Risk Factors Comparison 2024-03-27 to 2023-03-30 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text Moved Text Section

Cautionary Factors That May Affect Future Results Our disclosure and analysis in this Annual Report contains some forward- looking statements. Forward- looking statements include our current expectations or forecasts of future events. The reader can identify these statements by the fact that they do not relate strictly to historical or current facts. In particular, these include statements relating to future action, ~~the impact of the coronavirus,~~ supply chain expectations, semiconductor chip ~~shortages~~ **availability** , Russia- Ukraine war impacts, prospective products, expected market growth, new technologies and trends, industry partnerships, foreign operations, economic expectations, future performance or results of current and anticipated products, sales efforts, expenses, outcome of contingencies, impact of regulatory requirements, tariffs and financial results. Any or all of the forward- looking statements in this Annual Report or in any other public statement made may turn out to be wrong. They can be affected by inaccurate assumptions we might make, or known or unknown risks and uncertainties can affect these forward- looking statements. Many factors-- for example, product competition and product development-- will be important in determining future results. Moreover, neither Data I / O nor anyone else assumes responsibility for the accuracy and completeness of these forward- looking statements. Actual future results may materially vary. We undertake no obligation to publicly update any forward- looking statements after the date of this Annual Report, whether as a result of new information, future events or otherwise. The reader should not unduly rely on our forward- looking statements. The reader is advised, however, to consult any future disclosures we make on related subjects in our 10- Q, 8- K and 10- K reports to the SEC and press releases. Also, note that we provide the following cautionary discussion of risks, uncertainties and possible inaccurate assumptions relevant to our business. These are factors that we think could cause our actual results to differ materially from expected and historical results. Other factors besides those listed here could also adversely affect us. This discussion is permitted by the Private Securities Litigation Reform Act of 1995. 11RISK FACTORS: ~~CORONAVIRUS The coronavirus that causes the serious disease COVID- 19 (" coronavirus "), has and may continue to adversely affect our business, including revenues, suppliers, employees and facilities. As a global company with approximately 93 % of our 2022 sales in international markets, we have been and may continue to be, significantly impacted by the word wide coronavirus outbreak, which has affected all markets we serve. Twenty seven of our employees are based in Shanghai, China and we have a manufacturing facility there which manufactures some of our equipment and develops most of the adapters and algorithms for our equipment. Although our facilities in Shanghai, Redmond and Germany are currently operating, they could be closed for an extended period of time due to outbreaks of new variants of coronavirus. Additionally, we source other components from China and other countries that are used to manufacture our equipment in China and in our Redmond, Washington facility and these components may not be readily available. Many of our Redmond based employees and executives are working from home or under hybrid schedules and we limit visitors to our facilities. All of our facilities are subject to restrictions and closure by governmental entities. Travel restrictions have in some cases prevented and may continue to impact equipment installations, repairs and selling at customer sites. As the coronavirus continues as a pandemic, it has and may continue to impact our revenues, our ability to obtain key components and to manufacture our products, as well as sell, install and support our products around the world. The coronavirus has and continues to impact key tradeshows and travel plans for our employees. Because of the coronavirus, we have experienced limitations on visiting many of our customers and prospects. Many tradeshows, marketing activities and conferences have been canceled, postponed or made virtual. However, we are experiencing reduced limitations on visiting customers and resumption of in person events.~~ TARIFFS AND TRADE ISSUES Changes in tariffs and trade issues may adversely affect our business, including revenues and / or gross margins. We produce products in the United States and China. Currently, certain of our products are subject to tariffs imposed by one country on goods manufactured in the other country. This has materially impacted our gross margins negatively. There is uncertainty regarding the tariffs expected to be imposed, and any increase in tariff rates and subjecting additional items to tariffs, could impact our costs, revenues and the competitiveness of our products due to our manufacturing locations. Trade and tariff issues are creating business uncertainty and may spread to and impact other jurisdictions. Additionally, **ongoing** trade tensions between the United States and China are impacting our ability to seamlessly design, build, market and sell our products **. These tensions may increase suddenly at any time due to government policies or actions** . Some customers have moved production away from China, further from our facilities and engineers. We endeavor to have multi- sourced manufacturing, but this is not currently practical for all products in all locations. War based restrictions, embargos, and supply chain disruptions **have and** are