

Risk Factors Comparison 2024-03-28 to 2023-03-27 Form: 10-K

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In addition to other information contained in this Form 10-K, the following risk factors should be carefully considered in evaluating Psychemedics Corporation and ~~its~~ **our** business because such factors could have a significant impact on our business, operating results, and financial condition. Additional risks not presently known to ~~us~~ **the Company**, or that ~~it~~ **we** presently ~~deems~~ ~~deem~~ immaterial, may also negatively impact ~~us~~ **the Company**. These risk factors could cause actual results to ~~differ~~ **differ** materially ~~differ~~ from those projected in any forward-looking statements. Risks Related to Our Business and Operations ~~The ongoing COVID-19 pandemic may continue to adversely affect our business, results of operation and financial condition. The Company is closely monitoring the impact of the COVID-19 pandemic on all aspects of its business. Fluctuations in the number of COVID-19 cases may have a negative effect on the Company's business and financial performance. Given the continued unpredictability pertaining to the COVID-19 pandemic, the impact on the Company's business continues to be uncertain and depends on a number of evolving factors that the Company may not be able to predict or effectively respond to. These factors include: the timing, extent, trajectory, and duration of any pandemic; increases in COVID-19 infection rates and the geographic location of such increases; the development, availability, distribution and effectiveness of vaccines and treatments; the imposition of protective public safety measures; and the impact of any pandemic on supply chain and the global economy. To the extent the COVID-19 pandemic or any future pandemic adversely affects our business, results of operations and financial condition, it may also have the effect of heightening other risks. The Company incurred additional costs to implement operational changes in response to this pandemic. The COVID-19 pandemic disrupted, and along with other economic factors, a resurgence in COVID-19 could continue to disrupt, the Company's supply chain, including its ability to secure test collection and testing supplies and equipment and personal protective equipment for its employees. Companies may develop products that compete with our products and some of these companies may be larger and better capitalized than we are. Many of our competitors and potential competitors are larger and have greater financial resources than we do and offer a range of products broader than our products. Some of the companies with which we now compete or may compete in the future may develop more extensive research and marketing capabilities and greater technical and personnel resources than we do and may become better positioned to compete in an evolving industry. Inability to compete successfully could harm our business and prospects. Increased competition, including price competition, could have a material impact on ~~our~~ **the Company's** net revenues and profitability. Our business is intensely competitive, both in terms of price and service. Pricing of drug testing services is a significant factor often considered by customers in selecting a drug testing laboratory. Larger clinical laboratory providers can increase cost efficiencies afforded by large-scale automated testing. This results in greater price competition. ~~We~~ **The Company** may be unable to increase cost efficiencies sufficiently, if at all, and as a result, ~~its~~ **our** net earnings and operating cash flows could be negatively impacted by such price competition. ~~We~~ **The Company** may also face increased competition from companies that do not comply with existing laws or regulations or otherwise disregard compliance standards in the industry. Additional competition, including price competition, could have a material adverse impact on ~~our~~ **the Company's** net revenues and profitability. Inflationary pressures on the costs of direct materials, supplies, and personnel expenses could have a material impact on ~~our~~ **the Company's** gross profit and profitability. Inflationary pressures have resulted in increases in the costs of shipping charges, supplies, and other services that we purchase from vendors, suppliers, and others. Inflationary pressures, along with the competition for labor, have also resulted in an increase ~~of~~ **in** our labor costs, which include the costs of compensation, benefits, and other employee-related expenses. Continuation of the current inflationary environment may adversely impact ~~us~~ **the Company**. Our results of operations are subject in part to variation in our customers' hiring practices and other factors beyond our control. Our results of operations have been and may continue to be subject to variation in our customers' hiring practices and job creation, which in turn is dependent, to a large extent, on the general condition of the economy, especially within our major market segments. Results for a particular quarter may vary due to several factors, including but not limited to: • economic conditions in our markets in general; • economic **and labor scarcity** conditions affecting our customers and their particular industries; • the introduction of new products and product enhancements by us or our competitors; and • pricing and other competitive conditions. A failure to obtain and retain new customers, or a loss of existing customers, or a reduction in tests ordered, could impact ~~our~~ **the Company's** ability to successfully grow ~~its~~ **our** business. ~~The Company needs~~ **Our revenues in fiscal 2023 decreased compared to obtain our revenues in fiscal year 2022. It is uncertain whether we can identify, win, and retain new customers sufficient to resume revenue growth.** ~~A~~ **In addition,** a reduction in tests ordered, without offsetting growth in ~~its~~ **our** customer base, could impact ~~our~~ **the Company's** ability to successfully grow ~~its~~ **our** business and could have a material adverse impact on ~~our~~ **the Company's** net revenues and profitability. We compete primarily based on the quality of testing, timeliness of results, reputation in the industry, the pricing of services and ability to employ qualified personnel. ~~Our~~ **The Company's** failure to successfully compete on any of these factors could result in the loss of customers and a reduction in ~~our~~ **the Company's** ability to expand ~~its~~ **our** customer base. Our business could be harmed if we are unable to protect our technology. We rely primarily on a combination of trade secrets, patents and trademark laws and confidentiality procedures to protect our technology. Despite these precautions, unauthorized third parties may infringe or copy portions of our technology. In addition, because patent applications in the United States are not publicly disclosed until either: (1) 18 months after the application filing date or (2) the publication date of an issued patent wherein applicant (s) seek only US patent protection, applications not yet disclosed may have been filed which relate to our technology. Moreover, there is a risk that foreign intellectual property laws will not protect our intellectual property rights to the same extent as United States intellectual property~~

