Risk Factors Comparison 2024-04-01 to 2023-03-30 Form: 10-K

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

The SEC requires the Company to identify risks that are specific to its business and its financial condition. The Company is still subject to all the same risks ~~that~~ **as companies in its business, and** all companies in ~~its business, and all companies in~~ the economy ~~, are exposed to~~ . These include risks relating to economic downturns, political and economic events, and technological developments (such as cyber- attacks and the ability to prevent such attacks). Additionally, early- stage companies are inherently riskier than more developed companies, and the risk of business failure and complete loss of your investment capital is present. You should consider general risks as well as specific risks when deciding whether to invest. Below is a summary of material risks, uncertainties and other factors that could have a material effect on the Company and its operations: ~~•~~ **•** We are a comparatively early- stage company that has incurred operating losses in the past, expect to incur operating losses in the future, and may never achieve or maintain profitability. ~~•~~ **•** Our technology continues to be developed, and there is no guarantee that we will ever successfully develop the technology that is essential to our business to a point at which no further development is needed. ~~•~~ **•** We may be subject to numerous data protection requirements and regulations. ~~•~~ **•** We operate in a highly competitive industry that is dominated by a number of exceptionally large, well- capitalized market leaders and the size and resources of some of our competitors may allow them to compete more effectively than we can. ~~•~~ **•** We rely on third parties to provide services essential to the success of our business. ~~•~~ **•** We currently have three customers that account for substantially all of our revenues. ~~•~~ **•** We expect to raise additional capital through equity and / or debt offerings to support our working capital requirements and operating losses. ~~•~~ **•** Our auditor has included an " Emphasis of Matter Regarding Liquidity " note in its report on our consolidated financial statements for the year ended December 31, ~~2022~~ **2023** . Our consolidated financial statements do not include any adjustments that may result from the outcome of this uncertainty. ~~•~~ **•** As the vast majority of our revenue is US Dollar denominated and a significant percentage of our expenses are incurred in other currencies, we are subject to risks relating to foreign currency fluctuations. Risks Related to Our Company We have a limited operating history upon which you can evaluate our performance and have not yet generated profits. Accordingly, our prospects must be considered in light of the risks that any new company encounters. Our Company was incorporated under the laws of the State of Delaware on April 11, 2016, and we have not yet generated profits. The likelihood of our creation of a viable business must be considered in light of the problems, expenses, difficulties, complications, and delays frequently encountered in connection with the growth of a business, operation in a competitive industry, and the continued development of our technology and products. We anticipate that our operating expenses will increase for the near future, and there is no assurance that we will be profitable in the near future. You should consider our business, operations, and prospects in light of the risks, expenses and challenges faced as an emerging growth company. We have historically operated at a loss, which has resulted in an accumulated deficit. For the fiscal year ended December 31, ~~2022~~ **2023** , we incurred a net loss of $ ~~12~~ **7** . ~~09~~ **64** million, compared to a net loss of $ ~~9~~ **12** . ~~06~~ **09** million for the fiscal year ended December 31, ~~2021~~ **2022** . There can be no assurance that we will ever achieve profitability. Even if we do, there can be no assurance that we will be able to maintain or increase profitability on a quarterly or annual basis. Failure to do so would continue to have a material adverse effect on our accumulated deficit, would affect our cash flows, would affect our efforts to raise capital and is likely to result in a decline in our Class A Common Stock price. Our consolidated financial statements for the fiscal years ended December 31, **2023 and** 2022 ~~and 2021~~ have been prepared on a going concern basis. We have not yet generated profits and have an accumulated deficit of $ ~~39~~ **50** . ~~30~~ **85** million as of December 31, ~~2022~~ **2023** . We may not have enough funds to sustain the business until it becomes profitable. Even if we raise additional funding through future financing efforts, we may not accurately anticipate how quickly we may use such funds and whether such funds would be sufficient to bring the business to profitability. The Company' s ability to continue as a going concern in the next twelve months following the date of the consolidated financial statements is dependent upon its ability to produce revenues and / or obtain financing sufficient to meet current and future obligations and deploy such to produce profitable operating results. Our cash could be adversely affected if the financial institutions in which we hold our cash fail. The Company maintains domestic cash deposits in Federal Deposit Insurance Corporation (" FDIC ") insured banks. The domestic bank deposit balances may exceed the FDIC insurance limits. In addition, given the foreign markets we serve, we maintain cash deposits in foreign banks, some of which are not insured or partially insured by the FDIC or other similar agency. These balances could be impacted if one or more of the financial institutions in which we deposit monies fails or is subject to other adverse conditions in the financial or credit markets. ~~For example, on March 10, 2023, Silicon Valley Bank failed and was taken into receivership by the FDIC. The Company held $ 85, 668 in excess of federally insured limits with Silicon Valley Bank as of March 10, 2023. As of March 14, 2023, the Company had access to all of its money held at Silicon Valley Bank.