

## Risk Factors Comparison 2024-04-01 to 2023-03-28 Form: 10-K

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

Risks Related to Our Business and Industry (All dollar amounts are rounded to thousands, except per share data) We have incurred losses since inception and losses may continue, which could result in a decline in the value of our securities and a loss of your investment. We incurred net losses of \$ ( **3-1, 851-980** ) and \$ ( **7-4, 478-159** ) for the fiscal years ended December 31, **2023 and** ~~2022 and 2021~~, respectively. Our accumulated deficit was \$ ( **130-133, 748-565** ) as of December 31, **2022-2023**. Since we expect to incur additional expenditures in line with the sales growth of our business, we may not achieve operating profits in the near future, and we could experience further losses. This could lead to a decline in the value of our securities. Our proprietary software relies on reference data provided by government and quasi- government agencies. If these governmental and quasi- government agencies were to stop sharing data with us, the utility of our proprietary software would be diminished in those jurisdictions and our business would be damaged. Currently, ~~the fifty every U. S. states~~ **state**, ten Canadian provinces and the District of Columbia, in most instances, conform to the guidelines established by certain organizations responsible for implementing industry standards and, cooperate with us by providing sample identification cards so that we may modify all our hardware and software products to read and analyze the encoded information found on such jurisdiction' s identification cards. If one or more of these jurisdictions do not continue to provide this reference data, the utility of our proprietary software may be diminished in those jurisdictions. Our business strategy exposes us to long sales and implementation cycles for our products. Our target customers in the commercial fraud protection, financial services, retail, access control and age verification industry sectors include banks and credit card issuers, large retailers and to a lesser extent, government agencies, which typically require longer sales and implementation cycles for our products than do our potential customer base solely interested in age verification, such as restaurant, bar and convenience store operators. The longer sales and implementation cycles for larger retail companies continue to have an adverse impact on the timing of realizing our revenues. In addition, budgetary constraints and potential economic slowdowns or inflationary pressures may also continue to delay purchasing decisions by these prospective customers. These initiatives have costs associated with them, and we cannot assure you that they ultimately will prove successful, or result in, an increase to our revenues or profitability. We could be negatively impacted by ~~the ongoing coronavirus (COVID- 19 )~~, **or other similar pandemic pandemics**. ~~As~~ **As** In December 2019, it was first reported that there had been an outbreak of a **result** novel strain of COVID- 19, in China. Since then, COVID- 19 has continued to spread outside of China, including throughout the United States and other parts of the world, becoming a global pandemic. Since then, the pandemic has seen waves of increases and decreases of infections due to the emergence of variants to the original COVID- 19 strain such as the Delta variant and Omicron variant. While we are hopeful that widespread vaccinations from COVID- 19, together with increases in immunity within the population and an overall decrease in cases, will continue to usher in a new sense of normalcy, we are unable to accurately predict the full impact that the COVID- 19 pandemic, could have on our ~~or~~ **results of operations or financial condition due to numerous factors** ~~other similar pandemics, we may in the future experience disruptions~~ **that are not within could severely impact** our ~~control business~~ **business**, including the duration and severity of any future outbreak together with any additional statewide closures resulting from increases in cases nationwide, whether from COVID- 19 or recently discovered or newly emerged variants. Governments ~~government shutdowns~~ **government shutdowns** in affected regions have implemented and could re- implement safety precautions, including stay- at- home orders, travel restrictions, business closures, cancellations of public gatherings, and other measures. While many of the original restrictions levied by governments in 2020 have been removed, additional variants, ~~or similar pandemics could emerge causing significant increases in cases which the future,~~ **or similar pandemics** could cause governments to reinstitute some or all of the previously implemented restrictive measures ~~in order to curtail the increase in the number of reported cases~~. Such ~~additional~~ **additional** restrictions could lead to the cancellation of industry events which could limit our ability to meet with existing and potential new customers. The industry for our systems and software is evolving and its growth is uncertain. Demand ~~and as well as~~ **and** industry acceptance for recently introduced and existing systems, and software and sales from such systems ~~and software~~, are subject to a high level of uncertainty and risk. With changing administration in government, changes in government budgets, and slowly evolving government standards on use of identity products, the government sector is slowly developing. The commercial sector can develop faster than the government sector, but it is also subject to a higher level of uncertainty because of potential uncertainty in the continued financial health of our commercial customers, as well as long sales cycles. Our business may suffer if the industry develops more slowly than anticipated and does not sustain industry acceptance. Failure to manage our operations if they expand could impair our future growth. If we can expand our operations, particularly through multiple sales to large retailers and government agencies in the document verification industry, the expansion will place significant strain on our management, financial controls, operating systems, personnel and other resources. Our ability to manage future growth, should it occur, will depend upon several factors, including our ability to do the following:

