Risk Factors Comparison 2023-09-08 to 2022-08-29 Form: 10-K

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The risks described below are among those that could materially and adversely affect the Company' s business, financial condition or results of operations. These risks could cause actual results to differ materially from historical results and from any results predicted by any forward- looking statements related to conditions or events that may occur in the future. Our business operation and financial performance may again be adversely affected by the COVID- 19 pandemic and related events. ~~We are subject to risks related to the global pandemic associated with the COVID- 19 disease, which has spread globally to the U. S. and other countries where we have operations, including the Dominican Republic. Numerous federal and state governmental jurisdictions have imposed " stay- at- home " orders, quarantines, travel bans and similar governmental orders and restrictions to control the spread of COVID- 19. Such orders or restrictions have resulted in business closures, work stoppages, slowdowns and delays in commercial activities, unprecedented and widespread unemployment, disruptions to ports and other shipping infrastructure, border closures, and other travel or health- related restrictions, thereby negatively impacting our customers, suppliers, distributors, employees, offices, and the industry in which we operate.~~ As a result of the COVID- 19 pandemic and the related economic downturn, we had experienced a decline in the demand for our products, as our distributors and customers reduced orders and adjusted their inventory channel in response to slowdown in spending and demand for security products. While the economic recovery from this pandemic has resulted in increased demand for our products **beginning** in fiscal ~~2022~~ **2021** , re- institution of a prolonged stay- at- home order, or any other continued decrease in economic activity as a result of COVID- 19 pandemic, could have a negative adverse impact on our customers and their financial condition, which **couldimpact** ~~could impact~~ their ability to meet their financial obligations and could result in elevated levels of delinquencies and bad debt losses. In addition, we rely upon our third- party vendors to provide parts and materials for us to produce our products. If any of these vendors are unable to continue to provide us with these parts and materials, it could negatively impact our ability to serve our customers. We also could be adversely affected if key personnel or a significant number of employees were to become unavailable due to the effects and restrictions of COVID- 19 pandemic in areas where we operate. **Beginning** ~~We manufacture substantially all of hardware products~~ in ~~our factory in Dominican Republic, which are then shipped to us in the United States for further distribution. The government authorities in Dominican Republic have imposed restrictions as a result of the pandemic that impacted activities at the factory, which may reduce our productivity and output. Additional restrictions and limitations on international travel and transportation, including air travel, may make it more difficult for us to ship and transport products from Dominican Republic to the U. S., which may cause delays and disruptions in our supply chain. Moreover, if we determine that long- lived assets are not realizable as a result of a significant reduction in the projected future cash flows resulting from the COVID- 19 pandemic, we may be required to write down these assets or incur impairment charge under current accounting standards, which would have a negative effect on our consolidated financial statements. If economic conditions in the U. S. decline due to the pandemic it may reduce revenues associated with our intangible assets, including assets acquired in our prior acquisitions, and result in a reduction of future expected cash flows. Such a reduction could result in significant impairment charges to adjust the carrying value of the intangible assets. During~~ fiscal 2021 ~~and 2022~~ , the impact of the COVID- 19 pandemic on the Company' s operations lessened. However, the future impact of the ongoing COVID- 19 pandemic remains uncertain and subject to change. We cannot predict when the pandemic will end, or if there will be a resurgence, and when related governmental orders and restrictions will be eased or lifted, and any extension or prolonged implementation of these restrictions will further adversely affect our business, customers and financial results. Even after such orders and restrictions are eased or lifted, the severe economic harm and recession inflicted upon the jurisdictions and areas in which we operate may last for an extended period of time and continue to adversely affect our business and financial performance, and there is no guarantee that we will be able to act quickly and effectively to return to our normal operations. Our business could be materially adversely affected as a result of general economic and market conditions. We are subject to the effects of general economic and market conditions. In the event that any of these conditions deteriorate, our revenue, profit and cash- flow levels could be materially adversely affected in future periods. In the event of such deterioration, many of our current or potential future customers may experience serious cash flow problems and as a result may, modify, delay or cancel purchases of our products. Additionally, customers may not be able to pay, or may delay payment of, accounts receivable that are owed to us. If such events do occur, they may result in our expenses being too high in relation to our revenues and cash flows. During weak economic times, the available pool of independent distributors, dealers and installers of security equipment may decline as the prospects for home