~~ Our technology continues to be developed, and it is unlikely that we will ever develop our technology to a point at which no further development is required. Trust Stamp is developing complex technology that requires significant technical and regulatory expertise to develop, commercialize and update to meet evolving market and regulatory requirements. While we constantly monitor and adapt our products and technology as criminal methods of breaching cybersecurity advance, there is no guarantee we will consistently be able to develop technology that can effectively counteract such criminal efforts. If we are unable to successfully develop and commercialize our technology and products, it will significantly affect our viability as a company. If our security measures are breached or unauthorized access to individually identifiable biometric or other personally identifiable information is otherwise obtained, our reputation may be harmed, and we may incur significant liabilities. In the ordinary course of our business, we may collect and store sensitive data, including protected health information (" PHI "), personally identifiable information (" PII "), owned or controlled by ourselves or our customers, and other parties. We communicate sensitive data, including patient data, electronically, and through relationships with multiple third- party vendors and their subcontractors. These applications and data encompass a wide variety of business- critical information, including research and development information, patient data, commercial information, and business and financial information. We face a number of risks relative to protecting this critical information, including loss of access risk, inappropriate use or disclosure, inappropriate modification, and the risk of our being unable to adequately monitor, audit, and modify our controls over our critical information. This risk extends to the third- party vendors and subcontractors we use to manage this sensitive data. As a custodian of this data, Trust Stamp therefore inherits responsibilities related to this data, exposing itself to potential threats. Data breaches occur at all levels of corporate sophistication (including at companies with significantly greater resources and security measures than our own) and the resulting fallout stemming from these breaches can be costly, time- consuming, and damaging to a company' s reputation. Further, data breaches need not occur from malicious attack or phishing only. Often, employee carelessness can result in sharing PII with a much wider audience than intended. Consequences of such data breaches could result in fines, litigation expenses, costs of implementing better systems, and the damage of negative publicity, all of which could have a material adverse effect on our business operations and financial condition. We are subject to substantial governmental regulation relating to our technology and will continue to be for the lifetime of our Company. By virtue of handling sensitive PII and biometric data, we are subject to numerous statutes related to data privacy and additional legislation and regulation should be anticipated in every jurisdiction in which we operate. Examples of federal (US) and European statutes we could be subject to are: ~~•~~ • Health Insurance Portability and Accountability Act (HIPAA) ~~•~~ • Health Information Technology for Economic and Clinical Health Act (HITECH) ~~21Any~~ -- **Any** such access, breach, or other loss of information could result in legal claims or proceedings, liability under federal or state laws that protect the privacy of personal information under HIPAA and / or " HITECH ". Notice of breaches must be made to affected individuals, the Secretary of the Department of Health and Human Services (" HHS "), and for extensive breaches, notice may need to be made to the media or state attorneys general. Penalties for violations of these laws vary. For instance, penalties for failure to comply with a requirement of HIPAA and HITECH vary significantly, and include significant civil monetary penalties and, in certain circumstances, criminal penalties with fines up to $ 250, 000 per violation and / or imprisonment. A person who knowingly obtains or discloses individually identifiable health information in violation of HIPAA may face a criminal penalty of up to $ 50, 000 and up to one- year imprisonment. The criminal penalties increase if the wrongful conduct involves false pretenses or the intent to sell, transfer or use identifiable health information for commercial advantage, personal gain, or malicious harm. Further, various states, such as California, have implemented similar privacy laws and regulations, such as the California Confidentiality of Medical Information Act, that impose restrictive requirements regulating the use and disclosure of health information and other personally identifiable information. Where state laws are more protective, we have to comply with the stricter provisions. In addition to fines and penalties imposed upon violators, some of these state laws also afford private rights of action to individuals who believe their personal information has been misused. California' s patient privacy laws, for example, provide for penalties of up to $ 250, 000 and permit injured parties to sue for damages. The interplay of federal and state laws may be subject to varying interpretations by courts and government agencies, creating complex compliance issues for us and data