occurring as a result of the Russian invasion of Ukraine, which could have economic and other indirect impacts to our business. We do not have any operations in Russia or Ukraine, nor do we rely on any software or hardware components sourced from these two countries **. The Israel- Hamas war could have similar issues, although we have not experienced any material impacts** . NEW PRODUCTS OR SERVICES We are pursuing new product or service initiatives, and business models that may develop more slowly and / or to a lesser extent than expected. In order to lead in new and potentially lucrative market opportunities, for example in security deployment of programmable devices, circuit boards and electronic systems, we are making significant investments in people, technology and business development while the market is developing and uncertain. Due to the length of time to market from design to production in security provisioning, if these markets develop more slowly than planned, or if our security deployment solutions are not widely accepted, then we may not achieve our expected return on investment in new technologies, which may significantly affect the results of our existing business. In the security deployment area, we have introduced a ~~new~~ pay per use business model and service fees that may not be accepted by our customers who are accustomed to paying for capital equipment upfront, rather than paying per use charges. ~~12Failure~~ -- **Failure** to adapt to technology trends in our industry may impact our competitiveness and financial results. Product and service technology in our industry evolves rapidly, making timely product innovation essential to success in the marketplace. Introducing products and services with improved technologies or features may render our existing products obsolete and unmarketable. Technological advances and trends that may negatively impact our business include: · new device package types, densities, chip interfaces and technologies requiring hardware and software changes in order to be programmed by our products, particularly certain segments of the high- density flash memory markets where after placement programming is recommended by certain semiconductor manufacturers; · reduction in semiconductor process geometries for certain 3 Dimensional (3D), Multi Level Cell (MLC) and Triple Level Cell (TLC) NAND and eMMC FLASH memories impact the product data retention through Surface Mount Technology (SMT) reflow or X- ray inspection. Improper SMT process control can negatively impact the end customer' s ability to successfully program devices. This can cause them to change their programing methods away from pre- programming to post placement programming techniques, including ISP, ICT. Data I / O has, and continues to work with several semiconductor manufacturers to develop best practices to minimize the impact of reflow and potential concerns about X- ray induced data loss **so that preprogramming remains a supported alternative** ; · changes in Flash technology speeds will eventually require us to change the architecture of our programming engines; · electronics equipment manufacturing practices, such as widespread use of in- circuit programming or downloading; · adoption of proprietary security and programming protocols and additional security capabilities and requirements; **12** · customer software platform preferences different from those on which our products operate; · customer adoption of newer unsupported semiconductor device technologies such as NVMe memory or device interface methods, particularly if these technologies are adopted by automotive electronics, IoT or wireless customers; and / or · more rigid industry standards, which would decrease the value- added element of our products and support services. If we cannot develop products or services in a timely manner in response to industry changes, or if our products or services do not perform well, our business and financial condition may be adversely affected. Also, our new products or services may contain defects or errors that give rise to product liability claims against us or cause our products to fail to gain market acceptance. Our future success depends on our ability to successfully compete with other technology firms in attracting and retaining key technical personnel. Failure to adapt to increasing automotive electronics customer requirements **and a rapidly changing global automotive electronics ecosystem** may impact our competitiveness and result in a decline in sales or increased costs. Concentration in automotive electronics and our orders related to automotive electronics customers has been dominant in recent years at **63 % in 2023,** 61 % in 2022 ~~,~~ **and** 58 % in 2021 ~~and 53 % in 2020~~ . As we have been concentrated on automotive electronics customers, any decrease in demand from these customers may materially impact our results, as it will take some time to transition our product line to other markets. Quality standards and business requirements by our automotive electronics customers, driven in turn by their automotive manufacturer customers, may demand processes and certifications at a higher level than we currently are structured to provide. For example, although we currently meet the ISO 9001: 2015 standard, new quality standards **, and environmental standards** may be demanded by our customers with even more rigorous requirements. In addition, contractual provisions may expose us to greater potential liability and costs and we may be required to provide higher service levels than we currently provide. If we cannot adapt to these industry requirements or manage these contractual provisions, our business may be adversely affected **. We are also seeing a shift in the global