks in parallel. In addition, Hezbollah has attacked military and civilian targets in northern Israel, to which Israel has responded. How long and how severe the current conflict in Gaza becomes is unknown at this time and any continued clash among Israel, Hamas or Hezbollah or other countries in the region may escalate in the future into a greater regional conflict. To date the Company's operations and financial results have not been materially affected.

**VALENS SEMICONDUCTOR LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**a. Basis of Presentation**

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

**b. Use of estimates in preparation of financial statements**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the balance sheet date, amounts of contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates under different assumptions or circumstances.

On an ongoing basis, management evaluates its estimates, including those related to write-down for excess and obsolete inventories, the valuation of stock-based compensation awards, estimated useful lives of fixed assets and forfeiture shares liability. Such estimates often require the selection of appropriate valuation methodologies and models, and significant judgment in evaluating ranges of assumptions and financial inputs. These estimates are based on historical data and experience, as well as various other factors that management believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources.

**c. Principles of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries. All inter-company transactions, balances, income, and expenses are eliminated in the consolidated financial statements.

**d. Functional Currency**

The currency of the primary economic environment in which Valens and each of its subsidiaries conducts its operations is the U.S. dollar ("dollar"). Accordingly, the Company uses the dollar as its functional and reporting currency. Foreign currency assets and liabilities are remeasured into U.S. dollars at the end-of-period exchange rates except for non-monetary assets and liabilities, which are remeasured at historical exchange rates. Expenses in foreign currency (mainly payroll to Israeli employees and overhead expenses), are remeasured at the exchange rate in effect during the period the transaction occurred, except for those expenses related to balance sheet amounts, which are remeasured at historical exchange rates. Gains or losses from foreign currency transactions are included in the consolidated statements of income (loss) as part of "financial income (expenses), net".

**e. Cash and cash equivalents**

Cash and cash equivalents consist of cash and demand deposits in banks and other short-term, highly liquid investments with original maturities of less than three months at the time of purchase.

**f. Short term deposits**

Short-term deposits are bank deposits with maturities over three months and of up to one year. As of December 31, 2023, and 2022, the short-term deposits were denominated in U.S. dollars and NIS (Israeli currency) and bore average interest of 5.8% and 4.2%, respectively. Short-term deposits are presented on the balance sheet at their cost, including accrued interest.

**VALENS SEMICONDUCTOR LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued):

**g. Fair Value of Financial Instruments**

The FASB ASC Topic 820, Fair Value Measurements and Disclosures (“Topic 820”), establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under Topic 820 are described below:

Level 1 - Quoted prices in active markets for identical assets or liabilities;

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities;

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

The Company’s financial instruments consist of cash, cash equivalents, short-term bank deposits, trade accounts receivable and trade accounts payable as well as Forfeiture Shares liability. Other than the Forfeiture Shares liability (see below), the recorded amounts approximate their respective fair value because of the liquidity and short period of time to maturity, receipt or payment of these instruments.

The Company’s financial instruments which are considered as a Level 3 measurement are Forfeiture Shares liability (refer also to note 8).

**h. Accounts Receivable, net**

Trade accounts receivable are recorded at the invoiced amount and do not include finance charges. The Company performs ongoing credit evaluation of its customers and generally requires no collateral.

The Company’s accounts receivables accounting policy from January 1, 2023, following the adoption of the new CECL standard:

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

There were no write-offs of accounts receivable for the years ended December 31, 2023, 2022 and 2021, respectively. There are no expected credit losses recorded as of December 31, 2023, and December 31, 2022.

The Company’s accounts receivables accounting policy until December 31, 2022, prior to the adoption of the new CECL standard:

The Company assesses the need for allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments by considering factors such as historical collection experience, credit quality, aging of the accounts receivable balances and current economic conditions that may affect a customer’s ability to pay.

**VALENS SEMICONDUCTOR LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued):

**i. Inventories**

Inventories are comprised of finished goods as well as work in process that is planned to be sold to the Company's customers and is presented at the lower of cost or net realizable value, based on the "first-in, first-out" basis. Most inventories are stored at the last production sites and are distributed from these locations. Inventories are reduced for write-downs based on periodic reviews for evidence of slow-moving or obsolete parts. Once written down, inventories write-downs are not reversed until the inventories are sold or scrapped.

**j. Property and equipment**

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

|                                     | %     |
|-------------------------------------|-------|
| Computers and software              | 33    |
| Electronic and laboratory equipment | 15–33 |
| Furniture and office equipment      | 7     |
| Production equipment                | 33–50 |

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

**k. Impairment of long-lived assets**

The Company tests long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. Recoverability of long-lived assets is measured by comparing the carrying amount of the long-lived asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the sum of the expected undiscounted cash flow is less than the carrying amount of the asset, the Company recognizes an impairment loss, which is the excess of the carrying amount over the fair value of the asset, using the expected future discounted cash flows.

For the years ended December 31, 2023, 2022 and 2021, the Company did not recognize an impairment loss on its long-lived assets.

**l. Severance Pay**

**Valens:** The Israeli Severance Pay Law, 1963 ("Severance Pay Law"), specifies that employees are entitled to severance payment, following the termination of their employment. Under the Severance Pay Law, the severance payment is calculated as one-month's salary for each year of employment, or a portion thereof.

The employees of Valens Ltd. elected to be included under section 14 of the Israeli Severance Compensation Act, 1963 ("section 14"). According to this section, these employees are entitled only to monthly deposits, at a rate of 8.33% of their monthly salary, made in their name with insurance companies and/or pension funds. Payments in accordance with section 14 release Valens Ltd. from any future severance payments (under the above Israeli Severance Pay Law) in respect of those employees. As a result, the Company does not recognize any liability for severance pay due to these employees.

**VALENS SEMICONDUCTOR LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued):

The aforementioned deposits are not recorded as an asset in the Company's balance sheet as they are not under the Company's control.

**Chinese subsidiary:** The Chinese subsidiary liability for severance pay for its local employees is calculated in accordance with the Chinese law. The severance payment is calculated as the product of A x B, where A is the lower of a) most recent monthly salary paid to employees or b) cap of RMB 24,633 (approximately \$3,500), and B is the length of employment in the Company (years). The Company does not make deposits in third party funds, hence, records the potential liability within Other long-term liabilities in the balance sheet.

**m. Revenue recognition**

The Company applies ASC 606, "Revenue from Contracts with Customers" ("ASC 606"). Under ASC 606, an entity recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration that the entity expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of ASC 606, the entity performs the following five steps:

- (i) Identify the contract(s) with a customer;
- (ii) Identify the performance obligations in the contract;
- (iii) Determine the transaction price;
- (iv) Allocate the transaction price to the performance obligations in the contract;
- (v) Recognize revenue when (or as) the performance obligation is satisfied.

The Company uses the following practical expedients that are permitted under ASC 606:

- The Company recognizes the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets that the Company otherwise would have recognized is one year or less. These costs are included in sales and marketing expenses.
- When a contract with a customer includes a material right to acquire future goods or services that are similar to the original goods or services in the contract and are provided in accordance with the terms of the original contract, the Company allocates the transaction price to the optional goods or services by reference to the goods or services expected to be provided and the corresponding expected consideration.
- The Company applies the practical expedient of allowing it to disregard the effects of a financing component if the period between when the Company transfers the promised services to the customer and when the customer pays for the services will be one year or less.

The Company generates revenues mainly from selling semiconductor products (chips). Revenues are recognized when the customer (which includes distributors) obtains control over the Company's product, typically upon shipment to the customer. Taxes collected from customers relating to product sales and remitted to governmental authorities are excluded from revenues.

The Company does not grant a right of return, refund, cancelation or termination. From time to time, the Company provides certain distributors with the right to free or discounted goods products in future periods that provides a material right to the customer. In such cases, such right is accounted for as a separate performance obligation. As of December 31, 2023, and 2022, the deferred revenues for such material rights were \$0 thousand and \$0 thousand, respectively.

**VALENS SEMICONDUCTOR LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued):

The amounts of revenues recognized in the period that were included in the opening deferred revenues balance were \$0 and \$54 thousand for the years ended December 31, 2023, and December 31, 2022, respectively.

The Company generally provides to its customers a limited warranty assurance that the sold products are in compliance with the applicable specifications at the time of delivery. Under the Company's standard terms and conditions of sale, liability for certain failures of product during a stated warranty period is usually limited to repair or replacement of defective items. To the extent the Company sells extended warranty, the recognition of such revenue is deferred until such warranty is in effect.

**n. Cost of Revenues**

Cost of revenues includes cost of materials, such as the cost of wafers, costs associated with packaging, assembly and testing costs, as well as royalties, shipping cost, depreciation cost of production equipment, cost of personnel (including stock-based compensation), costs of logistics and quality assurance and other expenses associated with manufacturing support.

**o. Research and development costs**

Research and development costs are expensed as incurred. Research and development expenses consists of costs incurred in performing research and development activities including cost of personnel (including stock-based compensation), pre-production engineering mask costs, engineering services, development tools cost, third parties' intellectual property license fees, depreciation of development equipment, prototype wafers, packaging and test development costs as well as overhead costs. Development of a product is deemed complete when it is qualified through reviews and tests for performance and reliability. Subsequent to product qualification, product costs are included in cost of goods sold.

**p. Sales Commissions**

Internal sales commissions are recorded within sales and marketing expenses. Sales commissions for the years ended December 31, 2023, 2022 and 2021 amounted \$482 thousand, \$615 thousand and \$790 thousand, respectively.

**q. Leases**

Lease accounting policy from January 1, 2022, following the adoption of ASC 842:

On January 1, 2022, the Company adopted ASU No. 2016-02, Leases ("Topic 842"). The Company determines if an arrangement is a lease at inception. Balances related to operating leases are included in operating lease right-of-use ("ROU") assets, Current maturities of operating leases liabilities and Non-current operating leases liabilities in the consolidated balance sheets.

