

## Risk Factors Comparison 2024-09-19 to 2023-09-14 Form: 10-K

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

The following is a discussion of the primary factors that may affect the operations and / or financial performance of our business. Refer to the section entitled Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of this Annual Report on Form 10-K for an additional discussion of these and other related factors that affect our operations and / or financial performance.

**Risks Related to Our Business and Financial Results** We have a history of losses. We reported net losses of \$ **8.0 million, \$ 4.0 million, \$ 3.5 million and \$ 3.2 million** for fiscal years **2024, 2023, 2022 and 2021**, respectively, ~~and although we reported net income of \$ 0.9 million for fiscal year 2020, we incurred a net loss of \$ 2.7 million for fiscal year 2019~~. As of June 30, **2023-2024**, we had an accumulated deficit of approximately \$ **207-215**.8 million. We may incur losses in the future if we do not achieve sufficient revenue to maintain profitability, or if we continue to incur unusual costs. We expect revenue to grow by generating additional sales through promotion of our infrared products, with a focus on engineered solutions, and continued cost reduction efforts across all product groups, but we cannot guarantee such improvement or growth. Factors which could adversely affect our future profitability, include, but are not limited to, a decline in revenue either due to lower sales unit volumes or decreasing selling prices, or both, our ability to order supplies from vendors, which, in turn, affects our ability to manufacture our products, and slow payments from our customers on accounts receivable. Any failure to maintain profitability would have a materially adverse effect on our ability to implement our business plan, our results and operations, and our financial condition, and could cause the value of our Class A common stock to decline. We **are dependent on a few key customers.....** would adversely affect our revenues. <sup>14</sup>We may be affected by political and other risks as a result of our sales to international customers and / or our sourcing of materials from international suppliers. In fiscal year **2023-2024**, **50-39** % of our net revenue was derived from sales outside of the U. S., with **93-94** % of our foreign sales derived from customers in Europe and Asia. In fiscal year **2022-2023**, **61-50** % of our net revenue was derived from sales outside of the U. S., with **95-93** % of our foreign sales derived from customers in Europe and Asia. Our international sales will be limited, and may even decline, if we cannot establish relationships with new international distributors, maintain relationships with our existing international distributors, maintain and expand our foreign operations, expand international sales, and develop relationships with international service providers. Additionally, our international sales may be adversely affected if international economies weaken. We are subject to the following risks, among others: · greater difficulty in accounts receivable collection and longer collection periods; · potentially different pricing environments and longer sales cycles; · the impact of recessions in economies outside the U. S.; · the impact of high, sustained inflation; · unexpected changes in foreign regulatory requirements; · the burdens of complying with a wide variety of foreign laws and different legal standards; · certification requirements; · reduced protection for intellectual property rights in some countries; · difficulties in managing the staffing of international operations, including labor unrest and current and changing regulatory environments; · potentially adverse tax consequences, including the complexities of foreign value-added tax systems, restrictions on the repatriation of earnings, and changes in tax rates; · price controls and exchange controls; · government embargoes or foreign trade restrictions; · imposition of duties and tariffs and other trade barriers; · import and export controls; · transportation delays and interruptions; · terrorist attacks and security concerns in general; and · political, social, economic instability and disruptions. **We depend on single or limited source....., and results of operation. Russia 16Russia** 's ongoing conflict with Ukraine ~~has may continue to disrupted--~~ **disrupt the global economy our supply chain**. Our business, financial condition, and results of operations could be adversely affected by continued disruption and global consequences stemming from the conflict. Although we have no direct operations in Russia or Ukraine, the broader consequences of this conflict have negatively affected, and are expected to continue to negatively affect, the global economy, including the imposition of sanctions, cyber incidents or information technology failures, supply disruptions, increases in inflation rates, increase in energy costs, changes to foreign currency exchange rates, constraints, volatility, or disruption in financial markets, the availability of raw materials, supplies, freight, and labor, and uncertainty about economic and global stability. Historically, we have sourced ~~germanium~~ **Germanium** from suppliers located in Russia and China. At the start of the Russia \ Ukraine conflict we had ceased all purchases of Germanium from vendors in Russia and instead have been purchasing Germanium from vendors in China. On July 4, 2023 China announced its intentions to impose some export restrictions on Germanium, requiring all international customers to provide an end user statement for approval before receiving an export license. **Since that announcement, supply of Germanium has been disrupted, though not completely stopped. As a purchaser of Germanium** ~~the time of preparing this Annual Report, our vendors have applied for we are mostly able to purchase the Germanium we need, though the availability of it and ability to receive export licenses varies between vendors. From our customers we know that some of them are able to import Germanium from