automotive industry towards new entrants touting new methods, especially for all electric vehicles. These new entrants may not develop solutions through the traditional value chain. If Data I / O is not able to market and sell effectively to these new entrants, we risk losing market share in our largest market** . Delays in development, introduction and shipment of new products or services may result in a decline in sales or increased costs. We develop new engineering and automated programming systems and services. Significant technological, supplier, manufacturing or other problems may delay the development, introduction or production of these products or services. For example, we may encounter these problems: · technical problems in the development of a new programming and / or security deployment systems or the robotics for new automated handing systems; · inability to hire qualified personnel or turnover in existing personnel or inability to engage or retain key technology partners; · delays or failures to perform by us or third parties, including some smaller early stage or recently acquired companies, involved in our development projects; · dependence on large semiconductor companies for cooperation and support to securely provision their devices. These companies must enable us with specific technical information and support Data I / O as a qualified solution to their customers and channel partners; · **delays or failure to develop and utilize Artificial Intelligence (" AI ") for our offerings or services, potentially falling behind competitors exploiting the use of AI; ·** development of new products or services that are not accepted by the market; and / or · ~~experience~~ delays in supply chain for parts needed for new products. ~~13These~~ -- **These** problems may result in a delay or decline in sales or increased costs. ~~We~~ **13We** may pursue business acquisitions that could impair our financial position and profitability. We may pursue acquisitions of complementary technologies, product lines or businesses. ~~Future acquisitions~~ **Acquisitions** may include risks, such as: · burdening management and our operating teams during the integration of the acquisition; · diverting management' s attention from other business concerns; · failing to successfully integrate, scale or monetize the acquired products or technologies; · lack of acceptance of the acquired products by our sales channels or customers; · entering markets where we have no or limited prior experience; · potential loss of key employees of the acquired company; and / or · additional burden of support for an acquired programmer architecture. Future acquisitions may also impact our financial position. For example, we may use significant cash or incur debt, which would weaken our balance sheet, or issue additional shares, potentially diluting existing shareholders. We may also capitalize goodwill and intangible assets acquired, the amortization or impairment of which would reduce our profitability. We cannot guarantee that future acquisitions will improve our business or operating results. If we are unable to protect our IP, we may not be able to compete effectively or operate profitably. We rely on patents, copyrights, trade secrets and trademarks to protect our IP, as well as product development and marketing skill to establish and protect our market position. In particular, patents are a key part of our security deployment strategy, and if we are not able to successfully enforce these patents, we might lose our competitive advantage in the security deployment market. We attempt to protect our rights in proprietary software products, including our user interface, product firmware, software module options and other software products by retaining the title to and copyright of the software and documentation, by including appropriate contractual restrictions on use and disclosure in our licenses, and by requiring our employees to execute non-disclosure agreements. Because of the rapidly changing technology in the semiconductor, electronic equipment and software industries, portions of our products might possibly infringe upon existing patents or copyrights, and we might be required to obtain licenses or discontinue the use of the infringing technology. We believe that any exposure we may have regarding possible infringement claims is a reasonable business risk similar to that assumed by other companies in the electronic equipment and software industries. However, any claim of infringement, with or without merit, could be costly and a diversion of management' s attention, and an adverse determination could adversely affect our reputation, preclude us from offering certain products, and subject us to substantial liability. We might face increased competition and might not be able to compete successfully with current and future competitors. Technological advances have reduced the barriers of entry into the market in which we compete. We expect competition to increase from both established and emerging companies. If we fail to compete successfully against current and future sources of competition, our profitability and financial performance will be adversely impacted. THIRD PARTY RELATIONSHIPS If we do not develop and enhance our relationships with semiconductor manufacturers, our business may be adversely affected. We work closely with most semiconductor manufacturers to ensure that our data programming and security deployment systems comply with their requirements. In addition, many semiconductor manufacturers recommend our managed and secure programming systems for use by users of their programmable devices. These working relationships enable us to keep our programming systems product lines up to date and provide end- users with broad and current programmable device support. As technology changes occur that could limit the effectiveness of pre-placement programming, particularly for very small high- density NAND, eMMC and UFS devices, certain semiconductor manufacturers may not recommend or may not continue recommending our programming systems for these devices. Our business may be adversely affected if our relationships with semiconductor manufacturers deteriorate or if semiconductor manufacturers are not willing to closely work with us on security deployment. Consolidation within the semiconductor industry may also impact us. As we develop more security deployment solutions, we will need to partner more closely with semiconductor manufacturers. 