we receive, use and share, potentially exposing us to additional expense, adverse publicity, and liability. Further, as regulatory focus on privacy issues continues to increase and laws and regulations concerning the protection of personal information expand and become more complex, these potential risks to our business could intensify. Changes in laws or regulations associated with the enhanced protection of certain types of sensitive data, such as PII or PHI, along with increased customer demands for enhanced data security infrastructure, could greatly increase our cost of providing our services, decrease demand for our services, reduce our revenues and / or subject us to additional liabilities. Compliance with U. S. and international data protection laws and regulations could cause us to incur substantial costs or require us to change our business practices and compliance procedures in a manner adverse to our business. Moreover, complying with these various laws could require us to take on more onerous obligations in our contracts, restrict our ability to collect, use and disclose data, or in some cases, impact our ability to operate in certain jurisdictions. We rely on our customers to obtain valid and appropriate consents from data subjects whose biometric samples and data we process on such customers' behalf. Given that we do not obtain direct consent from such data subjects and we do not audit our customers to ensure that they have obtained the necessary consents required by law, the failure of our customers to obtain consents that are in compliance with applicable law could result in our own non- compliance with privacy laws. Such failure to comply with U. S. and international data protection laws and regulations could result in government enforcement actions (which could include civil or criminal penalties), private litigation and / or adverse publicity and could negatively affect our operating results and business. Claims that we have violated individuals' privacy rights, failed to comply with data protection laws, or breached our contractual obligations, even if we are not found liable, could be expensive and time consuming to defend, could result in adverse publicity and could have a material adverse effect on our business, financial condition and results of operations. We anticipate sustaining operating losses for the foreseeable future. It is anticipated that we will sustain operating losses into ~~2023~~ **2024** as we continue with research and development, and strive to gain new customers for our technology and market share in our industry. Our ability to become profitable depends on our ability to expand our customer base, consisting of companies willing to license our technology. There can be no assurance that this will occur. Unanticipated problems and expenses are often encountered in offering new products which may impact whether the Company is successful. Furthermore, we may encounter substantial delays and unexpected expenses related to development, technological changes, marketing, regulatory requirements and changes to such requirements or other unforeseen difficulties. There can be no assurance that we will ever become profitable. If the Company sustains losses over an extended period of time, it may be unable to continue in business. If our products do not achieve broad acceptance both domestically and internationally, we will not be able to achieve our anticipated level of growth. Our revenues are derived from licensing our identity authentication solutions. We cannot accurately predict the future growth rate or the size of the market for our technology. The expansion of the market for our solutions depends on a number of factors, such as ~~•~~ • the cost, performance and reliability of our solutions and the products and services offered by our competitors; ~~•~~ • customers' perceptions regarding the benefits of biometrics and other authentication solutions; • ~~22 •~~ public perceptions regarding the intrusiveness of these solutions and the manner in which organizations use biometric and other identity information collected; ~~•~~ • public perceptions regarding the confidentiality of private information; ~~•~~ • proposed or enacted legislation related to privacy of information ~~•~~ • customers' satisfaction with biometrics solutions; and ~~•~~ • marketing efforts and publicity regarding biometrics solutions. Even if our technology gains wide market acceptance, our solutions may not adequately address market requirements and may not continue to gain market acceptance. If authentication solutions generally or our solutions specifically do not gain wide market acceptance, we may not be able to achieve our anticipated level of growth and our revenues and results of operations would suffer. We operate in a highly competitive industry that is dominated by multiple very large, well- capitalized market leaders and is constantly evolving. New entrants to the market, existing competitor actions, or other changes in market dynamics could adversely impact us. The level of competition in the identity authentication industry is high, with multiple exceptionally large, well- capitalized competitors holding a majority share of the market. Currently, we are not aware of any direct competitors of the Company able to offer our main technological offering. Nonetheless, many of the companies in the identity authentication market have longer operating histories, larger customer bases, significantly greater financial, technological, sales, marketing, and other resources than we do. At any point, these companies may decide to devote their resources to creating a competing technology solution which will impact our ability to maintain or gain market share in this industry. Further, such companies will be able to respond more quickly than we can to new or changing opportunities, technologies, standards, or