



## **2023 Annual Report to Stockholders**



UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
**FORM 10-K**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2023**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT**

Commission File Number: 000-55838



**Wrap Technologies, Inc.**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

98-0551945

(I.R.S. Employer Identification Number)

1817 W 4th Street

Tempe, Arizona 85281

(Address of principal executive offices) (Zip Code)

(800) 583-2652

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act: None

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.0001 per share	WRAP	Nasdaq Capital Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☐ Yes ☒ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "accelerated filer," "large accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Smaller reporting company ☒

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 USC. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant on June 30, 2023 (the last business day of the registrant's most recently completed second fiscal quarter) was \$59,512,072 based on the closing price as reported on the Nasdaq Capital Market ("Nasdaq") on June 30, 2023. Shares of the registrant's common stock held by each officer and director and each person known to the registrant to own 10% or more of the outstanding voting power of the registrant have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not a determination for other purposes.

As of August 26, 2024 45,860,545 shares of common stock, par value \$0.0001 per share, were outstanding.

**Documents Incorporated by Reference**

None.

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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K may contain or incorporate by reference forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Such forward-looking statements are based upon management’s assumptions, expectations, projections, intentions and beliefs about future events. In some cases, predictive, future-tense or forward-looking words such as “intend,” “plan,” “predict,” “may,” “will,” “project,” “target,” “strategy,” “estimate,” “anticipate,” “believe,” “expect,” “continue,” “potential,” “opportunity,” “forecast,” “should” and similar expressions, whether in the negative or affirmative, that reflect our current views with respect to future events and operational, economic and financial performance are intended to identify such forward-looking statements, but are not the exclusive means of identifying such statements. Such forward-looking statements are only predictions, and actual results and the timing of certain events and circumstances may differ materially from those described by the forward-looking statements as a result of risks and uncertainties, including, without limitation, the Company's ability to successfully implement training programs for the use of its products; the Company's ability to manufacture and produce its products; the Company's ability to develop sales for its new products; the acceptance of existing and future products, including the acceptance of the BolaWrap 150, Wrap Reality, our Body-Worn Camera and our Digital Evidence Management system; the risk that distributor and customer orders for future deliveries are modified, rescheduled or cancelled in the normal course of business; the availability of funding to continue to finance operations; the complexity, expense and time associated with sales to law enforcement and government entities; the lengthy evaluation and sales cycle for the Company's product solution; product defects; litigation risks from alleged product-related injuries; risks of government regulations; the impact resulting from geopolitical conflicts and any resulting sanctions; the ability to obtain export licenses for countries outside of the US; the ability to obtain patents and defend IP against competitors; the impact of competitive products and solutions; and the Company's ability to maintain and enhance its brand, the ability to maintain compliance with the Nasdaq Stock Market’s listing standards; the ability of the Company to timely and effectively implement controls and procedures required by Section 404 of the Sarbanes-Oxley Act of 2002; and risks resulting from the Company’s status as an emerging growth company, including that reduced disclosure requirements may make shares of the Company’s common stock, par value \$0.0001 per share (“Common Stock”) less attractive to investors. Additional factors that could cause actual results to differ materially from the results anticipated in these forward-looking statements are described in this Annual Report, including under the section entitled “Risk Factors,” and in our other reports filed with the Securities and Exchange Commission (the “SEC”). We advise you to carefully review the reports and documents we file from time to time with the SEC, particularly our annual reports on Form 10-K, our quarterly reports on Form 10-Q and our current reports on Form 8-K. The Company cautions readers that the forward-looking statements included in, or incorporated by reference into, this Annual Report on Form 10-K represent our beliefs, expectations, estimates and assumptions only as of the date hereof and are not intended to give any assurance as to future results. New factors emerge from time to time, and it is not possible for us to predict all of these factors. Further, we cannot assess the effect of each such factor on our business or the extent to which any factor, or combination of factors, may cause actual results to be materially different from those contained in any forward-looking statement.

Readers are cautioned not to place undue reliance on forward-looking statements because of the risks and uncertainties related to them and to the risk factors. We disclaim any obligation to update the forward-looking statements contained in, or incorporated by reference into, this Annual Report to reflect any new information or future events or circumstances or otherwise, except as required by the federal securities laws.

### Use of Market and Industry Data

This Annual Report on Form 10-K includes market and industry data that we have obtained from third party sources, including industry publications, as well as industry data prepared by our management based on its knowledge of and experience in the industries in which we operate (including our management’s estimates and assumptions relating to such industries based on that knowledge). Management has developed its knowledge of such industries through its experience and participation in these industries. While our management believes the third-party sources referred to in this Annual Report on Form 10-K are reliable, neither we nor our management have independently verified any of the data from such sources referred to in this Annual Report or ascertained the underlying economic assumptions relied upon by such sources. Furthermore, references in this Annual Report to any publications, reports, surveys or articles prepared by third parties should not be construed as depicting the complete findings of the entire publication, report, survey or article. The information in any such publication, report, survey or article is not incorporated by reference in this Annual Report on Form 10-K.

Forecasts and other forward-looking information obtained from these sources involve risks and uncertainties and are subject to change based on various factors, including those discussed in sections entitled “Cautionary Note Regarding Forward-Looking Statements,” “Item 1A. Risk Factors” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Annual Report.

### TRADEMARKS, TRADE NAMES AND SERVICE MARKS

Our trademarks include Wrap, the Wrap logo, BolaWrap®, and Wrap Reality™, Intrensic, and Evidence on A Cloud, some of which are registered trademarks in the US and certain other jurisdictions. They, along with our other common law trademarks, service marks or trade names appearing in this Annual Report are the property of the Company. Other trademarks, service marks or trade

names appearing in this Annual Report are the property of their owners. We do not intend our use or display of other companies' trade names or trademarks to imply a relationship with, or endorsement of or sponsorship of us by, any other companies. Solely for convenience, we have omitted the ® and ™ designations, as applicable, for the trademarks used in this Annual Report, but such references are not intended to indicate in any way that we will not assert, to the fullest extent under applicable law, our rights to these trademarks and trade names.