14Our reliance on a small number of suppliers may result in a shortage of key components, which may adversely affect our business, and our suppliers may experience financial difficulties which could impact their ability to service our needs. Certain parts or software used in our products are currently available from either a single supplier or from a limited number of suppliers. Our small relative level of business means we frequently lack influence and significant purchasing power. If we cannot develop alternative sources of these components, if sales of parts or software are discontinued by the supplier, if we experience deterioration in our relationship with these suppliers, or if these suppliers require financing which is not available, there may be delays or reductions in product introductions or shipments, which may materially adversely affect our operating results. Because we rely on a small number of suppliers for certain parts, we are subject to possible price increases by these suppliers. ~~In~~ **As experienced in** 2022, we have seen more part shortages and larger price increases than in recent years **. While this has returned to a stable situation in 2023, our volumes typically are not high enough to maintain multiple suppliers** . Also, we may be unable to accurately forecast our production schedule. If we underestimate our production schedule, suppliers may be unable to meet our demand for components. This delay in the supply of key components may have a materially adverse effect on our business. For suppliers who discontinue parts, we may be required to make lifetime purchases covering future requirements. Over estimation of demand or excessive minimum order quantities ~~will~~ **may** lead to excess inventories that may become obsolete. Part shortages, especially semiconductor parts **as experienced** in 2021 and 2022, impact availability, lead times, and pricing that may be disruptive to our production plans, lead times, margins and may result in lost sales. Some of our sockets, parts, subassemblies and boards are currently manufactured to our specifications by third- party foreign contract manufacturers and we are sourcing certain parts or options from foreign manufacturers, particularly in China. For example, due to **geopolitical considerations** ~~the coronavirus or other viruses impacting workers, suppliers or travel~~ , we may not be able to obtain a sufficient quantity of these products if and when needed or the quality of these parts or options may not meet our standards, which may result in lost sales. If we are unable to attract and retain qualified third- party distributors and representatives, our business may be adversely affected. We have an internal sales force and also utilize third- party distributors and representatives. Therefore, the financial stability of these distributors and representatives is important. Their ability to operate, timely pay us, and to acquire any necessary financing may be affected by the current economic climate. Highly skilled professional engineers use most of our products. To be effective, third- party distributors and representatives must possess significant technical, security, marketing, customer relationships and sales resources and must devote their resources to sales efforts, customer education, training and support. These required qualities limit the number of potential third- party distributors and representatives. Our business will suffer if we cannot attract and retain a sufficient number of qualified third- party distributors and representatives to market our products. MARKET CONDITIONS A decline in economic and market conditions may result in delayed or decreased capital spending and delayed or defaulted payments from our customers. The coronavirus ~~will continue to~~ **derivatives or similar items may** affect economic and market conditions as **surges and** ~~it continues to spread~~ **spreads** . Global impacts of the Russian invasion of Ukraine ~~are uncertain at the present time~~ **continue to evolve with sanctions and trade issues** . Our business is highly impacted by capital spending plans and other economic cycles that affect the users and manufacturers of integrated circuits. The industries are highly cyclical and are characterized by rapid technological change, short product life cycles and fluctuations in manufacturing capacity and pricing and gross margin pressures. As we experienced in this and recent prior years, our operations may in the future reflect substantial fluctuations from period- to-period as a consequence of these industry patterns, general economic conditions affecting the timing of orders from major customers, and other factors affecting capital spending. In a difficult economic climate, it may take us longer to receive payments from our customers and some of our customers' business may fail, resulting in non- payment. Our market growth forecasts and related business decisions may be wrong. These factors could have a material adverse effect on our business and financial