Risk Factors Comparison 2024-05-23 to 2023-05-25 Form: 10-K

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RISKS RELATED TO OUR BUSINESS AND OPERATIONS ~~Ongoing impacts from COVID- 19 or another pandemic, epidemic or outbreak of an infectious disease may materially and adversely impact our business, prospects, financial condition and operating results. The COVID- 19 pandemic has adversely impacted our business, and it, as well as other possible health pandemics, epidemics or outbreaks, may materially and adversely impact our business, prospects, financial condition and operating results in the future. Our engineering and product development operations, among others, cannot all be conducted in a remote working structure and often require on- site access to materials and equipment. We have customers with international operations in varying industries. We also depend on suppliers and manufacturers worldwide. We are currently experiencing disruptions and delays in our supply chain. Depending upon the duration of the ongoing effects of the COVID- 19 pandemic, which may linger for some time even if significant health risks abate, our customers, suppliers, manufacturers and partners may suspend or delay their engagement with us or take other actions or experience their own negative impacts, any of which could result in a material adverse effect on our financial condition and ability to meet current timelines. The COVID- 19 pandemic has adversely affected and may continue to adversely affect our ability to recruit skilled employees to join our team and to meet our product development timelines. Our response to the ongoing COVID- 19 pandemic and its ongoing impacts on our supply chain and business activities may prove to be inadequate, and we may be unable to operate in the manner necessary to avoid interruptions, reputational harm and delays in our product development and shipments, any of which could have a material adverse effect on our business, prospects, financial condition and operating results. In addition, pre- COVID- 19 supply chain, economic and business conditions may not ever return. To the extent COVID- 19 continues to impact our business, financial position and results of operations, it may also have the effect of heightening certain of the other risks described in this Annual Report on Form 10- K, such as those relating to our international operations and global strategies and our dependence on third- party suppliers.~~ We do not have long- term commitments for significant revenues with most of our customers and may be unable to retain existing customers, attract new customers or replace departing customers with new customers that can provide comparable revenues and profit margins. Because we generally do not obtain firm, long- term volume purchase commitments from our customers, most of our sales are derived from individual purchase orders. We remain dependent upon securing new purchase orders in the future in order to sustain and grow our revenues. Accordingly, there is no assurance that our revenues and business will grow in the future. Our failure to maintain and expand our customer relationships could materially and adversely affect our business and results of operations. In recent years, a few major customers and distributors have accounted for a significant portion of our revenue. Our revenue could decline if we are unable to maintain or develop relationships with additional customers or distributors and our results of operations could be adversely affected if any one of these customers is unable to meet their financial obligations to us. For the year ended February **29, 2024, our two largest customers accounted for approximately 12 % of our net sales. For the year ended February** 28, 2023, our two largest customers accounted for approximately 14 ~~% of our net sales. For the year ended February 28, 2022, our two largest customers accounted for approximately 24~~ % of our net sales. If we are unable to diversify our customer base, our future results could be heavily dependent on these customers and distributors. Our dependence on a limited number of customers and distributors means that the loss of a major customer or distributor or any reduction in orders by a major customer or distributor would materially reduce our net sales and adversely affect our results of operations. We expect that sales to relatively few customers will continue to account for a significant percentage of our net sales for the foreseeable future; however, these customers or our other customers, may not use our products at current levels in the future, if at all. Customer purchase orders may be delayed or cancelled, and order volume levels can be changed with loss of deposit as the only penalty. We may not be able to replace cancelled, delayed, or reduced purchase orders with new orders. If any one of these customers reduces its demand for our products, it will likely have a material adverse effect on our operations. Furthermore, a significant portion of our accounts receivables is concentrated with a few major customers, who may not be able to meet their financial obligations to us. The failure of any such customers to pay amounts owed to us in a timely fashion or at all could have an adverse effect on our results of operations. The Company is also exposed to credit risk on its accounts receivable, and this risk is heightened during periods when economic conditions worsen. The Company' s outstanding receivables are not covered by collateral or credit insurance. The Company' s exposure to credit and collectability risk on its receivables may also be higher in certain international markets, and its ability to mitigate such risks may be limited. While the Company has procedures to monitor and limit exposure to credit risk on its receivables, there can be no assurance such procedures will effectively limit our credit risk and avoid losses. We ~~will~~ **may** need to raise additional funds to develop our business, which may adversely affect our future growth. We may finance a portion of our anticipated future growth and possibly future strategic acquisitions through public or private equity offerings or debt financings. Additional funds may not be available when we need them on terms that are acceptable to us, or at all. If adequate funds are not available, we may be required to delay or reduce the scope of, our plans to grow our revenues or to consummate one or more strategic acquisitions or otherwise to scale back our business plans. In addition, we could be forced to reduce or forego attractive business opportunities. To the extent that we raise additional funds by issuing equity securities, our stockholders may experience significant dilution. In addition, debt financing, if available, may involve restrictive covenants. We may seek to access the public or private capital markets whenever conditions are favorable, even if we do not have an immediate need for additional capital at that time. Our access to the financial markets and the pricing and terms we receive in the financial markets could be adversely impacted by various factors, including changes in financial markets and interest rates. We may be adversely affected by global and regional economic conditions and military, legislative, regulatory and political developments. We sell our products around the world, and we expect to continue to derive a substantial portion of sales from outside the U. S. ~~The uncertain macroeconomic environment caused by the outbreak of COVID- 19 may adversely affect our results and could have a negative impact on demand for our products.