## PART I

### ITEM 1. BUSINESS

#### Overview

We are a global public safety technology and services company that delivers safe and effective policing solutions to law enforcement and security personnel worldwide. We are leading the movement for safer outcomes by equipping law enforcement with safer, non-painful compliance tools, and immersive training fit for modern society. We began sales of our first public safety product, the BolaWrap 100 remote restraint device, in late 2018. In the first quarter of 2022, we delivered a new generation product, the BolaWrap 150. The BolaWrap 150 is electronically deployed and is more robust, smaller, lighter and simpler to deploy than the BolaWrap 100 that has since been phased out. In late 2020 we added a new solution to our public safety technologies, our virtual reality ("VR") training platform, Wrap Reality, and in August 2023 we acquired Intrensic, LLC, a Delaware limited liability company ("Intrensic"), which added a Body-Worn Camera ("BWC") and Digital Evidence Management ("DEM") solution to our portfolio of policing solutions. Wrap Reality is now sold to law enforcement agencies for simulation training as well as corrections departments for the societal reentry scenarios.

Our target market for our solutions includes approximately 900,000 full-time sworn law enforcement officers in over 18,000 federal, state, and local law enforcement agencies in the U.S. and over 12 million police officers in more than 100 countries. Additionally, we are exploring opportunities in other domestic markets, such as military and private security. Our international focus is on countries with the largest police forces. According to 360iResearch, a market research consulting firm, our non-lethal products are part of a global market segment expected to grow to \$16.1 billion by 2027.

We focus our efforts on the following products and services:

*BolaWrap Remote Restraint Device* – a hand-held remote restraint device that discharges a seven and half-foot Kevlar tether to entangle an individual at a range of 10-25 feet. BolaWrap assists law enforcement to safely and effectively control encounters early without resorting to painful force options.

*Wrap Reality* – a law enforcement 3D training system employing immersive computer graphics VR with proprietary software-enabled content. It allows up to two participants to enter a simulated training environment simultaneously, and customized weapons controllers enable trainees to engage in strategic decision making along the force continuum. Wrap Reality has 45 scenarios for law enforcement and corrections and 15 scenarios for societal reentry. Wrap Reality is one of the most robust 3D Virtual Reality solutions on the market for law enforcement and societal reentry today.

*Wrap Intrensic* – a Body-Worn Camera and Digital Evidence Management solutions provider. BWC and DEM play crucial roles in capturing, storing, and managing digital evidence, such as video and audio recordings for various purposes, including criminal investigations and maintaining transparency in public interactions. The Wrap Intrensic X2 camera hardware and storage and data management capability, along with awareness of front-line operations, provides customers with a solution to meet their challenges. Wrap Intrensic Evidence on our cloud-based video storage platform provides an unlimited video storage platform that includes video and other evidence uploading, search, retrieval, redaction, and evidence sharing while reducing the need for resources required to manage this evidence.

In addition to the US law enforcement market, we have shipped our restraint products to 62 countries. We have established an active distributor network representing 50 states and one dealer representing the US territory of Puerto Rico. We have distribution agreements with 35 international distributors covering 75 countries. We focus significant sales, training and business development efforts to support our distribution network in addition to our internal sales team.

We focus significant resources on research and development innovations and continue to enhance our products and plan to introduce new products. We believe we have established a strong brand and market presence globally and have established significant competitive advantages in our markets.



## Industry Background

The market for non-lethal and less-lethal products and devices serves law enforcement agencies, correctional facilities, military agencies, private security guard companies, and retail consumers. As thought leaders in new public safety products, we focus on the law enforcement agency segment of the market with our BolaWrap remote restraint solution, Wrap Reality virtual reality system, and our Body-Worn Camera and Digital Evidence Management solutions. Recent trends, such as the rise in mental health cases, police reform, and reorganization of police departments, have started a growing conversation across the country on the need for de-escalation before applying a pain-compliance policing policy. As this de-escalation movement unfolds, there are thousands of law enforcement, police, and sheriff's offices focusing on training, policies, and the use of more non-lethal restraining solutions. This movement highlights a growing need for new approaches, which we believe will drive demand for our innovative and safe law enforcement solutions.

When law enforcement seeks to detain an individual, there usually is a use of force continuum that an agency follows, starting with officer presence and verbal commands. If verbal commands break down, agencies may authorize the use of less lethal pain inducing compliance tools, such as pepper spray, pepper ball, wooden batons or metal collapsible batons, launchers and bean bags, and conducted energy weapons, such as Taser®. Our BolaWrap product offers an alternative. It can be used in many cases to restrain an individual after verbal commands break down and prior to the need to use pain-inducing compliance tools. The use of nonlethal solutions like BolaWrap potentially could lead to a reduction in use of force incidents that result in ending careers as well as the number of legal cases filed against agencies for excessive use of force, wrongful death, and injury, thus decreasing expensive litigation, settlements, and insurance costs.

We anticipate that use of the BolaWrap by public safety agencies can increase goodwill between public safety agencies and their communities, especially in a time when interactions with public safety officers are increasingly subject to public and media scrutiny. We believe the law enforcement community's response to BolaWrap demonstrates the need for the product and its utility in safely detaining individuals. Our goal is to equip every public safety officer with a BolaWrap remote restraint solution that they carry with them each day.

## Markets

We participate in the global non-lethal market that, according to the January 2022 report by 360iResearch, was expected to grow to \$16.1 billion by 2027. The following segments are our target markets:

### *Domestic and International Law Enforcement*

Our products and services are primarily targeted at federal, state, and local law enforcement agencies in the U.S. As of 2018, there were over 18,000 law enforcement agencies and 800,000 full-time local and state law enforcement officers in the US, while the US Department of Justice reported over 100,000 full-time federal officers based on 2016 data. Our product line, including BolaWrap, can be an effective tool for safe detention of individuals under the jurisdiction of these agencies.