building and home renovation projects diminish, which may have a corresponding impact on our growth prospects. In addition, there is an increased risk during these periods that an increased percentage of independent distributors, dealers and installers of security equipment will file for bankruptcy protection, which may harm our reputation, revenue, profitability and results of operations. The **Company faces risks related to the restatement of its previously issued condensed financial statements with respect to the first three quarters of fiscal year ended June 30, 2023 (the " Affected Periods "). We determined to restate certain information in our previously issued condensed financial statements for the Affected Periods. As a result, we have become subject to a number of additional risks and uncertainties, which may affect investor confidence in the accuracy of our financial disclosures, including the following: • We will face litigation under the federal and state securities laws and other claims arising from the restatement. One such case has already been filed and we will likely face additional complaints. See Note 15- Subsequent Events. The cost of defending against those claims, the adequacy of our directors' and officers' liability insurance and the ultimate outcome of any such litigation cannot be predicted at this**

time • The processes undertaken to effect the restatement may not be adequate to identify and correct all errors in our historical financial statements, and, as a result, we may discover additional errors and our financial statements remain subject to the risk of future restatement. • The restatement has demonstrated an additional material weakness in our internal controls over financial reporting. The process of remediating that weakness and implementing new procedures and systems to correct the problems that led to the restatement will likely be time consuming and expensive and there can be no assurance how long that process will take or if the corrective measures will be successful. Furthermore, the implementation of those measures may result in an ongoing increase in administrative expenses which may adversely affect the Company' s profitability. The markets we serve are highly competitive and we may be unable to compete effectively. We compete with approximately 12 other companies that manufacture and market security equipment to distributors, dealers, control stations and original equipment manufacturers in the U. S. Most of these companies may have substantially greater financial and other resources than the Company. The Company competes primarily on the basis of the features, quality, reliability and pricing of, and the incorporation of the latest innovative and technological advances into its products, as well as technical support services to ~~its customers~~ **itscustomers** . The Company competes on the basis of its expertise, its proven products, its reputation and its ability to provide products to customers on a timely basis. The inability of the Company to compete with respect to any one or more of the aforementioned factors could have an adverse impact on the Company ~~'~~ **'** s business. Our business may also be materially adversely affected by the announcement or introduction of new products and services by our competitors, and the implementation of effective marketing or sales strategies by our competitors. Our industry is characterized by constantly improved products. There can be no assurance that competitors will not develop products that are superior to the Company ~~'~~ **'** s products. We have historically invested approximately ~~6~~ **5** % to 8 % of annual revenues on R & D to mitigate this risk. However, many of our competitors have dedicated more resources and capabilities to R & D, including committing more engineers and capital expenditures, to develop and design new product that may enter the markets sooner or with more penetration. Future success will depend, in part, on our ability to continue to develop and market products and product enhancements cost- effectively. The Company ~~'~~ **'** s research and development expenditures are principally targeted at enhancing existing products, and to a lesser extent at developing new ones. Further, there can be no assurance that the Company will not experience additional price competition, and that such competition may not adversely affect the Company ~~'~~ **'** s revenues and results of operationsWe may not be able to maintain or control our expenses proportionate to our sales volumes to generate profit for our business. Certain of our expenses are fixed or semi- variable, including our costs for operating our manufacturing facilities. While expense levels relative to current sales levels result in positive net income and cash flows, if sales levels decrease significantly and we are unable to reduce expenses proportionately, our business may be adversely affected. The amount of our operating expenses are subject to variables and factors that may not be within our control, including but are not limited to, unexpected expenses relating to the manufacturing of products; increased compensation requirement for our employees and cost of raw materials. A significant portion of our expense is labor cost, including costs for workers who are operating our facility in the Dominican Republic. While we have been able to control our expenses due to the lower labor costs in the Dominican Republic, there is no guarantee that such costs will not increase in the future, or that a sufficient number of workers in Dominican Republic will be available to operate the facility efficiently, and our failure to maintain effective labor costs may adversely affect our results of operations. Our business could be adversely affected as a result of housing and commercial building market conditions. We are subject to the effects of housing and commercial building market