Risk Factors Comparison 2023-07-31 to 2022-08-01 Form: 10-K

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

Business and Operational Risks We may not achieve our plan for sales growth and margin targets. We have established both margin and expense targets to grow our sales with new and existing customers. If we do not achieve our growth objectives, the complexity of our global infrastructure makes it difficult to leverage our fixed cost structure to align with the size of our operations. Factors that could have a significant effect on our ability to achieve these goals include the following: • Failure to achieve our sales and margin growth objectives in our product lines and business units; • Failure to implement or properly execute our growth strategies, including failures to identify, consummate and successfully integrate acquisitions and / or other opportunities to diversify, extend and expand our business; • Declining gross margin reflecting competitive pricing pressures or product mix; and • Limitations on our ability to leverage our support- function cost structure while maintaining an adequate structure to achieve our growth objectives ~~. The impact of the COVID- 19 pandemic and its effects negatively impacted our sales results in certain prior periods. The situation continues to evolve and the effects of the pandemic could adversely affect the Company' s revenues, earnings, liquidity and cash flows~~ . We have historically incurred significant charges for inventory obsolescence and may incur similar charges in the future. We maintain significant inventories in an effort to ensure that customers have a reliable source of supply. Our products generally support industrial machinery powered by tube technology. As technology evolves and companies replace this capital equipment, the market for our products potentially declines. In addition, the market for many of our other products changes rapidly resulting from the development of new technologies, evolving industry standards, frequent new product introductions by some of our suppliers and changing end- user demand, which can contribute to the decline in value or obsolescence of our inventory. We do not have many long- term supply contracts with our customers. If we fail to anticipate the changing needs of our customers or we do not accurately forecast customer demand, our customers may not place orders with us, and we may accumulate significant inventories of products that we may be unable to sell or return to our vendors. This may result in a decline in the value of our inventory. We face competitive pressures that could have a material adverse effect on our business. Our overall competitive position depends on a number of factors including price, engineering capability, vendor representation, product diversity, lead times and the level of customer service. There are very few vacuum tube competitors in the markets we serve. There are also a limited number of Chinese manufacturers whose ability to produce vacuum tubes has progressed over the past several years. The most significant competitive risk comes from technical obsolescence. Canvys faces many competitors in the markets we serve. Increased competition may result in price reductions, reduced margins or a loss of market share, any of which could materially and adversely affect our business, operating results and financial condition. As we expand our business and pursue our growth initiatives, we may encounter increased competition from current and / or new competitors. Our failure to maintain and enhance our competitive position could have a material adverse effect on our business. We are dependent on a limited number of vendors to supply us with essential products. Disruptions to the supply chain could adversely impact our business. The products we supply are currently produced by a relatively small number of manufacturers. One of our suppliers represented 11 % of our total cost of sales **during fiscal year 2023** . Our success depends, in large part, on maintaining current vendor relationships and developing new relationships. To the extent that our significant suppliers are unwilling or unable to continue to do business with us, extend lead times, limit supplies due to capacity constraints or other factors, there could be a material adverse effect on our business. Further, as a result of COVID- 19 and its effects, we experienced some **residual** COVID- 19 related component delays impacting new product development schedules. The global markets have generally suffered, and are continuing to suffer, from material disruptions to certain supply chains. Changes in our relationships with suppliers, shortages in availability of materials, production delays, regulatory restrictions, public health crises, or other supply chain disruptions, whether due to our suppliers or customers, could have a material adverse effect on our operations and results. Increases in the costs of supplies could result in manufacturing interruptions, delays, inefficiencies or our inability to market products. In addition, our profit margins would decrease if prices of purchased raw materials, component parts or finished goods increase and we are unable to pass on those increases to our customers. As various locations have seen recovery from COVID- 19, there have been increases in demand, which have, in turn, created significant disruption to the global supply chain. These disruptions have been further exacerbated by other events and conditions, including the conflict between Russia and Ukraine ~~and collectively~~ **, which have** adversely affected our ability to receive goods on a timely basis and increased our material costs. Short- term or sustained increases in market demand may exceed our suppliers' production capacity or otherwise strain our supply chain. Our failure, or our suppliers' failure, to meet the demand for raw materials and components could adversely affect our business and results of operations. Further disruptions to the supply chain because of the COVID- 19 pandemic and its **continuing