condition. ~~15Our~~ -- **Our** international operations may expose us to additional risks that may adversely affect our business. International sales represented approximately **90 %,** 93 % ~~,~~ **and** 90 % ~~and 93 %~~ of net sales in **2023,** 2022 ~~,~~ **and** 2021 ~~and 2020~~ , respectively. We expect that international sales will continue to be a significant portion of our net revenue. International sales may fluctuate due to various factors, including: · the impact of COVID- 19, the coronavirus and variants of it, or other viruses; **15** · fluctuations in foreign currency exchange rates because ~~93~~ **90** % of our sales are to international markets, volatile exchange rates may also impact our competitiveness and margins, especially where we have subsidiary operations; · economic uncertainty related to the European energy cost increases **; · China economic challenges, as this is a major market for our products and a significant production location** ; · migration of manufacturing to low cost geographies; · unexpected changes in regulatory requirements; · tariffs and taxes; · bi- lateral and multi- lateral trade agreements; · difficulties in staffing and managing foreign operations; · longer average payment cycles and difficulty in collecting accounts receivable; · compliance with applicable export licensing requirements and the Foreign Corrupt Practices Act; · product safety and other certification requirements; · difficulties in integrating foreign and outsourced operations; · war, civil unrest, political and economic instability, including the Russian invasion of Ukraine **and the Israel – Hamas war** ; · ability to protect our intellectual property in multiple patent jurisdictions; and / or · ability to move cash freely from subsidiaries. Because we have customers located throughout the world, we have significant foreign receivables, although none are based in Russia or Ukraine. We may experience difficulties in collecting these amounts as a result of payment practices of certain foreign customers, economic uncertainty and regulations in foreign countries, the availability and reliability of foreign credit information, and potential difficulties in enforcing collection terms. The European Union and European Free Trade Association (" EU ") has established certain electronic emission and product safety requirements (" CE "). As applicable, our products currently meet these requirements; however, failure to obtain either a CE certification or a waiver for any product may prevent us from marketing that product in Europe. The EU also has directives concerning the Reduction of Hazardous Substances (" RoHS ") and we believe we are classified within the EU RoHS Directive category list as Industrial Monitoring and Control Equipment (category 9). We believe all current products meet the RoHS directives. Failure to meet applicable directives or qualifying exemptions may prevent us from marketing certain products in Europe or other territories with similar requirements. We have subsidiaries in Germany and China and large balances of cash are in our foreign subsidiaries. Our business and financial condition is sensitive to currency exchange rates and any restrictions imposed on their currencies including restrictions on repatriations of cash. A repatriation of cash has, and could in the future, result in tax costs and corresponding deferred tax assets with related tax valuation allowances. Currency exchange fluctuations in these countries may adversely affect our investment in our subsidiaries. OPERATIONS Quarterly fluctuations in our operating results may adversely affect our stock price. Our operating results tend to vary from quarter to quarter. Our revenue in each quarter substantially depends upon orders received within that quarter. Conversely, our expenditures are based on investment plans and estimates of future revenues. We may, therefore, be unable to quickly reduce our spending if our revenues decline in a given quarter. As a result, operating results for that quarter will suffer. Our results of operations for any one quarter are not necessarily indicative of results for any future periods. ~~16Other~~ -- **Other** factors, which may cause our quarterly operating results to fluctuate, include: · increased competition; · timing of new product announcements and timing of development expenditures; **16** · product or service releases and pricing changes by us or our competitors; · market acceptance or delays in the introduction of new products or services; · production constraints, including part shortages impact on us and our supply chains; · quality issues; · labor or material constraints; · timing of significant orders; · timing of installation or customer acceptance requirements; · sales channel mix of direct vs. indirect distribution; · civil unrest, war or terrorism; · health issues such as the outbreak of the coronavirus or other viruses impacting workers, suppliers, customers, travel, or our facilities; · customers' budgets; · changes in accounting rules, tax or other legislation; · adverse movements in exchange rates, interest rates, inflation or tax rates; · cyclical and seasonal nature of demand for our customers' products; · general economic conditions in the countries where we sell products; · expenses and delays obtaining authorizations in setting up new operations or locations; and / or · facilities relocations. Due to any of the foregoing factors, it is possible that in some future quarters, our operating results will be below **the** expectations of analysts and investors. We have a history of operating losses and may be unable to generate enough revenue to achieve and maintain profitability. We have incurred operating losses in ~~five~~ **four** of the last ten years. We