conditions. The sales of our security products tend to increase during period in which new housing and commercial real estate constructions are increasing. If these conditions deteriorate, resulting in declines in new housing or commercial building constructions, existing home or commercial building sales or renovations, our business, results of operations or financial condition could be materially adversely affected, particularly in our intrusion and door locking product lines. The condition of the residential and commercial building markets in which we operate is cyclical and depends on the condition of the economy in the United States, and on the perceptions of investors of the overall economic outlook. Rising interest rates, declining employment levels, declining demand for real estate, declining real estate values or periods of general economic slowdown or recession or the perception that any of these events may occur have negatively impacted the real estate market in the past and may in the future negatively impact our ability to sell products and generate new revenue sources. We may not be able to grow our recurring revenue business to generate consistent revenue and profitability. A significant driver of our growth is our recurring revenue business in which customers who purchased our products and equipment are required to pay monthly fees for communications services to maintain the operation of such products. Our recurring revenue products, such as StarLink, iSecure and iBridge, tend to generate higher gross margin and are less susceptible to volatility of market demand and economic conditions. However, our revenue recurring business is relatively new and we have limited experience in developing, marketing and selling such products. We also face intense competition where other companies with greater resources and experience have established a wider and more entrenched customer base for similar products and services, making it more difficult for us to penetrate into such ~~market~~ **markets** . In addition, we are required to incur costs to maintain a network operations center to provide customer support and services, and to comply with federal and state regulations governing the operation and communications of these products. Such costs may reduce our profitability if we are not able to grow and expand the recurring revenue business. As we **are** ~~areincreasingly~~ --- **increasingly** dependent on recurring revenue products as a driver for growth, our failure to execute our strategy for this business line will materially adversely affect our financial conditions and prospects. We may not be able to sustain and continue the growth of school security products. We recently experienced significant growth of demand for our security products from schools, universities and other educational institutions as a result of the national focus on prevention of school violence. Federal and state governmental authorities have proposed and enacted numerous legislation and laws, including the School Violence Prevention and Mitigation Act of 2019 that provide increased funding to public schools to implement and enhance security systems. While our business has benefited from such additional federal and state funding and increased demand, there is no guarantee that such funding and trend will continue. For example, if school ~~shutdown~~ **shutdowns** ~~continues~~ **return** as a result of the COVID- 19 pandemic and various stay- at- home orders imposed by state governments, there could be a reduced need for schools to acquire and implement security systems, and state and federal government may also decide to reduce funding or impose additional criteria for funding. These factors may result in a decline of demand for our school security products **,** which in turn may adversely affect our financial performance. We rely on distributors to sell our products and an adverse change in our relationship with such distributors may adversely affect our financial performance. We distribute our products primarily through independent distributors and wholesalers of security alarm and security hardware equipment. Our distributors and wholesalers also sell our competitors ~~'~~**’** products, and if they favor our competitors ~~'~~**’** products for any reason, they may fail or reduce their effort to market and sell our products as effectively or to devote resources necessary to provide effective sales, which would adversely affect our financial performance. In addition, our distributors order our products and maintain their inventory based on forecasts of potential demands from dealers and end customers, and our distributors may not be able to forecast such demand accurately, which may adversely affect our ability to generate sales and revenue in a timely manner. In some cases, distributors may delay ordering our products until they receive confirmation of orders from dealers and end customers, and this delay may cause disruption and make it more difficult for us to fill their order timely and effectively, which may adversely affect our revenue and sales. The financial health of our distributors and wholesalers and our continuing relationships with them are important to our success. Some of these distributors and wholesalers, particularly smaller firms with limited working capital and resources, may not be able to withstand adverse changes in business conditions or mitigate the negative impact of a prolonged economic downturn or recession, including the impact of the COVID- 19 pandemic. The failure of our distributors to maintain financial heath and success will impact our ability to generate revenues. Furthermore, our relationship with distributors may change or terminate due to other factors beyond our control, including but are not limited to, acquisition of distributors by third parties may not be willing to continue the relationship with us; internal