Risk Factors Comparison 2023-03-02 to 2022-03-10 Form: 10-K

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An investment in our Company involves a high degree of risk. In addition to the other information included in this Annual Report, you should carefully consider the following risk factors in evaluating an investment in our Company. You should consider these matters in conjunction with the other information included or incorporated by reference in this Annual Report. If any of the following risks actually occurs, our business, reputation, financial condition, results of operations, revenue, and future prospects could be negatively impacted. In that event, the market price of our Common Stock could decline, and you could lose part or all of your investment. Risk Factors Relating to Our Business and Industry We have a history of operating losses, expect additional losses and may not achieve or sustain profitability. We have a history of operating losses and expect to incur additional losses until we achieve sufficient revenue and resulting margins to offset our operating costs. Our net loss for the years ended December 31, **2022 and** 2021 ~~and 2020~~ was $ **17. 6 million and $** 24. 4 million ~~and $ 12. 6 million~~ , respectively **. Our reduction in net losses in 2022 was primarily attributable to a new strategic roadmap with tighter cost controls and reduced operating expenses** . Our ability to achieve future profitability is dependent on a variety of factors, many of which are outside of our control. Failure to achieve profitability or sustain profitability, if achieved, may require us to raise additional financing, which could have a material negative impact on the market value of our Common Stock. The continued spread of COVID- 19...... business as expected.- 15- We may need additional capital to execute our business plan, and raising additional capital, if possible, by issuing additional equity securities may cause dilution to existing stockholders. In addition, raising additional capital by issuing additional debt instruments may restrict our operations. Although we believe we have adequate financial resources to fund our operations and capital needs for at least the next twelve months, and that we may be able to generate funds from product sales during that time, existing working capital may not be sufficient to achieve profitable operations due to product introduction costs, operating losses and other factors. Principal factors affecting the availability of internally generated funds include: ● failure of product sales and services to meet planned projections; ● government spending levels impacting sales of our products; ● working capital requirements to support business growth; ● our ability to integrate acquisitions; ● our ability to control spending; ● our ability to collect accounts receivable; and ● acceptance of our products and services in planned markets. In the event we are required to raise additional capital through the issuance of equity or convertible debt securities, the percentage ownership of our stockholders could be diluted significantly, and such newly issued securities may have rights, preferences or privileges senior to those of our existing stockholders. In addition, the issuance of any equity securities could be at a discount to the market price. If we incur debt financing, the payment of principal and interest on such indebtedness may limit funds available for our business activities, and we could be subject to covenants that restrict our ability to operate our business and make distributions to our stockholders. These restrictive covenants may include limitations on additional borrowing and specific restrictions on the use of our assets, as well as prohibitions on our ability to create liens, pay dividends, redeem stock or make investments. There is no assurance that any equity or debt financing transaction will be available on acceptable terms, if at all. **- 15-** We expect to be dependent on sales of our BolaWrap product line for the foreseeable future, and if this product is not widely accepted, our growth prospects will be diminished. We expect to depend on sales of the BolaWrap product line and related cassettes for the foreseeable future. A lack of demand for this product, or its failure to achieve broader market acceptance, would significantly harm our growth prospects, operating results and financial condition. To execute our business plan successfully, we will need to execute on the following objectives, either on our own or with strategic collaborators: ● Grow our commercialization of the BolaWrap product, and develop additional future products and accessories for commercialization; ● Maintain required regulatory approvals for our products in global market locations; ● Expand ~~and~~ , **and** as required, enforce our intellectual property portfolio for the BolaWrap product and other future products; ● Maintain sales, distribution and marketing capabilities, and / or enter into strategic partnering arrangements to access such capabilities; and ● Grow market acceptance for the BolaWrap product line and / or other future products. ~~- 16- We may experience difficulties in integrating and transitioning from the BolaWrap 100 to the BolaWrap 150. The success of our new generation product, the BolaWrap 150, depends on a number of factors including, but not limited to, timely and successful product development, market acceptance, the Company' s ability to manage the risks associated with new product production ramp- up issues and supply chain challenges, the effective management of purchase commitments and inventory levels in line with anticipated product demand, the availability of products in appropriate quantities and costs to meet anticipated demand, and the risk that new products may have quality or other defects or deficiencies in the early stages of introduction.~~ We face risks commercializing our virtual reality training platform and may be unsuccessful in growing revenues. We ~~do not have extensive experience with virtual reality training, and are relying on new hires and consultants with expertise in the field. We~~ continue to invest substantial funds in **further** developing and commercializing ~~this~~ **our Wrap Reality** product line which is highly competitive. The commercial launch of the Wrap Reality Virtual Training product is in the early stages **in a new marketplace for 3D Virtual Reality training that competes with a legacy 2D virtual training environment** . ~~Our~~ **We expect 2D virtual training companies to either try to buy out companies like ours or choose to have to build 3D Virtual reality to compete with us. As one of the only companies with both on premise 3D Virtual Reality and later in 2023 full cloud 3D Virtual Reality we plan to compete on both fronts, our** ability to commercialize this **3D Virtual Reality** product line may be influenced by many factors, including: ● our ability to **continue to** develop new products and new content; ● our ability to ~~successfully integrate our virtual reality product with our custom AWS solution into a viable platform acceptable to customers; ● our ability to~~ obtain, set up and service new **VR** customers; ● our ability to achieve and maintain market acceptance; ● the impact of competition; and ● our ability to attract and retain talent. We are materially dependent on the acceptance of our product by the law enforcement market. If law enforcement agencies do not purchase our product or we do not meet their expectations, our revenue will be adversely affected and we may not be able to expand into other markets, or otherwise continue as a going concern. A substantial number of law enforcement