China, while some get refused for a license. Yet shipments of Germanium to us, and have not yet even those that are able to received- receive a license experience material lead times that are significantly prolonged because of them- the process to get a license, and prices that as of August 2024, were 60 % higher than the same time last year~~. We cannot provide any assurances that we will be able to obtain adequate supplies in the future or, if adequate supplies are available, that the timing or costs of obtaining such raw materials will be acceptable to us. Further, some of our major customers in Europe may be directly impacted by the Russian- Ukraine conflict, which could impact the amount and frequency of orders they place with us, as well as impact the timing and ability to pay for products ordered from us. Any material impacts to our customers could have a material adverse effect on our business and operating results. <sup>15</sup>**As our business and operations.** We are exposed to fluctuations in currency exchange rates that could negatively impact our financial results and cash flows. We execute all foreign sales from our U.S.-

based facilities and inter- company transactions in U.S.dollars in order to partially mitigate the impact of foreign currency fluctuations.However,a portion of our international revenues and expenses are denominated in foreign currencies.Accordingly,we experience the risks of fluctuating currencies and corresponding exchange rates.In fiscal years 2024 and 2023 and 2022, we recognized net gains/losses of approximately \$ 73-37,000 and losses of \$ 37-3,000 on foreign currency transactions,respectively.Any such fluctuations that result in a less favorable exchange rate could adversely affect a portion of our revenues and expenses,which could negatively impact our results of operations and financial condition. 17We 18We also source certain raw materials from outside the U.S.Some of those materials,priced in non- dollar currencies,fluctuate in price due to the value of the U.S.dollar against non- dollar- pegged currencies,especially the Euro and Renminbi.As the dollar strengthens,this increases our margins and helps with our ability to reach positive cash flow and profitability.If the strength of the U.S.dollar decreases,the cost of foreign sourced materials could increase,which would adversely affect our financial condition and results of operations.If the Euro or Renminbi currencies were to trend unfavorably against the U.S.dollar on a long—a U. S. corporation with international operations, we are subject to the U. S. Foreign Corrupt Practices Act and other similar foreign anti- corruption laws, as well as other laws governing our operations. If we fail to comply with these laws, we could be subject to civil or criminal penalties, other remedial measures, and legal expenses, which could adversely affect our business, financial condition, and results of operations. Our operations are subject to anti- corruption laws, including the U. S. Foreign Corrupt Practices Act (“FCPA ”), and other foreign anti- corruption laws that apply in countries where we do business. The FCPA and these other laws generally prohibit us and our employees and intermediaries from offering, promising, authorizing or making payments to government officials or other persons to obtain or retain business or gain some other business advantage. In addition, we cannot predict the nature, scope, or effect of future regulatory requirements to which our international operations might be subject or the manner in which existing laws might be administered or interpreted. Operations outside of the U. S. may be affected by changes in trade production laws, policies, and measures, and other regulatory requirements affecting trade and investment. We 18We are also subject to other laws and regulations governing our international operations, including regulations administered by the U. S. Department of Commerce’ s Bureau of Industry and Security, the U. S. Department of Treasury’ s Office of Foreign Asset Control, and various non- U. S. government entities, including applicable export control regulations, economic sanctions on countries and persons, customs, requirements, currency exchange regulations, and transfer pricing regulations (collectively, the “ Trade Control Laws ”). Despite our compliance programs, there can be no assurance that we will be completely effective in ensuring our compliance with all applicable anti- corruption laws, including the FCPA or other legal requirements, or Trade Control Laws. If we are not in compliance with the FCPA and other foreign anti- corruption laws or Trade Control Laws, we may be subject to criminal and civil penalties, disgorgement, and other sanctions and remedial measures, and legal expenses, which could have an adverse impact on our business, financial condition, results of operations and liquidity. Likewise, any investigation of any potential violations of the FCPA, other anti- corruption laws, or Trade Control Laws by the U. S. or foreign authorities could also have an adverse impact on our reputation, business, financial condition, and results of operations. If the custodians or authorized users of our controlling non- tangible assets, including corporate chops and seals of our Chinese subsidiaries, fail to fulfill their responsibilities or misappropriate or misuse those assets, our business and operations could be materially and adversely affected. In China, a company chop or seal serves as the legal representation of the company towards third parties even when unaccompanied by a signature. Under law of the People’ s Republic of China, legal documents for corporate transactions, including contracts and leases that our business relies upon, are executed using “ corporate chops, ” which are instruments that contain either the official seal of the signing entity or the signature of a legal representative whose designation is registered and filed with the State Administration for Industry and Commerce, or SAIC. Our Chinese subsidiaries/subsidiary, LPOIZ (and formerly LPOI ) and LPOIZ, generally execute/executes legal documents with corporate