Leases primarily consist of real estate property and vehicles and are classified as operating leases with fixed payment terms. The Company determines if an arrangement is a lease, or contains a lease, at inception and records the leases upon lease commencement, which is the date when the underlying asset is made available for use by the lessor. Right-of-use ("ROU") assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets and lease liabilities are included in other long-term assets, other current liabilities, and other long-term liabilities on the consolidated balance sheet. Lease expenses for the operating leases are recognized on a straight-line basis over the lease term and are included in operating expenses in the consolidated statements of operations and comprehensive income (loss). Options to extend or terminate the lease are taken into account when it is reasonably certain at the commencement date that such options will be exercised.

**VALENS SEMICONDUCTOR LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued):

The Company elected to apply the short-term lease exemption for lease with a non-cancelable period of twelve months or less. Additionally, the Company has lease agreements with lease and non-lease components. The non-lease components are accounted for separately and not included in the leased assets and corresponding liabilities. On the commencement date, lease payments that include variable lease payments dependent on an index or a rate (such as the Consumer Price Index or a market interest rate), are initially measured using the index or rate at the commencement date. Such variable payments are recognized in the consolidated statements of operations and comprehensive income (loss) in the period in which the event or condition that triggers the payment occurs. These variable payment amounts were not material to the consolidated financial statements for the periods presented.

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

Lease accounting policy until December 31, 2021, prior to the adoption of ASC 842:

The Company leases cars and offices for use in its operations, which are classified as operating leases. Rentals for operating leases are charged to expense using the straight-line method.

**r. Equity investee**

Investment in which the Company exercises significant influence, and which is not considered a subsidiary is accounted for using the equity method, whereby the Company recognizes its proportionate share of the investee's net income or loss after the date of investment, see Note 1b. The equity investee is included within Other assets and totaled to \$16 thousand and \$17 thousand as of December 31, 2023 and 2022, respectively.

**s. Segment reporting**

The chief operating decision maker is the Company's Chief Executive Officer (the "CODM"), who makes resource allocation decisions and assesses performance based on financial information prepared on a consolidated basis, accompanied by disaggregated information about revenues, gross profit and operating loss by the two identified reportable segments. The Company's business includes two operating segments based on the two markets the Company serves:

- 1) Audio-Video: The Company solutions for the Audio-Video market deliver superior, plug-and-play convergence and distribution of different interfaces, through a single long-distance category cable. The products sold into enterprise, Industrial, digital signage, medical, residential, education and VR markets.
- 2) Automotive: Valens Automotive delivers safe & resilient high-speed in-vehicle connectivity for advanced car architectures, realizing the vision of connected and autonomous cars.

**VALENS SEMICONDUCTOR LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):**

**t. Net income (loss) per Ordinary Share**

Net loss per Ordinary Share is computed by adjusting net loss by the amount of dividends on redeemable convertible preferred shares, if applicable.

Basic net loss per Ordinary Share is computed by dividing net loss by the weighted-average number of Ordinary Shares outstanding during the year. Diluted net loss per Ordinary Share is computed by dividing net loss by the weighted-average number of Ordinary Shares outstanding during the year, while giving effect to all potentially dilutive Ordinary Shares to the extent they are dilutive. As long as the company had Redeemable Convertible Preferred Shares outstanding, net loss per Ordinary Share was calculated and reported under the “two-class” method. For periods where there was a net loss, no loss was allocated to the participating securities because they had no contractual obligation to share in the losses. The Forfeiture Shares are subject to forfeiture if certain conditions are not achieved, for which we examine their occurrence at the end of each reporting period.

The Forfeiture Shares are not included in the denominator of diluted earnings per share (EPS) unless the contingency has been met, or would have been met, as of the reporting date.

The Ordinary Shares issued as a result of the Redeemable Convertible Preferred Shares conversion on the Closing Date were included in the basic net loss per share calculation on a prospective basis.

**u. Stock-based compensation**

The Company accounts for share-based compensation in accordance with ASC 718-10. Under ASC 718-10, stock-based awards, including stock options and Restricted Share Units (“RSUs”), are recorded at fair value as of the grant date and recognized as expense over the employee’s, directors and consultants’ requisite service period (generally the vesting period) which the Company has elected to amortize on a straight-line basis. The Company recognizes share-based compensation expense over the requisite service period of the award, net of estimated forfeitures, and revised its estimates, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company uses historical data to estimate pre-vesting option forfeitures.

- 1) With respect to stock options, the Company uses the Black-Scholes option-pricing model to determine the fair value of stock options. The determination of the fair value of stock-based payment awards on the date of grant using an option-pricing model is affected by the Company’s stock price as well as assumptions regarding number of complex and subjective variables. These variables include the estimated stock price volatility over the term of the awards; actual and projected employee stock option exercise behaviors, which is referred to as expected term; risk-free interest rate and expected dividends.

The expected term is calculated using the simplified method, as the Company has concluded that its historical share option exercise experience does not provide a reasonable basis to estimate the expected option term. The Company estimates the volatility of its common stock by using the volatility rates of its peer companies, as well as the historical volatility rates of the Company. The Company bases the risk-free interest rate used in its option-pricing models on U.S. Treasury zero-coupon issues with remaining terms similar to the expected term to maturity of its equity awards. The Company does not anticipate paying any cash dividends in the foreseeable future and therefore uses an expected dividend yield of zero in its option-pricing models.

- 2) With respect to RSUs, the Company uses the stock market price as of the grant date to determine the fair value of such RSUs.

**VALENS SEMICONDUCTOR LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):**

**v. Concentrations of credit risk**

Financial instruments that subject the Company to concentrations of credit risk consist primarily of cash, cash equivalents, investments in short-term deposits and trade accounts receivable. As of December 31, 2023, and 2022, the Company had cash and cash equivalents totaling \$17,261 thousand and \$20,024 thousand, respectively, as well as short-term deposits of \$124,759 thousand and \$128,363 thousand as of December 31, 2023, and 2022, respectively, which are deposited in major Israeli, U.S, Japanese, German and Chinese financial institutions. The Company's management believes that these financial institutions are financially sound.

The Company extends different levels of credit to customers and does not require collateral deposits. As of December 31, 2023, and 2022, the Company did not have expected credit losses.

**w. Income taxes**

The Company accounts for income taxes using the asset and liability approach, which requires the recognition of taxes payable or refundable for the current year and the deferred tax liabilities and assets for the future tax consequences of events that we have recognized in our financial statements or tax returns. The Company measures current and deferred tax liabilities and assets based on provisions of the relevant tax law. The Company records a valuation allowance to reduce its deferred tax assets to the net amount that the Company believes is more likely than not to be realized. The Company considers all available evidence, both positive and negative, including historical levels of income, expectations and risks associated with estimates of future taxable income, and ongoing tax planning strategies in assessing the need for a valuation allowance. The Company classifies interest and penalties relating to uncertain tax positions within income taxes.

**x. Forfeiture shares**

Shares issued to PTK's sponsor that are subject to forfeiture ("Forfeiture Shares") are evaluated as equity-linked contracts rather than as outstanding shares. In accordance with ASC 815-40, the Forfeiture Shares are not solely indexed to the Company's Ordinary Shares and therefore were accounted for as a liability on the consolidated balance sheet at the Closing Date. This liability is subject to re-measurement at each balance sheet date until the contingency settlement, and any change in fair value is recognized in the Company's statement of operations.

**y. Public and Private Warrants**

The Company accounts for the warrants in accordance with the guidance contained in Accounting Standards Codification 815 ("ASC 815"), "Derivatives and Hedging". Accordingly, both the Public and the Private Warrants are considered indexed to the entity's own stock and are classified within equity.

**z. New Accounting Pronouncements**

**Recently adopted accounting standards:**

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments—Credit Losses ("ASC 326"): Measurement of Credit Losses on Financial Instruments to introduce a new model for recognizing credit losses on financial instruments based on estimated current expected credit losses, or CECL. Under the new standard, an entity is required to estimate CECL on trade receivables at inception, based on historical information, current conditions, and reasonable and supportable forecasts. The guidance is effective for the Company for annual periods beginning after December 15, 2022, including interim periods within those fiscal years. Early application is permitted. The Company adopted ASC 326 on January 1, 2023, and there was no material impact on the Company's consolidated balance sheet and the consolidated statements of operations upon adoption.

**VALENS SEMICONDUCTOR LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued):

**Accounting Pronouncements effective in future periods:**

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

In November 2023, the FASB issued ASU No. 2023-07 Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures. The ASU improves reportable segments disclosure requirements, primarily through enhanced disclosures about significant segment expenses. The ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The Company is evaluating the potential impact of this guidance on its Segment disclosure. A public entity should apply the amendments in this Update retrospectively to all prior periods presented in the financial statements.

**NOTE 3 - INVENTORIES:**

|                 | <b>December 31</b>               |               |
|-----------------|----------------------------------|---------------|
|                 | <b>2023</b>                      | <b>2022</b>   |
|                 | <b>U.S. dollars in thousands</b> |               |
| Work in process | 6,176                            | 9,870         |
| Finished goods  | 7,660                            | 13,946        |
|                 | <u>13,836</u>                    | <u>23,816</u> |

Inventories write-downs amounted to \$1,097 thousand, \$23 thousand and \$0 thousand during the years ended December 31, 2023, 2022 and 2021, respectively.