agencies may not purchase our remote restraint product. In addition, if our product is not widely accepted by the law enforcement market or we do not meet their expectations, we may not be able to expand sales of our product into other markets. Law enforcement agencies may be influenced by claims or perceptions that our product is not effective or may be used in an abusive manner. Our reputation could be damaged if we do not meet customer expectations for performance, value and quality. Sales of our product to agencies may be delayed or limited by such claims or perceptions or to any negative publicity or damage to our reputation. We **now receive earned media that is often positive and helps our sales and growth and having negative earned media will create the opposite effect. We** may incur significant and unpredictable warranty costs as our products are ~~introduced and~~ produced **, sold, and used** . We warrant our products to be free from defects in materials and workmanship for a period of up to one year from the date of purchase **. Additional one- year warranties can be purchased by the customer** . We may incur substantial and unpredictable warranty costs from post- production product or component failures. Future warranty costs could further adversely affect our financial position, results of operations and business prospects. **- 16-** We could incur charges for excess or obsolete inventory and incur production costs for improvements or model changes. While we strive to effectively manage our inventory, rapidly changing technology, and uneven customer demand may result in short product cycles and the value of our inventory may be adversely affected by changes in technology that affect our ability to sell the products in our inventory. If we do not effectively forecast and manage our inventory, we may need to write off inventory as excess or obsolete, which in turn can adversely affect cost of sales and gross profit. We have experienced, and may in the future experience, improvement and model changes and unusual production costs associated with implementing production for our products. We currently have no reserve for slow moving or obsolete inventory but may incur future charges for obsolete or excess inventory. ~~- 17-~~ Our international operations could be harmed by factors including natural disasters, fluctuations in currency exchange rates, and changes in regulations that govern international transactions. We sell our products worldwide and have exported to multiple countries. We expect exports to continue to be a significant part of our future business. The risks inherent in international trade may reduce our international sales or impede growth and harm our business and the businesses of our customers and our suppliers. These risks include, among other things: ● Changes in tariff regulations; ● Foreign currency exchange rate fluctuations; ● Establishing and maintaining relationships with local distributors, agents and dealers; ● Lengthy shipping times and accounts receivable payment cycles; ● Import and export control and licensing requirements; ● Compliance with a variety of **US** ~~U. S.~~ laws, ~~including~~ **ATF regulations, US Department of Commerce regulations and** the Foreign Corrupt Practices Act, by us or key subcontractors or agents; ● Compliance with a variety of foreign laws and regulations, including unexpected changes in taxation and regulatory requirements; ● Greater difficulty in safeguarding intellectual property abroad than in the **US** ~~U. S.~~ ; and ● Difficulty in staffing and managing geographically diverse operations. These and other risks may preclude or curtail international sales or increase the relative price of our products compared to those manufactured in other countries, reducing the demand for our products. Failure to comply with **US** ~~U. S.~~ and international governmental laws and regulations applicable to international business, such as the Foreign Corrupt Practices Act or **US** ~~U. S.~~ export control regulations, could have an adverse impact on our business with the **US** ~~U. S.~~ and international governments. Global economic weakness and uncertainty, ~~including~~ geopolitical conflict **, war, and civil unrest** , could adversely affect our revenues, gross margins and expenses. Our business may be impacted by global economic conditions, which have been **volatile** in recent years ~~, and continue to be, volatile~~ . Geopolitical conflict, such as the recent conflict in Ukraine, and related international economic sanctions and their impact may exacerbate this volatility. Specifically, our revenues and gross margins depend significantly on global economic conditions and the demand by foreign governments and agencies for the BolaWrap **and Wrap Reality** in many of our target markets. Economic weakness and uncertainty in these markets have resulted, and may result in the future, in decreased revenue attributable to these markets, gross margin, earnings or growth rates, and difficulty managing inventory levels. Sustained uncertainty about global economic conditions and geopolitical events may adversely affect demand for the BolaWrap and could cause demand to differ materially from our expectations as foreign governments and agencies curtail or delay spending. Economic weakness and uncertainty also make it more difficult for us to make accurate forecasts of revenues, gross margins and expenses ~~are monitoring the~~ **.- 17- The continued** impact of ~~the~~ **COVID- 19 and uncertain market conditions may continue to adversely affect our business,financial condition and results of operations.The** COVID- 19 pandemic,which has caused significant uncertainty and disruption to global financial markets and supply chains **since** ~~,beginning in~~ early calendar year 2020 ~~.The~~ **,continues to adversely affect the** Company ~~'~~ **'** s business,operating results,and financial condition **,although such** ~~could continue to be adversely affected due to the COVID- 19 pandemic.The significance of the operational and financial impact of the COVID- 19 pandemic will depend on how long and widespread the uncertainty and disruption~~ **disruptions** ~~continue~~ **and uncertainties have abated** .The extent to which the COVID- 19 pandemic continues to impact our financial conditions and results of operations,or those of our third- party suppliers,will depend on future developments,which are highly uncertain and cannot be predicted with confidence at this time,including the **continued** duration of the outbreak **in the markets we target** ,new information which may emerge concerning the severity of COVID- 19 **and its variants,** and the actions being taken to contain COVID- 19 or treat its impact,among others.Uncertainty surrounds the duration and broader impact of the COVID- 19 pandemic and therefore,the effects it will have on our financial results and operations.If economic or market conditions in key global markets deteriorate,we may experience material adverse effects on our business,financial condition **,** and results from operations.Factors deriving from the domestic and international response to the COVID- 19 pandemic that may negatively impact sales and gross margin in the future include but are not limited to:limitations on the ability of our suppliers to meet delivery requirements and commitments;limitations on the ability of employees to perform their work due to illness caused by the pandemic or local,state or federal orders requiring employees to remain at home;limitations on the ability of carriers to deliver products to customers;limitations on the ability of our customers to conduct their business and purchase our products and services;and limitations on the ability of our customers to pay us on a timely basis.Substantially all ~~of~~ our employees are located in the **US** ~~U.S~~ .In addition to our employees,we rely on (i) distributors,agents **,** and third- party logistics providers in connection with product sales and distribution and (ii) raw material and component suppliers in the **US** ~~U.S.