Risk Factors Comparison 2024-04-01 to 2023-03-31 Form: 10-K

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Certain factors may have a material adverse effect on our business, prospects, financial condition and results of operations. You should carefully consider the risks and uncertainties described below together with all of the other information contained in this Annual Report on Form 10- K, including our consolidated financial statements and the related notes, before deciding to invest in our common shares. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business. If any of the following risks actually occurs, our business, financial condition, results of operations and future prospects could be materially and adversely affected. If our suppliers fail to meet our component and manufacturing needs, it could delay our production and our product shipments to customers and negatively affect our operations. Our ODM Products comprise many components and subassemblies produced by outside suppliers. We depend greatly on these suppliers for items that are essential to the manufacture of our products, including printed circuit boards and integrated circuits. For certain items, we qualify only a single source, which magnifies the risk of shortages and decreases our ability to negotiate with that supplier on the basis of price. From time to time, we have been unable to obtain sufficient components that we have needed due to shortages or quality issues from some of our suppliers. If our suppliers fail to meet our manufacturing needs, it would delay our production and our product shipments to customers and negatively affect our operations. Our primary suppliers are located in Asia. If a manufacturer should be unable to deliver products to us on a timely basis or at all, our business could be adversely affected. Though we have had many years of favorable experience with these suppliers, there can be no assurance that circumstances might not change and compel one or more of these suppliers to curtail or terminate deliveries to us. Moreover, the use of contract manufacturers to provide components typically requires that we place production orders several months in advance of our expected need for the products. This in turn leads to risks that we may lack sufficient inventory to sell to our customers where our expectations were conservative, or that we may order excess product inventory where our expectations were optimistic. We have in the past, experienced shortages of some parts needed to manufacture our ODM Products. In addition, since a significant number of the products we distribute are manufactured in Taiwan, Hong Kong, China, South Korea and the Philippines, we are subject to a number of risks associated with foreign operations, including economic disruptions, transportation delays and interruptions, foreign exchange rate fluctuations, imposition of tariffs and import and export controls and changes in governmental policies, any of which could have a material adverse effect on our business and results of operations. The company' s lack of long- term sales contracts may have a material adverse effect on its business. Most of the company' s sales are made on an order- by- order basis, rather than through long- term sales contracts. The company generally works with its customers to develop non- binding forecasts for future orders. Based on such non- binding forecasts, the company makes commitments regarding the level of business that it will seek and accept, the inventory that it purchases, and the levels of utilization of personnel and other resources. A variety of conditions, both specific to each customer and generally affecting each customer' s industry may cause customers to cancel, reduce, or delay orders that were either previously made or anticipated, file for bankruptcy protection, or default on their payments. Generally, customers may cancel, reduce, or delay purchase orders and commitments without penalty. The company seeks to mitigate these risks, in some cases, by entering into noncancelable / nonreturnable sales agreements, but there is no guarantee that such agreements will adequately protect the company. Significant or numerous cancellations, reductions, delays in orders by customers, loss of customers, and / or customer defaults on payments could materially adversely affect the company' s business. Changes in demand or downturns in the markets we serve could affect our business and operating results. The industries into which we market and sell our products are cyclical and may experience downturns. These industries also experience volatility, and future volatility as well as downturns, or any failure of these industries to recover from downturns, could materially harm our business and operating results. In addition, our business and financial position may be adversely affected by current and future economic conditions that cause a decline in business and consumer spending in the markets served by our or our customers' products. The competitive pressures the company faces, such as pricing and margin reductions, could have a material adverse effect on the company' s business. The company operates in a highly competitive international environment. The company competes with other large multinational and national electronic components and enterprise computing solutions distributors, as well as numerous other smaller, specialized competitors who generally focus on narrower market sectors, products, or industries. The company also competes for customers with its suppliers. The size of the company' s competitors varies across market sectors, as do the resources the company has allocated to the sectors in which it does business. Therefore, some of the company' s competitors may have a more extensive customer and / or supplier base than the company in one or more of its market sectors. There is significant competition within each market sector and geography that creates pricing and margin pressure and the need for constant attention to improve service and product offerings and increase market share. Other competitive factors include rapid technological changes, product availability, credit availability, speed of delivery, ability to tailor solutions to changing customer needs, and quality and depth of product lines and training, as well as service and support provided to the customer. The company also faces competition from companies in the logistics and product fulfillment, catalog distribution, and e- commerce supply chain services markets. The company expects to encounter increased competition from its current and / or new competitors, making it more difficult for the company to retain its market share. There is no guarantee that the company' s response to competition will be successful. The company' s failure to maintain and enhance its competitive position could have a material adverse effect on its business. A small number of suppliers and customers account for a significant portion of the company' s business. Grand Shine Electronics and Zowie Technology (see also Item 8- Note 5 – Other Assets) together accounted for approximately **61. 