~~ In addition, we are currently operating in a period of economic uncertainty and capital markets disruption, which has been significantly impacted by geopolitical instability due to the ongoing military conflict between Russia and Ukraine. Our business, financial condition and results of operations could be materially adversely affected by any negative impact on the global economy and capital markets resulting from the conflict in Ukraine or any other geopolitical tensions **such as regional instability from the conflict between Israel and Hamas** . Customers or suppliers may experience cash flow problems and as a result, may modify, delay or cancel plans to purchase our products, and suppliers may significantly and quickly increase their prices or reduce their output. Additionally, if customers are not successful in generating sufficient revenue or are precluded from securing financing, they may not be able to pay, or may delay payment of, amounts owed to us. Any inability of current and / or potential customers to purchase our products and / or to pay us for our products may adversely affect our sales, earnings and cash flow. Sales and earnings could also be affected by our ability to manage the risks and uncertainties associated with the application of local legal requirements or the enforceability of laws and contractual obligations, trade protection measures, changes in tax laws, regional political instability, war, terrorist activities, severe or prolonged adverse weather conditions and natural disasters as well as health epidemics or pandemics. Our success will depend, to a large degree, on the expertise and experience of the members of our management team, the loss of whom could have a material adverse effect on our business. Our success is, to a large degree, dependent upon the expertise and experience of the management team and its ability to attract and retain qualified personnel who are technically proficient. The loss of the services of one or more of such personnel could have a material adverse effect on our business. Our business may be adversely affected if we are unable to continue to attract and retain such personnel. We will need to add qualified additional personnel as we expand our business, and we may not be able to employ such persons, which could affect our ability to expand and have a material adverse effect on our business. In order to expand our product offerings and customer base, we will need to hire additional qualified personnel. We may not be able to identify such persons, and even if we identify them, we may not have the funds or ability to employ them, which could have a material adverse effect on our business. Although we have not experienced any material disruptions due to labor shortages to date, we have observed an overall tightening and increasingly competitive labor market. A sustained labor shortage or increased turnover rates within our employee base **as a result of general macroeconomic factors** , ~~whether~~ **could** lead to increased costs,such as increased overtime to meet demand and increased wage rates to attract and retain employees,and could negatively affect our ability to complete our projects according to the required schedule or otherwise efficiently operate our business.If we are unable to hire and retain employees capable of performing at a high level,or if mitigation measures we may take to respond to a decrease in labor availability,such as overtime and third- party outsourcing,have unintended negative effects,our business could be adversely affected.An overall labor shortage,lack of skilled labor,increased turnover or labor inflation, ~~caused~~ caused by COVID- 19 or as a result of general macroeconomic factors, could lead to increased costs, such as...... result of general macroeconomic factors, could have a material adverse impact on our operations, results of operations, liquidity or cash flows. If we are unable to manage our expected growth, our business may be materially and adversely affected. We expect to expand our operations, including by expanding our internal resources, making **possible** acquisitions and entering into new markets, and we intend to continue to focus on rapid growth, including organic growth and possibly acquisitions. The growth of our business could place significant strain on our management, operational and financial resources. To manage our future growth, we could be required to improve existing or implement new operational or financial systems, procedures and controls or expand, train and manage a growing employee base. Our failure to accomplish any of these tasks could materially and adversely affect our business. Even if we are successful in integrating future acquisitions into our existing operations, we may not derive the benefits, such as operational or administrative synergies, that we expected from such acquisitions, which may result in the investment of our capital resources without realizing the expected returns on such investment. Our inability to protect our intellectual property rights could negatively affect our business and results of operations. Our ability to compete effectively depends in part upon developing, maintaining and / or protecting intellectual property rights relevant to our ultrasonic nozzles and coating processes. We rely principally on a combination of patent protection, trade secret laws, confidentiality and non- disclosure agreements, and trusted business relationships to establish, maintain and protect the intellectual property rights relevant to our business. These measures, however, may not be adequate in every given case to permit us to gain or retain any competitive advantage, particularly in those countries where the laws do not protect our proprietary rights as fully as in the United States. Where we consider it appropriate, we may seek patent protection in the United States on technologies used in, or relating to, our ultrasonic nozzles, applications and manufacturing processes. The issuance of a patent is not conclusive as to its scope, validity and enforceability. Thus, any patent or patent application which may issue into a patent held by us could be challenged, invalidated or held unenforceable in litigation or proceedings before the U. S. Patent and Trademark Office and / or other patent tribunals or circumvented by others. No consistent policy regarding the breadth of patent claims has emerged to date in the United States, and the landscape could become more uncertain in view of future rule changes by the United States Patent and Trademark Office, the introduction of patent reform legislation and decisions in patent law cases by United States federal courts. The patent landscape outside the United States is even less predictable. As a result, the validity and enforceability of patents cannot be predicted with certainty. In addition, we may fail to apply for patents on important technologies or product candidates in a timely fashion, if at all, and our existing and future patents may not be sufficiently broad to prevent others from utilizing our technologies or from developing competing products or technologies. Our patent strategy involves complex legal and factual questions. Our ability to maintain and solidify our proprietary technology may depend in part upon our success in obtaining patent rights and enforcing those rights once granted or licensed. Our issued patents and those that may be issued in the future may be challenged, invalidated, rendered unenforceable or circumvented, which could limit our ability to prevent competitors from marketing similar or related products, or shorten the term of patent protection that we may have for our products, processes and enabling technologies. In addition, the rights granted under any issued patents may not provide us with competitive advantages against competitors with similar technology. Furthermore, our competitors may independently develop similar technologies, duplicate technology developed by us or otherwise possess intellectual property rights that could limit our ability to manufacture our products and operate our business. We also rely on trade secret