chops. One or more of our corporate chops may be used to, among other things, execute commercial sales or purchase contracts, procurement contracts and office leases, open bank accounts, issue checks and to issue invoices. We have controls in place over access to and use of the chops. However, we cannot assure you that unauthorized access to or use of those chops can be prevented. Our designated employees who hold the corporate chops could abuse their authority by, for example, binding us to contracts against our interests or intentions, which could result in economic harm, disruption or our operations or other damages to them as a result of any contractual obligations, or resulting disputes, that might arise. If the party contracting with us asserted that we did not act in good faith under such circumstances, then we could incur costs to nullify such contracts. Such corporate or legal action could involve significant time and resources, while distracting management from our operations. In addition, we may not be able to recover corporate assets that are sold or transferred out of our control in the event of such a misappropriation if a transferee relies on the apparent authority of the representative and acts in good faith. If a designated employee uses a chop in an effort to obtain control over one or more of our Chinese subsidiaries/subsidiary, we would need to take legal action to seek the return of the applicable chop (s), apply for a new chop (s) with the relevant authorities, or otherwise seek legal redress for the violation of their duties. During any period where we lose effective control of the corporate activities of one or more of our Chinese subsidiaries/subsidiary as a result of such misuse or misappropriation, the business activities of the affected entity could be disrupted, and we could lose the economic benefits of that aspect of our business. To the extent those chops are stolen or are used by unauthorized persons or for unauthorized purposes, the corporate governance of these entities/this entity could be severely and adversely compromised, and the operations of those entities/this entity could be significantly and adversely impacted. International tariffs, including tariffs applied..... reasonable costs, or be successfully marketed. We rely, in large part, on key business and sales relationships for the successful commercialization of our products, which, if not developed or maintained, will have an adverse impact on achieving market awareness and acceptance and will result in a loss of business opportunities. To achieve wide market awareness and acceptance of our products and technologies, as part of our business strategy, we will attempt to enter into a variety of business relationships with other companies that will incorporate our technologies into their products and / or market products based on our technologies. The successful commercialization of our

products and technologies will depend in part on our ability to meet obligations under contracts with respect to the products and related development requirements. The failure of these business relationships will limit the commercialization of our products and technologies, which will have an adverse impact on our business development and our ability to generate revenues. **If** **191f** we do not expand our sales and marketing organization, our revenues may not increase. The sale of our products requires prolonged sales and marketing efforts targeted at several key departments within our prospective customers' organizations and often involves our executives, personnel, and specialized systems and applications engineers working together. Currently, our direct sales and marketing organization is somewhat limited. We believe we will need to continue to strengthen our sales and marketing organization in order to increase market awareness and sales of our products. There is significant competition for qualified personnel, and we might not be able to hire the kind and number of sales and marketing personnel and applications engineers we need. If we are unable to continue to expand our sales operations globally, we may not be able to continue to increase market awareness or sales of our products, which would adversely affect our revenues, results of operations, and financial condition. **If we are unable to develop and successfully introduce new and enhanced products that meet the needs of our customers, our business may not be successful. Our future success depends, in part, on our ability to anticipate our customers' needs and develop products that address those needs. Introduction of new products and product enhancements will require that we effectively transfer production processes from research and development to manufacturing, and coordinate our efforts with the efforts of our suppliers to rapidly achieve efficient volume production. If we fail to effectively transfer production processes, develop product enhancements, or introduce new products that meet the needs of our customers as scheduled, our net revenues may decline, which would adversely affect our results of operations and financial condition.** **171f** **we** are unable to effectively compete, our business and operating results could be negatively affected. We face substantial competition in the optical markets in which we operate. Many of our competitors are large public and private companies that have longer operating histories and significantly greater financial, technical, marketing, and other resources than we have. As a result, these competitors are able to devote greater resources than we can to the development, promotion, sale, and support of their products. In addition, the market capitalization and cash reserves of several of our competitors are much larger than ours, and, as a result, these competitors are better positioned than we are to exploit markets, develop new technologies, and acquire other companies in order to gain new technologies or products. We also compete with manufacturers of conventional spherical lens products and aspherical lens products, producers of optical quality glass, and other developers of gradient