2 % and** 49. 1 ~~% and 45. 7~~ % of our net purchases for each of the fiscal years **2023 and** 2022 ~~and 2021~~, respectively. We do not regard any one supplier as essential to our operations, since equivalent replacements for most of our products are available from one or more of our other suppliers or are available from various other sources at competitive prices. However, a change in supplier may delay the delivery of our inventory and adversely impact our results of operations **. In 2023, we had three customers accounting for more than 10 % of our net sales, for approximately 52 %, 14 % and 12 %** . In 2022, we had two customers accounting for more than 10 % of our net sales, for approximately 46 % and 24 %. ~~In~~ **As of December 31,** ~~2021~~ **2023** , we had ~~two~~ **one** ~~customers~~ - **customer** accounting for more than 10 % of our **trade accounts receivable,** net ~~sales~~ **of allowances** , ~~for~~ **of** approximately ~~41~~ **40** % and **as** ~~18 %. As~~ of December 31, 2022 ~~,~~ we had one ~~customers~~ - **customer** ~~accounting for more than 10 % of our trade accounts receivable, net of allowances,~~ of approximately 78 ~~% and as of December 31, 2021 we had two customers of approximately 39 % and 37~~ %. In the event our largest customers were to decrease their demand for our products or in the event such customers ceased to purchase products from us, our operations would be materially and adversely impacted. The company may not be able to adequately anticipate, prevent, or mitigate damage resulting from criminal and other illegal or fraudulent activities committed against it. Global businesses are facing increasing risks of criminal, illegal, and other fraudulent acts. The evolving nature of such threats, considering new and sophisticated methods used by criminals, including phishing, misrepresentation, social engineering and forgery, is making it increasingly difficult for the company to anticipate and adequately mitigate these risks. In addition, designing and implementing measures to defend against, prevent, and detect these types of activities are increasingly costly and invasive into the operations of the business. As a result, the company could experience a material loss in the future to the extent that controls and other measures implemented to address these threats fail to prevent or detect such acts. Products sold by the company may be found to be defective and, as a result, warranty and / or product liability claims may be asserted against the company, which may have a material adverse effect on the company. The company' s business could be materially adversely affected as a result of a significant quality or performance issue in the products or components sold by the company. Despite our efforts to revise and update our manufacturing and test processes, we may not be able to control and eliminate manufacturing flaws adequately. These flaws may include undetected software or hardware defects associated with new products, existing products or products that haves been integrated into a system or apparatus with the products of other vendors. If we fail to adequately monitor, develop and implement appropriate test and manufacturing processes we could experience a rate of product failure that results in substantial shipment delays, warranty costs or damage to our reputation. Product flaws may also consume our limited engineering resources and interrupt our development efforts. Significant product failures would increase our costs and result in the loss of future sales and be harmful to our business. Declines in value of the company' s inventory could materially adversely affect its business. The market for the company' s products and services is subject to rapid technological change, evolving industry standards, changes in end- market demand, evolving customer expectations, oversupply of product, and regulatory requirements, which can contribute to the decline in value or potential obsolescence of inventory. Many of the company' s suppliers will not allow products to be returned after they have been held in inventory beyond a certain amount of time, and, in most instances, the return rights are limited to a certain percentage of the amount of product the company purchased in a particular time frame. As we continue to shift our primary focus to our ODM Products and away from actively marketing our " superstore " strategy of maintaining a vast quantity of electronic components to fill customer orders immediately from available stock held in inventory, we expect the value of our existing inventory to decline. We had inventory balances in the amount of $ **2, 597, 000 and $** 3, 900 ~~, 000 and $ 5, 261~~ , 000 at December 31, **2023 and** 2022 ~~and 2021~~, respectively, which is presented net of valuation allowances of $ 5, **141, 000 and $ 5,** 069 ~~, 000 and $ 4, 892~~ , 000 at December 31, **2023 and** 2022 ~~and 2021~~, respectively. Further declines in the value of the company' s inventory could have a material adverse effect on the company' s business. Tariffs may result in increased prices and could adversely affect the company' s business and results of operations. Recently, the U. S. government imposed tariffs on certain products imported into the U. S. and the Chinese government imposed tariffs on certain products imported into China, which have increased the prices of many of the products that the company purchases from its suppliers. The tariffs, along with any additional tariffs or trade restrictions that may be implemented by the U. S., China or other countries, could result in further increased prices. While the company intends to pass price increases on to its customers, the effect of tariffs on prices may impact sales and results of