We have also identified an international market opportunity of over 12.1 million police officers in the 100 largest police forces outside the US. We have delivered products to 62 countries and have entered into agreements with international distributors, with international sales representing a significant portion of our revenues in 2023. We anticipate that sales attributable to international markets will continue to represent a significant portion of our sales in the future due in part to the centralized purchase decision-making process at the national level in these markets. Often, the international markets have large national police forces. Conversely, in the US, the market is more fragmented with many smaller agencies and longer procurement and sales cycles. We expect international sales to continue to be lumpy due the timing of purchase decisions and relatively large size of orders.

### *Correctional Facilities*

In 2019, the US Bureau of Justice statistics ("Census of State and Federal Correctional Facilities, 2019," US Department of Justice, Bureau of Justice Statistics, published November 2022) estimated that there were 240,000 correctional officers in over 1,000 federal and state correctional facilities in the U.S., representing a large potential market for our products and services. Most correctional facilities fall under federal, state or local law enforcement jurisdiction and we believe these facilities could leverage Wrap Reality for law enforcement and societal reentry platforms as well as BolaWrap inside and outside of the correctional facility.

### *Private Security Firms and Guard Services*

According to the 2019 Bureau of Labor Statistics estimates ("Occupational Employment Statistics," US Department of Labor), there were 1.1 million privately employed security guards in the U.S. They represent a broad range of individuals, including those employed by investigation and security services, hospitals, schools, local government, and others. We believe that the use of BolaWrap by security personnel could effectively de-escalate some encounters without eliminating other devices available today. Providing security personnel with the BolaWrap may also reduce the potential liability of private security companies and personnel in such encounters.

## Virtual Reality Training Market

## Wrap Products and Services

Our BolaWrap product line includes the BolaWrap 100, which was our first remote restraint product and which has been phased out, and the BolaWrap 150, delivered to the market in the first quarter of 2022. The BolaWrap 150 offers electronic deployment and is more robust, smaller, lighter, and simpler to use than the BolaWrap 100. The BolaWrap is a handheld remote restraint device that discharges a seven and a half-foot Kevlar tether, entangling an individual from a range of 10-25 feet. Developed in collaboration with law enforcement professionals, this device enables safe and effective control of low-force encounters, providing a valuable tool for law enforcement officers.



The BolaWrap is a remote restraint device that safely wraps around an individual's arms and/or legs to impede movement and prevent harm to themselves or others. The device provides a valuable tool for law enforcement officers to safely and humanely take subjects into custody without injury, especially when verbal commands are ineffective.

With a wide effectiveness zone and a guiding seven dot green laser for accurate placement of the Kevlar tether, the BolaWrap mitigates the risk of injury to the subject, officer and potential bystanders. Its small, light, and rugged design allows officers to maintain other use of force continuum options while providing a non-lethal alternative to potentially injurious less-lethal forces or firearms.

BolaWrap's effectiveness in restraining individuals and hindering their ability to flee or fight has been proven. Not only does it allow officers to act safely and effectively in difficult situations by minimizing the need for other uses of force, including hand-to-hand combat and other more injurious less lethal or lethal weapons, but also it helps minimize injury and prevent a force frenzy that can occur after chasing a fleeing subject.

Unlike other less-lethal tools that rely on pain compliance and may lead to escalation of incidents and serious injuries, the BolaWrap does not rely on pain or electricity-enabled neuromuscular incapacitation. BolaWrap does not induce paralyzed falls or recovery time, making the BolaWrap an ideal non-lethal tool for law enforcement officers. Additionally, the fight or flight response that comes from less lethal tools that cause pain and injury is minimized by being wrapped by a BolaWrap device.

We spend significant resources training law enforcement on the safe and effective use of the BolaWrap in conjunction with de-escalation and apprehension techniques. However, like any restraining action, some injuries may result from the use of BolaWrap. Our training includes primary use cases that fall into the three broad categories routinely encountered by law enforcement and security personnel:

- To remotely restrain and limit the mobility of an individual who is experiencing a mental health crisis, narcotics-induced psychosis, or other crisis condition rendering them incapable of responding to law enforcement's verbal commands but that presents a danger to law enforcement, the public or themselves if not restrained;
- To remotely restrain and limit the mobility of an individual attempting to evade arrest or questioning, as well as individuals ignoring verbal commands from law enforcement. These individuals are commonly referred to as passively resistant or non-compliant; and
- To assist in subduing individuals actively resisting arrest by limiting mobility, possibly making other engagement options less risky to officers and less injurious to individuals.

Law enforcement encounters involving individuals experiencing a behavioral health crisis can be challenging, resulting in public controversy and costly consequences. The Treatment Advocacy Center: Office of Research & Public Affairs reported that one in ten police encounters involve individuals with mental illness, with at least one in four fatal police encounters involving individuals with mental illness (Overlooked in the Undercounted: The Role of Mental Illness in Fatal Law Enforcement Encounters (2015)).

A field deployment should be considered successful by law enforcement agencies if compliance is achieved, and no additional higher-level use of force tool is required after the BolaWrap is displayed or used. Agencies have reported achieving compliance by utilizing the BolaWrap in the following ways:

- by pointing the BolaWrap's seven dot green line dot laser at the suspect in conjunction with verbal commands;
- by the sound emitted by the BolaWrap upon deployment and causing a distraction;
- through the feeling of being wrapped and/or the restraint of the Kevlar cord around the suspect's legs, arms, or torso; and
- when used in conjunction with other less-lethal tools.

While we encourage all law enforcement agencies to fill out a Use of Device Report when the BolaWrap is used during an encounter in the field, agencies do not always report all field deployments. Some agencies consider the deployment of the BolaWrap to be a non-use of force or a de minimis use of force that does not require any reporting. While some deployments have been captured on bodycam and shared with the public, others were reported by the agency or the media but were not captured on bodycam. Some agencies capture deployments on body worn cameras but do not allow the sharing of the video or allow them to be shared for learning purposes but not publicized for other marketing purposes. Some local jurisdictions have department policies, collective bargaining agreements, and city, county or state laws regarding the distribution of body worn camera video.