protection for our confidential and proprietary information. Trade secrets, however, can be difficult to protect. We may not be able to maintain our technology or know- how as trade secrets, and competitors may develop or acquire equally valuable or more valuable technology or know- how related to the manufacture of comparable ultrasonic nozzles. We also seek to protect our confidential and proprietary information, in part, by requiring all employees, consultants and business partners to execute confidentiality and / or nondisclosure agreements upon the commencement of any employment, consulting arrangement or engagement with us. These agreements generally require that all confidential and proprietary information developed by the employee, consultant, or business partner, or made known to the employee, consultant or business partner by us, during the course of the relationship with us, be kept confidential and not disclosed to third parties. These agreements may be breached and may not provide adequate remedies in the event of breach. To the extent that our employees, consultants, or business partners use intellectual property owned by others in their work for and / or with us, disputes could arise as to the rights in related or resulting technologies, know- how or inventions. Moreover, while we also require customers and vendors to execute agreements containing confidentiality and / or nondisclosure provisions, we may not have obtained such agreements from all of our customers and vendors. In addition, our trade secrets may otherwise become known or be independently discovered by competitors, customers, or vendors. Such customers or vendors may also be subject to laws and regulations that require them to disclose information that we would otherwise seek to keep confidential. Moreover, others may independently develop and obtain patents covering technologies that are similar or superior to the product forms, applications, or manufacturing processes that we employ. If that happens, we may need to obtain licenses for these technologies and may not be able to obtain licenses on reasonable terms, if at all, which could limit our ability to manufacture our future products and operate our business. In addition, third parties could utilize our intellectual property rights in territories where we do not have intellectual property protection. Such third parties may then try to import products made using our intellectual property rights into the United States or other countries, which could have a material adverse effect on our business. We could become subject to intellectual property litigation that could be costly, limit or cancel our intellectual property rights, divert time and efforts away from business operations, require us to pay damages and / or otherwise have an adverse material impact on our business. The success of our business is highly dependent on protecting our intellectual property rights. Unauthorized parties may attempt to copy or otherwise obtain and use our products and / or enabling technologies. Policing the unauthorized use of our intellectual property rights is difficult and expensive, as is enforcing these rights against unauthorized use by others. Identifying unauthorized use of our intellectual property rights is difficult because we may be unable to monitor the processes and / or materials being employed by other parties. The steps we have taken may not prevent unauthorized use of our intellectual property rights, particularly in foreign countries where enforcement of intellectual property rights may be more difficult than in the United States. Our continued commercial success will also depend in part upon not infringing the patents or violating the intellectual property rights of third parties. We are aware of patents and patent applications generally relating to aspects of our technologies filed by, and issued to, third parties. Nevertheless, we cannot determine with certainty whether such patents or patent applications of other parties may materially affect our ability to conduct our business. There may be existing patents of which we are unaware that we may inadvertently infringe, resulting in claims against us or our customers. In the event that the manufacture, use and / or sale of our products or processes is challenged, or if our product forms or processes conflict with the patent rights of others, third parties could bring legal actions against us or our customers in the United States, Asia, Europe or other countries, claiming damages and seeking to enjoin the manufacturing and / or marketing of our products. Additionally, it is not possible to predict with certainty what patent claims may issue from any relevant third- party pending patent applications. Third parties may be able to obtain patents with claims relating to our product forms, applications and / or manufacturing processes which they could attempt to assert against us or our customers. In either case, litigation may be necessary to enforce, protect or defend our intellectual property rights or to determine the validity and scope of the intellectual property rights of others. Any litigation could be unsuccessful, cause us to incur substantial costs, divert resources and the efforts of our personnel away from daily operations, harm our reputation and / or result in the impairment of our intellectual property rights. In some cases, litigation may be threatened or brought by a patent holding company or other adverse patent owner who has no relevant product revenues and against which our patents may provide little or no deterrence. If we are found to infringe any patents, we could be required to (1) pay substantial monetary damages, including lost profits, reasonable royalties and / or treble damages if an infringement is found to be willful and / or (2) totally discontinue or substantially modify any products or processes that are found to be in violation of another party' s intellectual property rights. If our competitors are able to use our technology without payment to us, our ability to compete effectively could be harmed. The markets within which we compete are highly competitive. Many of our competitors have greater financial and other resources than we do and one or more of these competitors could use their greater financial and other resources to gain market share at our expense. If our business continues to develop as expected, we anticipate that our revenues will continue to grow. If, due to capital constraints or otherwise, we are unable to fulfill our existing backlog in a timely manner and / or procure and timely fulfill our anticipated future backlog, our customers and potential customers may decide to use competing systems or products. If we are unable to fulfill the demand for products and systems in a timely manner, our customers and potential customers may choose to purchase products from our competitors. In addition, we could face new competition from large international or domestic companies with established industrial brands and distribution networks that enter our end markets. Demand for our products may also be affected by our ability to respond to changes in design and functionality, to respond to downward pricing pressure, and to provide shorter lead times for our products than our competitors. If we are unable to respond successfully to these competitive pressures, we could lose market share, which could have an adverse impact on our results. We cannot assure that we will be able to compete successfully in our markets or compete effectively against current and new competitors as our industry continues to evolve. Rapid technological changes may prevent us from remaining current with our technological resources and maintaining competitive product and service offerings. The markets in which we and our customers operate are characterized by rapid technological change. Significant