residual** impact, or other world or domestic events could materially adversely impact our operations and business. While we actively monitor and take steps to mitigate supply chain risk, there can be no assurance that our mitigation plans will prevent disruptions that may arise from shortages of materials that we use in the production of our products. We rely heavily on information technology systems that, if not properly functioning, could materially adversely affect our business. We rely on our information technology systems to process, analyze and manage data to facilitate the purchase, manufacture, and distribution of our products, as well as to receive, process, bill and ship orders on a timely basis. A significant disruption or failure in the design, operation, security or support of our information technology systems could significantly disrupt our business. Our information technology systems may be subject to cyber attacks, security breaches, computer hacking, as well as other damage, disruptions or shutdowns. Experienced computer programmers and hackers may be able to penetrate our security controls and misappropriate or compromise sensitive personal, proprietary or confidential information, create system disruptions or cause shutdowns. They also may be able to develop and deploy viruses, worms and other malicious software programs that attack our systems or otherwise exploit any security vulnerabilities. Additionally, third parties may attempt to fraudulently induce employees or customers into disclosing sensitive information such as usernames, passwords or other information in order to gain access to our customers' data or our data, including our intellectual property and other confidential business information, employee information or our information technology systems. Our systems and the data stored on those systems may also be vulnerable to security incidents or security attacks, acts of vandalism or theft, coordinated attacks by activist entities, misplaced or lost data, human errors or other similar events that could negatively affect our systems and its data, as well as the data of our business partners. Further, third parties, such as hosted solution providers, that provide services to us, could also be a source of security risk in the event of a failure of their own security systems and infrastructure. We have experienced cybersecurity incidents in the past, but none of these incidents, individually or in the aggregate, has had a material adverse effect on our business, reputation, operations or products. The Company implemented various information technology protections designed to detect and reduce cybersecurity incidents, although there can be no assurance that our protections will be successful. The Company also regularly evaluates its protections against cybersecurity incidents, including in response to specific threats and as part of the Company' s information security program. There can be no assurance, however, that the Company will be able to prevent or remediate all future cybersecurity incidents or that the cost associated with responding to any such incident or impact of such incident will not be significant or material. Further, our remediation efforts may not be successful and could result in interruptions, delays or cessation of service, and loss of existing or potential suppliers or customers. In addition, breaches of our security measures and the unauthorized dissemination of sensitive personal, proprietary or confidential information about us, our business partners or other third parties could expose us to significant potential liability and reputational harm. As threats related to cyber attacks develop and grow, we may also find it necessary to make further investments to protect our data and infrastructure, which may impact our profitability. As a global enterprise, we could also be negatively impacted by existing and proposed laws and regulations, as well as government policies and practices related to cybersecurity, privacy, data localization and data protection. Our products may be found to be defective **,** or our services performed may result in equipment or product damage and, as a result, warranty and / or product liability claims may be asserted against us. We sell many of our components at prices that are significantly lower than the cost of the equipment or other goods in which they are incorporated. Because a defect or failure in a product could give rise to failures in the equipment that incorporates them, we may face claims for damages that are disproportionate to the revenues and profits we receive from the components involved in the claims. While we typically have provisions in our agreements with our suppliers that hold the supplier accountable for defective products, and we and our suppliers generally exclude consequential damages in our standard terms and conditions, our ability to avoid such liabilities may be limited as a result of various factors, including the inability to exclude such damages due to the laws of some of the countries where we do business. Our business could be adversely affected as a result of a significant quality or performance issues in the components sold by us if we are required to pay for the damages. Although we have product liability insurance, such insurance is limited in coverage and amount. Substantial defaults by our customers on our accounts receivable or the loss of significant customers could have a significant negative impact on our business. We extend credit to our customers. The failure of a significant customer or a significant group of customers to timely pay all amounts due could have a material adverse effect on our financial condition and results of operations. The extension of credit involves considerable judgment and is based on management' s evaluation of factors that include such things as a customer' s financial condition, payment history and the availability of collateral to secure customers' receivables. The risks associated with extending credit to our customers could be exacerbated