~~ ,Canada,Europe and Asia.If we,or any of these third- party partners encounter any disruptions to our or their respective operations or facilities,or if we or any of these third- party partners were to shut down for any reason,including by pandemic,fire,natural disaster,such as a hurricane,tornado or severe storm,power outage,systems failure,labor dispute,or other unforeseen disruption,then we or they may be prevented or delayed from effectively operating our or their business,respectively.Any losses or damages we incur could have a material adverse effect on our financial results and our ability to conduct business as expected ~~.~~. We anticipate that a significant portion of our revenue in the short- term will be generated from international sales, which may adversely affect our ability to timely collect accounts receivable. During the year ended December 31, ~~2021~~ **2022** , we generated approximately ~~60~~ **34** % of our revenue from international sales. Due principally to the longer sales cycle, ~~logistic~~ **procurement** delays and regulatory issues associated with domestic sales versus international sales, we currently anticipate that a significant portion of our sales in the year ~~ended~~ **ending** December 31, ~~2022~~ **2023** will be generated from international orders. In the event we are unable to timely collect account receivables associated with international sales, or timing of such international sales ~~are~~ **is** delayed, our financial condition could be adversely and materially affected. If we are unable to manage our projected growth, our growth prospects may be limited, and our future profitability may be adversely affected. We intend to continue to expand our sales ~~,~~ **and** marketing ~~and training programs~~ and our manufacturing capability. Rapid expansion may strain our ~~managerial~~ **staffing** , financial and other resources. If we are unable to manage our growth, our business, operating results **,** and financial condition could be adversely affected. Our systems, procedures, controls **,** and management resources ~~also~~ may not be adequate to support our future **growing** operations **and we have started to upgrade them and will continue to do so in 2023** . We ~~will need~~ **are working** to continually improve our operational, financial **,** and other internal systems to manage our growth effectively, and any failure to do so may lead to inefficiencies and redundancies, and result in reduced growth prospects and profitability.- 18- We may face personal injury and other liability claims that harm our reputation and adversely affect our sales and financial condition. Our product is intended to be used in confrontations **to de- escalate the situation and reduce the chance for injury to officers and the subjects** that **they interact with. There is always a chance that use** could result in injury to those involved, whether ~~or not~~ involving our product. Our product may cause or be associated with such injuries. A person injured in a confrontation or otherwise in connection with the use of our product may bring legal action against us to recover damages **based** on ~~the basis of~~ theories including personal injury, wrongful death, negligent design, dangerous product **,** or inadequate warning. We may also be subject to lawsuits involving allegations of misuse of our product. If successful, personal injury, misuse **,** and other claims could have a material adverse effect on our operating results and financial condition. Although we carry product liability insurance, significant litigation could also result in a diversion of management' s attention and resources, negative publicity **,** and an award of monetary damages in excess of our insurance coverage. The nature of our business may result in undesirable press coverage or other negative publicity. Our solutions are used to assist law enforcement and first responders in volatile encounters. Even when our device works as intended, incidents can lead to injury, loss of life and other negative outcomes, and such events are likely to receive negative publicity **even if not directly caused by BolaWrap** . If our product fails to help de- escalate an encounter, related adverse outcomes may receive negative media attention. At times, body or dash camera images or other images of use of our product may become a matter of public record due to legal or other obligations (for example, **because** ~~as a result~~ of public- records requests or subpoenas to provide information or to testify in court), and we may receive negative media attention as a result. We may be subject to criticism and unflattering media coverage regarding the effectiveness of our remote restraint solutions and the cost of our solutions to our customers, or the appropriateness of use on persons in crisis or the mentally ill. Such negative publicity could have an adverse impact on new sales, which would adversely impact our financial results and ~~future~~ prospects. Our future success is dependent on our ability to expand sales ~~through distributors~~ , and our inability to grow our sales force or maintain **and grow** distributors would negatively affect our sales. Our distribution strategy is to pursue sales through multiple channels with an emphasis on **direct sales, as well as** independent distributors, domestically and internationally. Our inability to recruit and retain sales personnel and maintain and add police equipment distributors who can successfully sell our products could adversely affect our sales. If we do not competitively price our products, **provide high quality big free products and solutions,** meet the requirements of any ~~future distributors or~~ end- users, provide adequate marketing support, or comply with the terms of any distribution arrangements, such distributors may fail to aggressively market our product or may terminate their relationships with us. These developments would likely have a material adverse effect on our sales. Our reliance on the sales of our products by distributors **for a large portion of our sales** also makes it more difficult to predict our revenue, cash flow and operating results. We expect to expend significant resources to generate sales due to our lengthy sales cycle, and such efforts may not result in **the level of** sales or revenue **we expect** . Generally, law enforcement agencies consider a wide range of issues before committing to purchase a product, including product benefits, training **time and** costs, the cost to use our product in addition to, or in place of, other **less lethal** ~~use of force~~ products **even though they are likely more dangerous, time in market** , product reliability and budget constraints. The length of our sales cycle may range from 30 days to a year or more. We may incur substantial selling costs and expend significant effort in connection with the evaluation of our product by potential customers before they place an order ~~,~~ if they place an order at all. If these potential customers do not purchase our product, we will have expended significant resources without corresponding revenue. **- 19-** Most of our intended end- users are subject to budgetary and political constraints that may delay or prevent sales. Most of our ~~and our distributors~~ intended end- user customers are government agencies **at all levels** . These agencies often do not set their own budgets and therefore have little control over the amount of money they can spend. In addition, these agencies experience political pressure that may dictate the **way** ~~manner in which~~ they spend money. As a result, even if an agency wants to acquire our product, it may be unable to purchase our product due to budgetary or political constraints. Some government agency orders may also be canceled or substantially delayed due to budgetary, political **,** or other scheduling delays, which frequently occur in connection with the acquisition of products by such agencies. ~~- 19-~~ Our dependence on third- party suppliers for key components of our ~~product~~ **products** ~~make~~ **makes** us vulnerable to price increases **, inflation, recession,** and supply shortages that could delay shipment of our products and reduce our sales or margins. We depend on certain domestic and foreign suppliers for the delivery of components used in the assembly of our product **. Approximately 70 % of our supply chain is from domestic US suppliers** . Our reliance on third- party suppliers creates risks related to our potential inability to obtain an adequate supply of components or sub- assemblies and reduced control over pricing and timing of delivery of components and subassemblies. Specifically, we depend on suppliers of sub- assemblies, electronic components, injection molded plastic parts, and other miscellaneous custom parts for our product, some from sole source suppliers. **In late 2022 we started to drive more diversity into our supply chain, and we plan to continue to build multiple suppliers for critical parts to reduce our dependence on a small number of suppliers.** We are **still** subject to the risk of shortages and long lead times in the supply of these components and the risk that our suppliers discontinue or modify components used in our products. In addition, the lead times associated with certain components are lengthy and preclude rapid changes in quantities **or changes for bugs or enhancements** . Delays in our suppliers' abilities, especially any sole suppliers, to provide us with necessary materials and components may delay production or may require us to seek alternative supply sources. Any delay in receiving supplies could impair our ability to deliver products to our customers and, accordingly, could have a material adverse effect on our business, results of operations and financial condition. We have recently experienced, and in the future are likely to experience, disruption of the supply of some of our parts, components **,** and assemblies that we obtain from suppliers. For example, the rapid increase in global demand as the COVID- 19 pandemic wanes has caused, and is expected to continue to cause, significant stress on global supply chains. As economies around the world have reopened, sharp increases in demand have created significant disruptions to the global supply chain, which have affected our ability to source and receive certain goods on a timely basis and at anticipated costs. Increases in input costs and freight due to price inflation and global supply chain disruptions may adversely affect our financial performance. We do not have any long- term supply agreements with any suppliers. We actively monitor and mitigate supply chain risk, but there can be no assurance that our mitigation plans will be effective to prevent disruptions that may arise from shortages of materials that we use in the production of our products. Any interruption of supply for any material components of our products could significantly delay production and shipment of our products and have a material adverse effect on our revenue, profitability **,** and financial condition. We may not be able to successfully integrate acquisitions in the future, and we may not be able to realize, revenue enhancements or other synergies from such acquisitions. On ~~December 14~~ **November 30** , ~~2020~~ **2022** , we acquired ~~substantially all of~~ the ~~virtual reality system~~ **rights to certain software** assets and ~~business~~ **services to drive the rapid enhancement** of ~~NSENA~~ **our Wrap Reality Cloud platform** . ~~Our~~ **We believe this acquisition should help speed up our path to marketing with 3D Virtual Reality in the cloud in addition to our robust 3D Virtual Reality on premise. However, our** ability to successfully implement our business plan and achieve targeted financial results and other benefits including, among other things, greater market presence and development, and enhancements to our product portfolio and customer base, is dependent on our ability to successfully identify, consummate and integrate acquisitions we may acquire in the future. We may not realize the intended benefits of the acquisition of other businesses in the future as rapidly as, or to the extent, anticipated by our management. There can be no assurance that we will be able to successfully integrate any other acquired businesses, products or technologies without substantial expense, delay or other operational or financial problems. Acquisitions involve **several** ~~a number of~~ risks, some or all **of** which could have a material adverse effect on our acquired businesses, products or **- 20-** technologies. Furthermore, there can be no assurance that any acquired business, product, or technology will be profitable or achieve anticipated revenues and income. Our failure to manage our acquisition and integration strategy successfully could have a material adverse effect on our business, results of operations and financial condition. The process of integrating an acquired business involves risks, including but not limited to: ● Demands on management related to changes in the size and possible locations of our businesses and employees; ● Diversion of management' s attention from the management of daily operations; ● Difficulties in the assimilation of different corporate cultures, employees and business practices; ● Retaining the loyalty and business of the employees or customers of acquired businesses; ● Retaining employees that may be vital to the integration of acquired businesses or to the future prospects of the combined businesses; ● Difficulties and unanticipated expense related to the integration of departments, information technology systems, including accounting systems, technologies, books and records, and procedures, and maintaining uniform standards, such as internal accounting controls, procedures, and policies; ● Costs and expense associated with any undisclosed or potential liabilities; and ● The use of more cash or other financial resources on integration and implementation activities than we expect. ~~- 20-~~ Failure to successfully integrate any acquired business in the future may result in reduced levels of revenue, earnings, or operating efficiency than might have been achieved if we had not acquired such businesses. In addition, the acquisition of any future businesses could result in additional debt and related interest expense, contingent liabilities, and amortization expense related to intangible assets, as well as the issuance of our Common Stock, which could have a material adverse effect on our financial condition, operating results, and cash flow. Government regulation of our products may adversely affect sales. Our BolaWrap device is classified as a firearm and the BolaWrap 150 is also classified as an ~~exempt special explosive device~~ **" Any other Weapon (AOW)** . Both firearms and explosive devices are regulated by the **US** ~~U. S.~~ Bureau of Alcohol, Tobacco, Firearms and Explosives (" ATF ") involving substantial regulatory compliance. ATF regulations are enforced by surveillance and inspection **of federal firearms licensees (" FFLs ")** . If ATF finds a violation, it can institute a wide range of enforcement actions, ranging from ~~public~~ warnings to more severe sanctions such as fines, penalties, suspension or withdrawal of regulatory approvals, product recalls, seizure of products, operating restrictions or total shutdown of production, and criminal prosecution.