restructuring or refocus of business strategies; and changes in management, all of which may negatively impact our ability to continue to sell to such distributors. Finally, we generally do not have long- term agreements with distributors who purchase our products primarily through purchase orders. Without an agreement, we are not able to guarantee that such distributors will not discontinue or terminate relationship with us at any time, and any loss of distributor will negatively impact our financial conditions and results of operations. We may not able to gain widespread or timely market acceptance of our new products and continue to build and enhance our brand to achieve growth. We rely on introduction of new products and services to penetrate new markets and identify additional sources of revenues order to grow our business. However, many of our distributors and customers may not be willing to change or switch to new products and equipment, or may require an extended period time to assess, test and evaluate functionalities and performance of our new products. Any delays in establishing widespread acceptance of our new products may adversely affect our financial performance and growth. In order to ensure market acceptance of new products, we have incurred and expect to incur significant expenses in sales and marketing campaign, and we may not be able to justify such costs if the effort does not produce sufficient sales and customer accounts. We believe that building and maintaining market awareness, brand recognition and goodwill of our business and products in a cost- effective manner is important to our overall success in achieving widespread acceptance of our existing and future products and is an important element in attracting new customers. An important part of our business strategy is to increase awareness of our brand and to provide marketing leadership, services and support to our distributor and customer network. While we may choose to engage in a broader marketing campaign to further promote our brand, this effort may not be successful. Our efforts in developing our brand may be hindered by the marketing efforts of our competitors and our reliance on our third parties to promote our brand. If we are unable **to** ~~tocost~~ -- **cost** - effectively maintain and increase awareness of our brand, our business, financial condition, cash flows and results of operations could be harmed. Our financial results could be materially adversely affected as a result of offering extended payment terms to customers or if we are not able to collect our accounts receivables on a timely basis from major customers. We regularly grant credit terms beyond 30 days to certain distributors and customers primarily in an effort to keep a full line of our products in- stock at our customers' locations. The longer the terms that are granted, the more risk is inherent in the collection of those receivables. We cannot guarantee that distributors and customers will be able to make payments on a timely basis even after a thorough review of their credit and financial history. The ability of distributors and customers to make such payments may be subject to factors beyond our control, including their financial conditions and business operation. We may also incur additional costs and effort to collect past due receivables without assurance that a sufficient or any amount of bad debt can be collected. We sell security products and systems and if our solutions fail for any reason, we could be subject to liability and our business could suffer. We sell security products and services, which are designed to secure the safety of our customer and their commercial, residential, institutional, industrial or governmental properties. Our products and services may contain undetected defects in the software, infrastructure, third- party components or processes. If these solutions fail for any reason, including due to defects in our equipment, software, a carrier outage or user error, we could be subject to liability for such failures and our business could suffer. In addition, our products and systems are not installed by us, and if third parties do not install or maintain our products correctly, our products and systems may not function properly. If the improper installation or maintenance of our products and systems leads to service or equipment failures after introduction of, or an upgrade to, our products and systems, we could experience harm to our branded reputation, claims by our customers or installers or lost revenue during the period required to address the cause of the problem. Any defect in, or disruption to, our products and systems could cause consumers not to purchase additional products or systems from us, prevent potential consumers from purchasing our products and systems or harm our reputation. We are subject to risks relating to the operation of a manufacturing facility in Dominican Republic. We operate a manufacturing facility in Dominican Republic where the majority of our products is made and shipped to our U. S. distributors. The facility requires us to incur certain fixed operating costs that do not fluctuate with changes in production levels or utilization of our manufacturing capacity. If production levels decline due to lower demand or reduced customer orders, our fixed costs are spread over reduced levels, which may contribute to decreasing margins and reduced profitability. Operation of a manufacturing facility also subjects us to certain additional risks, including but not limited to the following: · Unavailability of workers or insufficient workforce to operate the factory; · Compliance with local regulatory requirements, including labor laws and tax requirements; · Difficulties in communication and coordination with U. S. headquarters; · Natural disasters such as hurricanes which may damage our factory; and · Effect of general political