technological changes could render our existing and potential new products, systems **,** and technology obsolete. Our future success will depend, in large part, upon our ability to: · effectively identify and develop leading technologies; · continue to develop our technical expertise; · enhance our current products and systems with new, improved and competitive technology; and · respond to technological changes in a cost- effective and timely manner. If we are unable to successfully respond to technological change or if we do not respond to it in a cost- effective and timely manner, then our business will be materially and adversely affected. We cannot assure you that we will be successful in responding to changing technology. In addition, technologies developed by others may render our products, systems **,** and technology uncompetitive or obsolete. Even if we do successfully respond to technological advances, the integration of new technology may require substantial time and expense, and we cannot assure you that we will succeed in adapting our products, systems and technology in a timely and cost- effective manner. If we are unable to continue to develop new and enhanced products and systems that achieve market acceptance in a timely manner, our competitive position and operating results could be harmed. Our future success will depend on our ability to continue to develop new and enhanced ultrasonic nozzles and coating systems and related products that achieve market acceptance in a timely and cost- effective manner. The markets in which we and our customers operate are characterized by frequent introductions of new and enhanced products and services, evolving industry standards and regulatory requirements, government incentives and changes in customer needs. The successful development and market acceptance of our products and systems, depends on a number of factors, including: · the ~~impact~~ **changing requirements and preferences** of the **potential customers in our** ~~COVID- 19 pandemic on the global~~ markets; · the ~~changing requirements and preferences of the potential customers in our markets; · the~~ accurate prediction of market requirements, including **any** regulatory issues; · the timely completion and introduction of new products and systems to avoid obsolescence; · the quality, price and performance of new products and systems; · the availability, quality, price and performance of competing products and systems; · our customer service and support capabilities and responsiveness; · the successful development of our relationships with existing and potential customers; and · changes in industry standards. We may experience financial or technical difficulties or limitations that could prevent us from introducing new or enhanced products or systems. Furthermore, any of these new or enhanced products and systems could contain problems that are discovered after they are introduced. We may need to significantly modify the design of these products and systems to correct problems. Rapidly changing industry standards and customer preferences and requirements may impede market acceptance of our products and systems. Development and enhancement of our products and systems will require significant additional investment and could strain our management, financial and operational resources. The lack of market acceptance of our products or systems or our inability to generate sufficient revenues from this development or enhancement to offset their development costs could have a material adverse effect on our business. In addition, we may experience delays or other problems in releasing new products and systems and enhancements, and any such delays or problems may cause customers to forego purchases of our products and systems and to purchase those of our competitors. We cannot provide assurance that products and systems that we have recently developed or that we develop in the future will achieve market acceptance. If our new products and systems fail to achieve market acceptance, or if we fail to develop new or enhanced products and systems that achieve market acceptance, our growth prospects, operating results and competitive position could be adversely affected. We manufacture and assemble all our products at one facility. Any prolonged disruption in the operations of this facility would result in a decline in our sales and profitability. We manufacture and assemble our products and systems at our production facility located in Milton, New York. Any prolonged disruption in the operations of our manufacturing and assembly facility, whether ~~due to the COVID- 19 pandemic,~~ equipment or information technology infrastructure failure, labor difficulties **, prolonged health emergencies** , destruction of or damage to this facility as a result of a hurricane, earthquake, fire, flood, other catastrophes, and other operational problems would result in a decline in our sales and profitability. In the event of a business interruption at our facility, we may be unable to shift manufacturing and assembly capabilities to alternate locations, accept materials from suppliers or meet customer shipment needs, among other severe consequences. Such an event could have a material and adverse impact on our financial condition and results of our operations. Failure to obtain adequate supplies of components and raw materials or failure to obtain components or raw materials at affordable prices could negatively affect our ability to supply products to our customers and negatively affect our profit margins. We use a variety of components and raw materials in the manufacture of our products. As other industries develop products utilizing similar components and raw materials that we use, we may not be able to obtain adequate supplies of components and raw materials required for the manufacture of our existing and future products that would prevent us from supplying products to our customers and materially affect our business. Furthermore, any increased demand for, the raising of tariff rates on, or an increase of non- tariff trade barriers that apply to the components and raw materials that we use could increase the price we must pay to obtain them and could adversely affect our profitability, which would have an adverse effect on our financial results. Recently, we have encountered challenges in our supply of various materials and components, and electronic components in particular, due to well- documented shortages and constraints in the global supply chain. Lead times for ordered components may vary significantly, and some components used to manufacture our products are provided by a limited number of sources. We ~~have experienced lengthened lead times throughout our supply chain as a result of supply chain constraints and material shortages that have occurred in the recent months, and may continue through fiscal year 2024. We~~ may rely on sub- contractors to meet current demand for our products, and we may need to obtain additional manufacturing capacity in order to increase production of our existing products or to produce our proposed new products, the failure of which could have a material adverse effect on our operations. We may not have sufficient internal manufacturing capacity to meet the current demand for our products, and we may need to rely on subcontractors to enable us to meet this demand. Since we may rely on our subcontractors for a significant amount of our production capacity, the loss of the services of our subcontractors would have a material adverse effect on our business. Our plans for the growth of our business rely upon increasing sales of our existing products and systems and developing and marketing new products. We may not have adequate internal manufacturing facilities to substantially increase production of our products and obtaining additional manufacturing capacity