laws. In the absence of the foregoing protections, we may be vulnerable to competitors who attempt to copy our products, processes or technology. Our business could be affected by IT system failures or Cybersecurity breaches. A computer or IT system failure could affect our ability to perform tests, report test results or properly bill customers for services performed. Failures could occur as a result of the standardization of our IT systems and other system conversions, telecommunications failures, malicious human acts (such as electronic break-ins or computer viruses) or natural disasters. Sustained system failures or interruption of ~~our the Company's~~ systems in one or more of its operations could disrupt ~~our the Company's~~ ability to process and provide test results in a timely manner and / or bill the appropriate party. Failure of ~~our the Company's~~ information systems could adversely affect ~~our the Company's~~ business, profitability and financial condition. Our technologies, systems and networks may be subject to cybersecurity breaches. Although we have experienced occasional, actual or attempted breaches of our cybersecurity, none of these breaches has had a material effect on our business, operations or reputation. If our systems for protecting against cybersecurity risks prove to be insufficient, we could be adversely affected by having our business systems compromised, our proprietary information altered, lost or stolen, or our business operations disrupted. As cyber-attacks continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information systems and related infrastructure security vulnerabilities. In addition, certain third parties to whom we outsource our services and functions, or with whom we interface, store our confidential patient data or other confidential information as also subject to the same IT risks. A breach or attack affecting these outsourced third parties could negatively impact our business. Failure to maintain confidential information could result in a significant financial impact. ~~We The Company maintains~~ ~~maintain~~ confidential information regarding the results of drug tests and other information including credit card and payment information from our customers. The failure to protect this information could result in lawsuits, fines or penalties. Any loss of data or breach of confidentiality, such as ~~through~~ a computer security breach, could expose ~~us the Company~~ to a financial liability. Adverse results in material litigation could have an adverse financial impact and an adverse impact on our client base and reputation. We are or may in the future become subject to a variety of litigation and legal proceedings relating to, among other things: corporate matters; commercial matters; financial and securities regulations; and employment matters. These proceedings may result in substantial monetary damages. Results of legal and regulatory proceedings cannot be predicted with certainty and for some matters, such as class actions, no insurance is cost-effectively available. Regardless of merit, legal and regulatory proceedings may be both time-consuming and disruptive to our operations and could divert the attention of our management and key personnel from our business operations. We estimate loss contingencies and establish accruals as required by generally accepted accounting principles, based on our assessment of contingencies where liability is deemed probable and reasonably estimable, in light of the facts and circumstances known to us at a particular point in time. We ~~have been~~ ~~are subject to~~, and could be further subject to, governmental investigations or actions by other third parties. We are subject to various federal and state laws, including employment laws and regulations, violations of which can involve civil or criminal sanctions. Responding to governmental investigations or other actions may be both time-consuming and disruptive to our operations and could divert the attention of our management and key personnel from our business operations. Our future success will depend on the continued service of our key employees. Our people are a critical resource. The loss of any of our key personnel, ~~including our Chief Executive Officer, executive team and other highly skilled employees,~~ could harm our business ~~and prospects~~. We may not be able to attract and retain ~~the~~ personnel necessary for the development of our business. ~~We do not have key personnel under contract other than 3 officers who have agreements providing for severance and non-compete covenants in the event of termination of employment following a change of control. Further, we do not have any key man life insurance for any of our officers or other key personnel.~~ There is a risk that our insurance will not be sufficient to protect us from errors and omissions liability or other claims, or that in the future errors and omissions insurance will not be available to us at a reasonable cost, if at all. Our business involves the risk of claims of errors and omissions and other claims inherent to our business. We maintain errors and omissions and general liability insurance subject to deductibles and exclusions. There is a risk that our insurance will not be sufficient to protect us from all such possible claims. An under-insured or uninsured claim could harm our operating results or financial condition. Our research and development capabilities may not produce viable new services or products. In order to remain competitive, we need to continually improve our products, develop new technologies to replace older technologies that have either become obsolete or for which patent protection ~~is~~ has expired. It is uncertain whether we will continually be able to develop services that are more efficient, effective or that are suitable for our customers. Our ability to create viable