and economic conditions of the Dominican Republic. The occurrence of any of these factors may adversely affect the production output and operation of our factory, which will disrupt our supply chain and negatively impact our financial performance. Furthermore, we have not identified any alternative third- party factory that can manufacture our products; therefore it would be difficult for us to replace any loss of output of capacity if our factory in Dominican Republic is not functioning properly or at all. Our business could be materially adversely affected by a weakening of the U. S. dollar against the Dominican peso. We are exposed to foreign currency risks due to our operations in the Dominican Republic. We have significant operations in the Dominican Republic, which conducts certain transactions in Dominican pesos. We are subject to the risk that currency exchange rates between the United States and the Dominican Republic will fluctuate significantly, potentially resulting in an increase in some of our expenses when US dollars are transferred to Dominican pesos to pay these expenses. For example, if the U. S. dollars weakens and the currency exchange rate is less favorable, it may be more costly for us to pay expenses for our factory in the Dominican Republic, which may adversely affect our financial conditions and results of operations. Our business could be materially adversely affected by adverse tax consequences of offshore operations. We have operations both within the United States and offshore, with a portion of our operating income generated outside the United States. We intend to reinvest these earnings in our foreign operations indefinitely, except where we are able to repatriate these earnings to the United States without material incremental tax expense. A significant portion of our assets that result from these earnings remain outside the United States. If these indefinitely reinvested earnings were repatriated into the United States as dividends, we would be subject to additional withholding taxes. Our failure to maintain the security of our information and technology networks could adversely affect us. We are dependent on information technology networks and systems, including the Internet, to process, transmit and store electronic information and, in the normal course of our business, we collect and retain certain information pertaining to our distributors, customers, partners and employees, including personal information. If security breaches in connection with the delivery of our solutions allow unauthorized third parties to access any of this data or obtain control of our systems, our reputation, business, financial condition, cash flows and results of operations could be harmed. The legal, regulatory and contractual environment surrounding information security, privacy and credit card fraud is constantly evolving and companies that collect and retain such information are under increasing attack by cyber- criminals around the world. Further, as the regulatory focus on privacy issues continues to increase and worldwide laws and regulations concerning the protection of data and personal information expand and become more complex, these potential risks to our business will intensify. A significant actual or potential theft, loss, fraudulent use or misuse of distributors, customers, employee or other personally identifiable data, whether by third parties or as a result of employee malfeasance or otherwise, non- compliance with our contractual or other legal obligations regarding such data or a violation of our privacy and security policies with respect to such data could result in loss of confidential information, damage to our reputation, early termination of our business relationships, litigation, regulatory investigations or actions and other liabilities or actions against us, including significant fines by U. S. federal and state authorities, and other countries and private claims by companies and individuals for violation of data privacy and security regulations. In addition, cyber- attacks from computer hackers and cyber criminals and other malicious Internet- based activity continue to increase generally, and perpetrators of cyber- attacks may be able to develop and deploy viruses, worms, ransomware, malware, DNS attacks, wireless network attacks, attacks on our cloud networks, phishing attempts, social engineering attempts, distributed denial of service attacks and other advanced persistent threats or malicious software programs that attack our products and services, our networks and network endpoints or otherwise exploit any security vulnerabilities of our products, services and networks. Techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until launched against a target. As a result, we may be unable to anticipate these techniques or to implement adequate preventative measures. We cannot be certain that advances in cyber- capabilities or other developments will not compromise or breach the technology protecting the networks that access our platforms and solutions, and we can make no assurance that we will be able to detect, prevent, timely and adequately address or mitigate the negative effects of cyber- attacks or other security breaches. If any one of these risks materializes, our business, financial condition, cash flows or results of operations could be materially and adversely affected. We rely on the effort and service of Richard L. Soloway (age ~~76~~ **77**), our founder, Chief Executive Officer and major stockholder. The success of the Company is largely dependent on the effort and service of Richard L. Soloway, who is our founder, President, Chief Executive Officer, Chairman of the Board and a major stockholder. We depend on Mr. Soloway on various aspects of our business operation, including his experience and knowledge in the industry, extensive relationships with distributors and