client requirements, more quickly develop new products or devote greater resources to the promotion and sale of their products and services than we can. Likewise, their greater capabilities in these areas may enable them to better withstand periodic downturns in the identity management solutions industry and compete more effectively on the basis of price and production. In addition, new companies may enter the markets in which we compete, further increasing competition in the identity management solutions industry. We believe that our ability to compete successfully depends on a number of factors, including the type and quality of our products and the strength of our brand names, as well as many factors beyond our control. We may not be able to compete successfully against current or future competitors, and increased competition may result in price reductions, reduced profit margins, loss of market share and an inability to generate cash flows that are sufficient to maintain or expand the development and marketing of new products, any of which would adversely impact our results of operations and financial condition. We face competition from companies with greater financial, technical, sales, marketing, and other resources, and, if we are unable to compete effectively with these competitors, our market share may decline, and our business could be harmed. We face competition from well established companies. Many of our competitors have longer operating histories, larger customer bases, significantly greater financial, technological, sales, marketing, and other resources than we do. As a result, our competitors may be able to respond more quickly than we can to new or changing opportunities, technologies, standards, or client requirements, more quickly develop new products or devote greater resources to the promotion and sale of their products and services than we can. Likewise, their greater capabilities in these areas may enable them to better withstand periodic downturns in the identity management solutions industry and compete more effectively on the basis of price and production. In addition, new companies may enter the markets in which we compete, further increasing competition in the identity management solutions industry. ~~We believe that our ability to compete successfully depends on a number of factors, including the type and quality of our products and the strength of our brand names, as well as many factors beyond our control. We may not be able to compete successfully against current or future competitors, and increased competition may result in price reductions, reduced profit margins, loss of market share and an inability to generate cash flows that are sufficient to maintain or expand the development and marketing of new products, any of which would adversely impact our results of operations and financial condition. 23The~~ -- **The** Company may be unable to effectively protect its intellectual property. ~~To date, the Company has been issued thirteen patents related to its products and technology in the current year.~~ The Company has many ~~more~~ **issued patents related to its products and technology, and many** pending patent applications as of ~~December, 31, 2022~~ **the date of this report** . There is no guarantee that the Company will ever be issued patents on the applications it has submitted. In addition, in order to control costs, we have filed patent applications only in the United States. This may result in our having limited or no protection in other jurisdictions. Our success depends to a significant degree upon the protection of our products and technology. If we are unable to secure patents for our products and technology, or are otherwise ~~are~~ unsuccessful at protecting our technology, other companies with greater resources may copy our technology and / or products, or improve upon them, putting us at a disadvantage to our competitors. Successful infringement claims against us could result in significant monetary liability or prevent us from selling some of our products. We believe our products and technology may be highly disruptive to a very large and growing market. Our competitors are well capitalized with significant intellectual property protection and resources and they (and / or patent trolls) may initiate infringement lawsuits against our Company. Such litigation could be expensive and could also prevent us from selling our products, which would significantly harm our ability to grow our business as planned. Our failure to attract and retain highly qualified personnel in the future could harm our business. As the Company grows, it will be required to hire and attract additional qualified professionals, additional staff for research and development, regulatory professionals, sales and marketing professionals, accounting, legal, and finance experts. The Company may not be able to locate or attract qualified individuals for such positions, which will affect the Company' s ability to grow and expand its business. We rely on third party service providers. Our third- party partners provide a variety of essential business functions, including hosting, contract labor, and others. It is possible that some of these third parties will fail to perform their services or will perform them in an unacceptable manner. If we encounter problems with one or more of these parties and they fail to perform to expectations, it could have a material adverse impact on the Company. We currently have three customers that account for substantially all of our current revenues. During the Company' s **technology stack** development, we have focused on ~~developing~~ strong relationships with a ~~few~~ **number of** significant partners and customers **to guide the customer and product discovery process** . As such, our historical financial results identify that for a number