As more agencies incorporate the BolaWrap onto their duty belts and carry it every day on shift we expect to see an increase in the rate of field deployments, which we believe will contribute to even further adoption of the device by law enforcement agencies worldwide. In 2022, following the release of our strategic roadmap in mid 2022 Q3, we focused our customer service team on modifying their approach to become a customer success operation. As part of this strategic change, our team focuses on reaching out to drive agency wide adoption. We made this pivot in part because many agencies in the first few years of BolaWrap only deployed a small number of trial units without the immediate follow-up to grow their deployment to agency-wide. We have trained our sales team to focus on agency-wide deployment to drive the highest level of immediate success with the device and to integrate it into department-wide use of force policies. In January 2023, we launched our Use of Force Reduction Guarantee whereby we will buy back an agency's devices when they deploy agency wide and do not see a reduction in Use -of -Force by at least 10%, after meeting certain criteria.

### *BolaWrap 150*

In late Q1 2022, we delivered the latest generation of our BolaWrap device, the BolaWrap 150. Production of the previous model, the BolaWrap 100, ceased in 2021. We intend to continue to supply cartridges for the BolaWrap 100 to our customers for the foreseeable future. Unlike the BolaWrap 100, the BolaWrap 150 utilizes cassettes that are unique to the device and cannot be interchanged between models. We have positioned the BolaWrap 150 as our primary product and plan to support it for 5 to 10 years from the product launch date.

To support the increased production volume for the BolaWrap 150, we implemented a more automated supply chain in the production, quality control, and testing lines in 2022.

We believe the BolaWrap 150 offers important benefits, including:

- Modern electronic deployment
- Smaller size and less weight
- Reduced production costs
- LED status indicator for ease of operation
- Long laser battery life
- LED target illumination to improve accuracy
- Hardened plastic for increased durability
- Enhanced water resistance for harsh environments

The BolaWrap 150 employs two micro-gas generators to individually expel each entangling projectile. Micro-gas generators are micro explosive parts used in a variety of industrial products, including automobile airbags.

See "Risk Factors" included below in this Annual Report for additional information regarding risks and uncertainties associated with our business.

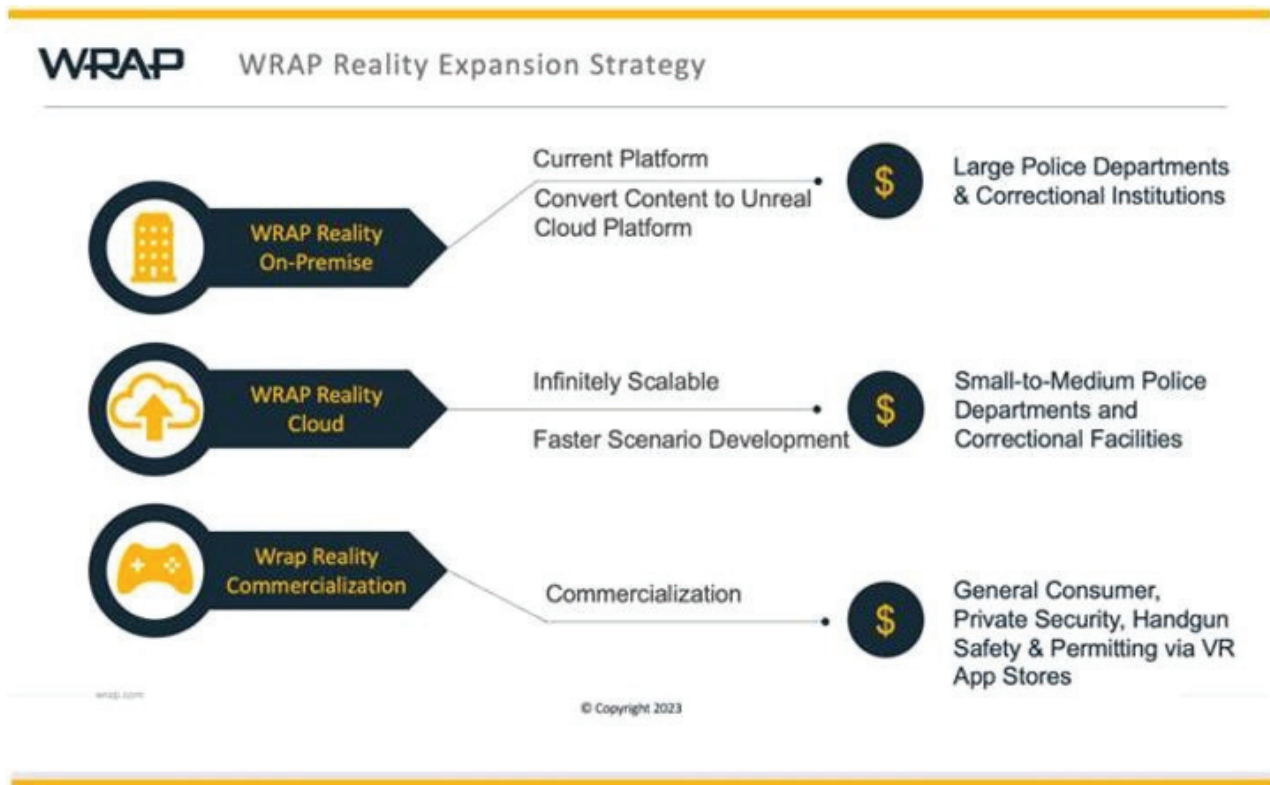
## Wrap Reality

In 2019, we partnered with an independent technology company to create a virtual reality system with training scenarios. We acquired NSENA Inc. in December 2020, a provider of law enforcement training employing immersive computer graphics virtual reality with proprietary software-enabled content. We branded the system as Wrap Reality Virtual Training and kept building and improving that platform and today it offers 38 built out scenarios targeting law enforcement. Countless additional scenarios can be made by using the Wrap Reality adapt functionality to pick and choose key components to build a scenario. It takes advantage of advanced virtual reality hardware and allows up to two participants to enter the simulated training environment simultaneously.