lens technology, as well as telecommunications product manufacturers. In both the optical lens and communications markets, we are competing against, among others, established international companies, especially in Asia. Many of these companies also are primary customers for optical and communication components, and, therefore, have significant control over certain markets for our products. There can be no assurance that existing or new competitors will not develop technologies that are superior to or more commercially acceptable than our existing and planned technologies and products or that competition in our industry will not lead to reduced prices for our products. If we are unable to successfully compete with existing companies and new entrants to the markets we compete in, our business, results of operations, and financial condition could be adversely affected. We anticipate further reductions in the average selling prices of some of our products over time, and, therefore, must increase our sales volumes, reduce our costs, and / or introduce higher margin products to reach and maintain consistent profitable results. We have experienced decreases in the average selling prices of some of our products over the last ten years, including most of our passive component products. We anticipate that as certain products in the optical component and module market become more commodity-like, the average selling prices of our products will decrease in response to competitive pricing pressures, new product introductions by us or our competitors, or other factors. We attempt to offset anticipated decreases in our average selling prices by increasing our sales volumes and / or changing our product mix. If we are unable to offset anticipated future decreases in our average selling prices by increasing our sales volumes or changing our product mix, our net revenues and gross margins will decline, increasing the projected cash needed to fund operations. To address these pricing pressures, we must develop and introduce new products and product enhancements that will generate higher margins, continue to reduce costs, and / or change our product mix in order to generate higher margins. If we cannot maintain or improve our gross margins, our financial position, and results of operations may be harmed. Because of our limited product offerings, our ability to generate additional revenues may be limited without additional growth. **We** **With our strategic transition into more value- added solutions, and the addition of Visimid in July 2023, we organized-reorganized our products into our four business based on three-product groups: PMOs, infrared products-components, visible components, assemblies and specialty products-modules, and engineering services.** In fiscal year **2023-2024**, sales of **PMO-products-infrared components** represented approximately **41-44** % of our net revenues, sales of **infrared-products-visible components** represented approximately **51-33** % of our net revenues, and sales of **specialty products-assemblies and modules** represented **8-14 % of our revenues, and engineering services represented 6** % of our revenues. In the future, we expect growth primarily from our **infrared-assemblies and modules and engineering services** product groups, including engineered solutions and assemblies **the vertical integration of which will be supported by the infrared components product group**. Continued and expanding market acceptance of these products, particularly **our BD6-based infrared products based on our proprietary chalcogenide materials (Germanium alternatives)**, is critical to our future success. There can be no assurance that our current or new products will achieve market acceptance at the rate at which we expect, or at all, which could adversely affect our results of operations and financial condition. **We** Our failure to accurately forecast material requirements could cause us to incur additional costs, have excess inventories, or have insufficient materials to manufacture our products. Our material requirements forecasts are based on actual or anticipated product orders. It is very important that we accurately predict both the demand for our products and the lead times required to obtain the necessary materials. Lead times for materials that we order vary significantly and depend on factors, such as specific supplier requirements, the size of the order, contract terms, and the market demand for the materials at any given time. If we overestimate our material requirements, we may **have excess inventory** need additional capital to sustain our operations in the future, and

which would increase our costs. If we underestimate our material requirements, we may have inadequate inventory need to seek further financing, which we may not be able to obtain on acceptable terms or at all, which could interrupt our manufacturing and delay delivery of our products to our customers. Any of these occurrences would negatively impact our results of operations. Additionally, in order to avoid excess material inventories, we may incur cancellation charges associated with modifying existing purchase orders with our vendors, which, depending on the magnitude of such cancellation charges, may adversely affect our ability results of operations. If we do not achieve acceptable manufacturing yields our operating results could suffer. The manufacture of our products involves complex and precise processes. Our manufacturing costs for several products are relatively fixed, and, thus, manufacturing yields are critical to implement the success of our business strategies and our results of operations. We Changes in our manufacturing processes or those of our suppliers could significantly reduce our manufacturing yields. In addition, we may experience manufacturing delays and reduced manufacturing yields upon introducing new products to our manufacturing lines. The occurrence of unacceptable manufacturing yields or product yields could adversely affect our financial condition and results of operations. 