of years we generated substantially all of our revenue from **those** ~~two customers – which increased to~~ three customers ~~in 2021 with the addition of the ICE Contract, which ended in August of 2022. In September of 2022, we entered into a long- term technology contract with a new customer restoring the number of significant revenue- generating customers to three as December 31, 2022~~ . In the opinion of our management, we would be able to continue operations without our current customers. However, the unanticipated loss of the Company' s current customers could have an adverse effect on the company' s financial position. We face risks related to distributing our products and services through channel partnerships, such as our partnership with FIS. When selling our products and services through indirect sales channels, such as through FIS, we are reliant on the efforts of those channel partners to successfully market and sell our products to end- customers. To the extent that FIS is unsuccessful at selling our products and services, our results of operations may suffer. Further, as of the date of this report, our only channel partnership is with FIS, which may increase the risk of harm to our Company if FIS is unsuccessful in selling our products and services. While we may seek to attract and retain additional indirect channel partners that will be able to market our products effectively and provide timely and cost- effective customer support and services, we may not succeed in doing so, and this could limit our ability to grow revenues and achieve profitability. Selling through channel partnerships is also a relatively new endeavor for us. Historically, we have generated a majority of sales through direct sales. Managing indirect sales channels may require more management attention than managing our direct sales force. If the indirect sales channels grow, management attention may be diverted, impairing our ability to execute other parts of our strategy. We face risks related to our target customers. The majority of the customers that we are targeting are large organizations with complex and expansive operations. These kinds of companies often have long and often unpredictable enterprise sales cycles, which can result in significant time and effort to close a deal with those companies (~~which~~ **and** there is no guarantee that a deal will occur). This can make sales forecasting difficult for our Company, which can lead to operational challenges. For example, we often need to hire staff ahead of closing on a new client contract to be ready to perform if and when the contract closes. If we are unable to effectively forecast sales, we may incur unnecessary or avoidable expenses, or exhaust our cash reserves, which could have a material negative impact on our Company' s financial condition and results of operations. ~~24Our~~ -- **Our** future success is dependent on the continued service of our small management team. Seven directors and four executive officers provide leadership to Trust Stamp. ~~Four~~ **Three** of the directors are also executive officers. Our success is dependent on their ability to manage all aspects of our business effectively. Because we are relying on our small management team, we lack certain business development resources that may hurt our ability to grow our business. Any loss of key members of our executive team could have a negative impact on our ability to manage and grow our business effectively. We do not maintain a key person life insurance policy on any of the members of our senior management team. As a result, we would have no way to cover the financial loss if we were to lose the services of our directors or officers. We expect to raise additional capital through equity and / or debt offerings to support our working capital requirements and operating losses. In order to fund future growth and development, the Company will likely need to raise additional funds in the future by offering shares of its Common or Preferred Stock and / or other classes of equity, or debt that convert into shares of common or Preferred Stock, any of which offerings would dilute the ownership percentage of investors in this offering. In order to issue sufficient shares in this regard, we may be required to amend our certificate of incorporation to increase our authorized capital stock, which would ~~be~~ require us to obtain consent of a majority of our shareholders. Furthermore, if the Company raises capital through debt, the holders of our debt would have priority over holders of common and Preferred Stock and the Company may be required to accept terms that restrict its ability to incur more debt. We cannot assure you that the necessary funds will be available on a timely basis, on favorable terms, or at all, or that such funds if raised, would be sufficient. The level and timing of future expenditure will depend on a number of factors, many of which are outside our control. If we are not able to obtain additional capital on acceptable terms, or at all, we may be forced to curtail or abandon our growth plans, which could adversely impact the Company, its business, development, financial condition, operating results, or prospects. We are ~~and may continue to be significantly impacted by the worldwide economic downturn due to the COVID- 19 pandemic. In December 2019, a novel strain of coronavirus, or COVID- 19, was reported to have surfaced in Wuhan, China. COVID- 19 has spread to many countries, including the United States, and was declared to be a pandemic by the World Health Organization. Efforts to contain the spread of COVID- 19 have intensified and the U. S., Europe and Asia have implemented severe travel restrictions and social distancing. The impacts of the outbreak are unknown and rapidly evolving. A widespread health crisis has adversely affected and could continue to affect