operations. Retaliatory tariffs imposed by other countries on U. S. goods have not yet had a significant impact, but the company cannot predict further developments. The tariffs and the additional operational costs incurred in minimizing the number of products subject to the tariffs could adversely affect the operating profits of the company and customer demand for certain products which could have an adverse effect on the company' s business and results of operations. The company is subject to U. S. and certain foreign export and import controls, sanctions, embargoes, anti- corruption laws, and anti- money laundering laws and regulations. In the event of non- compliance, the company can face serious consequences, which can harm its business. The company is subject to export control and import laws and regulations, including the U. S. Export Administration Regulations (" EAR "), U. S. Customs regulations, various economic and trade sanctions regulations administered by the U. S. Treasury Department' s Office of Foreign Assets Controls (" OFAC "). Products the company sells which are either manufactured in the United States or based on U. S. technology (" U. S. Products") are subject to the EAR when exported and re- exported to and from all international jurisdictions, in addition to the local jurisdiction' s export regulations applicable to individual shipments. Licenses or proper license exemptions may be required by local jurisdictions' export regulations, including EAR, for the shipment of certain U. S. Products to certain countries, including China, and other countries in which the company operates. Non- compliance with the EAR, OFAC regulations, or other applicable export regulations can result in a wide range of penalties including the denial of export privileges, fines, criminal penalties, and the seizure of inventories. In the event that any export regulatory body determines that any shipments made by the company violate the applicable export regulations, the company could be fined significant sums and / or its export capabilities could be restricted, which could have a material adverse effect on the company' s business. Further, the company is also subject to the U. S. Foreign Corrupt Practices Act of 1977, as amended, the U. S. domestic bribery statute contained in 18 U. S. C. § 201, and other state and national anti- bribery and anti- money laundering laws in the countries in which it conducts business. Anti- corruption laws are interpreted broadly and prohibit companies and their employees, agents, contractors, and other collaborators from authorizing, promising, offering, or providing, directly or indirectly, improper payments or anything else of value to recipients in the public or private sector. The company engages third parties to provide services. The company can be held liable for the corrupt or other illegal activities of its employees, agents, and contractors, even if it does not explicitly authorize or have actual knowledge of such activities. Any violations of the laws and regulations described above may result in substantial civil and criminal fines and penalties, imprisonment, litigation, reputational harm, and other consequences to the company. The company is subject to environmental laws and regulations that could materially adversely affect its business. A number of jurisdictions in which the company' s products are sold have enacted laws addressing environmental and other impacts from product disposal, use of hazardous materials in products, use of chemicals in manufacturing, recycling of products at the end of their useful life, and other related matters. These laws prohibit the use of certain substances in the manufacture of the company' s products and impose a variety of requirements for modification of manufacturing processes, registration, chemical testing, labeling, and other matters. Failure to comply with these laws or any other applicable environmental regulations could result in fines or suspension of sales. Additionally, these directives and regulations may result in the company having non- compliant inventory that may be less readily salable or have to be written off. Some environmental laws impose liability, sometimes without fault, for investigating or cleaning up contamination on or emanating from the company' s currently or formerly owned, leased, or operated property, as well as for damages to property or natural resources and for personal injury arising out of such contamination. The presence of environmental contamination could also interfere with ongoing operations or adversely affect the company' s ability to sell or lease its properties. The discovery of contamination for which the company is responsible, the enactment of new laws and regulations, or changes in how existing regulations are enforced, could require the company to incur costs for compliance or subject it to unexpected liabilities, which could be material. The company may not have adequate or cost- effective liquidity or capital resources. The company requires cash for general corporate purposes, such as funding its ongoing working capital, acquisitions, and capital expenditure needs. At December 31, ~~2022~~ **2023** , the company had cash and cash equivalents of approximately $ ~~5~~ **6** . 2 million. The company believes that funds generated from operations, existing cash balances and, if necessary, related party short- term loans, are likely to be sufficient to finance its working capital and capital expenditure requirements for the foreseeable future. If these funds are not sufficient, the company may need to secure new sources of asset-based lending on accounts receivables or issue debt or equity securities. In the event the company requires additional capital to meet its business needs, there can be no assurance that additional funding will be available when needed or, if available, that it can be obtained on commercially reasonable terms. The company’ s revenues and operating results may fluctuate unexpectedly from quarter to quarter, which may in turn affect its stock price. The company’ s quarterly revenues and operating results have fluctuated in the past, and are likely to vary in the future due to the various factors, including: ● General economic conditions affecting spending and the rates of growth or decline in the markets the company services; including changes caused by ~~COVID- 19 and variants of the virus,~~ rising inflation, and the ongoing war in