products or services depends on many factors, including the implementation of appropriate technologies, the development of effective new research tools, the complexity of the chemistry and biology, the lack of predictability in the scientific process and the performance and decision-making capabilities of our scientists. There is no guarantee that our research and development teams will be successful in developing improvements to our technology. Improved testing technologies, or ~~our the Company's~~ customers using new technologies to perform their own tests, could adversely affect ~~our the Company's~~ business. Advances in technology may lead to the development of more cost-effective technologies that can be operated by third parties or customers themselves in their own offices, without requiring the services of a freestanding laboratory. Development of such technology and its use by ~~our the Company's~~ customers could reduce the demand for ~~its-our~~ testing services and negatively impact our revenues. We may not be able to recruit and retain the experienced scientists and management we need to compete in our industry. Our future success depends upon our ability to attract, retain and motivate highly skilled scientists and management. Our ability to achieve our business strategies depends on our ability to hire and retain high caliber scientists and other qualified experts. We compete with other testing companies, research companies and academic and research institutions to recruit personnel and face significant competition for qualified personnel. We may incur greater costs than anticipated, or may not be successful, in attracting new scientists or management or in retaining or motivating our existing personnel. Our future success also depends on the personal efforts and abilities of the principal members of our senior management ~~and scientific staff~~ to provide strategic direction, to

manage our operations and maintain a cohesive and stable environment. Our facilities and practices may fail to comply with government regulations. Our testing facilities and processes must be operated in conformity with current government regulations. These requirements include, among other things, quality control, quality assurance and the maintenance of records and documentation. If we fail to comply with these requirements, we may not be able to continue our services to certain customers, or we could be subject to fines and penalties, suspension of production, or withdrawal of our certifications. We operate a facility that we believe conforms to all applicable requirements. This facility and our testing practices are subject to periodic regulatory inspections to ensure compliance. Our business could be harmed from the loss or suspension of any licenses. The forensic laboratory testing industry is subject to significant regulation and many of these statutes and regulations are subject to change. ~~We The Company~~ cannot assure that applicable statutes and regulations will not be interpreted or applied by a regulatory authority in a manner that would adversely affect ~~its our~~ business. Potential sanctions for violation of these regulations could include the suspension or loss of various licenses, certificates and authorizations, which could have a material adverse effect on ~~our the Company's~~ business. In addition, potential delays in renewals of licenses could also harm ~~us the Company~~. If our use of chemical and hazardous materials violates applicable laws or regulations or causes personal injury, we may be liable for damages. Our drug testing activities, including the analysis and synthesis of chemicals, involve the controlled use of chemicals, including flammable, combustible, and toxic materials that are potentially hazardous. Our use, storage, handling, and disposal of these materials ~~is are~~ subject to federal, state and local laws and regulations, including the Resource Conservation and Recovery Act, the Occupational Safety and Health Act and local fire codes, and regulations promulgated by the Department of Transportation, the Drug Enforcement Agency, the Department of Energy, and the California Department of Public Health and Environment. We may incur significant costs to comply with these laws and regulations in the future. In addition, we cannot completely eliminate the risk of accidental contamination or injury from these materials, which could result in material unanticipated expenses, such as substantial fines or penalties, remediation costs or damages, or the loss of a permit or other authorization to operate or engage in our business. Those expenses could exceed our net worth and limit our ability to raise additional capital. Our operations could be interrupted by damage to our laboratory facilities. Our operations are dependent upon the continued use of our laboratories and equipment in Culver City, California. Catastrophic events, including earthquakes, fires, or explosions, could damage our laboratories, equipment, scientific data, work in progress or inventories of chemicals and may materially interrupt our business. We employ safety precautions in our laboratory activities in order to reduce the likelihood of the occurrence of certain catastrophic events; however, we cannot eliminate the chance that such events will occur. Rebuilding our facilities could be time-consuming and result in substantial delays in fulfilling our agreements with our customers. We maintain business interruption insurance to cover continuing expenses and lost revenue caused by such occurrences. However, this insurance does not compensate us for the loss of opportunity and potential harm to customer relations that our inability to meet our customers' needs in a timely manner could create. Agreements we have with our employees, consultants and customers may not ~~afford provide~~ adequate protection for our trade secrets, confidential information and other proprietary information. In addition to patent protection, we also rely on copyright and trademark protection, trade secrets, know-how, continuing technological innovation and licensing opportunities. In an effort to maintain the confidentiality and ownership of our trade secrets and proprietary information, we require our employees, consultants and advisors to execute confidentiality and proprietary information agreements. However, these agreements may not provide us with adequate protection against improper use or disclosure of confidential information and there may not be adequate remedies in the event of unauthorized use or disclosure. Furthermore, we may from time to time hire scientific personnel formerly employed