by economic weakness and market disruption. Failure to successfully implement our growth initiatives, or failure to realize the benefits expected from these initiatives if implemented, may create ongoing operating losses or otherwise adversely affect our business, operating results and financial condition. Our growth strategy focuses on expanding our **Green Energy Solutions, our** healthcare and our power conversion businesses. We may be unable to implement our growth initiatives or strategic priorities or reach profitability in the near future or at all, due to many factors, including factors outside of our control. We also cannot be certain that executing on our strategy will generate the benefits we expect. If we fail to execute successfully on our strategic priorities, if we pursue strategic priorities that prove to be unsuccessful, or if our investments in these growth initiatives do not yield anticipated returns for any reason, our business, financial position, results of operations and cash flows may be materially and adversely affected. We may not be successful in identifying, consummating and integrating future acquisitions, if any. We may not be able to identify attractive acquisition candidates or complete the acquisition of identified candidates at favorable prices and upon advantageous terms. Also, acquisitions are accompanied by risks, such as potential exposure to unknown liabilities and the possible loss of key employees and customers of the acquired business. In addition, we may not obtain the expected benefits or cost savings from acquisitions. Acquisitions are subject to risks associated with financing the acquisition, and integrating the operations, personnel and systems of the acquired businesses. If any of these risks materialize, they may result in disruptions to our business and the diversion of management time and attention, which could increase the costs of operating our existing or acquired businesses or negate the expected benefits of the acquisitions. Economic weakness and uncertainty and other challenges could adversely affect our revenues and gross margins. Our revenues and gross profit margins depend significantly on global economic conditions, the demand for our products and services and the financial condition of our customers. Economic weakness and uncertainty have in the past, and may in the future, result in decreased revenues and gross profit margins. Economic uncertainty also makes it more difficult for us to forecast overall supply and demand with a great deal of confidence. Financial turmoil affecting the banking system and financial markets could result in tighter credit markets and lower levels of liquidity in some financial markets. The effects of a tightened credit environment could include the insolvency of key vendors or their inability to obtain credit to finance development and / or manufacture products resulting in product delays as well as the inability of customers to obtain credit to finance operations and / or customer insolvencies. Spending and the timing thereof by our customers may have a significant impact on our results and, where such spending is delayed or ~~cancelled~~ **canceled** , it could have a material negative impact on our operating results. Current global economic conditions remain uncertain and challenging. Weakness in the markets in which we operate could negatively impact our revenue and operating expenses, and consequently have a material adverse effect on our business, financial condition and results of operations ~~. Our operating results produced net income for fiscal 2022 and fiscal 2021, but operating results in prior years (including fiscal 2020 and fiscal 2019) reflected a net loss~~ . There can be no assurance that we will continue recovery in the near future; nor is there any assurance that worldwide economic volatility will not continue or worsen. Further, challenges in the supply chain and disruptions in our logistics capability could further negatively impact our gross profit margins. See " We are dependent on a limited number of vendors to supply us with essential products. Further, disruptions to the supply chain could adversely impact our business " and " Major disruptions to our logistics capability or to the operations of our key vendors or customers could have a material adverse impact on our operations. " Prolonged periods of inflation could increase costs, have an adverse effect on general economic conditions and impact consumer spending, which could impact our profitability and have a material adverse effect on our business and results of operations. Inflation has risen on a global basis and the United States has recently experienced historically high levels of inflation. If the inflation rate continues to increase, it can also push up the costs of labor and other expenses. There is no assurance that our revenues will increase at the same rate to maintain the same level of profitability. Inflation and government efforts to combat inflation, such as raising the benchmark interest rate, could increase market volatility and have an adverse effect on the financial market and general economic conditions. Such adverse conditions could negatively impact demand for our products, which could adversely affect our profitability, results of operations and cash flow. Our business and results of operations are subject to a broad range of uncertainties arising out of world and domestic events. **Global and regional economic uncertainty continues to exist, including uncertainty relating to the Covid pandemic and the Russian invasion of Ukraine.