**VALENS SEMICONDUCTOR LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 4 - PROPERTY AND EQUIPMENT, NET:**

|                                       | <b>December 31</b>               |                |
|---------------------------------------|----------------------------------|----------------|
|                                       | <b>2023</b>                      | <b>2022</b>    |
|                                       | <b>U.S. dollars in thousands</b> |                |
| <b>Cost:</b>                          |                                  |                |
| Electronic and laboratory equipment   | 4,927                            | 4,538          |
| Furniture and office equipment        | 407                              | 407            |
| Leasehold improvements                | 657                              | 657            |
| Production equipment                  | 1,206                            | 668            |
| Computers and software                | 4,139                            | 3,270          |
|                                       | <u>11,336</u>                    | <u>9,540</u>   |
| <b>Less: accumulated depreciation</b> | <u>(8,382)</u>                   | <u>(6,750)</u> |
| <b>Property and equipment, net</b>    | <u>2,954</u>                     | <u>2,790</u>   |

Depreciation expenses were \$1,632 thousand, \$1,377 thousand and \$1,099 thousand for the years ended December 31, 2023, 2022 and 2021, respectively. During the years ended December 31, 2023, 2022 and 2021, there were no impairments of property and equipment.

**NOTE 5 - OTHER CURRENT LIABILITIES:**

|                                 | <b>December 31</b>               |              |
|---------------------------------|----------------------------------|--------------|
|                                 | <b>2023</b>                      | <b>2022</b>  |
|                                 | <b>U.S. dollars in thousands</b> |              |
| Accrued vacation                | 2,820                            | 3,203        |
| Taxes payable                   | 36                               | 514          |
| Accrued expenses- related party | -                                | 142          |
| Accrued expenses and other      | 2,102                            | 2,262        |
|                                 | <u>4,958</u>                     | <u>6,121</u> |

**VALENS SEMICONDUCTOR LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 6 - LEASES:**

**Lease agreements:**

As of December 31, 2023, the Company has several operating lease agreements for its facilities and vehicles as follows:

**Vehicles:**

The Company rents motor vehicles for use by some of its employees under operating lease agreements with lease terms of three years. As collateral for the cars' lease agreements, the Company pays in advance the fee for the last month under the lease agreement.

As of December 31, 2023, the Company is engaged with car lease companies for leasing of over 30 vehicles. The monthly payments for those agreements are approximately \$28 thousands.

**Offices:**

The Company's corporate headquarters are located in Hod Hasharon, Israel, consisting of approximately 5,500 square meters of facility space under lease that expires in February 2023, with an option to extend the lease period by additional two years until February 28, 2025. The Company concluded that it is reasonably certain that it will exercise the renewal option. Accordingly, such renewal option was included in determining the lease term.

During February 2023, the Company extended the lease by one year until the end of February 2024.

The monthly rent payment is approximately \$121 thousands.

The Company has entered into various operating leases for office buildings in other territories. The total monthly rent payment of those leases is approximately \$10 thousands.

The table below presents the effects on the amounts relating to the Company's total lease costs:

|                       | Year Ended on<br>December 31,<br>2023 | Year Ended on<br>December 31,<br>2022 |
|-----------------------|---------------------------------------|---------------------------------------|
|                       | U.S. dollars in thousands             |                                       |
| Operating lease cost: |                                       |                                       |
| Fixed Payment         | 2,064                                 | 2,252                                 |

The table below presents supplemental cash flow information related to operating leases:

|                                                                                  | Year Ended on<br>December 31,<br>2023 | Year Ended on<br>December 31,<br>2022 |
|----------------------------------------------------------------------------------|---------------------------------------|---------------------------------------|
|                                                                                  | U.S. dollars in thousands             |                                       |
| Cash paid for amounts included in the measurement of lease liabilities:          |                                       |                                       |
| Operating cash flows for operating leases                                        | 1,935                                 | 2,093                                 |
| Right-of-use assets obtained in exchange for lease obligations (non-cash):       |                                       |                                       |
| Operating lease liabilities arising from obtaining operating right-of-use assets | 398                                   | 648                                   |

(\*) Upon adoption of ASC 842, the Company recognized operating right-of-use assets of \$4.9 million with corresponding operating lease liabilities on its consolidated balance sheet as of January 1, 2022.

**VALENS SEMICONDUCTOR LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 6 - LEASES** (continued):

The table below presents supplemental balance sheet information related to operating leases:

|                                               | December 31,<br>2023         | December 31,<br>2022         |
|-----------------------------------------------|------------------------------|------------------------------|
|                                               | U.S. dollars<br>in thousands | U.S. dollars<br>in thousands |
| Operating lease right-of-use assets           | 2,202                        | 3,824                        |
| Current maturities of operating leases        | 1,766                        | 1,811                        |
| Non-current operating leases                  | 190                          | 1,624                        |
| Total operating lease liabilities             | 1,956                        | 3,435                        |
| Weighted average remaining lease term (years) | 1.17                         | 2.00                         |
| Weighted annual average discount rate         | 13.12%                       | 13.09%                       |

The table below presents maturities of operating lease liabilities:

|                                    | December 31,<br>2023         |
|------------------------------------|------------------------------|
|                                    | U.S. dollars<br>in thousands |
| 2024                               | 1,900                        |
| 2025                               | 212                          |
| 2026                               | 15                           |
| Total operating lease payments     | 2,127                        |
| Less: imputed interest             | (171)                        |
| Present value of lease liabilities | 1,956                        |

Operating lease expenses for the year ended December 31, 2021, were \$2,670 thousand.

**NOTE 7 - COMMITMENTS AND CONTINGENT LIABILITIES:**

**a. Royalties:**

In addition to its own intellectual property, the Company also embeds certain off the shelf technologies (Intellectual Property (“IP”)) licensed from third parties in its chip technology. These are typically non-exclusive contracts provided under royalty-accruing and/or paid-up licenses. Once deployed in the Company’s products, such licenses for commercial use are generally perpetual.

Royalty arrangements with certain vendors are vary between 0.5%-3.5% of net revenues per chip plus additional royalties of up to \$0.1 per chip.

The royalties’ expenses totaled to \$725 thousand, \$903 thousand and \$844 thousand for the years ended December 31, 2023, 2022 and 2021, respectively. The royalties were recorded as part of cost of revenues.

**b. The Israel Innovation Authority (formerly known as “Office of Chief Scientist”)**

Until 2016, the Company received grants from the Israel Innovation authority (“IIA”) for participation in research and development costs of the Company’s. The IIA grants were recognized when grants were received and presented as a deduction from research and development expenses. The Company repaid the IIA all its liability for the received grant.

While the Company has no outstanding obligation to the IIA, the Company is still subject to the provisions of the Research and Development law in Israel.

**VALENS SEMICONDUCTOR LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 7 - COMMITMENTS AND CONTINGENT LIABILITIES** (continued):

**c. Noncancelable Purchase Obligations**

The Company depends upon third party subcontractors for manufacturing of wafers, packaging and final tests. As of December 31, 2023, and 2022, the total value of open purchase orders for such manufacturing contractors was approximately \$4,951 thousand and \$19,418 thousand, respectively.

The Company has noncancelable purchase agreements for certain IP embedded in the Company products as well as certain agreement for the license of development tools used by the development team. As of December 31, 2023, and 2022, the total value of non-paid amounts related to such agreements totaled \$5,513 thousand and \$2,783 thousand, respectively.

**d. Legal proceedings**

As of December 31, 2023, and 2022, the Company is not a party to, or subject to the provisions of any order, writ, injunction, judgment or decree of any court or governmental agency or instrumentality. There is no material action, suit, proceeding or investigation by the Company currently pending or that the Company intends to initiate.

**e. Indemnifications**

In the ordinary course of business, the Company may provide indemnifications of varying scope and terms to customers, vendors, lessors, investors, directors, officers, employees and other parties with respect to certain matters, including, but not limited to, losses arising out of the Company's breach of such agreements, services to be provided by the Company, or from intellectual property infringement claims made by third-parties. These indemnifications (especially with respect to confidentiality with third party related to IP) may survive termination of the underlying agreement and the maximum potential amount of future payments the Company could be required to make under these indemnification provisions may not be subject to maximum loss clauses. The Company has not incurred costs to defend lawsuits or settle claims related to these indemnifications. As of December 31, 2023, and 2022 the Company has no liabilities recorded for these agreements.

**VALENS SEMICONDUCTOR LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 8 - FORFEITURE SHARES:**

- a. On the Closing Date, 1,006,250 Ordinary Shares that PTK sponsor received in respect of its PTK common stock, are subject to forfeiture if certain price targets for the Valens Ordinary Shares are not achieved within a certain period of time (of up to four years), after the Closing Date or if an M&A Transaction (as defined in the Merger Agreement Closing), does not occur at a certain minimum price.

The Company performed a Monte-Carlo simulation to calculate the fair value. As of the Closing Date, the fair value was \$4,485 using the following assumptions: stock price of \$7.4, expected term of 3-4 years, expected volatility of 47.74%-50.31% and risk-free interest rate of return of 0.53%-0.76%.

The fair value of the Forfeiture Shares was computed using the following key assumptions:

|                         | <b>December 31,<br/>2023</b> | <b>December 31,<br/>2022</b> |
|-------------------------|------------------------------|------------------------------|
| Stock price             | 2.45                         | 5.37                         |
| Expected term (years)   | 0.75-1.75                    | 1.75-2.75                    |
| Expected volatility     | 30.95%-60.31%                | 51.37%-53.53%                |
| Risk-free interest rate | 4.37%-5.03%                  | 4.27%-4.49%                  |

- b. The table below sets forth a summary of the changes in the fair value of the Forfeiture Shares classified as Level 3:

|                              | <b>Year ended<br/>December 31,<br/>2023</b> | <b>Year ended<br/>December 31,<br/>2022</b> |
|------------------------------|---------------------------------------------|---------------------------------------------|
|                              | <b>U.S. dollars in thousands</b>            |                                             |
| Balance at beginning of year | 1,751                                       | 4,658                                       |
| Changes in fair value        | (1,713)                                     | (2,907)                                     |
| Balance at end of year       | <u>38</u>                                   | <u>1,751</u>                                |

**NOTE 9 - SHAREHOLDERS EQUITY:**

- a. Ordinary Shares confer to holders the right to receive notice to participate and vote in the general meetings of the Company, to appoint directors and the right to receive dividends if declared.
- b. Warrants: Following the Merger Agreement Closing, each warrant of PTK entitled the holder to purchase one-half share of PTK common stock per warrant at a price of \$11.50 per whole share (each, a “PTK warrant”), outstanding immediately prior to the Closing Date was assumed by Valens and became a Valens warrant entitling the holder to purchase one-half share of Valens Ordinary Shares, with the number of Valens Ordinary Shares underlying the Valens warrants.