in- house could require substantial capital expenditures. We may not have the capital resources to obtain or construct new facilities to expand manufacturing capacity and meet increasing demand for our products, which could have a material adverse effect on our operations. Conversely, any significant decrease in demand for our products could create idle plant capacity and an inability to cover fixed costs, which could adversely impact our results of operations and financial condition. We are exposed to risks related to our international sales, and the failure to manage these risks could harm our business. In addition to our net sales to customers within the U. S. and Canada, we may become increasingly dependent on net sales to customers outside the U. S. and Canada as we pursue expanding our business with customers worldwide. In the fiscal years ended February **29, 2024 and February** 28, 2023 ~~and 2022~~ , our net sales outside of the U. S. and Canada accounted for approximately **45 % and** 55 ~~% and 68~~ %, respectively, of our total net sales. We continue to expect that a significant portion of our future revenues will be from international sales. As a result, the occurrence of any international, political, economic, or geographic event could result in a significant decline in revenue. There are significant risks associated with conducting operations internationally, requiring significant financial commitments to support such operations. These numerous and sometimes conflicting laws and regulations include internal control and disclosure rules, data privacy and filtering requirements, anti- corruption laws, such as the Foreign Corrupt Practices Act, and other local laws prohibiting corrupt payments to governmental officials, and anti- competition regulations, among others. Violations of these laws and regulations could result in fines and penalties, criminal sanctions against us, our officers, or our employees, prohibitions on the conduct of our business and on our ability to offer our products and services in one or more countries, and could also materially affect our brand, our international expansion efforts, our ability to attract and retain employees, our business, and our operating results. Although we have implemented policies and procedures designed to ensure compliance with these laws and regulations, there can be no assurance that our employees, contractors, or agents will not violate our policies. Some of the risks and challenges of conducting business internationally include: ~~· the impact of COVID- 19 on the global markets;~~ · requirements or preferences for domestic products or solutions, which could reduce demand for our products; · unexpected changes in regulatory requirements; · restrictions on the import or export of critical technology; · management communication and integration problems resulting from cultural and geographic dispersion; · the burden of complying with a variety of laws and regulations in various countries; · difficulties in enforcing contracts; · the uncertainty of protection for intellectual property rights in some countries; · application of the income tax laws and regulations of multiple jurisdictions, including relatively low- rate and relatively high- rate jurisdictions, to our sales and other transactions, which results in additional complexity and uncertainty; · tariffs and trade barriers, export regulations and other regulatory and contractual limitations on our ability to sell products; · failure to comply with both U. S. and foreign laws, including export and antitrust regulations, the Foreign Corrupt Practices Act and any trade regulations ensuring fair trade practices; · heightened risk of unfair or corrupt business practices in certain geographies and of improper or fraudulent sales arrangements that may impact financial results and result in restatements of, or irregularities in, financial statements; · potentially adverse tax consequences, including multiple and possibly overlapping tax structures; · general economic and geopolitical conditions, including war and acts of terrorism; · lack of the availability of qualified third- party financing; and · currency exchange controls. While these factors and the impacts of these factors are difficult to predict, any one or more of them could adversely affect our business, financial condition and results of operations in the future. Any liability damages resulting from technical faults or failures of our products could be substantial and could materially adversely affect our business and results of operations. Our products are used by customers and integrated into customers' machines and systems, and therefore a malfunction or the inadequate design of our products could result in product liability claims. Any liability for damages resulting from technical faults or failures could be substantial and could materially adversely affect our business and results of operations. In addition, a well- publicized actual or perceived problem could adversely affect the market' s perception of our products, which would materially impact our financial condition and operating results. Inflationary Pressures and Rising Prices for Goods and Services. Inflation rose sharply beginning in late 2021 and continued rising through 2022 **, leveling off in 2023** at ~~levels~~ **rates** not seen for over 40 years. Although the Federal Reserve has significantly increased interest rates in response to rising inflation, inflationary pressures are currently expected to remain elevated throughout ~~2023~~ **2024** . Small to medium- sized businesses may be impacted more during periods of high inflation as they are not as able to leverage economics of scale to mitigate cost pressures compared to larger businesses. Inflation has the potential to adversely affect our liquidity, business, financial condition and results of operations by increasing our overall cost structure, particularly if we are unable to achieve commensurate increases in the prices we charge our customers. The existence of inflation in the economy has resulted in, and may continue to result in, higher interest rates and capital costs, shipping costs, supply shortages, increased costs of labor, weakening exchange rates and other similar effects. As a result of inflation, we have experienced and may continue to experience, cost increases. Although we may take measures to mitigate the impact of this inflation, if these measures are not effective our business, financial condition, results of operations and liquidity could be materially adversely affected. Even if such measures are effective, there could be a difference between the timing of when these beneficial actions impact our results of operations and when the cost inflation is incurred. We could become liable for damages resulting from our manufacturing activities, which could have a material adverse effect on our business or cause us to cease operations. The nature of our manufacturing operations exposes us to potential claims and liability for environmental damage, personal injury, loss of life and damage to, or destruction of, property. Our manufacturing operations are subject to numerous laws and regulations that govern environmental protection and human health and safety. These laws and regulations have changed frequently in the past and it is reasonable to expect additional and more stringent changes in the future. Our manufacturing operations may not comply with future laws and regulations, and we may be required to make significant unanticipated capital and operating expenditures to bring our operations within compliance with such evolving regulations. If we fail to comply with applicable environmental laws and regulations, manufacturing guidelines, and workplace safety requirements, governmental authorities may seek to impose fines and penalties on us or to revoke or deny the issuance or