** Our ~~business and results of~~ operations **could be adversely affected by** ~~are subject to uncertainties arising from world and domestic events. These uncertainties may include a~~ global **or regional** economic ~~slowdown, pandemics and~~ **conditions if markets decline in** ~~other~~ -- **the** ~~public health issues (including~~ **future, whether related to** the **Covid** ~~COVID- 19~~ pandemic ~~)~~ **, the Russian invasion of Ukraine, higher inflation or interest rates, recession** , natural disasters, **impacts of and issues related to climate** ~~changes~~ - **change** ~~in global~~ , ~~national~~ **business disruptions** , ~~or~~ **our** ~~regional~~ **ability to adequately staff operations or otherwise. Any future** ~~economies~~ **economic declines may result in decreased revenue** , **gross margins, earnings or growth rates or difficulty in managing inventory levels or collecting customer receivables. We also have experienced, and expect to continue to experience, increased competitive pricing pressure, raw material** inflation ~~, governmental policies, political unrest, military action~~ and ~~armed conflicts (~~ **availability issues resulting in difficulties meeting customer demand. In addition, customer difficulties in the future could result from economic declines, the Covid pandemic, the cyclical nature of their respective businesses,** such as **in** ~~the 2022 Russian invasion of Ukraine), terrorist activities, political and social turmoil, civil unrest and other~~ -- **the oil** ~~crises. Such conditions have impacted~~ and ~~may continue to impact customer~~ **gas industry, or otherwise and, in turn, result in decreases in product** demand ~~as well as our suppliers' ability to supply us with necessary materials and~~ , **increases in bad debt write** ~~ultimately, may have an impact on our business, financial condition, results and stock price. The ongoing impact of the COVID~~ - **offs** ~~19 outbreak and responses to the pandemic continue to evolve. The COVID- 19 crisis has caused disruptions in global economies~~ , ~~financial markets and rapid shifts in governmental and public health policies in the countries where we operate, or our customers are located or the industries in which we and our customers compete. The COVID- 19 crisis and the actions taken by governments, businesses and individuals to curtail the spread, abatement and resurgence of the disease have negatively impacted, and could continue to negatively impact our business, results of operations, cash flows and financial condition. During fiscal 2021, the Company experienced~~ decreases in ~~demand~~ **timely collection of accounts receivable and adjustments to our allowance** for **credit losses,** ~~certain products as a result~~ **resulting** ~~of the impact of COVID- 19 on certain customers and~~ in ~~certain regions. A significant reduced demand for products or impaired ability to meet customer demand (including disruptions at our transportation service providers or vendors) as a result of resurgences of the COVID- 19 pandemic and / or in response to the pandemic' s continued effects or the reactions to the pandemic and its effects could cause a~~ material **reductions** ~~adverse effect on our business, operations and financial performance. Various regions of the world continue~~ to ~~be affected by the COVID- 19 pandemic and certain areas have undertaken renewed disease control measures. The extent to which our business will continue to be impacted by the COVID- 19 pandemic and its effects will depend on future developments which are highly uncertain and cannot be predicted. These include but not limited to the continued duration and spread of the pandemic, its severity, the effectiveness of actions to vaccinate populations, contain the virus or~~ **our revenues** ~~treat its impact and how quickly and to what extent normal economic and operating conditions resume or are further disrupted. The potential effects of COVID- 19, the responses to the pandemic and the various recovery initiatives may also impact many of our risk factors described herein; however, as this is an~~ **and net earnings** ~~unprecedented and changing situation, the potential impacts to such risk factors remain uncertain. We may continue to experience adverse impacts to our business and financial results due to any economic recession or depression that has occurred, and due to any major public health crises that may occur in the future. This is a very dynamic situation, and we cannot at this time reasonably estimate the scope of its impact on our employees, operations, suppliers or customers, or the full extent to which COVID- 19 or its impact and effects could continue to affect the global economy and our results~~ . We operate our global logistics services through specialized and centralized distribution centers. We depend on third party transportation service providers for the delivery of products to our customers. A major interruption or disruption in service at any of our distribution centers, or a disruption at the operations of any of our significant vendors or customers, for any reason, including reasons beyond our control (such as natural disasters, pandemics or other health crises (such as COVID- 19), work stoppages, power loss, cyber attacks, incidents of terrorism or other significant disruptions of services from our third party providers) could cause cancellations or delays in a significant number of shipments to customers and, as a result, could have a severe impact on our business, operations and financial performance. Further, challenges within global logistics networks, including shortages of shipping containers, international port congestion, and trucking shortages and freight capacity constraints have resulted in delays in receiving key manufacturing components and increased order backlogs and transportation costs. Such logistical disruption may cause us to incur higher costs and may also result in longer lead times for our customers. Uncertainties related to the magnitude and duration of global supply chain disruptions have adversely affected, and may continue to adversely affect, our business. If we are unable to recover a substantial portion of the increase in material and transportation costs from our customers through price adjustments and / or surcharges, our business or results of operations could be adversely affected. We may also experience an increase in order cancellations if any such pricing actions are not accepted by our customers. Risks Related to International Operations ~~A significant portion of our cash, cash equivalents and investments is held by our foreign subsidiaries and could affect future liquidity needs. As of May 28, 2022, $ 15. 