- build and train our sales force;
- establish and maintain relationships with distributors;
- develop customer support systems;
- develop expanded internal management and financial controls adequate to keep pace with growth in personnel and sales, if they occur; and
- manage the use of third- party manufacturers and suppliers.

If we can grow our business but do not manage our growth successfully, we may experience increased operating expenses, loss of customers, distributors, or suppliers and declining or slowed growth of revenues. Failure to protect our proprietary technology may impair our competitive position. We continue to allocate significant resources to developing new and innovative technologies that are utilized in our products and systems. Because our continued success depends on, to a significant degree, our ability to offer products providing superior functionality and performance over those offered by our competitors, we consider the protection of our technology from

unauthorized use to be fundamental to our success. This is done by processes aimed at identifying and seeking appropriate protection for newly developed intellectual property, including patents, trade secrets, copyrights, and trademarks, as well as policies aimed at identifying unauthorized use of such property. These processes include: ■ **including provisions for nondisclosure of proprietary information in our** contractual arrangements ~~providing for nondisclosure of proprietary information~~; ■ maintaining and enforcing issued patents and filing patent applications on innovative solutions to commercially important problems; ■ protecting trade secrets; ■ protecting copyrights and trademarks by registration and other appropriate means; ■ establishing internal processes for identifying and appropriately protecting new and innovative technologies; and ■ establishing practices for identifying unauthorized use of intellectual property. Litigation can be very costly and divert management's attention. An adverse outcome in any litigation may have a severe negative effect on our financial results. To determine the priority of inventions, we may have to participate in interference proceedings declared by the U. S. Patent and Trademark Office or oppositions in foreign patent and trademark offices, which could result in substantial cost and limitations on the scope or validity of our patents or trademarks. Additionally, third parties, including our competitors or licensees, may seek to have our patents reviewed by the Patent Trial and Appeal Board of the United States Patent and Trademark Office in a post grant proceeding, such as post grant review or an inter parties review. Such proceedings, if instituted could cancel our patents or narrow the scope of our patent claims. We cannot predict the effect that such proceedings, if instituted, may have on our business or revenue received from licensing our patents. In addition, foreign laws treat the protection of proprietary rights differently from laws in the United States. The failure of foreign laws or judicial systems to adequately protect our proprietary rights or intellectual property, including intellectual property developed on our behalf by foreign contractors or subcontractors, may have a material adverse effect on our business, operations, and financial results. If our future products incorporate technologies that infringe the proprietary rights of third parties, and we do not secure licenses from them, we could be liable for substantial damages. We are not aware that our current products infringe the intellectual property rights of any third parties. We also are not aware of any third-party intellectual property rights that may hamper our ability to provide future products and services. However, we recognize that the development of our services or products may require that we acquire intellectual property licenses from third parties to avoid infringement of those parties' intellectual property rights. These licenses may not be available at all or may only be available on terms that are not commercially reasonable. If third parties make infringement claims against us, even if they are not upheld, such claims could: ■ consume substantial time and financial resources; ■ divert the attention of management from growing our business and managing operations; and ■ disrupt product sales and shipments. If any third party prevails in an action against us for infringement of its proprietary rights, we could be required to pay damages and either enter costly licensing arrangements or redesign our products so as to exclude any infringing use. As a result, we would incur substantial costs, delays in product development, sales and shipments, and our revenues may decline substantially. Additionally, we may not be able to achieve the ~~minimum growth~~ necessary ~~growth~~ for our continued success. Failure to attract and retain management and other personnel may damage our operations and financial results and cause our stock price to decline. We depend, to a significant degree, on the skills, experience and efforts of our executive officers and other key management, technical, finance, sales and other personnel. Our failure to attract, integrate, motivate and retain existing or additional personnel could disrupt or otherwise harm our operations and financial results. We do not carry key man life insurance policies covering any employees. The loss of services of certain of our key employees, an inability to attract or retain qualified personnel in the future, or delays in hiring additional personnel could delay the development of our business and could cause our stock price to decline. We incur significant accounting and other control costs that impact our financial condition. As a publicly traded corporation, we incur certain costs to comply with regulatory requirements. If regulatory requirements were to become more stringent or if controls thought to be effective later fail, we may be forced to make additional expenditures, the amounts of which could be material. Some of our competitors are privately owned, so their accounting and control costs could create a competitive advantage over us. Should our sales decline or if we are unsuccessful at increasing prices to cover higher expenditures for internal controls and audits, our costs associated with regulatory compliance will rise as a percentage of sales.