In August 2021, we announced the development of an expanded Wrap Reality Virtual Training platform through a collaboration with Amazon Web Services (AWS). This new platform combines our law enforcement simulator with secure cloud services to track training progress and provide the ability to replay recorded training sessions. We continue to upgrade scenarios and develop de-escalation techniques into new scenarios and seek to enhance the Wrap Reality experience through continued software and platform innovation.

We are optimistic about the potential for future growth of WRAP Reality by public safety agencies, given our early adoption and deployment of robust virtual reality training technology. By leveraging our existing platform and our investment in cloud software, we now will have the opportunity to develop and offer critical training scenarios at very competitive price points.

We have the ability to offer both on-premises and full cloud capabilities with multiple hardware options. This expansion enables us to deliver the platform to a broad range of customers, including law enforcement agencies, public and private security, corrections and the general public for firearms, concealed weapon, and safety training.







### Wrap Intinsic

In August 2023, Wrap entered into the Intinsic Purchase Agreement (as defined herein) for the acquisition of Intinsic, an innovator of DEMS and body-worn cameras. The integration of Intinsic's offerings into the Company's product suite allows the Company to expand its relationship with existing customers, increase its addressable market, and further innovate its technology offering. The acquisition helps the Company broaden its addressable market by appealing to a wider range of law enforcement and public safety agencies that are looking for integrated solutions combining non-lethal devices and digital evidence management. By offering a more comprehensive set of tools and technologies, the Company strengthened its position in the public safety technology market by differentiating itself from competitors that only offer single solutions.

Wrap Intinsic offers a robust digital evidence management platform that enables law enforcement agencies to securely store, manage, and share digital evidence, including body-worn camera footage, dashboard camera videos, and other digital files. The platform is equipped with features such as secure cloud storage, easy file retrieval, evidence tagging, chain of custody documentation, and sharing capabilities to streamline workflows and ensure data integrity. Wrap Intinsic also provides body-worn camera solutions designed to capture high-quality video evidence in various law enforcement scenarios. These cameras feature HD recording, night vision, and secure data upload capabilities and seamlessly integrate with the digital evidence management platform for efficient video uploading and management.

Since completing the acquisition in August 2023, Wrap has launched a host of new features and functionality to the Intinsic platform including WrapAI, a suite of artificial intelligence-powered functionality for Wrap Intinsic BWC and DEMS. This suite includes AI video redaction, AI video transcription, and AI assisted contextual content search, keeping Wrap Intinsic on the cutting edge of innovation in the DEMS and BWC marketplace.

By offering comprehensive solutions for video evidence management, Wrap Intinsic enhances accountability and transparency within law enforcement agencies. The technology facilitates improved documentation of interactions and incidents, which is critical in investigations and when building public trust. The solutions are used in various settings, including routine patrols, traffic stops, and large-scale public events. Wrap Intinsic's platform simplifies digital evidence management, reducing the administrative burden on law enforcement personnel. Secure cloud storage and rigorous chain-of-custody protocols protect digital evidence against unauthorized access and tampering. The integration of non-lethal tools like BolaWrap with digital evidence solutions contributes to safer interactions between law enforcement officers and the community, strengthening Wrap Technologies' position in the public safety technology market by offering an end-to-end solution that combines innovative de-escalation devices with state-of-the-art evidence management.

The Company remains optimistic on the outlook of Wrap Intinsic as a competitive and innovative solution set in the marketplace.

## **Selling, Marketing and Training**

Our sales, marketing and training organizations work together closely to drive revenue growth by enhancing market awareness of our solutions, generating leads, building a strong sales pipeline, and cultivating customer and distributor relationships. Our training not only supports our sales, but it also provides revenue due to the extreme value our customers place on our training services. We started charging for our training services in the third quarter of 2022.

### *Sales*

Our primary target market is law enforcement agencies in the US and globally. The purchasing decision for our BolaWrap products and accessories is typically made by a group including agency heads, procurement, training staff, and use of force experts, and may involve political decision-makers such as city council members. The decision-making process may take several weeks to over a year due to budget constraints and other considerations.

We use product demonstrations as a primary sales tool and follow up with sales activities. Our goal is to convert demonstration and training deliveries into sales and long-term expansion. We provide fee-based training services to agencies, as we believe that departments with knowledgeable instructors are more likely to purchase our products.

In 2019, we adopted a channel distribution approach, in tandem with our internal sales team, where we supply our products to independent regional police equipment distributors, who in turn sell to local law enforcement agencies. Our current focus is on cultivating partnerships with major agencies and providing active assistance to our distributors through our dedicated sales, business development, and support teams. We sell through distributors in most cases and go direct to our end customers where the right distributor skill set, and capability is not available.

We currently have distribution agreements with a network of distributors representing 50 states and one dealer representing Puerto Rico. These agreements provide certain territorial rights to distributors and allow us to sell direct to certain agencies under certain terms.

We have distribution agreements with 35 international distributors covering 75 countries. These agreements generally require minimum sales and follow up performance and allow us to sell direct to customers if performance is not being met. We focus significant sales and business development efforts to support our international distributors.

We have invested in training our sales, distribution, demonstration, training, and customer success teams, as well as our distributors, to build awareness and drive sales of our BolaWrap and our Wrap Reality virtual reality training product. Additionally, we are actively seeking partnerships with other organizations to further enhance our sales, marketing, and technology efforts. We engage with other industry experts to ensure our virtual reality scenarios align with industry standards of engagement.

### *Marketing*

Prospective customers become aware of Wrap solutions through a variety of marketing channels such as social media, paid advertising, media coverage, press releases, web searches, sales calls, and public relations. We also distribute body and dash camera videos of successful BolaWrap use in policing encounters to generate leads. Once a lead is generated, it is qualified by our inside sales team, and a sales representative or distributor communicates with the prospective customer to discuss their needs and the solutions we offer.