renewal of operating permits, and private parties may seek damages from us. Under such circumstances, we could be required to curtail or cease operations, conduct site remediation or other corrective action, or pay substantial damage claims for which may not have sufficient or any insurance coverage for claims. If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results, and current and potential stockholders may lose confidence in our financial reporting. Section 404 of the Sarbanes- Oxley Act of 2002 requires our management to assess the effectiveness of our internal control over financial reporting and to disclose in our filing if such controls were unable to provide assurance that a material error would be prevented or detected in a timely manner. We have an ongoing program to review the design of our internal controls framework in keeping with changes in business needs, implement necessary changes to our controls design and test the system and process controls necessary to comply with these requirements. If in the future, our internal controls over financial reporting are determined to be not effective resulting in a material weakness or significant deficiency, investor perceptions regarding the reliability of our financial statements may be adversely affected which could cause a decline in the market price of our stock and otherwise negatively affect our liquidity and financial condition. We may have risks associated with security of our information technology systems. We make significant efforts to maintain the security and integrity of our information technology systems and data. Despite significant efforts to create security barriers to such systems, it is virtually impossible for us to entirely mitigate this risk. There is a risk of industrial espionage, cyber- attacks, misuse or theft of information or assets, or damage to assets by people who may gain unauthorized access to our facilities, systems, or information. Such cybersecurity breaches, misuse, or other disruptions could lead to the disclosure of confidential information; improper usage and distribution of our intellectual property; theft, manipulation, and destruction of private and proprietary data; and production downtimes. Although we actively employ measures to prevent unauthorized access to our information systems, preventing unauthorized use or infringement of our rights is inherently difficult. These events could adversely affect our financial results and any legal action in connection with any such cybersecurity breach could be costly and time- consuming and may divert management' s attention and adversely affect the market' s perception of us and our products. In addition, we must frequently expand our internal information system to meet increasing demand in storage, computing and communication, which may result in increased costs. Our internal information system is expensive to expand and must be highly secure due to the sensitive nature of our customers' information that we transmit. Building and managing the support necessary for our growth places significant demands on our management and resources. These demands may divert such resources from the continued growth of our business and implementation of our business strategy. RISKS RELATED TO OUR COMMON STOCK Future equity financings and issuances of shares under equity compensation plans would dilute your ownership and could adversely affect your common stock ownership rights in comparison with those of other security holders. Our board of directors has the power to issue additional shares of common **stock** without stockholder approval. Additional shares are subject to issuance through various equity compensation plans or through the exercise of currently outstanding equity awards. Our stockholders do not have preemptive rights to any common stock issued by us in the future; therefore, stockholders may experience additional dilution of their equity investment if we issue additional shares of common stock in the future, including shares issuable under equity incentive plans, or if we issue securities that are convertible into shares of our common stock. If additional funds are raised through the issuance of equity securities, the percentage of ownership of our existing stockholders will be reduced, and such newly issued securities may have rights, preferences or privileges senior to those of existing stockholders. If we issue additional common stock or securities convertible into common stock, such issuance will reduce the proportionate ownership and voting power of each other stockholder. In addition, such stock issuances might result in a reduction of the market value of our common stock, which could make our stock unattractive to existing stockholders. Provisions in our articles of incorporation and bylaws could discourage changes in the composition of our board of directors which could hinder an acquisition of us by a third party, even if the acquisition would be favorable to you, thereby adversely affecting existing stockholders. Our articles of incorporation and bylaws contain provisions that may have the effect of making more difficult or delaying attempts by others to obtain control of our board of directors and our Company, even when these attempts may be in the best interests of stockholders. For example, our articles of incorporation and bylaws provide for a classified board of directors which could delay or prevent changes in our control or management, including transactions in which stockholders might otherwise receive a premium for their shares over then- current market prices. These provisions may also limit the ability of stockholders to approve transactions that they may deem to be in their best interests. There is limited trading volume of our common stock, which could make it difficult for you to liquidate an investment in our common stock in a timely manner. Since August 27, 2021, our common stock has been traded on the Nasdaq Capital Market under the symbol SOTK. Because there is limited volume in our common stock, investors may not be able to liquidate their investments when they desire to do so. In addition, if we fail to meet the criteria set forth in SEC and Nasdaq Capital Market rules and regulations, various requirements would be imposed by law on broker- dealers who sell our securities to persons other than established customers and accredited investors. Consequently, such regulations may deter broker- dealers from recommending or selling our common stock, which may further affect its liquidity. If securities analysts do not publish research or reports about our business or if they downgrade us or our sector, the price of our common stock could decline. The trading market for our common stock will depend in part on research and reports that industry or financial analysts publish about us or our business. Furthermore, if one or more of the analysts who cover us downgrades us, the industry in which we operate, or the stock of any of our competitors, the price of our common stock may decline. If one or more of these analysts ceases coverage altogether, we could lose visibility, which could also lead to a decline in the price of our common stock. Our operating results can fluctuate significantly from period to period, which makes our operating results difficult to predict and can cause our operating results, in any particular period, to be less than comparable periods and expectations from time to time. Our operating results have fluctuated significantly from quarter- to- quarter, period- to- period and year- to- year during our operating history and are likely to continue to fluctuate in the future due to a variety of factors, many of which are outside of our control. Certain factors that may affect our operating results include, without limitation, those set forth under " Management' s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies " in this Annual Report on Form 10- K. Because we have little or no control over many of these factors, our operating results are difficult to predict. Any adverse change in any of these factors could negatively affect our business and results of operations. Our revenues, net income and other operating results are heavily dependent upon the size and timing of customer orders and projects, and the timing of the completion of those projects. The timing of our receipt of large individual orders, and of project completion, is difficult for us to predict. Because our operating expenses are based on anticipated revenues over the mid and long- term and because a high percentage of our operating expenses are relatively fixed, a shortfall or delay in recognizing revenues can cause our operating results to vary significantly from quarter- to- quarter and can result in significant operating losses or declines in profit margins in any particular quarter. If our revenues fall below our expectations in any particular quarter, we may not be able, or it may not be prudent for us, to reduce our expenses rapidly in response to the revenue shortfall, which can result in us suffering significant operating losses or declines in profit margins in that quarter. Due to these factors and the other risks discussed in this Annual Report on Form 10- K, you should not rely on quarter- to- quarter, period- to- period or year- to- year comparisons of our results of operations as an indication of our future performance. Quarterly, period and annual comparisons of our operating results are not necessarily meaningful or indicative of future performance. As a result, it is likely that, from time to time, our results of operations or our revenue backlog could fall below historical levels or the expectations of public market analysts and investors, which could cause the trading price of our common stock to decline significantly. The market price of our common stock has been and may continue to be volatile. The market price of our common stock has been volatile and fluctuates widely in response to various factors that are beyond our control. The price of our common stock is not necessarily indicative of our operating performance or long- term business prospects. In addition, the securities markets have from time- to- time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our common stock. Factors such as the following could cause the market price of our common stock to fluctuate substantially: • the underlying price of the commodities, materials, equipment that affect our key markets; • announcements of capital budget changes by major customers; • the introduction of new products by our competitors; • announcements of technology advances by us or our competitors; • current events affecting the political and economic environment in the United States, Europe or Asia; • conditions or industry trends, including demand for our products, services and technological advances; • changes to financial estimates by us or by any securities analysts who might cover our stock; • additions or departures of our key personnel; • seasonal, economic, or financial conditions; • our quarterly operating and financial results; or • litigation or public concern about the safety of our **systems or** products; • the impact of inflation; • ~~war~~ **wars** in Ukraine **or Gaza** ; or ~~• the effect of COVID- 19.~~ The realization of any of these risks and other factors beyond our control could cause the market price of our common stock to decline significantly. The stock market in general experiences, from time to time, extreme price and volume fluctuations. Periodic and / or continuous market fluctuations could result in extreme volatility in the price of our common stock, which could cause a decline in the value of our common stock. Price volatility may be worse if the trading volume of our common stock is low. Future sales of our common stock, or the perception that future sales may occur, may cause the market price of our common stock to decline. If any significant number of our outstanding shares are sold, such sales could have a depressive effect on the market price of our stock. We are unable to predict the effect, if any, that the sale of shares, or the availability of shares for future sale, will have on the market price of the shares prevailing from time to time. Sales of substantial numbers of shares in the public market, or the perception that such sales could occur, could depress prevailing market prices for the shares. Such sales may also make it more difficult for us to sell equity securities or equity- related securities in the future at a time and price that we deem appropriate. The Company is considered a " smaller reporting company " and is exempt from certain disclosure requirements, which could make our common stock less attractive to potential investors. Rule 12b- 2 of the Securities Exchange Act of 1934 (" Exchange Act") defines a " smaller reporting company " as an issuer that is not an investment company, an asset- backed issuer, or a majority- owned subsidiary of a parent, that is not a smaller reporting company, and that had a public float of less than $ 250 million as of the last business day of its most recently completed second fiscal quarter, computed by multiplying the aggregate worldwide number of shares of its voting and non- voting common equity held by non- affiliates by the price at which the common equity was last sold, or the average of the bid and asked prices of common equity, in the principal market for the common equity. As a " smaller reporting company, " we are subject to reduced disclosure requirements that are less comprehensive than applicable to issuers that are not " smaller reporting companies, " which could make our stock less attractive to potential investors and could make it more difficult for shareholders to sell their shares. We have no current plan to pay dividends on our common stock, and investors may lose the entire amount of their investment. We have no current plans to pay dividends on our common stock; therefore, investors will not receive any funds absent a sale of their shares. We cannot assure investors of a positive return on their investment when they sell their shares, nor can we assure that investors will not lose the entire amount of their investment. GENERAL RISK FACTORS We will continue to incur significant costs as a result of operating as a public company, and our management may be required to devote substantial time to compliance initiatives that ultimately could have a material adverse effect on our financial condition and results of operations. As a public company, we expect to continue to incur significant legal, accounting and other expenses. In addition, the Sarbanes- Oxley Act, as well as rules subsequently implemented by the SEC, have imposed various requirements on public companies, including requiring establishment and maintenance of effective disclosure and financial controls as well as mandating certain corporate governance practices. Our management and other personnel will continue to devote a substantial amount of time and financial resources to these compliance initiatives. As a " smaller reporting company " we are able to take advantage of certain exceptions to disclosure requirements, including, but not limited to, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and the exemption from providing a " Compensation Discussion and Analysis " section in our proxy statements; providing only three years of business information; and other " scaled " disclosure requirements that are less comprehensive than issuers that are not smaller reporting companies. If we fail to staff our accounting and finance function adequately or maintain internal control systems adequate to meet the demands that are placed upon us as a public company, we may be unable