customers, and his leadership to develop and implement business strategies. The loss or reduction of services by Mr. Soloway could have a material adverse effect on the Company ~~'~~ **'** s business and prospects. Our business could be materially adversely affected as a result of the inability to maintain adequate financing. While our business currently does not have any debt and finances operations and capital expenditures solely utilizing cash- flows from operations, we have an unused credit facility in the event that we need to supplement current cash- flows with outside financing. The credit facility provides for certain financial covenants relating to ratios affected by profit, asset and debt levels. If the Company' s profits, asset or cash- flow levels decline below the minimums required to meet these covenants and we require outside financing, the Company may be materially adversely affected. Effects on the Company could include higher interest costs, reduction in borrowing availability or revocation of these credit facilities. Our PPP Loans in the amount of $ 3. 9 million were forgiven, but we may still be subject to audit and any resulting adverse audit outcome could result in the repayment of a portion or all of the PPP Loans and may adversely affect our future results of operations. In the fourth fiscal quarter of 2021, the Company received $ 3. 9 in loan proceeds (the " PPP Loan ") pursuant to the Paycheck Protection Program (the ~~"~~ **"** PPP ~~"~~ **"**) created **the by** the CARES ActDuring the first fiscal quarter of 2021, the PPP Loans were forgiven, in their entirety, in accordance with guidelines set forth in the PPP. The Company recognized a gain on the extinguishment of debt in the first quarter of 2022 in the amount of $ 3, 904, 000. The SBA reserves the right to audit PPP forgiveness applications for a period of six years from the date of forgiveness. It has indicated that it will audit all of those that are in excess of $ 2 million. If we were to be audited and receive an adverse outcome in such an audit, we could be required to return the full amount of the PPP Loans and may potentially be subject to civil and criminal fines and penalties. If it is subsequently determined that the PPP Loans must be repaid, such repayment could adversely impact our financial results for the period in which such repayment occurs. **The Company faces risks related to the restatement of its previously issued condensed financial statements with respect to the first three quarters of fiscal year ended June 30, 2023 (the " Affected Periods "). As discussed in the Explanatory Note and in Note 1A to the condensed financial statements in this Form 10- Q / A, we determined to restate certain information in our previously issued condensed financial statements for the Affected Periods. As a result, we have become subject to a number of additional risks and uncertainties, which may affect investor confidence in the accuracy of our financial disclosures, including the following: •** We ~~are obligated to develop~~ **will face litigation under the federal** and ~~maintain~~ **state securities laws and other claims arising from the restatement. One such case has already been filed and we will likely face additional complaints. See Note 15- Subsequent Events. The cost of defending against those claims, the adequacy of our directors' and officers' liability insurance and the ultimate outcome of any such litigation cannot be predicted at this time • The processes undertaken to effect the restatement may not be adequate to identify and correct all errors in our historical financial statements, and, as** a ~~system~~ **result, we may discover additional errors and our financial statements remain subject to the risk** of ~~effective~~ **future restatement. • The restatement has demonstrated an additional material weakness in our** internal controls over financial reporting. ~~These~~ -- **The** ~~internal controls may be determined~~ **process of remediating that weakness and implementing new procedures and systems** to **correct the problems that led to the restatement will likely** be **time consuming and expensive and there can be** ~~not~~ - **no** ~~effective~~ **assurance how long that process will take or if the corrective measures will be successful. Furthermore** , **the implementation of those measures may result in an ongoing increase in administrative expenses** which may adversely affect **the** ~~investor confidence in our company~~ **Company** ~~and, as a result, the value of our common stock. We have been and are required, pursuant to Section 404 of the Sarbanes- Oxley Act, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting on an annual basis. This assessment includes disclosure of any material weaknesses identified by our management in our internal control over financial reporting. During the evaluation and testing process, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal controls are effective and would be required to disclose any material weaknesses identified in Management~~ ' s **profitability** ~~Report on Internal Control over Financial Reporting. While we have established certain procedures and control over our financial reporting processes, we cannot assure you that these efforts will prevent restatements of our financial statements in the future. Our independent registered public accounting firm is also required, pursuant to Section 404 of the Sarbanes- Oxley Act, to report on the effectiveness of our internal control over financial reporting. For future reporting periods, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our controls are documented, designed or operating. We may not be able to remediate any future material weaknesses, or to complete our evaluation, testing and any required remediation in a timely fashion. If we are unable to conclude that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion that our internal controls over financial reporting are effective, investors could lose confidence in the accuracy and completeness of our financial reports, which could cause the price of our common stock to decline, and we could be subject to sanctions or investigations by regulatory authorities, including the SEC and Nasdaq. Failure to remediate any material weakness in our internal control over financial reporting, or to maintain other effective control systems required of public companies, could also restrict our future access to the capital markets. In May 2022, we identified material weakness in our internal control over financial reporting relating to the manner in which we calculated our inventory obsolescence reserve. We revised the methodology which resulted in the restatement of previously audited financial statements for the years ended June 30, 2021, June 30, 2020, and June 30, 2019. The effect of such restatement is described on a Form 8- k that we filed with the SEC on May 17, 2022~~ . We have identified material weaknesses in our system of internal controls and are in the process of remediation. If not remediated, these material weaknesses could result in material misstatements in our financial statements. We may be unable to develop, implement and maintain appropriate controls in future periods. As of June 30, ~~2022~~ **2023** , the Company identified ~~two~~ **three** material weaknesses in internal control. One material weakness in internal ~~control~~ **controls** related to ineffective information technology general controls (ITGCs) in the area of user access and lack of effective program change- management over certain information technology (IT) systems that support the Company' s financial reporting processes. Our business process controls (automated and manual) that are dependent on the affected ITGCs were also deemed ineffective because they could have been adversely impacted. We believe that these control deficiencies were a result of: IT Control processes lacking sufficient documentation and risk- assessment procedures to assess changes in the IT environment and program change management of personnel that could impact internal controls over financial reporting. The ~~material weakness did not result in any identified misstatements to the financial statements and there were no changes to the previously released financial results. The~~ second material weakness in internal controls related to the reserve for excess and slow- moving inventory. This control deficiency was a result of a lack of effective review and reconciliation controls over the forecasted sales and usage data. ~~The~~ **During the Company' s closing of its books for the period ended June 30, 2023 Management identified an additional** material weakness **related to the Company' s Cost of Goods Sold (" COGS ") and Inventory during each of the first three quarters of fiscal 2023. The COGS figures reflected in the Company' s original Form 10- Qs were based on inventory**

costing as of June 30, 2022. However, in the period following June 30, 2022, substantial fluctuations occurred in certain material costs. Our inventory costing process did not ~~result~~ **identify these fluctuations** in a **timely manner resulting in Inventory being overstated and COGS being understated and resulting in an overstated gross profit, operating income and net income for each of the first three quarters of fiscal 2023. While the Company has begun to take measures which it believes will remediate the underlying causes of this** material ~~misstatement to~~ **weakness,** ~~the~~ **there can be no assurance as to when the remediation plan will be fully developed and implemented and whether such measures will be effective. Until the Company' s remediation plan is fully implemented and effective, the Company will continue to devote time, attention and** financial **resources** ~~statements. There were no changes~~ to ~~the~~ **these efforts** ~~previously released financial results~~. Based on these material weaknesses, the Company' s management **has** concluded that at June 30, ~~2022~~ **2023** the Company' s internal controls over financial reporting were not effective. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. **With the oversight of our audit committee, we are working to remedy the ineffectiveness of our internal control over financial reporting and disclosure controls and procedures, but there can be no assurance as to when the remediation plan will be fully developed and implemented. Until our remediation plan is fully implemented, we will continue to devote time, attention and financial resources to these efforts. If we do not adequately complete our remediation in a timely fashion, investors could lose confidence in the accuracy and completeness of our financial reports, which could cause the price of our common stock to decline, and we could be subject to sanctions or investigations by regulatory authorities, including the SEC and Nasdaq. Failure to remediate any material weakness in our internal control over financial reporting, or to maintain other effective control systems required of public companies, could also restrict our future access to the capital markets. Risks Related to Ownership of Our Common StockIf securities or industry analysts do not publish research or reports about our business, or publish negative reports about our business, our share price and trading volume could decline. The trading market for our common stock depends, in part, on the research and reports that securities or industry analysts publish about us or our business. We do not have any control over these analysts. If our financial performance fails to meet analyst estimates or one or more of the analysts who cover us downgrade our shares or change their opinion of our shares, our share price would likely decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline.**