0 million, or approximately 42 % of our cash and cash equivalents was held by our foreign subsidiaries. While we intend to use some of the cash held outside the United States to fund our international operations and growth, when we encounter a significant need for liquidity domestically or at a particular location that we cannot fulfill through other internal or external sources, our liquidity requirements could necessitate transfers of existing cash balances between our subsidiaries or to the United States. Some of these subsidiaries are located in jurisdictions that require foreign government approval before a cash repatriation can occur.~~ International operations represent a significant percentage of our business and present a variety of risks that could impact our results. Because we source and sell our products worldwide, our business is subject to risks associated with doing business internationally. These risks include the costs and difficulties of managing foreign entities, limitations on the repatriation and investment of funds, cultural differences that affect customer preferences and business practices, unstable political or economic conditions, geopolitical risks and demand or supply reactions from events that could include political crises and conflict (such as the Russian invasion of Ukraine), war, a major terrorist attack, natural disasters, actual or threatened public health emergencies (such as COVID- 19, including virus variants and resurgences and responses to those developments such as continued or new government- imposed lockdowns and travel restrictions), trade protection measures and import or export licensing requirements, monetary policy, inflation, economic growth, recession, commodity prices, currency volatility, currency controls, and changes in tax laws. We also face exposure to fluctuations in foreign currency exchange rates because we conduct business outside of the United States. Price increases caused by currency exchange rate fluctuations may make our products less competitive or may have an adverse effect on our margins. Our international revenues and expenses generally are derived from sales and operations in currencies other than the U. S. dollar. Accordingly, when the U. S. dollar strengthens in relation to the base currencies of the countries in which we sell our products, our U. S. dollar reported net revenue and income would decrease. We currently do not engage in any currency hedging transactions. We cannot predict whether foreign currency exchange risks inherent in doing business in foreign countries will have a material adverse effect on our operations and financial results in the future. Further, global economic conditions may cause volatility and disruptions in the capital and credit markets. Negative or uncertain financial and macroeconomic conditions may have a significant adverse impact on our sales, profitability and results of operations. ~~The withdrawal by the United Kingdom from the European Union could have a material adverse effect on our business, financial position, liquidity and results of operations. We conduct a significant portion of our business in the European Union (" EU ") and the withdrawal of the United Kingdom (" U. K. ") from the EU (also referred to as " Brexit ") could have a material adverse effect on our business, financial position, liquidity and results of operations. In connection with the U. K.' s exit from the EU, the U. K. and the EU struck a bilateral trade and cooperation deal governing the future relationship between the U. K. and the EU, which took effect on May 1, 2021. However, there remains uncertainties and risks to our business related to Brexit and the new relationship between the U. K. and EU, which will continue to be developed and defined, as well as any resulting political and economic instability created by Brexit. The political and economic impact of Brexit has caused and may continue to cause significant volatility in global markets as well as greater restrictions on imports and exports between the U. K. and EU countries, a fluctuation in currency exchange rates and increased regulatory complexities. The impact of the withdrawal of the U. K. may adversely affect business activity, political stability and economic conditions in the U. K., the EU and elsewhere. Such developments and their ultimate impact, or the perception that any of these developments are likely to occur, could have a material adverse effect on economic growth or business activity in the U. K., the Eurozone or the EU, and could result in the relocation of businesses, cause business interruptions, lead to economic recession or depression, inhibit the growth of the European economy, cause greater volatility in the global currencies that we currently use to transact business and impact the stability of the financial markets, availability of credit, political systems or financial institutions and the financial and monetary system. Such developments could have a material adverse effect on our business, financial position, liquidity and results of operations.