Public Warrants: Each of the 11,500,000 public warrants entitles its holder to purchase one half (1/2) Valens Ordinary Share (i.e. exercisable in total to 5,750,000 Ordinary Shares), at a price of \$11.50 per one share, at any time commencing on the Closing Date. Under certain conditions, Valens may call the outstanding public warrants for redemption, in whole and not in part, at a price of \$0.01 per warrant, but only if: (i) the reported last sale price of the Valens ordinary shares equals or exceeds \$18.00 per share for any 20 trading days within a 30-day trading period; and (ii) there is a current registration statement in effect covering the Valens ordinary shares underlying such warrants. If Valens calls the warrants for redemption as described above, Valens will have the option to require all holders that wish to exercise warrants to do so on a “cashless basis”.

**VALENS SEMICONDUCTOR LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 9 - SHAREHOLDERS EQUITY** (continued):

The exercise price and number of Valens Ordinary Shares issuable on exercise of the warrants may be adjusted in certain circumstances including in the event of a share dividend, extraordinary dividend or a recapitalization, reorganization, merger or consolidation. The warrants will expire on September 29, 2026.

Private Warrants: Each of the 6,660,000 Private Warrants convertible into 3,330,000 Ordinary Shares of the Company, will not be redeemable by The Company, regardless of the holder's identity. The holders have the option to exercise the Private Warrants on a cashless basis at any time into Valens ordinary shares. Except as described above, the Private Warrants have terms and provisions that are identical to those of the Public Warrants, including as to exercise price, exercisability and exercise period.

Both the Public Warrants and Private Warrants, are publicly-traded as of the Closing Date.

**NOTE 10 - STOCK-BASED COMPENSATION:**

In September 2021, the Company adopted the "Valens Semiconductor Ltd. 2021 Share Incentive Plan".

The Company's stock options have a term of 7-10 years from grant date unless extended by the Board of Directors. The granted options generally vest as follows: 25% on the first anniversary from the "Vesting Start Date" as defined in the grant agreement and remainder vest ratably over the following 12 quarters.

The granted RSUs generally vest as follows: 25% on the first anniversary from the "Vesting Start Date" as defined in the grant agreement and remainder vest ratably over the following 12 quarters.

The Company started to grant RSUs as of December 2021.

During 2023, the Company added 2,282,424 Ordinary Shares to the Ordinary Shares pool reserved for issuance (none in 2022). As of December 31, 2023, and 2022, the number of ordinary shares included in the Company's stock incentive plans totaled to 30,666,212 and 28,383,788, respectively.

**Stock Options**

On September 30, 2021, the vesting of 814,272 options of one of the Company's executives were accelerated. The Company expensed \$3,396 thousand in the general and administrative expenses due to such vesting acceleration.

635,948 out of the outstanding options that have not yet vested as of December 31, 2023, have acceleration mechanisms according to certain terms set forth in the grant agreements primarily in the case of an M&A Transaction which constitutes a Liquidation Event.

As of December 31, 2023, the unrecognized compensation costs related to those unvested stock options are \$1,221 thousand, which are expected to be recognized over a weighted-average period of 1.38 years.

**VALENS SEMICONDUCTOR LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 10 - STOCK-BASED COMPENSATION** (continued):

The following is a summary of the status of the Company's share option plan as of December 31, 2023, as well as changes during the year:

|                                                  | <b>December 31, 2023</b> |                                        |
|--------------------------------------------------|--------------------------|----------------------------------------|
|                                                  | <b>Number of Options</b> | <b>Weighted-Average Exercise price</b> |
| Options outstanding at the beginning of the year | 13,948,149               | \$ 0.85                                |
| Granted during the year                          | 300,750                  | \$ 3.76                                |
| Exercised during the year                        | (2,647,907)              | \$ 0.57                                |
| Expired during the year                          | (19,876)                 | \$ 0.75                                |
| Forfeited during the year                        | (254,173)                | \$ 1.59                                |
| Outstanding at the end of the year               | 11,326,943               | \$ 0.75                                |
| Options exercisable at year-end                  | 10,290,733               | \$ 0.89                                |

The following table summarizes information about share options outstanding as of December 31, 2023:

| Outstanding as of December 31, 2023 |                    |                                             |                                 |                                                       | Exercisable as of December 31, 2023 |                                             |                                 |                                                       |  |
|-------------------------------------|--------------------|---------------------------------------------|---------------------------------|-------------------------------------------------------|-------------------------------------|---------------------------------------------|---------------------------------|-------------------------------------------------------|--|
| Range of exercise prices            | Number outstanding | Weighted average remaining contractual term | Weighted average exercise price | Aggregate intrinsic value (U.S. dollars in thousands) | Number Exercisable                  | Weighted average remaining contractual term | Weighted Average exercise price | Aggregate intrinsic value (U.S. dollars in thousands) |  |
| \$ 0.15-\$0.86                      | 10,880,051         | 4.80                                        | \$ 0.79                         | 18,097                                                | 10,067,076                          | 4.66                                        | \$ 0.78                         | 16,780                                                |  |
| \$ 1.87                             | 3,313              | 7.03                                        | \$ 1.87                         | 2                                                     | 2,277                               | 7.03                                        | \$ 1.87                         | 1                                                     |  |
| \$ 2.10                             | 16,563             | 1.00                                        | \$ 2.10                         | 6                                                     | 16,563                              | 1.00                                        | \$ 2.10                         | 6                                                     |  |
| \$ 2.40                             | 1,474              | 6.50                                        | \$ 2.40                         | -                                                     | 246                                 | 6.50                                        | \$ 2.40                         | -                                                     |  |
| \$ 4.99                             | 196,625            | 6.04                                        | \$ 4.99                         | -                                                     | 64,038                              | 6.04                                        | \$ 4.99                         | -                                                     |  |
| \$ 5.36                             | 140,000            | 5.50                                        | \$ 5.36                         | -                                                     | 52,500                              | 5.50                                        | \$ 5.36                         | -                                                     |  |
| \$ 7.58                             | 85,380             | 5.04                                        | \$ 7.58                         | -                                                     | 85,380                              | 5.04                                        | \$ 7.58                         | -                                                     |  |
| \$ 9.07                             | 3,537              | 4.96                                        | \$ 9.07                         | -                                                     | 2,653                               | 4.96                                        | \$ 9.07                         | -                                                     |  |

The following assumptions were used for options granted during the year in order to estimate the fair value of stock-based compensation awards:

|                        | <b>2023</b>   | <b>2022</b>   |
|------------------------|---------------|---------------|
| Expected term          | 4-5           | 4-6           |
| Expected volatility    | 48.35%-63.84% | 46.71%-47.71% |
| Expected dividend rate | 0%            | 0%            |
| Risk-free rate         | 3.62%-4.21%   | 1.31%-3.00%   |

During 2023, 2022 and 2021, 300,750, 239,610 and 321,777 options respectively, were granted to several related parties (please refer to Note 15 regarding Related Parties).

As of December 31, 2023, the unrecognized compensation costs related to unvested stock options totaled to \$2,994 thousand, which are expected to be expensed over a weighted-average period of 1.32 years.

**VALENS SEMICONDUCTOR LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 10 - STOCK-BASED COMPENSATION** (continued):

The following table presents the classification of the stock options expenses for the periods indicated:

|                                                      | Year Ended December 31    |              |              |
|------------------------------------------------------|---------------------------|--------------|--------------|
|                                                      | 2023                      | 2022         | 2021         |
|                                                      | U.S. dollars in thousands |              |              |
| Cost of revenue                                      | 183                       | 233          | 158          |
| Research and development                             | 1,158                     | 1,766        | 1,684        |
| Sales and marketing                                  | 1,120                     | 1,317        | 1,162        |
| General and administrative                           | 2,641                     | 2,844        | 6,819        |
| <b>Total stock-based compensation -Stock Options</b> | <b>5,102</b>              | <b>6,160</b> | <b>9,823</b> |

**Restricted Stock Units**

The following is a summary of the status of the Company's RSU's as of December 31, 2023, as well as changes during the year:

|                                               | December 31, 2023 |                                        |
|-----------------------------------------------|-------------------|----------------------------------------|
|                                               | Number of RSUs    | Weighted-Average Grant Date Fair Value |
| RSUs outstanding at the beginning of the year | 3,779,716         | \$ 6.08                                |
| Granted during the year                       | 4,377,951         | \$ 4.80                                |
| Vested during the year                        | (1,630,223)       | \$ 6.11                                |
| Forfeited during the year                     | (1,085,131)       | \$ 5.41                                |
| Outstanding at the end of the year            | <u>5,442,313</u>  | <u>\$ 5.26</u>                         |

As of December 31, 2023, the unrecognized compensation cost related to unvested RSUs totaled to approximately \$21,786 thousand and is expected to be expensed over a weighted-average recognition period of approximately 2.67 years.

During 2023, 2022 and 2021, 548,849, 515,103 and 7,398 RSU's, respectively, were granted to several related parties (please refer to Note 15 regarding Related Parties).