20If our customers do not qualify our manufacturing lines for volume shipments, our operating results could suffer. Our manufacturing lines have passed our qualification standards, limited capital resources. Our operations have historically been largely funded from the proceeds of equity financings with some level of debt financing as well as cash flow from operations. In recent years we have generated sufficient capital to fund our technical standards operations and necessary investments. Accordingly However, our customers may also in future years, we anticipate only requiring require additional capital to support acquisitions that would further expand our manufacturing business and product lines pass their specific qualification standards, and that we be registered under international quality standards, beyond our ISO 9001: 2015 certification. This customer qualification process determines whether our manufacturing lines meet the customers' quality, performance, and reliability standards. Generally, customers do not purchase our products, other than limited numbers of evaluation units, prior to qualification of the manufacturing line for volume production. We may not be able unable to obtain customer qualification of additional financing when we need it on terms acceptable to us, or our at all manufacturing lines or we may experience delays in obtaining customer qualification of our manufacturing lines. If Our future capital needs will depend on numerous factors including: (i) profitability; (ii) the there release are delays in the qualification of competitive our products by our or manufacturing lines competition; (iii) the level of our investment in research and development; and (iv) the amount of our capital expenditures, including equipment and acquisitions. We cannot assure you that we will be able to obtain capital in the future to meet our needs. If we are unable to raise capital when needed, our business, financial condition, and results of operations would be materially adversely affected, and we could be forced to reduce or our customers discontinue our operations. Litigation may drop adversely affect our business, financial condition, and results of operations. From time to time in the normal course of business operations, we may become subject to litigation that may result in liability material to our financial statements as a whole or may negatively affect our operating results if changes to our business operations are required. The cost to defend such litigation may be significant and is subject to inherent uncertainties. Insurance may not be available at all or in sufficient amounts to cover any liabilities with respect to these the product or other matters. There also may be adverse publicity with litigation that could negatively affect customer perception of our business, regardless of whether the allegations are valid or whether we are ultimately found liable. An adverse result in any such matter could adversely impact our operating results or financial condition. Additionally, any litigation to which we are subject could also require significant involvement of our senior management and may divert management's attention from our business and operations. We are..... the U. S. dollar on a long- term basis supply program, which then we would result in seek to rebalance our strategic materials sourcing. A significant portion lost revenue opportunity over the term of each such customer's supply program, our or our customers may purchase from cash is generated and held outside of the other manufacturers U. S. The risks inability to obtain customer qualification of maintaining significant cash abroad our manufacturing lines, or the delay in obtaining such qualification, could adversely affect our cash flows and financial results. During fiscal year 2023, greater than 25 % of our cash was held abroad. Historically, we generally considered unremitted earnings of our subsidiaries operating outside of the U. S. to be indefinitely reinvested. During fiscal year 2020, we began declaring intercompany dividends to remit a portion of the earnings of our foreign subsidiaries to us. Remaining cash held outside of the U. S. is primarily used for the ongoing operations of the business in the locations in which the cash is held. Certain countries, such as China, have monetary laws that limit our ability to utilize cash resources in China for operations in other countries. Before any funds can be repatriated, the retained earnings of the legal entity must equal at least 50 % of its registered capital. As of June 30, 2023, LPOIZ had approximately \$ 2. 9 million in retained earnings available for repatriation, and LPOI did not have any earnings available for repatriation, based on earnings accumulated through December 31, 2022, the end of the most recent statutory tax year, that remained undistributed as of June 30, 2023. This limitation may affect our ability to fully utilize our cash resources for needs in the U. S. or other countries and may adversely affect our liquidity. Further, since repatriation of such cash is subject to limitations and may be subject to significant taxation, we cannot be certain that we will be able to repatriate such cash on favorable terms or in a timely manner. If we incur operating losses and / or require cash that is held in international accounts for use in our operations based in the U. S., a failure to repatriate such cash in a timely and cost-effective manner could adversely affect our business and financial results. Our business may be materially affected by changes to fiscal and tax policies. Potentially negative or unexpected tax consequences of these policies, or the uncertainty surrounding their potential effects, could adversely affect our results of operations and the price of our Class A common stock. The U. S. Tax Cuts and Jobs Act of 2017 (the " TCJA ") was approved by the U. S. Congress on December 20, 2017 and signed into law on December 22, 2017. This legislation made significant changes to the U. S. Internal Revenue Code of 1986, as amended (the " IRC "). Such changes include a reduction in the corporate tax rate from 35 % to 21 %, limitation on the deductibility of interest expense and performance-based incentive compensation, and implementation of a modified territorial tax system, including a