~~ Financial Risks ~~We may need to raise additional funds through debt or equity financings in the future to fund our domestic operations and our broader corporate initiatives, which would dilute the ownership of our existing shareholders. If the cash generated by our domestic operations is not sufficient to fund our domestic operations and our broader corporate initiatives, such as stock repurchases, dividends, acquisitions and other strategic opportunities, we may need to raise additional funds through public or private debt or equity financings, or we may need to obtain new credit facilities to the extent we are unable to, or choose not to, repatriate our overseas cash. Such additional financing may not be available on terms favorable to us, or at all, and any new equity financings or offerings would dilute our current stockholders' ownership interests in us. Furthermore, lenders may not agree to extend us new, additional or continuing credit. Economic uncertainty or adverse economic conditions resulting from the impacts of and responses to pandemics and other public health issues (including the COVID- 19 pandemic), natural disasters, changes in global, national, or regional economies, inflation, governmental policies, political unrest, military action and armed conflicts (such as the 2022 Russian invasion of Ukraine), terrorist activities, political and social turmoil, civil unrest and other crises could result in significant or sustained disruption of global financial markets, thereby reducing our ability to access capital. In any such case, our business, operating results or financial condition could be adversely impacted.~~ There is a possible risk of identifiable intangible asset impairment, which could reduce the value of our assets and reduce our net income in the year in which the write- off occurs. Our intangible assets could become impaired, which could reduce the value of our assets and reduce our net income in the year in which the write- off occurs. We ascribe value to certain intangible assets which consist of customer lists and trade names resulting from acquisitions. An impairment charge on intangible assets would be incurred in the event that the fair value of the intangible assets ~~are~~ **is** less than their current carrying values. We evaluate whether events have occurred that indicate all, or a portion, of the carrying amount of intangible assets may no longer be recoverable. If this is the case, an impairment charge to earnings would be necessary **. Our indebtedness and restrictive covenants under our credit facility could limit our operational and financial flexibility. We may incur indebtedness in the future under our credit facility with PNC Bank NA. Our ability to make interest and scheduled principal payments on any such indebtedness and operate within restrictive covenants could be adversely impacted by changes in the availability, terms and cost of capital, changes in interest rates or changes in our credit ratings or our outlook. These changes could increase our cost of business, limiting our ability to pursue acquisition opportunities, react to market conditions and meet operational and capital needs, thereby placing us at a competitive disadvantage** . Legal and Regulatory Risks We may be subject to intellectual property rights claims, which are costly to defend, could require payment of damages or licensing fees, and / or could limit our ability to use certain technologies in the future. Substantial litigation and threats of litigation regarding intellectual property rights exist in the display systems and electronics industries. From time to time, third parties, including certain companies in the business of acquiring patents with the intention of aggressively seeking licensing revenue from purported infringers, have asserted and may in the future assert patent and / or other intellectual property rights to technologies that are important to our business. In any dispute involving products that we have sold, our customers could also become the target of litigation. We are obligated in many instances to indemnify and defend our customers if the products we sell are alleged to infringe any third party' s intellectual property rights. In some cases, depending on the nature of the claim, we may be able to seek indemnification from our suppliers for our self and our customers against such claims, but there is no assurance that we will be successful in obtaining such indemnification or that we are fully protected against such claims. Any infringement claim brought against us, regardless of the duration, outcome or size of damage award, could result in substantial cost, divert our management' s attention, be time consuming to defend, result in significant damage awards, cause product shipment delays, or require us to enter into royalty or other licensing agreements. See Note ~~10~~ **11** , Risks and Uncertainties, of the notes to our consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10- K for further information regarding specific legal matters related to our patents. Additionally, if an infringement claim is successful **,** we may be required to pay damages or seek royalty or license arrangements which may not be available on commercially reasonable terms. The payment of any such damages or royalties may significantly increase our operating expenses and harm our operating results and financial condition. Also, royalty or license arrangements may not be available at all. We may have to stop selling certain products or certain technologies, which could affect our ability to compete effectively. Potential lawsuits, with or without merit, may divert management' s attention, and we may incur significant expenses in our defense. In addition, we may be required to pay damage awards or settlements, become subject to injunctions or other equitable remedies, or determine to abandon certain lines of business, that may cause a material adverse effect on our results of operations, financial position and cash flows. We may incur substantial operational costs or be required to change our business practices to comply with data privacy and data protection laws and regulations around the world. We are subject to many privacy and data protection laws and regulations in various jurisdictions, which continue to evolve rapidly. The EU' s General Data Protection Regulation (" GDPR ") includes operational requirements for companies that receive or process personal data of residents of the European Union, including more robust documentation requirements for data protection compliance programs. Specifically, the GDPR imposes numerous privacy- related requirements for companies operating in the EU, including greater control for data subjects, increased data portability for EU consumers and data breach notification requirements. Complying with the GDPR may cause us to incur