The following table presents the classification of RSU's expenses for the periods indicated:

|                                            | Year Ended December 31    |              |           |
|--------------------------------------------|---------------------------|--------------|-----------|
|                                            | 2023                      | 2022         | 2021      |
|                                            | U.S. dollars in thousands |              |           |
| Cost of revenue                            | 606                       | 317          | 6         |
| Research and development                   | 5,141                     | 3,034        | 22        |
| Sales and marketing                        | 2,399                     | 1,302        | 4         |
| General and administrative                 | 1,778                     | 1,276        | 14        |
| <b>Total stock-based compensation-RSUs</b> | <b>9,924</b>              | <b>5,929</b> | <b>46</b> |

**VALENS SEMICONDUCTOR LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 11 - FINANCIAL INCOME (EXPENSES), NET:**

|                                                | Year Ended December 31    |                |              |
|------------------------------------------------|---------------------------|----------------|--------------|
|                                                | 2023                      | 2022           | 2021         |
|                                                | U.S. dollars in thousands |                |              |
| Foreign currency exchange differences          | (1,078)                   | (4,377)        | 1,295        |
| Issuance costs attributed to Forfeiture Shares | -                         | -              | (473)        |
| Interest income on short-term deposits         | 6,669                     | 2,298          | 311          |
| Other                                          | 46                        | 309            | (31)         |
| <b>Total financial income (expenses), net</b>  | <b>5,637</b>              | <b>(1,770)</b> | <b>1,102</b> |

**NOTE 12 - NET LOSS PER ORDINARY SHARE:**

The following table sets forth the computation of basic and diluted net loss per ordinary share for the periods indicated. Net loss per ordinary share calculations for all periods presented have been retrospectively adjusted to reflect the Reverse Stock Split, as discussed in Note 1(c).

|                                                                                                        | Year Ended December 31    |            |            |
|--------------------------------------------------------------------------------------------------------|---------------------------|------------|------------|
|                                                                                                        | 2023                      | 2022       | 2021(*)    |
|                                                                                                        | U.S. dollars in thousands |            |            |
| <b>Basic net loss per Ordinary Share</b>                                                               |                           |            |            |
| Numerator:                                                                                             |                           |            |            |
| Net loss from continuing operations                                                                    | (19,661)                  | (27,667)   | (26,534)   |
| Dividend on Series E Redeemable Preferred                                                              | -                         | -          | (2,710)    |
| Dividend on Series D Redeemable Preferred                                                              | -                         | -          | (4,023)    |
| Dividend on Series C Redeemable Preferred                                                              | -                         | -          | (1,426)    |
| Dividend on Series B-2 Redeemable Preferred                                                            | -                         | -          | (985)      |
| Dividend on Series B-1 Redeemable Preferred                                                            | -                         | -          | (394)      |
| Dividend on Series A Redeemable Preferred                                                              | -                         | -          | (1,792)    |
| Numerator for basic and diluted net loss per common share net loss attributable to common stockholders | (19,661)                  | (27,667)   | (37,864)   |
| Denominator:                                                                                           |                           |            |            |
| Denominator for basic and dilutive net loss per common share- adjusted weighted-average share          | 101,985,939               | 97,820,782 | 33,031,205 |
| Basic and dilutive net loss per common share                                                           | (0.19)                    | (0.28)     | (1.15)     |

(\*) Pursuant to the Merger Agreement Closing, all the Company's Preferred Shares were converted on a one-to-one basis into Company's Ordinary Shares; The Company's Articles of Association that was in effect prior the Merger Agreement Closing, stated that the Preferred Shares were entitled to dividend preference, according to which, upon declaration of dividend by the Company's Board of Directors, such Preferred Shares shall be entitled to cumulative dividends as of their applicable issuance at an annual rate of 7% of the applicable Original Issue Price (compounded annually). Dividend on Redeemable Preferred Shares referred to the period that started on January 1, 2021 and ended on September 29, 2021 (Closing Date, refer to note 1(c)).

**VALENS SEMICONDUCTOR LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 12 - NET LOSS PER ORDINARY SHARE** (continued):

The following weighted-average Ordinary Shares of securities were not included in the computation of diluted net income (loss) per common share as their effect would have been antidilutive:

|                                             | <b>2023</b> | <b>2022</b> | <b>2021</b> |
|---------------------------------------------|-------------|-------------|-------------|
| Options                                     | 12,233,173  | 14,913,114  | 16,028,893  |
| Restricted Stock Units                      | 5,844,514   | 3,270,669   | -           |
| Warrants liability                          | -           | -           | 41,351      |
| Private Warrants                            | 3,330,000   | 3,330,000   | 1,683,500   |
| Public Warrants                             | 5,750,000   | 5,750,000   | 2,906,944   |
| Forfeiture Shares                           | 1,006,250   | 1,006,250   | 508,715     |
| Redeemable Convertible Preferred A shares   | -           | -           | 24,584,645  |
| Redeemable Convertible Preferred B-1 shares | -           | -           | 7,524,342   |
| Redeemable Convertible Preferred B-2 shares | -           | -           | 13,950,841  |
| Redeemable Convertible Preferred C shares   | -           | -           | 7,042,522   |
| Redeemable Convertible Preferred D shares   | -           | -           | 14,431,585  |
| Redeemable Convertible Preferred E shares   | -           | -           | 8,279,726   |

The number of Redeemable Convertible Preferred Shares and warrants liability have not been retrospectively adjusted to reflect the Reverse Stock Split in these consolidated financial statements as a result of the conversion to Ordinary Shares occurring simultaneously with the Reverse Stock Split.

**NOTE 13 - INCOME TAXES:**

**a. Basis of taxation**

Current tax is calculated with reference to the profit of the Company and its subsidiaries in their respective countries of operation. Set out below are details in respect of the significant jurisdictions where the Company and its subsidiaries operate and the factors that influenced the current and deferred taxation in those jurisdictions:

**Israel**

Valens is taxed under the laws of the State of Israel at a corporate tax rate of 23%.

In 2023, 2022 and 2021, Valens is at a losses position and therefore has no corporate tax liability. As of December 31, 2023, 2022 and 2021, Valens has a carry forward loss of approximately \$116 million, \$99 million and \$88 million, respectively. Such carry forward loss has no expiration date. Valens is taxed in the New Israeli Shekel ("NIS"), which is different from its functional currency (U.S. Dollar). The change in the Company's NOLs for tax purposes is partly resulted by such rate differences.

**United States**

The principal federal tax rate applicable to the U.S. subsidiaries is 21%.

With respect to Valens Semiconductor Inc., is also subject to state taxes at the following rates: 8.84% in California and 0.75% in Texas.

As of December 31, 2023, Valens Merger Sub, Inc. (formerly PTK) has a carry forward loss of approximately \$4 million. Such carry forward loss is subject to the 382 limitation and has no expiration date.

**Japan**

The effective principal corporate tax rate applicable to the Japanese subsidiary is 36%.

**VALENS SEMICONDUCTOR LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 13 - INCOME TAXES** (continued):

**Germany**

The effective principal corporate tax rate applicable to the German subsidiary is 30%.

**China**

The effective principal corporate tax rate applicable to the Chinese subsidiary for is 5%.

**b. Income (loss) Before Income Taxes:**

Income (loss) before income taxes consisted of the following for the periods indicated:

|                                 | Year Ended December 31    |                 |                 |
|---------------------------------|---------------------------|-----------------|-----------------|
|                                 | 2023                      | 2022            | 2021            |
|                                 | U.S. dollars in thousands |                 |                 |
| Domestic (Israel)               | (20,291)                  | (27,959)        | (26,549)        |
| Foreign                         | 724                       | 727             | 412             |
| <b>Loss before income taxes</b> | <b>(19,567)</b>           | <b>(27,232)</b> | <b>(26,137)</b> |

**c. Income tax expenses consisted of the following for the periods indicated:**

|                            | Year Ended December 31    |            |            |
|----------------------------|---------------------------|------------|------------|
|                            | 2023                      | 2022       | 2021       |
|                            | U.S. dollars in thousands |            |            |
| Domestic (Israel)          | 45                        | 360        | 306        |
| Foreign                    | 67                        | 91         | 101        |
| <b>Income tax expenses</b> | <b>112</b>                | <b>451</b> | <b>407</b> |

**d. Taxes on Income:**

Taxes on income for the years ended December 31, 2023, 2022 and 2021 were comprised of the following:

|                            | December 31               |            |            |
|----------------------------|---------------------------|------------|------------|
|                            | 2023                      | 2022       | 2021       |
|                            | U.S. dollars in thousands |            |            |
| Current:                   |                           |            |            |
| Domestic                   | 45                        | 360        | 306        |
| Foreign                    | 67                        | 91         | 101        |
| <b>Total</b>               | <b>112</b>                | <b>451</b> | <b>407</b> |
| Deferred:                  |                           |            |            |
| Domestic                   | -                         | -          | -          |
| Foreign                    | -                         | -          | -          |
| <b>Total</b>               | <b>-</b>                  | <b>-</b>   | <b>-</b>   |
| <b>Income tax expenses</b> | <b>112</b>                | <b>451</b> | <b>407</b> |