We track our marketing and sales activities to provide immediate insight into activities, leads, quotes, and pipeline opportunities. Our marketing staff engages with law enforcement agencies, personnel, and risk management organizations to educate them on the benefits of BolaWrap remote restraint, as well as Wrap Reality and we participate in various domestic and international trade shows and conferences to promote our brands. We intend to increase the use of our trademarks throughout our product distribution chain to enhance brand awareness and believe our strong reputation as a pioneer in remote restraint, with excellent training and product support, gives us a competitive edge.

### *Demonstration, Training and Customer Success*

As part of its sales and marketing activities, the Company has a department dedicated to conducting demonstrations and training. The Company offers in-person, webinar, and online demonstrations, as well as paid use of force and de-escalation training, to law enforcement agencies. The training can take place before or after the initial or subsequent purchase or deployment of the Company's products. The Company believes that providing training and demonstrations to law enforcement officers and trainers increases their support for purchasing and deploying the products within their departments.

Generally, agencies will adapt their use of force policy to incorporate remote restraint and the BolaWrap into a key new area of their policy for non-invasive tools that often did not previously exist. BolaWrap is typically not a categorical use of force, or if classified as force, and is typically at the lowest level on a department policy, below all other less lethal weapons like pepper spray, pepperball, batons, bean bags, Tasers® and conducted energy weapons.

In order to provide comprehensive training and sales support, we initiated the Wrap “Train the Trainer” program in October 2018. The program is structured such that our Master BolaWrap Instructors educate BolaWrap Instructors at local agencies, who then train front-line officers in compliance with the agency's policies.

BolaWrap Instructors are typically sworn law enforcement officers, who are commonly department trainers, defensive tactic instructors, or SWAT officers. They undergo a five-hour BolaWrap Instructor certification course, which includes passing a written exam and demonstrating proficiency in deploying and using the BolaWrap. We provide support to the instructors to share lessons learned and best practices for teaching line officers in the use of BolaWrap. Instructor certification is valid for two years and requires renewal afterward. BolaWrap training curriculum is submitted by departments to their Post Officers Standards and Training (POST) for credit for in-service training hours. Most departments who leverage the BolaWrap across all field officers incorporate BolaWrap training into most other training materials and in service training throughout the year. An example would be officers doing an in-service training on Driving under the Influence (DUI) arrests using the BolaWrap during the arrest portion of training on individuals under the influence of alcohol or drugs. If departments are conducting in-service training on responding to those in a mental health crisis, they also need to train and have ongoing practice on deploying BolaWrap on those in crisis and practice taking these individuals safely into protective custody. Another in service training example would be when departments practice warrant service, and during the arrest and apprehension efforts, they leverage BolaWrap after verbal commands breakdown but before they are justified in using pain compliance tools such as pepper spray, pepperball, batons, Tasers or conducted electrical weapons.

In order to schedule and organize training events, registration, and training records, we utilize a cloud-based software system called the Wrap Learning Management System. This system is also home to a Resource Library which we highly encourage distributors and purchasers to use to educate themselves on the use of BolaWrap.

In the modern world of policing, we understand that it is crucial to provide equipment and services that are well-supported, and that officers receive proper training and procedures to perform their duties effectively and safely. As a result, we have developed a professional team dedicated to training and sales support, as well as the necessary systems to provide this support. This approach not only gives us a competitive edge but also creates a significant barrier to new competition. We are confident that our training and support teams are equipped to assist agencies of all sizes.

### **Our Strategy**

In the world of law enforcement, defense, public safety, and security, our product and training solutions are gaining recognition and worldwide awareness. We have a strong global brand and product foundation that we are continuously expanding to reach new markets and customers, thereby contributing to significant business growth. We are confident that we can capitalize on the growing demand for non-lethal policing in the world, particularly as non-compliant individuals continue to pose a threat. Our training programs and virtual reality platform are also well positioned to grow rapidly in global markets.

Our commercialization strategy concentrates on the immediately addressable domestic market, comprising more than 18,000 federal, state, and local law enforcement agencies, with approximately 900,000 full-time sworn officers in just the US alone. We also aim to target the 100 largest police forces internationally, which have over 12 million police officers. Our objective is to unlock the full potential of our technology solutions suite, which targets law enforcement and security personnel on a global scale.

We plan to maintain financial prudence and deliver value to our shareholders. Our focus will remain on expanding our revenues through pursuing business opportunities both domestically and internationally. In addition to enhancing our current product portfolio, we aim to develop new and improved products, which can be utilized by security personnel and related professionals. We also seek to pursue strategic business initiatives and collaborations, including potential acquisitions, to complement our existing offerings and sales network.



## **Manufacturing and Suppliers**

### *Manufacturing*

We believe that maintaining scalable assembly capabilities is crucial to the performance of our products and the growth of our business. Our assembly processes involve unique systems and materials, and we contract with third-party suppliers to produce various parts, components, and subassemblies. We established initial startup production in Las Vegas in 2018, and in October 2019, we completed a move to and began production at our current facility in Arizona. In this facility, we perform manufacturing, final assembly, testing, and shipping of our products. We have refined our internal processes to improve how we design, test, and qualify products, and we continue to implement rigorous manufacturing and quality processes to track production and field issues. We periodically implement design and component changes to reduce our product costs and improve product reliability and manufacturability. We aim to continually improve our operations to meet the growing demand for our products and better serve our customers.

### *Suppliers*

We have established strong relationships with our key suppliers, and their timely and reliable delivery is crucial to our ability to meet customer demand. However, we are subject to challenges in our global supply chain, such as component shortages, increased lead times, cost fluctuations, and logistics constraints, which can affect our production schedules and have a negative impact on our financial performance. In late 2022, we started to ensure we have more final product inventory on hand to meet new business needs. While we anticipate supply chain challenges to improve in the remainder of 2024, we recognize that future supplier shortages and logistics issues could have a material adverse effect on our operations and financial results.