the global economy, resulting in an economic downturn that could negatively impact the operations of the Company, which could negatively impact your investment in our securities. The continued spread of COVID- 19 has also led to severe disruption and volatility in the global capital markets, which could increase our cost of capital and adversely affect our ability to access the capital markets in the future. It is possible that the continued spread of COVID- 19 could cause a further economic slowdown or recession or cause other unpredictable events, each of which could adversely affect our business, results of operations or financial condition. The extent to which COVID- 19 affects our financial results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the COVID- 19 outbreak and the actions to contain the outbreak or treat its impact, among others. Moreover, the COVID- 19 outbreak has had and may continue to have indeterminable adverse effects on general commercial activity and the world economy, and our business and results of operations could be adversely affected to the extent that COVID- 19 or any other pandemic harms the global economy generally. We are~~ subject to risks related to foreign currency exchange rates. We operate on a global basis. We have operations (through our subsidiaries and / or directly) in many foreign countries and territories, including, but not limited to, United Kingdom, Poland, Rwanda, Denmark **,** and the Republic of Malta. The translation from any currencies to United States Dollars for financial statement presentation resulted in a foreign currency loss of $ **0** ~~105 thousand~~ for the year ended December 31, ~~2022~~ **2023** , and $ ~~183~~ **105** thousand loss for the year ended December 31,

~~2021~~ **2022** . ~~Such~~ **As of June 30, 2022, the Company determined that there was currently no intention to settle intercompany accounts in the foreseeable future; therefore, beginning in June 30, 2022, future fluctuations in** foreign **currencies between the Company and its subsidiaries are recorded to Accumulated other comprehensive income on the balance sheet instead of Other expense. The translation from any currencies to United States Dollars for financial statement presentation resulted in Accumulated other comprehensive income of $ 140 thousand as of December 31, 2023, and $ 237 thousand as of December 31, 2022. Foreign** currency translation losses, coupled with varying inflation rates across the countries we operate in, could have a material adverse effect on our business. ~~25We~~ **We** are an emerging growth company, and the reduced reporting requirements applicable to emerging growth companies could make our Class A Common Stock less attractive to investors. We are an emerging growth company, as defined in the Jumpstart Our Business Startups (JOBS) Act. For as long as we continue to be an emerging growth company, we may take advantage of 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 of 2002 reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, exemptions from the requirements of holding **non-** ~~nonbinding~~ --- **binding** advisory votes on executive compensation and stockholder approval of any golden parachute payments not previously approved, and an exemption from compliance with the requirement of the PCAOB regarding the communication of critical audit matters in the auditor' s report on the **consolidated** financial statements. We could be an emerging growth company for up to five years following the year in which we completed our IPO, although circumstances could cause us to lose that status earlier. We will remain an emerging growth company until the earlier of (1) the last day of the fiscal year (a) following the fifth anniversary of the date of the closing of our IPO, (b) in which we have total annual gross revenue of at least $ 1. 07 billion or (c) in which we are deemed to be a large accelerated filer, which requires the market value of our common stock that are held by non- affiliates to exceed $ 700. ~~0~~ **00** million as of the prior June 30th, and (2) the date on which we have issued more than $ 1. ~~0~~ **00** billion in non- convertible debt during the prior three- year period. In addition, the JOBS Act provides that an emerging growth company can take advantage of an extended transition period for complying with new or revised accounting standards. This allows an emerging growth company to delay the adoption of certain accounting standards until those standards would otherwise 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 we (i) are 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 **consolidated** financial statements may not be comparable to companies that comply with new or revised accounting pronouncements as of public company effective dates. We cannot predict if investors will find our Class A Common Stock less attractive because we may rely on the reporting exemptions and the extended transition period for complying with new or revised accounting standards. If some investors find our Class A Common Stock less attractive as a result, there may be a less active trading market for our Class A Common Stock and our share price may be more volatile. **Our internal controls over financial reporting and our disclosure controls and procedures may not prevent all possible errors that could occur. Our management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America (" U. S. GAAP "). Ensuring that we have adequate internal financial and accounting controls and procedures in place to produce accurate financial statements on a timely basis is a costly and time- consuming effort that needs to be re- evaluated frequently. Failure on our part to have effective internal financial and accounting controls would cause our financial reporting to be unreliable, could have a material adverse effect on our business, operating results, and financial condition, and could cause the trading price of our common stock to fall dramatically. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system' s objectives will be satisfied. Internal control over financial reporting and disclosure controls and procedures are designed to give a reasonable assurance that they are effective to achieve their objectives.** We **cannot provide absolute assurance that all of our possible future control issues will be detected. These inherent limitations include the possibility that judgments in our decision making can be faulty, and that isolated breakdowns can occur because of simple human error or mistake. The design of our system of controls is based in part upon assumptions about the likelihood of future events, and there can be no assurance that any design will succeed absolutely in achieving our stated goals under all potential future or unforeseeable conditions. Because of the inherent limitations in a cost- effective control system, misstatements due to error could occur and not be detected. This and any future failures could cause investors to lose confidence in our reported financial information, which could** have ~~failed~~ **a negative impact on our financial condition and stock price. In future periods, if the process required by Section 404 of the Sarbanes- Oxley Act reveals any material weaknesses or significant deficiencies, the correction of any such material weaknesses or significant deficiencies could require remedial measures which could be costly and time- consuming. In addition, in such a case, we may be unable** to **produce accurate financial statements on a timely basis. Any associated accounting restatement could create a significant strain on our internal resources and cause delays in our release of quarterly or annual financial results and the filing of related reports, increase our costs and cause management distraction. Any of the foregoing could cause investors to lose confidence in the reliability of our financial statements, which could cause the market price of our common stock to decline and make it more difficult for us to finance our operations and growth. Management identified certain material weaknesses relating to corporate finance and accounting, resulting in the Company not** ~~maintain~~ **maintaining** effective internal controls over financial reporting as **of** ~~is required for a public company. We may be unable to prevent error or fraud, which may materially misstate~~ the ~~financials. As provided in our Annual Report on Form 10- K for the fiscal~~ year ended December 31, ~~2021~~ **2022 . Management identified**

certain material weaknesses relating to corporate finance and accounting , ~~we previously did~~ **resulting in the Company** not ~~establish~~ **maintaining** effective internal controls over financial ~~accounting and~~ reporting **as of the year ended December 31, 2022. As a result, the Company has not maintained effective internal controls over financial reporting as required for a public company** . The resulting material weaknesses **relate to insufficient management review and approval of each journal entry prior to its posting for preparation of the financial statements and disclosures. Additionally, it was concluded that we had inadequate controls over the management information systems** related to **program changes, segregation** ~~certain corporate finance and accounting oversight functions over the detection~~ of ~~errors~~ **duties, and access controls. As a result, it would be possible** that ~~were present within~~ the Company' s **business process controls that depend on** ~~calculation of stock- based awards as well as~~ the **accuracy and completeness of data or** financial ~~reporting~~ **reports** ~~close process~~ **generated by these information technology systems could be adversely affected due to the lack of operating effectiveness of information technology controls** . The failure to establish effective internal controls **could result in** ~~left us without the ability to properly~~ **improperly** ~~account~~ **accounting** for ~~important~~ transactions accurately, ~~to reliably~~ **reliability in** ~~compile~~ **compiling** ~~our~~ financial information, and **could** significantly ~~impaired~~ -- **impair** our ability to prevent error and detect fraud. ~~In response to these identified material weaknesses, the Company has established additional operational processes to prevent the incorrect recording of stock- based~~ **Based** ~~awards. Such additional operational processes~~ **on our evaluation, management concluded** that ~~have been established include, but are not limited to: Calculation of Stock- Based Awards ● Established multiple layers of reviews of equity awards calculations to ensure that the calculations match the terms in corresponding award agreement and formulas are correct. ● Regular check between our legal and accounting staff to ensure that new award agreement do not go unaccounted for. On a monthly basis, we also review all active agreements to check for expirations, so that they are properly accounted for and recorded. ● Perform regular reconciliations between information in~~ our internal **control over** ~~records and our transfer agent' s records to ensure that issued shares and warrants are captured accurately. ● Implemented multiple tiers of checks and reviews between data entry in our internal records and the use of such data to calculate stock- based compensation entries for our~~ financial **reporting was effective as of** ~~statements. During the fiscal year ended~~ December 31, ~~2022~~ **2023 .** ~~the Company' s management tested the effectiveness of the recently implemented internal control processes adopted in response to the identified material weaknesses specifically related to stock- based compensation 26~~