Any such actions could have a material adverse impact on our operations. **The federal firearms laws impose strict controls over the possession and transfers of firearms, which may impact our ability to transfer devices to customers. Because ATF has classified our devices as AOWs, we must register our devices with the ATF at the time of manufacture. Before we may transfer our registered devices to any customer, including a government agency, we must obtain approval from the ATF. The ATF processing time for transfer applications varies significantly, depending on the prospective transferee. Applications to transfer AOWs to U. S., state or local government entities are usually processed in 1- 3 weeks, while transfers to private, non- licensed individuals require a longer processing time because of the required background investigation of the transferee. These types of transfers may take 6- 8 months or longer. The federal firearms laws prohibit interstate transfers of firearms to non- licensed persons or entities. Consequently, we are prohibited from transferring our devices directly to a non- government, non- licensed individual or entity in a different state. To accomplish such a transfer, we must first obtain ATF approval to transfer the device to another FFL dealer in the end- user' s state. After that transfer is completed, the FFL dealer must obtain ATF approval to transfer the device to the non- government, non- licensed individual. The ATF may deny any transfer application if such transfer would violate state law or when the transferee is prohibited from possessing a firearm.** Our device may face state restrictions, especially regarding sales to **private** security agencies. Our product sales may be significantly affected by **international,** federal, state and local ~~regulation~~ **regulations** . Failure to comply with regulations could also result in the imposition of fines, penalties and other actions that could adversely impact our financial position, cash flows and operating results. Our product is also controlled by the **US** ~~U. S.~~ Department of Commerce (" DOC ") for exports directly from the **US** ~~United States~~ . Consequently, we need to obtain export licenses from the DOC for the export of our products from the **US** ~~United States~~ . Compliance with or **future** changes in **US** ~~U. S.~~ export regulations could significantly and adversely affect any future international sales. The shipment of some of our components and our products involve conformity to regulations governing the transport of " dangerous goods ". Failure to comply with shipping regulations could result in the imposition of fines, penalties and other actions that could adversely impact our financial position, cash flows and operating results. Certain foreign jurisdictions may restrict the importation or sale of our products, limiting our international sales opportunities. **- 21-** Our products, including the BolaWrap 100 and BolaWrap 150, ~~have~~ **are protected by** limited ~~issued patents~~ - **patent** ~~or~~ **and** other intellectual property protection. If we are unable to protect our intellectual property, we may lose a competitive advantage or incur substantial litigation costs to protect our rights. Our future success depends in part upon our proprietary technology. We currently own ~~thirteen~~ **nineteen** issued **US** ~~U. S.~~ patents related to **the** BolaWrap technology ~~,~~ and have **eight US** ~~fifteen U. S.~~ patents pending. We have filed foreign patent applications in the European Union (up to 38 countries) and ~~17~~ **seventeen** other countries and reserved our rights to file additional foreign patents. Our protective measures taken thus far, including our issued patents, pending patents, issued and pending trademarks and trade secret laws, may prove inadequate to protect our proprietary rights. **To date we have a total of 53 issued domestic and international patents for our small global company. During 2022 we filed thirty- three patent applications, two of which were US filings. We feel the significant investment in patent protection in the US and abroad creates a significant amount of IP and value in Wrap Technologies. However,** ~~There~~ **there** can be no assurance we will be granted any patent rights from pending patents. The scope of any possible patent rights may not prevent others from developing and selling competing products. The validity and breadth of claims covered in any possible patents involve complex legal and factual questions, and the resolution of such claims may be highly uncertain, lengthy, and expensive. In addition, any patents, if granted, may be held invalid upon challenge, or others may claim rights in or ownership of our patents. Our competitive position ~~will~~ **may** be seriously damaged if our products are found to infringe on the intellectual property rights of others. Other companies and our competitors may currently own or obtain patents or other proprietary rights that might prevent, limit or interfere with our ability to make, use or sell our products. Any intellectual property infringement claims made against us, with or without merit, could be costly and time- consuming to defend and divert our management' s attention from our business. In the event of a successful claim of infringement against us and ~~our failure or inability~~ **if we are unable** to license the **allegedly** infringed technology, our business and operating results could be adversely affected. Any litigation or claims, whether or not valid, could result in substantial costs and diversion of our resources. An adverse result from intellectual property litigation could force us to do one or more of the following: ● Cease selling, incorporating **,** or using products or services that incorporate the challenged intellectual property; ● Obtain a license from the holder of the infringed intellectual property right, which license may not be available on reasonable terms, if at all; and ● Redesign products or services that incorporate the disputed technology. ~~- 21-~~ If we are forced to take any of the foregoing actions, we could face substantial costs and shipment delays and our business could be materially harmed. Although we carry general liability insurance, our insurance may not cover potential claims of this type or be adequate to indemnify us for all liability that may be imposed. In addition, it is possible that **others** ~~our distributors and customers~~ may seek indemnity from us **if** ~~in the event that~~ our products are found or alleged to infringe the intellectual property rights of others. Any such claim for indemnity could result in substantial expense to us that could harm our operating results. Competition in the law enforcement market could reduce our sales, make our products obsolete or inferior and prevent us from achieving profitability. The law enforcement market is highly competitive **, and adoption of new policing tools and innovative training solutions may take time, Law enforcement adherence to currently used products may also slow adaptation to new policing tools** . We face competition from numerous larger, better capitalized, more experienced and more widely known companies that make ~~restraint devices,~~ less- lethal weapons and