Europe. ● Variations in product order backlogs, and reductions in the size, delays in the timing, or cancellation of significant customer orders; ● The timing of introductions and marketplace acceptance of new or enhanced products by the company or its competitors; ● Expansions or reductions in the company’ s relationships with its OEM customers; ● Unforeseen warranty costs that exceed established reserves; ● Timing and levels of the company’ s operating expenses; or ● Emerging new technologies that change the nature of or need for the company’ s products and components held in inventory. We believe that period- to- period comparisons of our operating results may not necessarily be reliable indicators of our future performance. It is likely that in some future period our operating results will not meet your expectations or those of public market analysts. Any unanticipated change in revenues or operating results is likely to cause the company’ s stock price to fluctuate since such changes reflect new information available to investors and analysts. New information may cause investors and analysts to revalue the company’ s stock and this, in the aggregate, may cause fluctuations in the company’ s stock price. If the company fails to maintain an effective system of internal controls or discovers material weaknesses in its internal controls over financial reporting, it may not be able to report its financial results accurately or timely or detect fraud, which could have a material adverse effect on its business. An effective internal control environment is necessary for the company to produce reliable financial reports, safeguard assets, and is an important part of its effort to prevent financial fraud. The company is required to annually evaluate the effectiveness of the design and operation of its internal controls over financial reporting. Based on these evaluations, the company may conclude that enhancements, modifications, or changes to internal controls are necessary or desirable. While management evaluates the effectiveness of the company' s internal controls on a regular basis, these controls may not always be effective. There are inherent limitations on the effectiveness of internal controls, including collusion, management override, and failure in human judgment. In addition, control procedures are designed to reduce rather than eliminate financial statement risk. If the company fails to maintain an effective system of internal controls, or if management or the company' s independent registered public accounting firm discovers material weaknesses in the company' s internal controls, it may be unable to produce reliable financial reports or prevent fraud, which could have a material adverse effect on the company' s business. In addition, the company may be subject to sanctions or investigation by regulatory authorities, such as the SEC 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 the company' s financial statements, which could cause the market price of its common stock to decline or limit the company' s access to capital. The company' s success depends upon its key executives. Any failure to attract and retain necessary talent may materially and adversely affect the company' s business, prospects, financial condition, and results of operations. The company' s success depends, to a significant extent, on the capability, expertise, and continued services of its senior management team. The company relies on the expertise and experience of certain key executives in developing business strategies, business operations, and maintaining relationships with customers and suppliers. If the company were to lose any of its key executives, it may not be able to find a suitable replacement with comparable knowledge and experience. The company may also need to offer better remuneration and other benefits to attract and retain key executives and therefore cannot be assured that costs and expenses will not increase significantly as a result of increased talent acquisition and retention cost. Cyber security and privacy breaches may hurt the company' s business, damage its reputation, increase its costs, and cause losses. The company' s information technology systems could be subject to invasion, cyber- attack, or data privacy breaches by employees, others with authorized access, and unauthorized persons. Such attacks could result in disruption to the company' s operations and / or loss or disclosure of, or damage to, the company' s or any of its customer' s or supplier' s data, confidential information, or reputation. The company' s information technology systems security measures may also be breached due to employee error, malfeasance, or otherwise. Additionally, outside parties may attempt to fraudulently induce employees, customers, or suppliers to disclose sensitive information in order to gain access to the company' s data and information technology systems. Any such breach could result in significant legal and financial exposure, damage to the company' s reputation, loss of competitive advantage, and a loss of confidence in the security of the company' s information technology systems that could potentially have an impact on the company' s business. Because the techniques used to obtain unauthorized access, disable or degrade, or sabotage the company' s information technology systems change frequently and often are not recognized until launched, the company may be unable to anticipate these techniques or to implement adequate preventive measures. Further, third parties, such as hosted solution providers, that provide services for the company' s operations, could also be a source of security risk in the event of a failure of their own security systems and infrastructure. The company makes investments seeking to address risks and vulnerabilities, including ongoing monitoring, updating networks and systems, and personnel awareness training of potential cybersecurity threats to help ensure employees remain diligent in identifying potential risks. In addition, the company has deployed monitoring capabilities to support early detection, internal and external escalation, and effective responses to potential anomalies. As part of the company' s review of potential risks, the company analyzes emerging cyber security threats as well as the company' s plan and strategies to address them. Although the company has developed systems and processes that are designed to protect information