provision that requires companies to include their global intangible low-taxed income and its effect on our U. S. taxable income (effectively, non-U. S. income in excess of a deemed return on tangible assets of non-U. S. corporations), among other changes. In addition, the TCJA requires complex computations to be performed that were not previously required in U. S. tax law, significant judgments to be made in interpretation of the provisions of the TCJA and significant estimates in calculations, and the preparation and analysis of information not previously relevant or regularly produced. Implementation of the TCJA required us to calculate a one-time transition tax on certain foreign earnings and profits (“foreign E & P”) that had not been previously repatriated. During fiscal year 2018, we provisionally determined our foreign E & P inclusion, and anticipated that we would not owe any one-time transition tax due to the utilization of U. S. net operating loss (“NOL”) carryforward benefits against these earnings. During fiscal year 2019, we completed our analysis of the TCJA, and although we did not owe any one-time transition tax, the deferred tax asset related to our NOL carryforwards decreased by approximately \$ 202, 000. This amount was offset by our valuation allowance for a net impact of zero to our income tax provision. The TCJA may also impact our repatriation strategies in the future. Foreign governments may enact tax laws in response to the TCJA that could result in further changes to global taxation and materially affect our financial position and results of operations. The uncertainty surrounding the effect of the reforms on our financial results and business could also weaken confidence among investors in our financial condition. This could, in turn, have a materially adverse effect on the price of our Class A common stock. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) was signed into law, which, among other things, is intended to provide emergency assistance to qualifying businesses and individuals. The CARES Act also suspends the limitation on the deduction of NOLs arising in taxable years beginning before January 1, 2021, permits a five-year carryback of NOLs arising in taxable years beginning after December 31, 2017 and before January 1, 2021, and generally modifies the limitation on the deduction for net interest expense to 50% of adjusted taxable income for taxable years beginning in 2019 and 2020. During fiscal year 2020, as a result **results** of the CARES Act, the Company was able to accelerate the recovery of an income tax receivable related to previously paid alternative minimum tax. The receivable amount of approximately \$ 107, 000 as of June 30, 2020 was collected in July 2020. In addition, the Company elected to utilize the payroll tax deferral under the CARES Act, resulting in cash savings in fiscal 2021 of approximately \$ 325, 000, accrued as of June 30, 2021. Half of this amount was remitted on December 31, 2021, with the remainder deferred until December 31, 2022. As of June 30, 2023, all deferred payroll taxes have been remitted. Further, our worldwide operations subject us to the jurisdiction of a number of taxing authorities. The income earned in these various jurisdictions is taxed on differing basis, including net income actually earned, net income deemed earned, and revenue-based tax withholding. The final determination of our income tax liabilities involves the interpretation of local tax laws, tax treaties, and related authorities in each jurisdiction, as well as the use of estimates and assumptions regarding the scope of future operations and results achieved and the timing and nature of income earned and expenditures incurred. Changes in or interpretations of tax law and currency / repatriation control could impact the determination of our income tax liabilities for a tax year, which, in turn, could have a materially adverse effect on our financial condition and results of operations. For example, President Biden has proposed various changes to existing U. S. tax laws, including increasing the corporate income tax rate and increasing the income tax rate on certain earnings of foreign subsidiaries, which if enacted could have a material impact on our business, results of operations, financial condition, and cash flows. Our future success depends on our key executive officers and our ability to attract, retain, and motivate qualified personnel. Our future success largely depends upon the continued services of our key executive officers, management team, and other engineering, sales, marketing, manufacturing, and support personnel. If one or more of our key employees are unable or unwilling to continue in their present positions, we may not be able to replace them readily, if at all. Additionally, we may incur additional expenses to recruit and retain new key employees. If any of our key employees joins a competitor or forms a competing company, we may lose some or a significant portion of our customers. Because of these factors, the loss of the services of any of these key employees could adversely affect our business, financial condition, and results of operations. Our continuing ability to attract and retain highly qualified personnel will also be critical to our success because we will need to hire and retain additional personnel to support our business strategy. We expect to continue to hire selectively in the manufacturing, engineering, sales and marketing, and administrative functions to the extent consistent with our business levels and to further our business strategy. We face significant competition for skilled personnel in our industry. This competition may make it more difficult and expensive to attract, hire, and retain qualified managers and employees. Because of these factors, we may not be able to effectively manage or grow our business, which could adversely affect our financial condition or business. We face product liability risks, which could adversely affect our business. The sale of our optical