## **Backlog**

As of December 31, 2023, we had backlog of approximately \$209 thousand that was delivered in the first quarter of 2024. The amount of backlog at any point in time is dependent upon order timing, scheduled delivery dates to our customers and product lead times. Most orders are shipped shortly after order and backlog is typically associated with larger police agency orders. Because of our history of shipping shortly after order, we do not currently believe backlog at any period end is predictive of future order volume or revenues beyond the reported amount. Distributor and customer orders for future deliveries are generally subject to modification, rescheduling or in some instances, cancellation in the normal course of business.

## **Warranties**

Our products come with a warranty that guarantees their quality and performance for up to one year from the date of purchase. This warranty is generally limited and may include certain shipping costs for the customer. We also offer the option for our customers to purchase additional one-year warranty increments for their products.

## **Competition**

The Company positions the BolaWrap product as a new non-invasive remote restraint solution for law enforcement rather than a replacement for other devices currently in use. When looking at the use of force continuum, we place our solution in a category completely separate from common less lethal solutions that use pain compliance and can cause serious injuries or even death in some circumstances. We believe every law enforcement officer in the world who carries handcuffs should carry a BolaWrap at the same time as BolaWrap is leveraged just prior to handcuffs.

However, we do compete with other use of force products for budget allocations. The BolaWrap product may also be perceived as an alternative to other solutions despite our valuable and separate positioning. Because we believe the BolaWrap may be used more often than certain other tools given, we expect to stand in a category of our own. Many agencies with the BolaWrap do not consider it a use-of-force tool, which uniquely distinguishes it from every other tool on an officer's belt. The most common interactions officers have with the public revolve around de-escalating situations. In such scenarios, the BolaWrap stands out as one of the safest de-escalation tool available. Given these factors, we believe the BolaWrap may be used more often than certain other tools, positioning us to be widely recognized as standing in a category of our own.

Indirectly, other use of force devices such as tasers (CEWs), pepper spray, pepperball, batons, and impact weapons may try to compete with the BolaWrap product. However, many law enforcement personnel consider these to be distinct tools, each best-suited to a particular set of higher use of force circumstances. Purchasing one tool does not preclude the purchase of others, but budgetary considerations and space limitations on officer's belts may limit the number of devices purchased and carried. The BolaWrap's unique remote restraint use, effectiveness, and low possibility of injury positions it as an effective competitor against all other alternatives. We believe that in time the non-invasive BolaWrap will be prioritized over these other less lethal devices for its ease of use, safety, and high probability of use throughout a given year to officers in the field.

In the virtual reality training space, there are numerous competitors offering simulators for law enforcement, including established video-based 2D simulators. Furthermore, other virtual reality providers and developers focused on other applications may choose to compete in the law enforcement training market in the future.

We recognize that some of our competitors have substantially greater resources to devote to compete in the law enforcement market and may introduce products with features and performance competitive to our product. However, we believe that our unique positioning, strong product and technology foundation, and dedicated professional training and sales support team provide a competitive advantage.

Overall, we believe that the depth and capability of our 3D Virtual Reality (VR) Wrap Reality Capability will prove to be impressive. We have 38 fully formed law enforcement scenarios and 25 corrections and societal reentry scenarios in 3D in addition to the customizability of Wrap Reality Adapt which we believe provides more robust 3D options than our competitors. The largest capitalized competitor in this space currently offers only three 3D scenarios and is selling subscriptions of more than six million dollars a year.

### **Government Regulation**

As a global company, we are subject to a wide range of domestic, federal, state, and local laws and regulations, as well as international laws and regulations regarding shipments, customs, import, export, safe working conditions, manufacturing practices, environmental protection, and hazardous substances disposal. Compliance with these laws and regulations may entail significant costs, and failure to comply may result in penalties or other enforcement actions.

Our BolaWrap products are classified as firearms and AOWs by the ATF, and we hold the necessary licenses to manufacture and deal in such firearms. We believe these devices have been classified as AOW due to the lack of updates to outdated statutes and firearms regulations. We are actively working to improve the legislation and to allow our products to be directly transferred to private security forces and private individuals due to its safe effective capabilities standing alone in the non-invasive non-lethal category.

We are also subject to state and international regulations, which may vary. We comply with shipping regulations for dangerous goods, and our products comply with standard safety requirements in the US and international markets. We follow data protection laws and have a privacy policy in place. We work with distributors and advisors familiar with applicable import regulations in our international markets.

### **Intellectual Property Rights and Proprietary Information**

We have a policy of protecting our intellectual property assets, which include issued domestic and international patents, pending patents, trademarks, copyrights, trade secrets, and contractual obligations. We enter into confidentiality and nondisclosure agreements with employees, consultants, and third parties to whom we disclose proprietary information. These agreements prohibit disclosure of confidential information both during and after the duration of the working relationship. However, we recognize that such agreements may not always prevent disclosure or provide adequate remedies for any breach. We rely on copyrights, trade secrets, and other proprietary rights to protect the content of our training services, including the Wrap Reality VR training software and content.

We believe that strong product offerings that are continually upgraded and enhanced, combined with factors such as innovation, technological expertise, and experienced personnel, will keep us competitive. Therefore, we seek patent and other intellectual property protection on important technological improvements that we make. Before filing for patents, we disclose key features to patent counsel and maintain these features as trade secrets prior to product introduction. However, patent applications may not result in issued patents covering all important claims, and there is a risk that they could be denied in their entirety.

We currently have twenty-two issued US patents related to the BolaWrap technology and six additional US patents pending. In September 2018, we commenced filing our foreign patent applications selectively targeting the members of the European Patent Office (39 countries) and seventeen other countries, of which forty-five patents have been issued to date. To date we have a total of sixty-seven issued domestic and international patents for our small global company. During 2023 we filed nine patent applications, seven of which were US filings. We feel the investment in patent protection in the US and abroad strengthens our intellectual property and creates value in Wrap Technologies. The failure to obtain patent protection or the loss of patent protection on our

existing and future technologies or the circumvention of our patents by competitors could have a material adverse effect on our ability to compete successfully.