operate in a cyclical industry. We will continue to examine our level of operating expense based upon our projected revenues. Any planned increases in operating expenses may result in losses in future periods if projected revenues are not achieved or the investment level required is too large. As a result, we may need to generate greater revenues than we have recently in order to maintain profitability. However, we cannot provide assurance that our revenues will continue to increase and our business strategies may not be successful, resulting in future losses. The loss of key employees may adversely affect our operations. We have employees located in the U. S., Germany and China. We also utilize independent contractors for specialty work, primarily in research and development, and utilize temporary workers to adjust capacity to fluctuating demand. Many of our employees are highly skilled, and our continued success will depend in part upon our ability to attract and retain employees who can be in great demand within the industry. None of our employees are represented by a collective bargaining unit, and we believe relations with our employees are favorable, though no assurance can be made that this will be the case in the future. In China, our workers have benefits and similar arrangements provided under a " FSCO " labor agreement, and we could be adversely affected if we were unable to continue that arrangement. ~~17We~~ **We** may need to raise additional capital and our future access to capital is uncertain. Our past revenues have sometimes been, and our future revenues may again be, insufficient to support the expense of our operations and any expansion of our business. We may therefore need additional equity or debt capital to finance our operations. If we are unable to generate sufficient cash flows from operations or to obtain funds through additional debt, lease or equity financing, we may have to reduce some or all of our development and sales and marketing efforts and limit the expansion of our business. ~~We~~ **17We** believe that we have sufficient cash or working capital available under our operating plan to fund our operations and capital requirements through at least the next one- year period. In the event we require additional cash for U. S. operations or other needs, we may choose to repatriate some, or all, of the cash held in our foreign subsidiaries. There may be tax, legal and other impediments to any repatriation actions. Our working capital may be used to fund possible losses, business growth, project initiatives, share repurchases, and business development initiatives including acquisitions, which could reduce our liquidity and result in a requirement for additional cash before that time. Any substantial inability to achieve our current business plan could have a material adverse impact on our financial position, liquidity, or results of operations and may require us to reduce expenditures and / or seek additional financing. Therefore, we may seek additional funding through public or private debt or equity financing or from other sources. We have no commitments for additional financing, and given a potential future unfavorable economic climate and our financial results, we may experience difficulty in obtaining funding on favorable terms, if at all. Any financing we obtain may contain covenants that restrict our freedom to operate our business or may require us to issue securities that have rights, preferences or privileges senior to our Common Stock and may dilute your ownership interest. Cybersecurity breaches or terrorism could result in...... comply with new or expanded regulations. Our stock price may be volatile and, as a result, our shareholders may lose some or all of their investment. The stock prices of technology companies tend to fluctuate significantly. We believe factors such as announcements of new products or services by us or our competitors and quarterly variations in financial results and outlook may cause the market price of our Common Stock to fluctuate substantially. In addition, overall volatility in the stock market, particularly in the technology company sector, is often unrelated to the operating performance of companies. If these market fluctuations continue in the future, they may adversely affect the price of our Common Stock. Additionally, securities of certain companies have recently experienced significant and extreme volatility in stock price due to short sellers of shares of common stock, known as a " short squeeze. " These short squeezes have caused extreme volatility in both the stock prices of those companies and in the market, and have led to the price per share of those companies to trade at a significantly inflated rate that is disconnected from the underlying value of the company. Many investors who have purchased shares in those companies at an inflated rate face the risk of losing a significant portion of their original investment, as in many cases the price per share has declined steadily as interest in those stocks have abated. While we have no reason to believe our shares would be the target of a short squeeze, there can be no assurance that we won' t be in the future, and you may lose a significant portion or all of your investment if you purchase our shares at a rate that is significantly disconnected from our underlying value. **Cybersecurity breaches or** terrorism could result in liabilities or costs as well as damage to or loss of our data or customer access to our website and information systems.The collection,storage,transmission,use and disclosure of user data and personal information,if accessed improperly,could give rise to liabilities or additional costs as a result of laws,governmental regulations and evolving views