and prevent data loss and other security breaches, including systems and processes designed to reduce the impact of a security breach, such measures cannot provide absolute security. Such breaches, whether successful or unsuccessful, could result in the company incurring costs related to, for example, rebuilding internal systems, defending against litigation, including litigation brought by governmental authorities, responding to regulatory inquiries or actions, paying damages, or taking other remedial steps. Also, global privacy legislation, enforcement, and policy activity are rapidly expanding and creating a complex compliance environment. The company' s failure to comply with federal, state, or international privacy related or data protection laws and regulations could result in proceedings against the company by governmental entities or others and other fines or penalties that could have a material adverse effect on the company’ s business. The company relies heavily on its internal information systems, which, if not properly functioning, could materially adversely affect the company' s business. The company' s current global operations reside on multiple technology platforms. The size and complexity of the company' s computer systems make them potentially vulnerable to breakdown, malicious intrusion, and random attack. To date, the company has not experienced any identifiable significant issues. Failure to properly or adequately address any unaccounted for or unforeseen issues could impact the company' s ability to perform necessary business operations, which could materially adversely affect the company' s business. The company may be subject to intellectual property rights claims, which are costly to defend, could require payment of damages or licensing fees and could limit the company' s ability to use certain technologies in the future. Certain of the company' s products and services include intellectual property owned primarily by the company' s third party suppliers and, to a lesser extent, the company itself. Substantial litigation and threats of litigation regarding intellectual property rights exist in the business in which the company operates. From time to time, third parties (including certain companies in the business of acquiring patents not for the purpose of developing technology but with the intention of aggressively seeking licensing revenue from purported infringers) may assert patent, copyright and / or other intellectual property rights to technologies that are important to the company' s business. In some cases, depending on the nature of the claim, the company may be able to seek indemnification from its suppliers for itself and its customers against such claims, but there is no assurance that it will be successful in obtaining such indemnification or that the company is fully protected against such claims. In addition, the company is exposed to potential liability for technology that it develops itself or when it combines multiple technologies of its suppliers for which it may have limited or no indemnification protections. In any dispute involving products or services that incorporate intellectual property from multiple sources or is developed, licensed by the company, or obtained through acquisition, the company' s customers could also become the targets of litigation. The company may be obligated in certain instances to indemnify and defend its customers if the products or services the company sells are alleged to infringe any third party' s intellectual property rights. Any infringement claim brought against the company, regardless of the duration, outcome, or size of damage award, could result in substantial cost to the company; divert management’ s attention and resources, be time consuming to defend, result in substantial damages or awards or cause product shipment delays. Additionally, if an infringement claim is successful, the company 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 the company' s operating expenses and harm the company' s operating results and financial condition. Also, royalty or license arrangements may not be available at all. The company may have to stop selling certain products or using technologies, which could affect the company' s ability to compete effectively. ~~Public health threats could have an adverse effect on our operations and financial results. Public health threats, including COVID- 19, could adversely affect the company’ s ongoing business operations. The outbreak of COVID- 19 has severely impacted global economic activity and caused significant volatility in financial markets. The global impact of the outbreak has been rapidly evolving and many countries, including the United States, have reacted by instituting quarantines, mandating~~

~~business and school closures and restricting travel. As a result, the COVID- 19 pandemic is negatively impacting almost every industry directly or indirectly. The company cannot predict the scope and severity of any potential business shutdowns or disruptions, including any future shutdowns relating to COVID- 19, but if the company or any of the third parties with whom it engages, including its suppliers, were to experience shutdowns or other business disruptions, the company' s ability to conduct its business in the manner and on the timelines presently planned could be materially and negatively impacted, which could have a material adverse effect on the company' s business and its results of operation and financial condition.~~ Trading in the company' s stock has historically been limited and the company' s stock price has been volatile, which may affect your ability to sell your shares. The average trading volume in the company' s stock has been historically low, with little or no trading at all on some days. This, as well as other factors, has caused the price of the company' s stock to be volatile. Consequently, it may be difficult to sell your shares of the company' s stock at the price you paid for them or at a price equal to that quoted on the NASDAQ Stock Market. In addition, stock markets have experienced extreme price and volume volatility recently. This volatility has had a substantial effect on the market prices of securities of many smaller public companies for reasons frequently unrelated or disproportionate to the operating performance of the specific companies. These market fluctuations may adversely affect the market price of our common stock.