other law enforcement products. One or more of our competitors may have developed or may succeed in developing technologies and products that are more effective than any of ours, rendering our technology and products obsolete or noncompetitive. Increased competition could result in reduced sales, greater pricing pressure, lower gross margins, and prevent us from achieving profitability. Foreign currency fluctuations may reduce our competitiveness and sales in international markets. The relative change in currency values creates fluctuations in product pricing for future potential international customers. These changes in international end- user costs may result in lost orders and reduce the competitiveness of our products in certain international markets. These changes may also negatively affect the financial condition of some international customers and reduce or eliminate their future orders of our products. **- 22-** Our business is dependent on the ~~continued services of~~ **ability to attract and** ~~certain~~ - **retain** ~~executives and~~ key ~~employees. Our business and operations are substantially dependent upon the experience and continued service of certain executives and certain key sales and research employees. We have no employment agreements or post- employment agreements to have access to important institutional knowledge should any key person~~ **personnel** ~~resign or be dismissed. The loss of one or several key employees could have a material adverse effect upon our business, financial condition, results of operations and cash flows~~ . We are ~~also~~ dependent on our ability to retain and motivate **our** high **-** quality personnel, especially **managers,** sales and skilled engineering **and manufacturing** personnel. Competition for such personnel is intense, and we may not be able to attract, assimilate or retain other highly qualified managerial, sales and technical personnel in the future. The inability to attract and retain the necessary managerial, sales and technical personnel could cause our business, operating results or financial condition to suffer. **In 2022, the business went through significant transformation including the creation of our mission, vision and core values. New management built the company' s first strategic roadmap to outline the market space where BolaWrap and Wrap Reality fit and have changed significant elements of the business to improve training, which has now become a revenue source over a cost center. There has been a shift to build repeatable domestic sales and build additional resources into international sales.** We ~~have experienced recent changes~~ **changed** ~~in~~ **our customer service department into a customer success team. We improved our pricing on devices and cassettes. We built additional distributor relationships. In the last three quarters of 2022, the new** management **team significantly reduced operating expenses in almost all areas** . These changes **reduced overall headcount** ~~have the potential to disrupt our business~~ , **contractor costs** and **spending. While greatly improving** ~~any such disruption could adversely affect~~ our ~~operations, product development, growth,~~ financial ~~condition or results from operations. We had significant~~ **foundation, it also required turnover of personnel and** changes ~~in management in the past three years, most recently in January 2022 when LW Varner, Jr. was appointed~~ to **how we** ~~serve as interim Chief Executive Officer pursuant to a consulting agreement following the departure of Thomas P. Smith as the Company' s Chief Executive Officer. Also in January 2022, the Company entered into a consulting agreement with Lawrence Hirsh to provide certain services to Mr. Varner and the Company with respect to finance and related matters. The Board of Directors have commenced a search to identify a permanent Chief Executive Officer. In addition, the Board of Directors has commenced a formal search to identify a highly qualified candidate to serve in the capacity of Chief Financial Officer upon the earlier of the retirement of James A. Barnes, the Company' s current Chief Financial Officer, or the Board of Directors' naming of his replacement. Executive leadership transitions can be inherently difficult to manage, may cause significant and costly disruption to our business, might lead to additional departures of existing personnel, and could have a material adverse effect on our business, operating~~ **operate** ~~results, financial condition and internal controls over financial reporting~~ . ~~- 22-~~ Risk Factors Relating to Our Financial Statements and Operating Results We cannot predict our future operating results. Our quarterly and annual results will likely be subject to fluctuations caused by many factors, any of which could result in our failure to achieve our expectations. We currently expect that the BolaWrap product will be the primary source of our revenue in **2023** ~~the foreseeable future~~ . We expect our revenue to vary significantly due to **several** ~~a number of~~ factors. Many of these factors are beyond our control. Any one or more of these factors, including those listed below, could cause us to fail to achieve our revenue expectations. These factors include, among others: ● Our ability to develop **, manufacture, ship** and supply product to customers; ● Market acceptance of, and changes in demand for, our products; ● Gains or losses of significant customers, distributors **,** or strategic relationships; ● Unpredictable volume and timing of customer orders; ● The availability, pricing **,** and timeliness of delivery of components **in our supply chain** for our products; ● Fluctuations in the availability of manufacturing capacity or manufacturing yields and related manufacturing costs; ● Timing of new technological advances, product announcements or introductions by us and by our competitors; ● Unpredictable warranty costs associated with our products; ● Budgetary cycles and order delays by customers or production delays by us or our suppliers; ● Regulatory changes affecting the marketability of our products; ● Logistics challenges of obtaining supplies and components and shipping products resulting from the pandemic; ● General economic conditions that could affect the timing of customer orders and capital spending and result in order cancellations or rescheduling; ~~and~~ ● General political conditions in this country and in various other parts of the world that could affect spending for the products that we intend to offer **; and ● Seasonality of purchasing timeframes and procurement delays impact sales** . ~~- 23-~~ Some or all of these factors could adversely affect demand for our products and, therefore, adversely affect our future operating results. As a result of these and other factors, we believe that period- to- period comparisons of our operating results may not be meaningful in the near term, and accordingly you should not rely upon our performance in a particular period as indicative of our performance in any future period. **- 23-** Our ~~expense~~ **expenses** may vary from period to period, which could affect quarterly results and our stock price. If we incur additional ~~expense~~ **expenses** in a quarter in which we do not experience increased revenue, our results of operations will be adversely affected, and we may incur larger losses than anticipated for that quarter. Factors that could cause our expense to fluctuate from period to period include: ● The timing and extent of our research and development efforts; ● Investments and costs of maintaining or protecting our intellectual property; ● Marketing and sales efforts to promote our products