**Failure to maintain effective internal control over our financial reporting in accordance with Section 404 of the Sarbanes- Oxley Act could cause our financial reports to be inaccurate. We are required pursuant to Section 404 of the Sarbanes- Oxley Act, or Section 404, to maintain internal control over financial reporting and to assess and report on the effectiveness of those controls. This assessment includes disclosure of any material weaknesses identified by our management in our internal control over financial reporting. Although we prepare our financial statements in accordance with accounting principles generally accepted in the United States, our internal accounting controls may not meet all standards applicable to companies with publicly traded securities. If we fail to implement any required improvements to our disclosure controls and procedures, we may be obligated to report control deficiencies and our independent registered public accounting firm may not be able to certify the effectiveness of our internal controls over financial reporting. In either case, we could become subject to regulatory sanction or investigation. Further, these outcomes could damage investor confidence in the accuracy and reliability of our financial statements. Our management has concluded that our internal controls over financial reporting were ineffective, as of December 31, 2023 as a result of the following: The Company did not design and maintain effective controls to periodically reassess whether Nexus was achieved in the states we do business. This caused us not to be able to collect sales tax from our customer and subsequently remitting those sales tax to the appropriate state tax agency. During our assessment in 2023, it was determined that we had prior period sales tax obligation on certain states, in which we failed to collect and remit the sales tax.. While management intends to remediate the material weakness, there is no assurance that such changes, when economically feasible and sustainable, will remediate the identified material weaknesses or that the controls will prevent or detect future material weaknesses. If we are not able to maintain effective internal control over financial reporting, our financial statements, including related disclosures, may be inaccurate, which could have a material adverse effect on**