**VALENS SEMICONDUCTOR LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 13 - INCOME TAXES** (continued):

A reconciliation our theoretical income tax expense to actual income tax expense is as follows:

|                                                                                             | December 31               |            |            |
|---------------------------------------------------------------------------------------------|---------------------------|------------|------------|
|                                                                                             | 2023                      | 2022       | 2021       |
|                                                                                             | U.S. dollars in thousands |            |            |
| Loss before taxes on income and before Equity in earnings of investee                       | (19,567)                  | (27,232)   | (26,137)   |
| Statutory tax rate in Israel                                                                | 23%                       | 23%        | 23%        |
| Theoretical tax benefit                                                                     | (4,500)                   | (6,263)    | (6,011)    |
| Increase (decrease) in taxes resulting from:                                                |                           |            |            |
| Effect of different tax rates applicable in foreign jurisdictions                           | 4                         | (3)        | 1          |
| Operating losses and other temporary differences for which valuation allowance was provided | 5,915                     | 5,505      | 3,773      |
| Permanent differences                                                                       | (1,352)                   | 852        | 2,338      |
| Tax prepayment and other                                                                    | 45                        | 360        | 306        |
| <b>Actual taxes on income</b>                                                               | <b>112</b>                | <b>451</b> | <b>407</b> |

**e. Deferred Tax Assets and Liabilities:**

The components of the Company's deferred tax assets and liabilities as of December 31, 2023, and 2022 were as follows:

|                                                  | December 31               |          |
|--------------------------------------------------|---------------------------|----------|
|                                                  | 2023                      | 2022     |
|                                                  | U.S. dollars in thousands |          |
| Deferred tax assets:                             |                           |          |
| Tax loss carryforwards                           | 27,617                    | 17,670   |
| Research and development                         | 2,092                     | 10,861   |
| Issuance costs                                   | -                         | 1,009    |
| Employee and payroll accrued expenses            | 623                       | 700      |
| Operating lease liabilities                      | 403                       | 742      |
| Share-based compensation                         | 2,283                     | 1,364    |
| Other                                            | 37                        | 38       |
| Total deferred tax assets                        | 33,055                    | 32,384   |
| Deferred tax liabilities:                        |                           |          |
| Operating lease right-of-use assets              | 461                       | 832      |
| Total deferred tax liabilities                   | 461                       | 832      |
| Total deferred tax assets, net                   | 32,594                    | 31,552   |
| Less valuation allowance for deferred tax assets | (32,594)                  | (31,552) |
| <b>Deferred tax assets</b>                       | <b>-</b>                  | <b>-</b> |

Significant judgment is required in determining any valuation allowance recorded against deferred tax assets. In assessing the need for a valuation allowance, the Company considered all available evidence, including past operating results, the most recent projections for taxable income, and prudent and feasible tax planning strategies.

**VALENS SEMICONDUCTOR LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 13 - INCOME TAXES (continued):**

The Company reassess its valuation allowance periodically and if future evidence allows for a partial or full release of the valuation allowance, a tax benefit will be recorded accordingly.

As of December 31, 2023, and 2022, the Company has recorded a full valuation allowance of \$(32,594) and \$(31,552) thousand with regard to its deferred taxes (which is mainly tax loss carryforwards) generated in Israel, respectively.

The change in valuation allowance for the years ended December 31, 2023, 2022 and 2021 was \$(1,042) thousand, \$340 thousand and \$(9,595) thousand, respectively.

**f. Uncertain tax positions**

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

**g. Tax assessments**

The Israeli entity's income tax assessments are considered final through 2016.

The US subsidiary's income tax assessments are considered final through 2019.

**VALENS SEMICONDUCTOR LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 14 - SEGMENT AND REVENUE BY GEOGRAPHY AND BY MAJOR CUSTOMER:**

- a. For the purpose of evaluating financial performance and allocating resources, the CODM reviews financial information presented on a consolidated basis accompanied by disaggregated information about revenues, gross profit and operating loss by the two identified reportable segments, to make decisions about resources to be allocated to the segments and assess their performance. Assets information is not provided to the CODM and is not reviewed. Revenues and cost of goods sold are directly associated with the activities of a specific segment. Direct operating expenses, including general and administrative expenses, associated with the activities of a specific segment are charged to that segment. General and administrative expenses which cannot be attributed directly, are allocated evenly between segments. Other operating expenses are allocated to segments based on headcount ratio.

|                                           | Year ended December 31, 2023 |            |              |
|-------------------------------------------|------------------------------|------------|--------------|
|                                           | Audio-Video                  | Automotive | Consolidated |
|                                           | U.S. dollars in thousands    |            |              |
| Revenues                                  | 57,411                       | 26,750     | 84,161       |
| Gross profit                              | 44,262                       | 8,330      | 52,592       |
| Research and development expenses         | 25,620                       | 22,551     | 48,171       |
| Sales and marketing expenses              | 7,410                        | 9,904      | 17,314       |
| General and administrative expenses       | 7,062                        | 6,962      | 14,024       |
| Segment operating profit (loss)           | 4,170                        | (31,087)   | (26,917)     |
| Change in fair value of Forfeiture Shares |                              |            | 1,713        |
| Financial income, net                     |                              |            | 5,637        |
| Loss before taxes on income               |                              |            | (19,567)     |
| Depreciation expenses                     | 816                          | 816        | 1,632        |
| Stock-based compensation                  | 6,928                        | 8,098      | 15,026       |
|                                           | Year ended December 31, 2022 |            |              |
|                                           | Audio-Video                  | Automotive | Consolidated |
|                                           | U.S. dollars in thousands    |            |              |
| Revenues                                  | 74,540                       | 16,175     | 90,715       |
| Gross profit                              | 58,425                       | 4,965      | 63,390       |
| Research and development expenses         | 20,901                       | 37,306     | 58,207       |
| Sales and marketing expenses              | 7,290                        | 9,669      | 16,959       |
| General and administrative expenses       | 8,259                        | 8,334      | 16,593       |
| Segment operating profit (loss)           | 21,975                       | (50,344)   | (28,369)     |
| Change in fair value of Forfeiture Shares |                              |            | 2,907        |
| Financial income, net                     |                              |            | (1,770)      |
| Loss before taxes on income               |                              |            | (27,232)     |
| Depreciation expenses                     | 641                          | 736        | 1,377        |
| Stock-based compensation                  | 5,151                        | 6,938      | 12,089       |

**VALENS SEMICONDUCTOR LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 14 - SEGMENT AND REVENUE BY GEOGRAPHY AND BY MAJOR CUSTOMER** (continued):

|                                           | <b>Year ended December 31, 2021</b> |                   |                     |
|-------------------------------------------|-------------------------------------|-------------------|---------------------|
|                                           | <b>Audio-Video</b>                  | <b>Automotive</b> | <b>Consolidated</b> |
|                                           | <b>U.S. dollars in thousands</b>    |                   |                     |
| Revenues                                  | 62,801                              | 7,883             | 70,684              |
| Gross profit                              | 48,909                              | 1,670             | 50,579              |
| Research and development expenses         | 14,054                              | 32,821            | 46,875              |
| Sales and marketing expenses              | 6,944                               | 7,270             | 14,214              |
| General and administrative expenses       | 8,322                               | 8,234             | 16,556              |
| Segment operating profit (loss)           | 19,589                              | (46,655)          | (27,066)            |
| Change in fair value of Forfeiture Shares |                                     |                   | (173)               |
| Financial income, net                     |                                     |                   | 1,102               |
| Loss before taxes on income               |                                     |                   | (26,137)            |
| Depreciation expenses                     | 371                                 | 728               | 1,099               |
| Stock-based compensation                  | 4,385                               | 5,484             | 9,869               |

**b. Geographic Revenues**

The following table shows revenue by geography, based on the customers' "bill to" location:

|               | <b>Year Ended December 31</b>    |               |               |
|---------------|----------------------------------|---------------|---------------|
|               | <b>2023</b>                      | <b>2022</b>   | <b>2021</b>   |
|               | <b>U.S. dollars in thousands</b> |               |               |
| Israel        | 3,086                            | 2,803         | 1,670         |
| China         | 9,578                            | 9,609         | 15,574        |
| Hong Kong     | 7,211                            | 15,157        | 13,964        |
| United States | 7,330                            | 17,494        | 10,842        |
| Japan         | 7,445                            | 9,238         | 7,669         |
| Germany       | 8,347                            | 6,724         | 3,361         |
| Hungary       | 21,126                           | 11,205        | 5,978         |
| Other         | 20,038                           | 18,485        | 11,626        |
|               | <b>84,161</b>                    | <b>90,715</b> | <b>70,684</b> |

**c. Supplemental data - Major Customers:**

The following table summarizes the significant customers' (including distributors) accounts receivable and revenues as a percentage of total accounts receivable and total revenues, respectively:

|                            | <b>December 31</b>               |             |
|----------------------------|----------------------------------|-------------|
|                            | <b>2023</b>                      | <b>2022</b> |
|                            | <b>U.S. dollars in thousands</b> |             |
| <b>Accounts Receivable</b> |                                  |             |
| Customer A                 | 19%                              | 10%         |
| Customer B                 | 11%                              | 0%          |
| Customer C                 | 11%                              | 26%         |
| Customer D                 | 10%                              | 7%          |
| Customer E                 | 0%                               | 16%         |

**VALENS SEMICONDUCTOR LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 14 - SEGMENT AND REVENUE BY GEOGRAPHY AND BY MAJOR CUSTOMER** (continued):

|                 | Year Ended December 31    |      |      |
|-----------------|---------------------------|------|------|
|                 | 2023                      | 2022 | 2021 |
|                 | U.S. dollars in thousands |      |      |
| <b>Revenues</b> |                           |      |      |
| Customer A      | 17%                       | 7%   | 4%   |
| Customer B      | 5%                        | 10%  | 6%   |
| Customer C      | 11%                       | 12%  | 10%  |
| Customer F      | 8%                        | 10%  | 11%  |

**d. Long-lived assets by Geography:**

|                   | Year Ended December 31    |              |              |
|-------------------|---------------------------|--------------|--------------|
|                   | 2023                      | 2022         | 2021         |
|                   | U.S. dollars in thousands |              |              |
| Domestic (Israel) | 4,419                     | 5,827        | 2,259        |
| Taiwan            | 296                       | 184          | 199          |
| China             | 176                       | 225          | 210          |
| USA               | 139                       | 217          | 73           |
| Singapore         | 72                        | 124          | -            |
| Other             | 54                        | 37           | -            |
|                   | <b>5,156</b>              | <b>6,614</b> | <b>2,741</b> |

**NOTE 15 - RELATED PARTY TRANSACTIONS:**

- a. During the years ended December 31, 2023, 2022 and 2021, the Company granted 300,750, 239,610 and 321,777 options, respectively, at a weighted average exercise price of \$3.76, \$6.28 and \$1.04, respectively to several executive officers, and Board members of the Company. In addition, during the years ended December 31, 2023, and 2022, the Company granted 548,849 and 515,103 RSUs, respectively to several executive officers and Board members of the Company.