to report our financial results accurately or in a timely manner and our business and stock price may suffer. The costs of being a public company, as well as diversion of management' s time and attention, may have a material adverse effect on our future business, financial condition and results of operations. Changes in U. S. Generally Accepted Accounting Principles (" GAAP ") could adversely affect our financial results and may require significant changes to our internal accounting systems and processes. We prepare our consolidated financial statements in conformity with GAAP. These principles are subject to interpretation by the Financial Accounting Standards Board (" FASB "), the SEC and various bodies formed to interpret and create appropriate accounting principles and guidance. The FASB periodically issues new accounting standards on a variety of topics. For information regarding new accounting standards, please refer to Note 1 and 2, " Business Description and Significant Accounting Policies, " of the Notes to Consolidated Financial Statements in Part II, Item 8, " Financial Statements and Supplementary Data, " of this Annual Report on Form 10- K. These and other such standards generally result in different accounting principles, which may significantly impact our reported results or could result in variability of our financial results. In preparing our financial statements we make certain assumptions, judgments and estimates that affect amounts reported in our consolidated financial statements, which, if not accurate, may significantly impact our financial results. We make assumptions, judgments and estimates for a number of items, including the fair value of financial instruments, long- lived assets and other intangible assets; the realizability of deferred tax assets; the recognition of revenue and the fair value of stock option awards; and others. We also make assumptions, judgments and estimates in determining the accruals for revenue recognition, product warranties, employee- related liabilities, including commissions and variable compensation, and in determining the allowance or provisions for uncertain tax positions, doubtful accounts, excess or obsolete inventory, and legal contingencies. These assumptions, judgments and estimates are drawn from historical experience and various other factors that we believe are reasonable under the circumstances as of the date of the consolidated financial statements. Actual results could differ materially from our estimates, and such differences could significantly impact our financial results. Our business could be negatively affected as a result of actions of activist shareholders, and such activism could impact the trading value of our securities. In recent years, shareholder activists have become involved in numerous public companies. Shareholder activists frequently propose to involve themselves in the governance, strategic direction and operations of the Company. Such proposals may disrupt our business and divert the attention of our Board of Directors, management and employees, and any perceived uncertainties as to our future direction resulting from such a situation could result in the loss of potential business opportunities, interfere with our ability to execute our strategic plan, be exploited by our competitors, cause concern to our current or potential customers, and make it more difficult to attract and retain qualified personnel and business partners, all of which could adversely affect our business. A proxy contest for the election of directors at our annual meeting could also require us to incur significant legal fees and proxy solicitation expenses. In addition, actions of activist shareholders may cause significant fluctuations in our stock price based on temporary or speculative market perceptions or other factors that do not necessarily reflect the underlying fundamentals and prospects of our business. Major bank failure or sustained financial market illiquidity, or illiquidity at our clearing, cash management and custodial financial institutions, could adversely affect our business, financial condition and results of operations. We face certain risks in the event of a sustained deterioration of financial market liquidity, as well as in the event of sustained deterioration in the liquidity, or failure, of our clearing, cash management and custodial financial institutions. In particular: · We may be unable to access funds in our investment portfolio, deposit accounts and clearing accounts on a timely basis to settle our payments or to make money transfers. Any resulting need to access other sources of liquidity or short- term borrowing would increase our costs. Any delay or inability to settle our payments or to make money transfers could adversely impact our business, financial condition and results of operations. · In the event of a major bank failure, we could face major risks to the recovery of our bank deposits used for the purpose of settling our payments and to the recovery of a significant portion of our investment portfolio. A substantial portion of our cash, cash equivalents and interest- bearing deposits are either held at financial institutions that are not subject to insurance protection against loss or exceed the deposit insurance limit. · We may be unable to borrow from financial institutions or institutional investors on favorable terms, which could adversely impact our ability to pursue our growth strategy and fund key strategic initiatives. If financial liquidity deteriorates, there can be no assurance we will not experience an adverse effect, which may be material, on our ability to access capital and on our business, financial condition and results of operations. ITEM 1B UNRESOLVED STAFF COMMENTS- None. **ITEM 1C CYBERSECURITY Sample Disclosure Risk Management and Strategy Securing our business information, intellectual property, customer and employee data and technology systems is essential for the continuity of our business, meeting applicable regulatory requirements and maintaining the trust of our stockholders. Cybersecurity is an important and integrated part of our enterprise risk management function that identifies, monitors and mitigates business, operational and legal risks. To help protect us from a major cybersecurity incident that could have a material impact on operations or our financial results, the Company is in the process of implementing policies, programs and controls, including technology investments that focus on cybersecurity incident prevention, identification and mitigation. The steps we expect to take to reduce our vulnerability to cyberattacks and to mitigate impacts from cybersecurity incidents include, but are not limited to: penetration testing by a third party vendor, agent based security scanning that runs continuously, establishing**

information security policies and standards, implementing information protection processes and technologies, monitoring our information technology systems for cybersecurity threats and implementing cybersecurity training. In addition, we annually purchase a cybersecurity risk insurance policy that would help defray the costs associated with a covered cybersecurity incident if it occurred. Governance Our Board of Directors is actively engaged in overseeing and reviewing our strategic direction and objectives, taking into account, among other considerations, our risk profile and related exposures, including oversight of risks from cybersecurity threats. As part of this oversight, the Company will update the Board periodically, and at least annually, on our cybersecurity program, including with respect to particular cybersecurity threats, cybersecurity incidents, new developments in our risk profile, the status of projects to strengthen our cybersecurity systems, assessments of our cybersecurity program, and the emerging threat landscape.