**our business.** Long lead times for the components used in certain products creates uncertainty in our supply chain and may prevent us from making required deliveries to our customers on time. We rely exclusively on **COTS commercial off-the-shelf** technology in manufacturing our products. The lead-time for ordering certain components used in our products and the production of products can be lengthy. As a result, we must, from time to time, order products based on forecasted demand. If demand for products lags significantly behind forecasts, we may purchase more product than we can sell. Conversely, if demand exceeds forecasts, we may not have enough products to meet our obligations to our customers. We obtain certain hardware and services, as well as some software applications, from a limited group of suppliers, and our reliance on these suppliers involves significant risks, including reduced control over quality and delivery schedules. Any financial instability of our suppliers could result in having to find new suppliers. We may experience significant delays in manufacturing and deliveries of products and services to customers if we lose our sources or if supplies and services delivered from these sources are delayed. As a result, we may be required to incur additional development, manufacturing, and other costs to establish alternative supply sources. It may take several months to locate alternative suppliers, if required. We cannot predict whether we will be able to obtain replacement hardware within the required time frames at affordable costs, or at all. Any delays resulting from suppliers failing to deliver hardware or delays in obtaining alternative hardware, in sufficient quantities and of sufficient quality, or any significant increase in the cost of hardware from existing or alternative suppliers could result in delays on the shipment of product which, in turn, could result in the loss of customers we may not be able to successfully complete. Security breaches and other disruptions could potentially compromise our information and expose us to liability, which would be harmful to our business. In the ordinary course of our business, we collect and store sensitive data, including intellectual property, our proprietary business information and that of our customers, and personally identifiable information of our customers, their customers and our employees, in our data centers and on our networks. The secure processing, maintenance, and transmission, when applicable, of this information is critical to our operations and business strategy. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance, or other disruptions. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost, or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, potential liability under laws that protect the privacy of personal information, and regulatory penalties. This in turn could disrupt our operations and the services we provide to customers, damage our reputation, and potentially cause a loss of confidence in our products and service offerings, which could adversely affect our business and competitive position. We are subject to risks associated with product failure and technological flaws. Our products are complex and may contain undetected errors or result in failures when first introduced or when new versions are released. Despite vigorous product testing efforts and testing by current and potential customers, it is possible that errors will be found in a new product or enhancement after commercial shipments have commenced. The occurrence of product defects or errors could result in negative publicity, delays in product introduction and the diversion of resources to remedy defects and loss of or delay in industry acceptance or claims by customers against us and could cause us to incur additional costs, any one of which could adversely affect our business. Because of the risk of undetected error, we may be compelled to accept liability provisions that vary from our preferred contracting model in certain critical transactions. There is a risk that in certain contracts and circumstances we may not be successful in adequately minimizing product and related liabilities or that the protections negotiated will not ultimately be deemed enforceable. We carry product liability insurance, but existing coverage may not be adequate to cover potential claims. The failure of our products to perform as promised could result in increased costs, lower margins, liquidated damage payment obligations and harm to our reputation. We may not be able to keep up with rapid technological change. The sectors for all our products are characterized by rapid technological advancements. Significant technological change could render existing technology obsolete. If we are unable to successfully respond to these developments, or do not respond in a cost-effective manner, our business, financial condition, and results of operations will be materially adversely affected. Our percentage of revenues and customer concentration is significant. Revenues from our ten largest customers accounted for **71 % of total revenues in 2023 and 72 % of total revenues in 2022** and **79 % of total revenues in 2021**. **Three customers accounted for 47 % of total revenues in 2023** and **three customers accounted for 52 % of revenues in 2022** and **two customers accounted for 55 % of revenues in 2021**. Our **The** loss of one or more significant customers could have a significant adverse impact on our business, financial condition, and results of operations. Risks Related to Our Common Stock and the Market for Our Common Stock Our share price may be volatile and could decline substantially. The market price of our common stock, like the price of shares of technology companies generally, has been and may continue to be volatile. From January 1, 2002 to **March 28, 2023** **April 1, 2023** **2024**, the intra-day trading price of our common stock has varied from a high of \$ 145.52 to a low of \$ 0.75 per share, as reported on The Nasdaq Stock Market. Many factors may cause the market price for our common stock to decline, including: ■ shortfalls in revenues, cash flows, cash balances or continued losses from operations; ■ delays in development or roll-out of any of our products; ■ overall decrease of US stock prices as a result of rising inflation experienced in the United States, the accompanying increases in the benchmark lending rate by the Federal Reserve, and each of their effects on the economy; ■ economic and social effects of the COVID-19 virus or other pandemics; ■ short selling or other market manipulation activities; and ■ announcements by one or more competitors of new product acquisitions or technological innovations; ■ unfavorable outcomes from outstanding litigation. In addition, the stock market experiences extreme fluctuations in price and volume, **which was heightened as a result of the COVID-19 pandemic and the rise in interest rates**, that particularly affect the market price of shares of technology companies, such as ours. These price and volume fluctuations are often unrelated or disproportionate to the operating performance of the affected companies. Because of this volatility, we may fail to meet the expectations of our stockholders or of securities analysts and our stock price could decline as a result. Furthermore, the trading price of our common stock may be adversely affected by third-parties trying to drive down the market price. Short sellers and others, some of whom post anonymously on social media, may be positioned to profit if our stock declines and their activities can negatively affect our