by other companies involved in one or more areas similar to the activities we conduct. In some situations, our confidentiality and proprietary information agreements may conflict with, or be subject to, the rights of third parties with whom our employees, consultants or advisors have prior employment or consulting relationships. Although we require our employees and consultants to maintain the confidentiality of all proprietary information of their previous employers, these individuals, or we, may be subject to allegations of trade secret misappropriation or other similar claims as a result of their prior affiliations. Finally, others may independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets. Our failure or inability to protect our proprietary information and techniques may inhibit or limit our ability to compete effectively or exclude certain competitors from the market. International trade policies may impact demand for our products and our competitive position. Government policies on international trade and investment such as import quotas, capital controls or tariffs, whether adopted by individual governments or addressed by regional trade blocs, can affect the demand for our services, impact the competitive position of our products or prevent us from being able to sell products in certain countries. The implementation of more restrictive trade policies, such as more detailed inspections, higher tariffs or new barriers to entry, could negatively impact our business, results of operations and financial condition. For example, a government's adoption of "buy national" policies or retaliation by another government against such policies could have a negative impact on our results of operations. Global operations are subject to extensive trade and anti-corruption laws and regulations. The U. S. Foreign Corrupt Practices Act and similar foreign anti-corruption laws generally prohibit companies and their intermediaries from making improper payments or providing anything of value to improperly influence foreign government officials for the purpose of obtaining or retaining business or obtaining an unfair advantage. Recent years have seen a substantial increase in the global enforcement of anti-corruption laws. Our operations outside the United States could increase the risk of such violations. Violations of anti-corruption laws or regulations by our employees or by intermediaries acting on our behalf may result in severe criminal or civil sanctions, could disrupt our business, and result in an adverse effect on our business and results of operations or financial condition. Our approach to environmental, social, and governance (ESG) matters may not satisfy all our stakeholders. We assess opportunities and risks related to environmental, social and governance (ESG) matters. As part of this process, we may make decisions related to ESG matters and may set goals and targets related to ESG matters. We have a broad range of stakeholders, including our stockholders, employees, schools, and communities we serve, some of whom increasingly

focus on ESG matters. Certain stakeholders may not be satisfied with our decisions related to ESG matters, the goals we set regarding ESG matters, our progress towards these goals or the resulting outcomes. This could lead to negative perceptions of, or loss of support for our business, difficulty recruiting or attracting new employees and our stock price being negatively impacted. Risks Related to Our Stock Our quarterly operating results could fluctuate significantly, which could cause our stock price to decline. Our quarterly operating results have fluctuated in the past and are likely to fluctuate in the future. Our results are impacted by the extent to which we **can are able to** gain new customers, competitive pricing, and on the hiring practices of our existing customers, including seasonality. Demand for drug testing can be impacted by changes in government requirements regarding testing for drugs of abuse, delays in implementation of such requirements, as well as general economic conditions. Entering into new customer contracts can involve a long lead time. Accordingly, negotiation can be lengthy and is subject to a number of significant risks, including customers' budgetary constraints and internal reviews. Due to these and other market factors, our operating results could fluctuate significantly from quarter to quarter. In addition, we may experience significant fluctuations in quarterly operating results due to factors such as general and industry- specific economic conditions that may affect the budgets and the hiring practices of our customers. Due to the possibility of fluctuations in our revenue and expenses, we believe that quarter- to- quarter comparisons of our operating results are not necessarily a good indication of our future performance. Our operating results in some quarters may not meet the expectations of stock market analysts and investors. If we do not meet analysts' or investors' expectations, our stock price could decline. ~~Payment of a cash dividend could decline or cease. With some interruptions during the COVID pandemic, the Company has historically paid cash dividends. Any cessation of our program or reduction in our cash dividend could affect our stock price. If we cease this practice or reduce the amount of the regular cash dividend, due to operating or economic conditions, our stock price could suffer. Further, if the Company ceases its future cash dividends, a return on investment in our common stock would depend entirely upon future appreciation. There is no guarantee that our common stock will appreciate in value or even maintain the price at which stockholders have purchased their shares.~~ Our stock price could experience substantial volatility. The market price of our common stock has historically experienced and may continue to experience extensive volatility. Our quarterly operating results, the success or failure of future development efforts, changes in general conditions in the economy or the financial markets and other developments affecting our customers, our distributors, our competitors or us could cause the market price of our common stock to fluctuate substantially. This volatility may adversely affect the price of our common stock. In the past, securities class action litigation has often been instituted following periods of volatility in the market price of a company' s securities. A securities class action suit against us could result in potential liabilities, substantial costs and the diversion of management' s attention and resources, regardless of whether we win or lose.