of personal privacy rights.Cybersecurity attacks may increase as a result of the Russian invasion of Ukraine ~~,and / or deterioration of the geopolitical environment~~ .Cybersecurity breaches or terrorism could result in the exposure or theft of private or confidential information as well as interrupt our business,including denying customer access to our website and information systems.We transmit,and in some cases store,end- user data,including personal information.In jurisdictions around the world,personal information is becoming increasingly subject to legislation and regulations intended to protect consumers' privacy and security.The interpretation of privacy and data protection laws and regulations regarding the collection,storage,transmission,use and disclosure of such information in some jurisdictions is unclear and evolving.These laws may be interpreted and applied in conflicting ways from country to country and in a manner that is not consistent with our current data protection practices.Complying with these varying international requirements could cause us to incur additional costs and change our business practices.Because our services are accessible in many foreign jurisdictions,some of these jurisdictions may claim that we are required to comply with their laws,even where we have no local entity,employees or infrastructure.We could be forced to incur significant expenses if we were required to modify our products,our services or our existing security and privacy procedures in order to comply **with new or expanded regulations.** ~~18REGULATORY~~ -- **REGULATORY** REQUIREMENTS Failure to comply with increasing regulatory requirements may adversely affect our stock price and business. As a public company, we are subject to numerous governmental and stock exchange requirements, with which we believe we are in compliance. Our failure to meet regulatory requirements and exchange listing standards may result in actions such as: the delisting of our stock, impacting our stock' s liquidity; SEC enforcement actions; and securities claims and litigation. **Unfortunately, increased regulations pushed onto public companies may have a disproportionate impact to smaller public companies.** ~~The~~ **18The** Sarbanes- Oxley Act of 2002 and the Securities and Exchange Commission (SEC) have requirements that we may fail to meet or we may fall out of compliance with, such as the internal controls auditor attestation required under Section 404 of the Sarbanes- Oxley Act of 2002, with which we are not currently required to comply as we are a smaller reporting company. We assume that we will continue to have the status of a smaller reporting company based on the aggregate market value of the voting and non- voting shares held as of June 30, ~~2022~~ **2023** . If we fail to achieve and maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes- Oxley Act of 2002. Moreover, effective internal controls, particularly those related to revenue recognition, are necessary for us to produce reliable financial reports and are important to help prevent financial fraud. If we cannot provide reliable financial reports or prevent fraud, our business and operating results could be harmed, investors could lose confidence in our reported financial information, and the trading price of our stock could drop significantly. While we have policies and procedures in place designed to prevent corruption and bribery, because our business is significantly international, violations of the Foreign Corrupt Practices Act (FCPA) could have a significant adverse effect on our business due to the disruption and distraction of an investigation, financial penalties and criminal penalties. Government regulations regarding the use of ~~"~~ **"** conflict ~~"~~ **"** minerals and potential climate and ESG requirements could adversely affect our prospects and results of operations. Regulatory requirements regarding disclosure of our use of “ conflict ” minerals mined from the Democratic Republic of Congo and adjoining countries could affect the sourcing and availability of minerals used in the manufacture of certain products. Although we do not buy raw materials, manufacture, or produce any electronic equipment using conflict minerals directly, some components provided by our suppliers and contained in our products contain conflict minerals. Our goal is for our products to be conflict free. As a result, there may only be a limited pool of suppliers who provide conflict free metals, and we cannot assure you that we will be able to obtain products in sufficient quantities or at competitive prices. Single source suppliers may not respond, or respond negatively regarding conflict mineral sourcing, and we may be unable to find alternative sources to replace them. Also, because our supply chain is complex, we may face reputational challenges with our customers and other stakeholders if we are unable to sufficiently verify the origins for all metals used in the products that we sell. Further, if we are unable to comply with the new laws or regulations or if our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, regulatory authorities may initiate legal proceedings against us. We may need to incur additional costs and invest additional resources, including management’ s time, in order to comply with the new regulations and anticipated additional reporting and disclosure obligations. Climate focused regulations and related disclosures are a similar evolving regulatory area and we may be required to invest in systems, processes and personnel to address new requirements in the ESG area. These ~~could~~ **will** require significant costs, work and reputational risk for failing to meet requirements, **with miniscule impact to the global environment.**