stock price. These broad market and industry factors may seriously harm the market price of our common stock, regardless of our operating performance. Declines in our stock price for any reason, ~~as well as broad-based market fluctuations or fluctuations related to our financial results or other developments outside of our control such as~~ **due to macroeconomic conditions, including inflation and rising interest rates, capital** ~~market reactions to increasing inflation described above or to ongoing hostilities~~ **volatility and global conflicts, including the Russia- Ukraine war, the Israel- Hamas war and the conflict between Russia- China and Taiwan the Ukraine**, may adversely affect your ability to sell your shares at a price equal to or above the price at which you purchased them. Decreases in the price of our common stock may also lead to de- listing of our common stock. Future capital requirements may require incurring debt or dilution of existing stockholders. Acquisition and development opportunities and other contingencies may arise, which could require us to raise additional capital or incur debt. If we raise additional capital through the sale of equity, including preferred stock, or convertible debt securities, the percentage ownership of our then existing stockholders will be diluted. Because we do not intend to pay dividends on our Common Stock, stockholders will benefit from an investment in our stock only if it appreciates in value. We have never declared or paid any cash dividends on our shares of stock. We currently intend to retain all future earnings, if any, for use in the operations and expansion of the business. As a result, we do not anticipate paying cash dividends in the foreseeable future. Any future determination as to the declaration and payment of cash dividends will be at the discretion of our Board of Directors and will depend on factors the Board of Directors deems relevant, including among others, our results of operations, financial condition and cash requirements, business prospects, and the terms of our credit facilities and other financing arrangements. Accordingly, realization of a gain on stockholders' investments will depend on the appreciation of the price of our stock. There is no guarantee that our stock will appreciate. **The Company' s cash and cash equivalents could be adversely affected by bank failures or other events affecting financial institutions and could adversely affect our liquidity and financial performance. We regularly maintain domestic cash deposits in Federal Deposit Insurance Corporation (“ FDIC ”) insured banks, in amounts which exceed the FDIC insurance limits. The failure or rumored failure of a bank, or events involving limited liquidity, defaults, non- performance, bankruptcy, receivership or other adverse developments in the financial or credit markets impacting financial institutions, may lead to disruptions in access to our bank deposits. These disruptions could impact our liquidity and financial performance. There can be no assurance that our deposits in excess of the FDIC or other comparable insurance limits will be backstopped by the U. S. government, or that any bank or financial institution with which we do business will be able to obtain needed liquidity from other banks, government institutions or by acquisition in the event of a failure or liquidity crisis. As such, those funds in bank deposit accounts in excess of the standard FDIC insurance limits are uninsured and subject to the risk of bank failure. Currently, we have full access to all funds in deposit accounts or other money management arrangements. The failure of any bank in which we deposit our funds could reduce the amount of cash we have available for our operations or delay our ability to access such funds. In the event of such failure, we may experience delays or other issues in meeting our financial obligations, our ability to access our cash and cash equivalents may be threatened and could have a material adverse effect on our business and financial condition. Future adverse developments with respect to specific financial institutions or the broader financial services industry may also lead to market- wide liquidity shortages.**