and technologies; ~~and~~ ● The timing of personnel and consultant hiring **; and ● Supply chain and inventory cost variations** . Most of our operating expenses are relatively fixed in the short term. We may be unable to rapidly adjust spending to compensate for any unexpected sales shortfalls, which could harm our quarterly operating results and our stock price. We do not have the ability to predict future operating results with any certainty. Our disclosure controls and procedures may not prevent or detect all acts of fraud. Our disclosure controls and procedures are designed to reasonably assure that information required to be disclosed in reports filed or submitted under the Securities Exchange Act is accumulated and communicated to management and is recorded, processed, summarized and reported within the time periods specified in the SEC' s rules and forms. Our management expects that our disclosure controls and procedures and internal controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within our company have been prevented or detected. These inherent limitations include the realities that judgments in decision- making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by an unauthorized override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and we cannot assure that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost- effective control system, misstatements due to error or fraud may occur and not be detected. Failure to maintain an effective system of internal control over financial reporting could harm stockholder and business confidence in our financial reporting, our ability to obtain financing and other aspects of our business. Maintaining an effective system of internal control over financial reporting is necessary for us to provide reliable financial reports. Section 404 of the Sarbanes- Oxley Act of 2002 (" Sarbanes- Oxley Act") and the related rules and regulations promulgated by the SEC require us to include in our Form 10- K a report by management regarding the effectiveness of our internal control over financial reporting. The report includes, among other things, an assessment of the effectiveness of our internal control over financial reporting as of the end of the respective fiscal year, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management. While our management has concluded that our internal control over financial reporting was effective as of December 31, ~~2021~~ **2022** , it is possible that material weaknesses will be identified in the future. In addition, components of our internal control over financial reporting may require improvement from time to time. If management is unable to assert that our internal control over financial reporting is effective in any future period, investors may lose confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on the Company' s stock price.- 24- Risk Factors Relating to Our Common Stock Our stock price is volatile and may continue to be volatile or may decline regardless of our operating performance, resulting in substantial losses for investors. The market price of our Common Stock has fluctuated ~~significant~~ **significantly** to date and in the future may fluctuate significantly in response to numerous factors, many of which are beyond our control, including the factors listed below and other factors described in this " Risk Factors " section: ● Actual or anticipated fluctuations in our operating results; ● Failure of securities analysts to initiate or maintain coverage of our Company, changes in financial estimates by any securities analysts who follow our Company, or our failure to meet these estimates or the expectations of investors; ● Rating changes by any securities analysts who follow our Company; ● Changes in the availability of federal funding to support local law enforcement efforts, or local budgets; ● **International budget changes or changeover in government leadership; ●** Announcements by us of significant technical innovations, acquisitions, strategic partnerships, joint ventures or capital commitments; ● Changes in operating performance and stock market valuations of other security product companies generally; ● Price and volume fluctuations in the overall stock market, including as a result of trends in the economy as a whole; ● Announcements of merger or acquisition transactions; ● Changes in our board of directors or management **and key personnel** ; ● Sales of large blocks of our Common Stock, including sales by our **founders,** executive officers, directors and significant stockholders; ● Lawsuits threatened or filed against us; ● Short sales, hedging and other derivative transactions involving our capital stock; ● General economic conditions in the **US** ~~United States~~ and abroad; and ● Other events or factors, including those resulting from war, incidents of terrorism or responses to these events. In addition, stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many security and technology companies. Stock prices of many security and technology companies have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies. ~~- 25-~~ **Stock prices of nanocap securities and small cap securities have fluctuated even more than medium and large cap companies in recent years.** We are and, in the future, may be subject to securities litigation, which may be expensive and could divert management attention. Our share price is volatile, and in the past companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. For instance, in September 2020 a putative class action lawsuit and in November 2020 a shareholder derivative lawsuit were filed against us and certain of our directors and officers. **The** ~~Our motion to dismiss the putative class action~~ lawsuit was ~~successful~~ **dismissed** in ~~December~~ **May** ~~2021~~ **2022** . Lawsuits of this nature divert financial and management resources that would otherwise be used to benefit our operations. Although we ~~deny~~ **denied** the material allegations in the lawsuits and ~~intend to defend~~ **defended** ourselves vigorously, defending the lawsuits may result in substantial costs. Any lawsuit to which we or our directors or officers are a party, with or without merit, may result in an unfavorable judgment. We also may decide to settle lawsuits on unfavorable terms. Any such negative outcome could result in payments of substantial damages or fines, damage to our reputation or adverse changes to our offerings or business practices. Any of these results could adversely affect our business. In addition, we may be the target of securities- related litigation in the future. Such litigation may divert our management' s attention and resources, result in substantial costs, and have an adverse effect on our business, results of operations and financial condition. We maintain director and officer insurance that we regard as reasonably adequate to protect us from potential claims; however, we cannot assure you that it will. Further, if we are subject to future litigation, the costs of insurance may increase, and the availability of coverage may decrease. As a result, we may not be able to maintain our current levels of insurance at a reasonable cost, or at all, which might make it more difficult to attract qualified candidates to serve as executive officers or directors of the Company. **Our officers and directors are among our largest stockholders and may have certain personal interests that may affect the Company. Management and certain directors owned more than 10 % of our Common Stock at December 31, 2022. As a result, our management and certain directors, acting individually or as a group, has the potential ability to exert influence on the outcome of issues requiring approval by our stockholders.