substantial operational costs or require us to change our business practices in ways that we cannot currently predict. Despite our efforts to bring our practices into compliance with the GDPR, we may not be successful. Non- compliance could result in proceedings against us by governmental entities, customers, data subjects or others. Fines of up to 20 million euros or up to 4 % of the annual global revenue of the noncompliant company, whichever is greater, may be imposed for violations of certain of the GDPR' s requirements. In addition, several other jurisdictions in the U. S. and around the world have enacted privacy laws or regulations similar to GDPR. For instance, California enacted the California Consumer Privacy Act (" CCPA "), effective January 1, 2020 which gives consumers many of the same rights as those available under GDPR. Several laws similar to the CCPA have been proposed in the United States at both the federal and state level. The effects of, and costs incurred in connection with complying with, the GDPR, the CCPA and other data privacy laws and regulations may be significant and may require us to modify our data processing practices and policies and to incur substantial costs and expenses in an effort to comply. Any actual or perceived failures to comply with the GDPR, the CCPA or other data privacy laws or regulations, or related contractual or other obligations, or any perceived privacy rights violation, could lead to investigations, claims and proceedings by governmental entities and private parties, damages for contract breach, and other significant costs, penalties and other liabilities, as well as harm to our reputation and market position. Our international sales and operations are subject to applicable laws relating to trade, export controls and foreign corrupt practices, the violation of which could adversely affect our operations. We are subject to applicable export control laws and regulations of the United States and other countries. United States laws and regulations applicable to us include the Arms Export Control Act, the International Traffic in Arms Regulations (" ITAR "), the Export Administration Regulations (" EAR "), anti- money laundering laws and regulations and the trade and trade sanctions laws and regulations administered by the Office of the United States Trade Representative and the United States Department of the Treasury' s Office of Foreign Assets Control. The import and export of our products are subject to international trade agreements, the modification or repeal of which could impact our business. The U. S. government agencies responsible for administering EAR and ITAR have significant discretion in the interpretation and enforcement of these regulations. Violations of these laws or regulations could result in significant additional sanctions including fines, more onerous compliance requirements, more extensive debarments from export privileges, loss of authorizations needed to conduct aspects of our international business and criminal penalties and may harm our ability to enter contracts with customers who have contracts with the U. S. government. A violation of the laws or the regulations enumerated above could materially adversely affect our business, reputation, financial condition and results of operations. Ongoing changes to tariffs and trade relations may adversely affect our business. Our international operations are subject to changing tariffs and developments in trade relations. The U. S. government has made statements and taken certain actions that have led to, and may in the future lead to, further changes to U. S. and international trade policies, including recently imposed tariffs affecting certain products exported by a number of U. S. trading partners, including China. For example, during 2018, the U. S. and China each imposed new tariffs, and announced further proposed tariffs, on various products imported from China and the U. S., respectively. Between July 2018 and September 2018, the Office of the United States Trade Representative imposed tariffs of 10 % and 25 % on three product lists totaling approximately $ 250 billion in Chinese imports. In May 2019, there was an announcement of the United States government' s imposition of a 25 % tariff on a range of products exported from China to the U. S. on or after May 10, 2019. These lists include some of our products. Subsequently, in January 2020, the U. S. and China signed a " phase one " trade deal, accompanied by a U. S. decision to cancel a plan to increase tariffs on an additional list of Chinese products and to reduce the tariffs imposed on May 13, 2019 from 15 % to 7. 5 % effective February 14, 2020. Currently, the majority of tariff exclusions granted have expired and many of the additional tariffs on Chinese origin goods remain, as do concerns over the stability of bilateral trade relations, particularly given the limited scope of the phase one agreement. It is possible that further tariffs may be imposed on imports of our products, including by other countries, or that our business will be impacted by changing trade relations among countries. This may cause us to raise prices or make changes to our operations, any of which could adversely impact demand for our products, our costs, customers, suppliers and / or the United States economy or certain sectors thereof and, thus, to adversely impact our businesses and results of operations. Given the evolving nature of trade relations, the impact on our operations and results is uncertain and could be significant. We can provide no assurance that any strategies we implement to mitigate the impact of such tariffs or other trade actions will be successful. To the extent that our supply chain, costs, sales or profitability are negatively affected by the tariffs or other trade actions, our business, financial condition and results of operations may be materially adversely affected. Ownership Risks A single stockholder ~~has~~ **controls a majority of the Company' s** voting **stock** ~~control over us~~ . As of July 25, ~~2022~~ **2023** , Edward J. Richardson, our Chairman, Chief Executive Officer and President, beneficially owned approximately 98 % of the outstanding shares of our Class B common stock, representing approximately ~~63~~ **62** % of the voting power of the outstanding common stock. This share ownership permits Mr. Richardson to exert control over the outcome of stockholder votes, including votes concerning the election of directors, by-law amendments, possible mergers, corporate control contests and other significant corporate transactions. General Risk Factors Failure to attract and retain key skilled personnel could hurt operations. Our success depends to a large extent upon the continued services of key management personnel, particularly Mr. Richardson. While we have employment contracts in place with several of our executive officers, we nevertheless cannot be assured that we will retain our key employees and the loss of service of any of these officers or key management personnel could have a material adverse effect on our business growth and operating results. Our future success will require an ability to attract and retain qualified employees. Competition for such key personnel is intense and we cannot be assured that we will be successful in attracting and retaining such personnel. We cannot make assurances that key personnel will not depart in the future. Changes in the cost of providing employee benefits in order to attract and retain personnel, including changes in health care costs, could lead to increased costs in any of our operations. If we fail to maintain an effective system of internal controls or discover material weaknesses in our internal controls over financial reporting, we may not be able to detect fraud or report our financial results accurately or timely. An effective internal control environment is necessary for us to produce reliable financial reports and is an important part of our effort to prevent financial fraud. We are required to periodically evaluate the effectiveness of the design and operation of our internal controls over financial reporting. Based on these evaluations, we may conclude that enhancements, modifications or changes to internal controls are necessary or desirable. While management evaluates the effectiveness of our internal controls on a regular basis, these controls may not always be effective. There are inherent limitations on the effectiveness of internal controls, including fraud, collusion, management override and failure in human judgment. In addition, control procedures are designed to reduce rather than eliminate business risks. If we fail to maintain an effective system of internal controls, or if management or our independent registered public accounting firm discovers material weaknesses in our internal controls, we may be unable to produce reliable financial reports or prevent fraud. In addition, we may be subject to sanctions or investigation by regulatory authorities, such as the Securities and Exchange Commission or NASDAQ. Any such actions could result in an adverse reaction in the financial markets due to a loss of confidence in the reliability of our financial statements. If we are deemed to be an investment company, we will be required to meet burdensome compliance requirements and restrictions on our activities. We have had significant cash and investments. If we are deemed to be an " investment company " as defined under the Investment Company Act of 1940 (the " Investment Company Act "), the nature of our investments may be subject to various restrictions. We do not believe that our principal activities subject us to the Investment Company Act. If we are deemed to be subject to the Investment Company Act, compliance with required additional regulatory burdens would increase our operating expenses. Evolving expectations around corporate responsibility practices, specifically related to environmental, social and governance (" ESG ") matters, may expose us to reputational and other risks. Investors, stockholders, customers, suppliers and other third parties are increasingly focusing on ESG and corporate social responsibility endeavors and reporting. Certain institutional investors, investment funds, other influential investors, customers, suppliers and other third parties are also increasingly focused on ESG practices. Companies that do not adapt to or comply with the evolving investor or stakeholder expectations and standards, or which are perceived to have not responded appropriately, may suffer from reputational damage and result in the business, financial condition and / or stock price of a company being materially and adversely affected. Further, this increased focus on ESG issues may result in new regulations and / or third **-** party requirements that could adversely impact our business, or certain shareholders reducing or eliminating their holdings of our stock. Additionally, an allegation or perception that the Company has not taken sufficient action in these areas could negatively harm our reputation. Our stock price may be volatile. Our stock price has fluctuated in the past and may experience declines in the future as a result of the volatile nature of the stock market, developments in our business and / or factors outside of our control **including certain of the risk factors discussed in this report** . Many factors may cause the market price for our common stock to change, including: (i) our operating results as compared to investors' expectations in any period, (ii) market perceptions concerning our future earnings prospects, (iii) adverse changes in general market conditions or economic trends and (iv) changes or events in our industry or the world, such as market reactions to public health issues (including the COVID- 19 pandemic), natural disasters, changes in global, national, or regional economies, inflation, governmental policies, political unrest, military action and armed conflicts (such as the 2022 Russian invasion of Ukraine), terrorist activities, political and social turmoil, civil unrest and other crises.