products involves the inherent risk of product liability claims by others. We do not currently maintain product liability insurance coverage. Product liability insurance is expensive, subject to various coverage exclusions, and may not be obtainable on terms acceptable to us if we decide to procure such insurance in the future. Moreover, the amount and scope of any coverage may be inadequate to protect us in the event that a product liability claim is successfully asserted. If a claim is asserted and successfully litigated by an adverse party, our financial position and results of operations could be adversely affected. Business interruptions could adversely affect our business. We manufacture our products at manufacturing facilities located in Orlando, Florida; Riga, Latvia; and Zhenjiang, China. Our revenues are dependent upon the continued operation of these facilities. The Orlando Facility is subject to a lease that expires March 31, 2034. The Riga Facility is subject to two leases which expire in December 2030, and the Zhenjiang Facility is subject to one lease that expires in December 2024. **We intend to renew the lease for the Zhenjiang Facility for at least a one-year term.** Our operations are vulnerable to interruption by fire, hurricane winds and rain, earthquakes, electric power loss, telecommunications failure, and other events beyond our control. We do **not** have **detailed disaster a business continuity and recovery plans— plan** for our facilities **and however,** we do not have a backup facility, other than our other facilities, or contractual arrangements with any other manufacturers in the event of a casualty to or destruction of any facility or if any facility ceases to be available to us for any other reason. If we are required to rebuild or relocate either of our

manufacturing facilities, a substantial investment in improvements and equipment would be necessary. We carry only a limited amount of business interruption insurance, which may not sufficiently compensate us for losses that may occur. Our facilities may be subject to electrical blackouts as a consequence of a shortage of available electrical power. We currently do not have backup generators or alternate sources of power in the event of a blackout. If blackouts interrupt our power supply, we would be temporarily unable to continue operations at such facility. Any losses or damages incurred by us as a result of blackouts, rebuilding, relocation, or other business interruptions, could result in a significant delay or reduction in manufacturing and production capabilities, impair our reputation, harm our ability to retain existing customers and to obtain new customers, and could result in reduced sales, lost revenue, increased costs and / or loss of market share, any of which could substantially harm our business and our results of operations.

**20Our business, results of operations,..... financial condition and results of operations.** Risks Related **To** Our Intellectual Property If we are unable to protect and enforce our intellectual property rights, we may be unable to compete effectively. We believe that our intellectual property rights are important to our success and our competitive position, and we rely on a combination of patent, copyright, trademark, and trade secret laws and restrictions on disclosure to protect our intellectual property rights **in the United States and internationally**. Although we have devoted substantial resources to the establishment and protection of our intellectual property rights, the actions taken by us may be inadequate to prevent imitation or improper use of our products by others or to prevent others from claiming violations of their intellectual property rights by us. **21**In addition, we cannot assure that, in the future, our patent applications will be approved, that any patents that may be issued will protect our intellectual property, or that third parties will not challenge any issued patents. Other parties may independently develop similar or competing technology or design around any patents that may be issued to us. We also rely on confidentiality procedures and contractual provisions with our employees, consultants, and corporate partners to protect our proprietary rights, but we cannot assure the compliance by such parties with their confidentiality obligations, which could be very time consuming, expensive, and difficult to enforce. It may be necessary to litigate to enforce our patents, copyrights, and other intellectual property rights, to protect our trade secrets, to determine the validity of and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity. Such litigation can be time consuming, distracting to management, expensive, and difficult to predict. Our failure to protect or enforce our intellectual property could have an adverse effect on our business, financial condition, prospects, and results of operation. We do not have patent protection for our formulas and processes, and a loss of ownership of any of our formulas and processes would negatively impact our business. We believe that we own our formulas and processes. However, we have not sought, and do not intend to seek, patent protection for all of our formulas and processes. Instead, we rely on the complexity of our formulas and processes, trade secrecy laws, and employee confidentiality agreements. However, we cannot assure you that other companies will not acquire our confidential information or trade secrets or will not independently develop equivalent or superior products or technology and obtain patent or similar rights. Although we believe that our formulas and processes have been independently developed and do not infringe the patents or rights of others, a variety of components of our processes could infringe existing or future patents, in which event we may be required to modify our processes or obtain a license. We cannot assure you that we will be able to do so in a timely manner or upon acceptable terms and conditions and the failure to do either of the foregoing would negatively affect our business, results of operations, financial condition, and cash flows.