- 25-** Sales of a substantial number of shares of our Common Stock may adversely affect the market price of our Common Stock. Sales or distributions of a substantial number of shares of our Common Stock in the public market, or the perception that such sales could occur, could adversely affect the market price of our Common Stock. Many of the outstanding shares of our Common Stock, other than the shares held by executive officers and directors, are eligible for immediate resale in the public market. Substantial selling of our Common Stock could adversely affect the market price of our Common Stock. Our Common Stock could be delisted from the Nasdaq Stock Market. Nasdaq' s continued listing standards for our Common Stock require, among other things, that (i) we maintain a closing bid price for our Common Stock of at least $ 1. 00, and (ii) we maintain: (A) stockholders' equity of $ 2. 5 million; (B) market value of listed securities of $ 35 million; or (C) net income from continuing operations of $ 500, 000 in the most recently completed fiscal year or in two of the last three most recently completed fiscal years. Any failures to satisfy any continued listing requirements could lead to the receipt of a deficiency notice from Nasdaq and ultimately to a delisting from trading of our Common Stock. If our Common Stock were delisted from Nasdaq, among other things, this could result in a number of negative implications, including reduced liquidity in our Common Stock as a result of the loss of market efficiencies associated with Nasdaq and the loss of federal preemption of state securities laws as well as the potential loss of confidence by suppliers, customers and employees, institutional investor interest, fewer business development opportunities, greater difficulty in obtaining financing and possible breaches of certain contractual obligations. ~~Our officers and directors are among our largest stockholders and may have certain personal interests that may affect the Company. Management and certain directors owned approximately 34 % of our Common Stock at December 31, 2021. As a result, our management and certain directors, acting individually or as a group, has the potential ability to exert influence on the outcome of issues requiring approval by our stockholders. This concentration of ownership may have effects such as delaying or preventing a change in control of the Company that may be favored by other stockholders or preventing transactions in which stockholders might otherwise recover a premium for their shares over current market prices.~~ We may issue additional shares of Common Stock in the future. The issuance of additional shares of Common Stock may reduce the value of your Common Stock. We may issue additional shares of Common Stock without further action by our stockholders. Moreover, the economic and voting interests of each stockholder will be diluted as a result of any such issuances. Although the number of shares of Common Stock that stockholders presently own will not decrease, such shares will represent a smaller percentage of the total shares that will be outstanding after the issuance of additional shares. The issuance of additional shares of Common Stock may cause the market price of our Common Stock to decline. ~~- 26-~~ Sales of shares of Common Stock issuable upon the exercise of any future options or warrants **and vesting of restricted stock units** may lower the price of our Common Stock. At December 31, ~~2021~~ **2022** , we had ~~warrants,~~ **we had outstanding** options and ~~restricted~~ **unvested** stock units ~~outstanding~~ **of** on ~~5.~~ 6 **. 4** million shares of our Common Stock. The issuance of shares of Common Stock issuable upon the exercise of options ~~or warrants~~ or issuance from restricted stock units **or the exercise of warrants that may be outstanding in the future** could cause substantial dilution to existing holders of our Common Stock, and the sale of those shares in the market could cause the market price of our Common Stock to decline. The potential dilution from the issuance of these shares could negatively affect the terms on which we are able to obtain equity financing. We may issue preferred stock in the future, and the terms of the preferred stock may reduce the value of your Common Stock. We are authorized to issue up to 5. 0 million shares of preferred stock in one or more series. Our Board of Directors may determine the terms of future preferred stock offerings without further action by our stockholders. If we issue preferred stock, it could affect your rights or reduce the value of your Common Stock. In particular, specific rights granted to future holders of preferred stock could be used to restrict our ability to merge with or sell our assets to a third party. Preferred stock terms may include voting rights, preferences as to dividends and liquidation, conversion and redemption rights and sinking fund provisions. **- 26-** We incur substantial costs as a result of being a public company. As a public company, we incur significant levels of legal, accounting, insurance, exchange listing fees and other expenses that we did not incur as a private company. We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the " Exchange Act "), the Sarbanes- Oxley Act, the Dodd- Frank Act, the listing requirements of the Nasdaq Capital Market and other applicable securities rules and regulations. Compliance with these rules and regulations increases our legal and financial compliance costs, makes some activities more difficult, time- consuming or costly and increases demand on our systems and resources as compared to when we operated as a private company. The Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and operating results. The Sarbanes- Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management' s attention may be diverted from other business concerns, which could adversely affect our business and operating results. We may need to hire more corporate employees in the future or engage outside consultants to comply with these requirements, which would increase our costs and expenses. In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time- consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expense and a diversion of management' s time and attention from revenue- generating activities to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to their application and practice, regulatory authorities may initiate legal proceedings against us and our business may be adversely affected. As a result of disclosure of information in this report and in the filings that we are required to make as a public company, our business, operating results **,** and financial condition have become more visible, which has resulted in, and may in the future result in threatened or actual litigation, **increased competition due to this insight,** including by **key** competitors and other third parties. If any such claims are successful, our business, operating results and financial condition could be adversely affected, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and adversely affect our business, operating results and financial condition. The payment of dividends will be at the discretion of our Board of Directors. We have never declared dividends on our Common Stock, and currently do not anticipate that we will do so in the foreseeable future. The declaration and amount of future dividends, if any, will be determined by our Board of Directors and will depend on our financial condition, earnings, capital requirements, financial covenants, regulatory constraints, industry practice and other factors our Board of Directors deems relevant.