The fair value of the stock options that were granted during the year ended December 31, 2023, is \$593 thousand, which is expected to be recognized over a 1-4-years vesting period, and the fair value of the RSUs granted during the year ended December 31, 2023, is \$2,502 thousand, which is expected to be recognized over a 1-4-years vesting period.

- b. During the years ended as of December 31, 2023, and 2022, the Company paid to certain Board members of the Company (non-employee directors), a total amount of \$401 thousand and \$401 thousand, respectively.
- c. The Company's Amended and Restated Articles of Association permit it to exculpate, indemnify and insure certain of its executive officers and Board members of the Company (as such term is defined under the Israeli Companies Law) to the fullest extent permitted by the Companies Law. The Company entered into agreements with certain executive officers and Board members of the Company, exculpating them from a breach of their duty of care to the Company to the fullest extent permitted by law and undertaking to indemnify them to the fullest extent permitted by law, subject to certain exceptions, including with respect to liabilities resulting from the closing of the Business Combination to the extent that these liabilities are not covered by insurance.
- d. In February 2020, the Company changed the employment terms of one of its executives, who is also a member of the Board of directors of the Company, into a fixed term employment of 5 years, ending in January 2025.

**VALENS SEMICONDUCTOR LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 15 - RELATED PARTY TRANSACTIONS** (continued):

- e. On September 30, 2021, the vesting of 814,272 options of one of the Company's executives were accelerated. The Company expensed \$3,396 thousand in the general and administrative expenses due to such vesting acceleration.
- f. In respect of the execution of the Merger Agreement Closing and the listing as a public Company in the NYSE, certain of the Company's executives received cash bonus in the amount of \$1,545 thousand, that was expensed in the general and administrative expenses.
- g. As of December 31, 2023, and 2022, the Company accrued \$0 and \$532 respectively, for bonus payments to several executive officers.
- h. As of December 31, 2023, and 2022, the Company accrued \$0 and \$142 for services provided to PTK by its Sponsor in connection with the Merger.
- i. In August 2023, as part of a separation agreement ("the Agreement"), the Company changed the employment terms of one of its executives, including changes to the Executive's options terms. Accordingly, during the year ended December 31, 2023, the Company recorded an expense of \$289 thousands with regard to the Agreement.

**NOTE 16 - SUBSEQUENT EVENTS**

- a. On January 1, 2024, the Company added 5,208,032 Ordinary Shares to the Ordinary Shares pool reserved for issuance under the Company's 2021 Share Incentive Plan.
- b. During February 2024, the Company extended the lease for its offices in Hod Hasharon, Israel, by one year until the end of February 2025. In addition, the Company entered into negotiations concerning the renewal of the lease agreement until February 28, 2029.

List of subsidiaries of Valens Semiconductor Ltd.

| Name of Subsidiary                 | Jurisdiction of Organization |
|------------------------------------|------------------------------|
| Valens Semiconductor Inc.          | U.S. (Delaware)              |
| Valens Merger Sub Inc.             | U.S. (Delaware)              |
| Valens Trading (Shanghai) Co. Ltd. | China                        |
| Valens Semiconductor GmbH          | Germany                      |
| Valens Japan Ltd.                  | Japan                        |

## CERTIFICATIONS

I, Gideon Ben-Zvi, Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 20-F of Valens Semiconductor Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the Company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent 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 Company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: February 28, 2024

By: /s/ Gideon Ben-Zvi  
Gideon Ben-Zvi  
**Chief Executive Officer**  
*(Principal Executive Officer)*

## CERTIFICATIONS

I, Guy Nathanzon, Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 20-F of Valens Semiconductor Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the Company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent 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 Company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: February 28, 2024

By: /s/ Guy Nathanzon  
Guy Nathanzon  
**Chief Financial Officer**  
*(Principal Financial Officer)*

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

The certification set forth below is being submitted in connection with the Annual Report on Form 20-F of Valens Semiconductor Ltd. for the year ended December 31, 2023 (the “Report”) for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the “Exchange Act”) and Section 1350 of Chapter 63 of Title 18 of the United States Code.

I, Gideon Ben-Zvi, Chief Executive Officer, certify that to the best of my knowledge:

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

Date: February 28, 2024

By: /s/ Gideon Ben-Zvi

Gideon Ben-Zvi

**Chief Executive Officer**

*(Principal Executive Officer)*

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

The certification set forth below is being submitted in connection with the Annual Report on Form 20-F of Valens Semiconductor Ltd. for the year ended December 31, 2023 (the “Report”) for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the “Exchange Act”) and Section 1350 of Chapter 63 of Title 18 of the United States Code.

I, Guy Nathanzon, Chief Financial Officer, certify that to the best of my knowledge:

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

Date: February 28, 2024

By: /s/ Guy Nathanzon

Guy Nathanzon

**Chief Financial Officer**

*(Principal Financial Officer)*

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-276520, 333-269250 and 333-259849) and Form F-3 (No. 333- 260390) of Valens Semiconductor Ltd. of our report dated February 28, 2024 relating to the financial statements, which appears in this Form 20-F.

|                   |                                                               |
|-------------------|---------------------------------------------------------------|
|                   | <u>/s/ Kesselman &amp; Kesselman</u>                          |
| Tel-Aviv, Israel  | Kesselman & Kesselman                                         |
| February 28, 2024 | Certified Public Accountants (Isr.)                           |
|                   | A member firm of PricewaterhouseCoopers International Limited |

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Kesselman & Kesselman, 146 Derech Menachem Begin St. Tel-Aviv 6492103, Israel,  
P.O Box 7187 Tel-Aviv 6107120, Telephone: +972 -3- 7954555, Fax:+972 -3- 7954556, [www.pwc.com/il](http://www.pwc.com/il)

Kesselman & Kesselman is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity

**VALENS SEMICONDUCTOR LTD.**  
**POLICY FOR RECOVERY OF ERRONEOUSLY AWARDED COMPENSATION**

Effective as of October 2, 2023

Valens Semiconductor Ltd. (the “**Company**”) has adopted this Policy for Recovery of Erroneously Awarded Compensation (the “**Policy**”). Capitalized terms used in this Policy but not otherwise defined herein are defined in Section 12. This Policy is intended to comply with the requirements of Section 10D of the Exchange Act and Section 303A.14 of the NYSE Listed Company Manual and is being adopted in addition to, and not in lieu of, the clawback in any Other Recovery Arrangements.

**1. Persons Subject to Policy**

This Policy shall apply to and be binding and enforceable on current and former Officers. In addition, the Committee and the Board may, on a going forward basis, apply this Policy to persons who are not Officers, and such application shall apply in the manner determined by the Committee and the Board in their sole discretion.

**2. Compensation Subject to Policy**

This Policy shall apply to Incentive-Based Compensation received on or after the Effective Date. For purposes of this Policy, the date on which Incentive-Based Compensation is “received” shall be determined under the Applicable Rules, which generally provide that Incentive-Based Compensation is “received” in the Company’s fiscal period during which the relevant Financial Reporting Measure is attained or satisfied, without regard to whether the grant, vesting or payment of the Incentive-Based Compensation occurs after the end of that period.

**3. Recovery of Compensation**

In the event that the Company is required to prepare a Restatement, the Company shall recover, reasonably promptly and in accordance with Section 4 below, the portion of any Incentive-Based Compensation that is Erroneously Awarded Compensation, unless the Committee and the Board have determined that recovery from the relevant current or former Officer would be Impracticable. Recovery shall be required in accordance with the preceding sentence regardless of whether the applicable Officer engaged in misconduct or otherwise caused or contributed to the requirement for the Restatement and regardless of whether or when restated financial statements are filed by the Company. For clarity, the recovery of Erroneously Awarded Compensation under this Policy will not give rise to any Officer’s right to voluntarily terminate employment for “good reason” or due to a “constructive termination” (or any similar term of like effect) under any plan, program or policy of or agreement with the Company or any of its affiliates.

**4. Manner of Recovery; Limitation on Duplicative Recovery**

The Committee and the Board shall, in its sole discretion, determine the manner of recovery of any Erroneously Awarded Compensation, which may include, without limitation, a reduction or cancellation by the Company or an affiliate of the Company of Incentive-Based Compensation or Erroneously Awarded Compensation, requiring reimbursement or repayment by any person subject to this Policy of such Erroneously Awarded Compensation, seeking recovery of any gain realized on the vesting, exercise, settlement, sale, transfer or other disposition of any equity or equity-based awards, and, to the extent permitted by law, seeking an offset of the Erroneously Awarded Compensation against other compensation payable by the Company or an affiliate of the Company to such person. Notwithstanding the foregoing, unless otherwise prohibited by the Applicable Rules, to the extent this Policy provides for recovery of Erroneously Awarded Compensation already recovered by the Company pursuant to Section 304 of the Sarbanes-Oxley Act of 2002 or Other Recovery Arrangements, the amount of Erroneously Awarded Compensation already recovered by the Company from the recipient of such Erroneously Awarded Compensation may be credited to the amount of Erroneously Awarded Compensation required to be recovered pursuant to this Policy from such person.