**Data breach and breakdown of information and communication technologies. In the course of our business, we collect and store sensitive data, including intellectual property. We could be subject to service outages or breaches of security systems which may result in disruption, unauthorized access, misappropriation, or corruption of this information. We rely on our information technology systems to effectively manage our operational and financial functions. We increasingly rely on information technology systems to process, transmit, and store electronic information. In addition, a significant portion of internal communications, as well as communication with customers and suppliers, depends on information technology. We are exposed to the risk of cyber incidents in the normal course of business. Cyber incidents may be deliberate attacks for the theft of intellectual property, other sensitive information or cash or may be the result of unintentional events. Like most companies, our information technology systems may be vulnerable to interruption due to a variety of events beyond our control, including, but not limited to, physical or electronic break-ins, vendor service outages, terrorist attacks, telecommunications failures, computer viruses, hackers, foreign governments, and other security issues. We have technology security initiatives and data recovery plans in place to mitigate our risk to these vulnerabilities, but these measures may not be adequate, able to protect our or intellectual property properly rights throughout the world. Filing, prosecuting, and defending patents or establishing other intellectual property rights in all countries throughout the world would be prohibitively expensive, and our or intellectual property rights in some countries outside executed timely to ensure that our operations are not disrupted. We have insurance coverage for cyber liability, but the there U. S. can be less extensive than those in the U. S. or non- no-existent. Further, many companies have encountered significant problems in protecting and defending intellectual property rights in foreign jurisdictions. The legal systems of some countries do not favor the enforcement of patents and other intellectual property protection, which could make it difficult for us to stop the infringement of our patents or misappropriation of our intellectual property rights generally. Proceedings to enforce our patent and other intellectual property rights in foreign jurisdictions could result in substantial costs and divert our efforts and attention from other aspects of our business, could put our patents or intellectual property rights at risk of being invalidated or interpreted narrowly and our patent applications at risk of not issuing and could provoke third parties to assert claims against us. We may not prevail in any lawsuits that we initiate, and the damages or other remedies awarded, if any, may not be commercially meaningful. We believe that we have adequate protections in place with respect to our intellectual property; however, we cannot provide any assurances that such protections the amount of coverage will be adequate sufficient in the future. Any infringement or misappropriations of our or patents that insurance proceeds will be available for a particular claim. Although we have not experienced and an intellectual property rights incident, potential consequences of a material cyber**

**incident include damage to our reputation, litigation, system disruptions, shutdowns, unauthorized disclosure of confidential information, and increased cyber security protection and remediation costs. Such consequences would could materially and** adversely affect our ~~business, results of operations, financial condition, and cash flows~~. We may become involved in intellectual property disputes and litigation, which could adversely affect our business. We anticipate, based on the size and sophistication of our competitors and the history of rapid technological advances in our industry that several competitors may have patent applications in progress in the U. S. or in foreign countries that, if issued, could relate to products similar to ours. If such patents were to be issued, the patent holders or licensees may assert infringement claims against us or claim that we have violated other intellectual property rights. These claims and any resulting lawsuits, if successful, could subject us to significant liability for damages and invalidate our proprietary rights. The lawsuits, regardless of their merits, could be time- consuming and expensive to resolve and would divert management time and attention. Any potential intellectual property litigation could also force us to do one or more of the following, any of which could harm our business and adversely affect our financial condition and results of operations: · stop selling, incorporating or using our products that use the disputed intellectual property; · obtain from third parties a license to sell or use the disputed technology, which license may not be available on reasonable terms, or at all; or · redesign our products that use the disputed intellectual property. 22