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**5. Administration**

This Policy shall be administered, interpreted and construed by the Committee, which is authorized to make all determinations necessary, appropriate or advisable for such purpose. The Board may re-vest in itself the authority to administer, interpret and construe this Policy in accordance with applicable law, and in such event references herein to the “Committee” shall be deemed to be references to the Board. Subject to any permitted review by the applicable national securities exchange or association pursuant to the Applicable Rules, all determinations and decisions made by the Committee pursuant to the provisions of this Policy shall be final, conclusive and binding on all persons, including the Company and its affiliates, shareholders and employees. The Committee may delegate administrative duties with respect to this Policy to one or more directors or employees of the Company, as permitted under applicable law, including any Applicable Rules.

**6. Exempt Compensation**

Notwithstanding anything to the contrary herein, the Company has no obligation to seek recoupment of amounts paid to an Officer which are granted, vested or earned based solely upon the occurrence or non-occurrence of nonfinancial events. Such exempt compensation includes, without limitation, base salary, time-vesting awards, compensation awarded on the basis of the achievement of metrics that are not Financial Reporting Measures or compensation awarded solely at the discretion of the Committee or the Board, *provided* that such amounts are in no way contingent on, and were not in any way granted on the basis of, the achievement of any Financial Reporting Measure performance goal.

**7. Interpretation**

This Policy shall be interpreted and applied in a manner that is consistent with the requirements of the Applicable Rules, and to the extent this Policy is inconsistent with such Applicable Rules, it shall be deemed amended to the minimum extent necessary to ensure compliance therewith.

**8. No Indemnification; No Liability**

The Company shall not indemnify or insure any person against the loss of any Erroneously Awarded Compensation pursuant to this Policy, nor shall the Company directly or indirectly pay or reimburse any person for any premiums for third-party insurance policies that such person may elect to purchase to fund such person’s potential obligations under this Policy. None of the Company, an affiliate of the Company or any member of the Committee or the Board shall have any liability to any person as a result of actions taken under this Policy.

**9. Application; Enforceability**

Except as otherwise determined by the Committee or the Board, the adoption of this Policy does not limit, and is intended to apply in addition to, any Other Recovery Arrangements. Without limiting the foregoing, in the event of a conflict between this Policy and the Compensation Policy, the latter shall prevail, except with respect to the recovery of any portion of Incentive-Based Compensation that is Erroneously Awarded Compensation that would not be recoverable under the Compensation Policy, in which case this Policy shall prevail. Subject to Section 4, the remedy specified in this Policy shall not be exclusive and shall be in addition to every other right or remedy at law or in equity that may be available to the Company or an affiliate of the Company or is otherwise required by applicable law and regulations.

**10. Severability**

The provisions in this Policy are intended to be applied to the fullest extent of the law; provided, however, to the extent that any provision of this Policy is found to be unenforceable or invalid under any applicable law, such provision will be applied to the maximum extent permitted, and shall automatically be deemed amended in a manner consistent with its objectives to the extent necessary to conform to any limitations required under applicable law.

**11. Amendment and Termination**

Subject to Section 10D of the Exchange Act and Section 303A.14 of the NYSE Listed Company Manual, the Board or the Committee may amend, modify or terminate this Policy in whole or in part at any time and from time to time in its sole discretion. This Policy will terminate automatically when the Company does not have a class of securities listed on a national securities exchange or association in the U.S.

**12. Definitions**

“**Applicable Rules**” means Section 10D of the Exchange Act, Rule 10D-1 promulgated thereunder, the listing rules of the national securities exchange or association on which the Company’s securities are listed (including Section 303A.14 of the NYSE Listed Company Manual), and any applicable rules, standards or other guidance adopted by the Securities and Exchange Commission or any national securities exchange or association on which the Company’s securities are listed.

“**Board**” means the Board of Directors of the Company.

“**Compensation Policy**” means the Company’s compensation policy for officers and directors, as adopted in accordance with the Israeli Companies Law 5759-1999 and as in effect from time to time.

**“Committee”** means the Compensation Committee of the Board or, in the absence of such a committee, a majority of the independent directors serving on the Board.

**“Effective Date”** means the date on which Section 303A.14 of the NYSE Listed Company Manual becomes effective, i.e., October 2, 2023.

**“Erroneously Awarded Compensation”** means the amount of Incentive-Based Compensation received by a current or former Officer that exceeds the amount of Incentive-Based Compensation that would have been received by such current or former Officer based on a restated Financial Reporting Measure, as determined on a pre-tax basis in accordance with the Applicable Rules.

If (i) the Financial Reporting Measure applicable to the relevant Incentive-Based Compensation is stock price or total shareholder return (or any measure derived wholly or in part from either of such measures) and (ii) the amount of Erroneously Awarded Compensation is not subject to mathematical recalculation directly from the information in the Restatement, then the amount of Erroneously Awarded Compensation shall be determined (on a pre-tax basis) based on the Company’s reasonable estimate of the effect of the Restatement on the Company’s stock price or total shareholder return (or the derivative measure thereof) upon which such Incentive-Based Compensation was received.

**“Exchange Act”** means the Securities Exchange Act of 1934, as amended.

**“Financial Reporting Measure”** means any measure determined and presented in accordance with the accounting principles used in preparing the Company’s financial statements, and any measures derived wholly or in part from such measures, including GAAP, IFRS and non-GAAP/IFRS financial measures, as well as stock price and total shareholder return.

**“GAAP”** means United States generally accepted accounting principles.

**“IFRS”** means international financial reporting standards as adopted by the International Accounting Standards Board.

**“Impracticable”** means (a) the direct expense paid to third parties to assist in enforcing recovery would exceed the Erroneously Awarded Compensation; provided that the Company has (i) made reasonable attempt(s) to recover the Erroneously Awarded Compensation, (ii) documented such reasonable attempt(s) and (iii) provided such documentation to the relevant listing exchange or association, (b) the recovery would violate the Company’s home country laws adopted prior to November 28, 2022 pursuant to an opinion of home country counsel; provided that the Company has (i) obtained an opinion of home country counsel, acceptable to the relevant listing exchange or association, that recovery would result in such a violation and (ii) provided such opinion to the relevant listing exchange or association, or (c) recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the Company, to fail to meet the requirements of 26 U.S.C. 401(a)(13) or 26 U.S.C. 411(a) and the regulations thereunder.

**“Incentive-Based Compensation”** means, with respect to a Restatement, any compensation (including, for the avoidance of doubt, any cash or equity or equity-based compensation, whether deferred or current) that is granted, earned, or vested based wholly or in part upon the attainment of one or more Financial Reporting Measures and received by a person: (a) after such person began service as an Officer; (b) who served as an Officer at any time during the performance period for that compensation; (c) while the Company has a class of securities listed on a national securities exchange or association; and (d) during the applicable Three-Year Period.

**“Officer”** means any current or former “officer” of the Company within the meaning of Rule 16a-1(f) under the Exchange Act.

**“Other Recovery Arrangements”** means any clawback, recoupment, forfeiture or similar policies or provisions of the Company or its affiliates, including any such policies or provisions of such effect contained in any employment agreement, bonus plan, incentive plan, equity-based plan or award agreement thereunder or similar plan, program or agreement of the Company or an affiliate or required under applicable law (including, without limitation, the Compensation Policy).

**“Restatement”** means an accounting restatement to correct the Company’s material noncompliance with any financial reporting requirement under securities laws, including restatements that correct an error in previously issued financial statements (a) that is material to the previously issued financial statements or (b) that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period.

For purposes of this Policy, a Restatement shall not be deemed to occur in the event of a revision of the Company’s financial statements due to an out-of-period adjustment (i.e., when the error is immaterial to the previously issued financial statement and the correction of the error is also immaterial to the current period) or a retrospective (1) application of a change in accounting principles; (2) revision to reportable segment information due to a change in the structure of the Company’s internal organization; (3) reclassification due to a discontinued operation; (4) application of a change in reporting entity, such as from a reorganization of entities under common control; or (5) revision for stock splits, reverse stock splits, stock dividends or other changes in capital structure.

**“Three-Year Period”** means, with respect to a Restatement, the three completed fiscal years immediately preceding the date that the Board, a committee of the Board, or the officer or officers of the Company authorized to take such action if Board action is not required, concludes, or reasonably should have concluded, that the Company is required to prepare such Restatement, or, if earlier, the date on which a court, regulator or other legally authorized body directs the Company to prepare such Restatement. The “Three-Year Period” also includes any transition period (that results from a change in the Company’s fiscal year) within or immediately following the three completed fiscal years identified in the preceding sentence. However, a transition period between the last day of the Company’s previous fiscal year end and the first day of its new fiscal year that comprises a period of nine to 12 months shall be deemed a completed fiscal year.

**ACKNOWLEDGMENT AND CONSENT TO  
POLICY FOR RECOVERY OF ERRONEOUSLY AWARDED COMPENSATION**

The undersigned has received a copy of the Policy for Recovery of Erroneously Awarded Compensation (the “Policy”) adopted by Valens Semiconductor Ltd. (the “Company”), and has read and understands the Policy. Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Policy.

As a condition of receiving Incentive-Based Compensation from the Company, the undersigned agrees that any Incentive-Based Compensation received on or after the Effective Date is subject to recovery pursuant to the terms of the Policy. To the extent the Company’s recovery right conflicts with any other contractual rights the undersigned may have with the Company, the undersigned understands that the terms of the Policy shall supersede any such contractual rights. The terms of the Policy shall apply in addition to any right of recoupment against the undersigned under the Compensation Policy or applicable law and regulations.

\_\_\_\_\_

Date

\_\_\_\_\_

Signature

\_\_\_\_\_

Name

\_\_\_\_\_

Title