We have been granted trade name protection for “BolaWrap” and “Wrap” in multiple countries and expect to employ a combination of registered and common law trade names, trademarks and service marks in our business. We rely on a variety of intellectual property protections for our products and technologies, including contractual obligations, and we intend to pursue a policy of vigorously enforcing such rights.

The law enforcement product and services industries are characterized by frequent litigation regarding patent and other intellectual property rights. Others, including academic institutions and competitors, hold numerous patents in less lethal and related technologies. Although we are not aware of any existing patents that would materially inhibit our ability to commercialize our technology, others may assert claims in the future. Such claims, with or without merit, may have a material adverse effect on our financial condition, results of operations or cash flows.

### **Research and Development**

Our research and development initiatives are led by our internal personnel and make use of specialized consultants when necessary. These initiatives include basic research, mechanical and electrical engineering design and testing. Future development projects will focus on new versions of the BolaWrap technology, virtual reality and new public safety technologies that focus on safe and effective policing, especially in our strategic space that does not use pain compliance.

For the fiscal years ended December 31, 2023, and 2022, we spent approximately \$3.3 million and \$5.1 million, respectively, on company-sponsored research and development. This equates to 53% of revenue in 2023 and 63% of revenue in 2022. Future levels of research and development expenditure will vary depending on the timing of further new product development and the availability of funds to carry on new and additional research and development on currently owned technologies or in other areas. During 2024, in addition to continued development and enhancement of our remote restraint products, we expect to incur additional costs improving our training systems including enhancing our Wrap Reality on premise and cloud platforms and related content. As mentioned earlier we believe we are ahead of many in the law enforcement 3D virtual reality training space and have built up significant capability to compete globally in the law enforcement and corrections VR space.

### **Related Party License and Royalties**

We are obligated to pay royalties pursuant to an exclusive Amended and Restated Intellectual Property License Agreement (the “License Agreement”), dated as of September 30, 2016, with Syzygy Licensing, LLC (“Syzygy”), a private technology invention, consulting and licensing company owned and controlled by Elwood G. Norris, a founder and former officer and current stockholder of the Company, and James A. Barnes, a former officer and stockholder of the Company. Syzygy has no ongoing operations, and does not engage in any manufacturing, production or other related activities.

The License Agreement provides for the payment of royalties of 4% of revenue from products employing the licensed device technology up to the earlier to occur of (i) the payment by the Company of an aggregate of \$1.0 million in royalties, or (ii) September 30, 2026. All development and patent costs have been paid by us and patent applications and the technology related to the BolaWrap 100 and the BolaWrap 150 have been completely and solely assigned to the Company, subject to this royalty obligation. As of December 31, 2023, \$919 thousand has been paid out under this royalty obligation, leaving a maximum of \$81 thousand to be paid out in the future.

### **Seasonality**

Local and international law enforcement has seasonality with respect to when they purchase and expend funds. Many local law enforcement agencies in the US are on a July 1 to June 30 calendar year resulting in increased spending in the third and fourth quarter of the fiscal year. The US federal government is on an October 1 to September 30 budget year, resulting in use or lose spending that often occurs in in the third quarter of the fiscal year. Some domestic and international budgets are on a calendar fiscal year resulting in the fourth quarter typically being the largest buying quarter of the year.

### **Financial Information about Customer Concentration and Geographic Areas**

Financial information regarding customer concentration and geographic areas in which we operate is contained in Note 18.

## Employees

We employ 52 full-time employees with 50 in the U.S. and two located in the United Kingdom. In addition to our two executive officers, we had 20 personnel engaged in sales, marketing, sales support and training, 12 in production, seven in research and development and 10 in administration. In addition, we engage consultants from time to time to provide additional sales, marketing, training and research and development services, and anticipate engaging consultants going forward to supplement our full- and part-time personnel.

In our commitment to operational excellence and maintaining a favorable employer reputation, we strive to create a work environment that attracts, develops, and retains the best talents in the industry. Our employees are offered an engaging work experience that contributes to their professional growth and career advancement. We acknowledge that the success of our business is dependent on the collective talents and dedication of our employees, and we are committed to investing in their professional growth and success.

## Available Information

As a public company, we are required to file our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements on Schedule 14A and other information (including any amendments) with the Securities and Exchange Commission (the “SEC”). The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. You can find our SEC filings at the SEC’s website at [www.sec.gov](http://www.sec.gov).

Our Internet address is [www.wrap.com](http://www.wrap.com). Information contained on our website is not part of this Annual Report. Our SEC filings (including any amendments) are also made available free of charge on [www.wrap.com](http://www.wrap.com), as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

## ITEM 1A. RISK FACTORS

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, 2023 and 2022 was \$30.2 million and \$17.6 million, respectively. Our increase in net losses in 2023 was primarily attributable to a non-cash charge of approximately \$12.0 million related to the change in value of our warrant liability initially recorded as part of the preferred stock issuance in July 2023. 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 capital, which could have a material negative impact on the market value of our Common Stock.

***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.

***As a result of our failure to timely file our Annual Report on Form 10-K for the year ended December 31, 2023, our Quarterly Report on Form 10-Q for the quarter ended March 31, 2024 and our Quarterly Report on Form 10-Q for the quarter ended June 30, 2024, we are currently ineligible to file a registration statement on Form S-3, which may impair our ability to raise capital on terms favorable to us, in a timely manner or at all.***

Form S-3 permits eligible issuers to conduct registered offerings using a short form registration statement that allows the issuer to incorporate by reference its past and future filings and reports made under the Exchange Act. In addition, Form S-3 enables eligible issuers to conduct primary offerings “off the shelf” under Rule 415 of the Securities Act. The shelf registration process, combined with the ability to forward incorporate information, allows issuers to avoid delays and interruptions in the offering process and to access the capital markets in a more expeditious and efficient manner than raising capital in a standard registered offering pursuant to a Registration Statement on Form S-1. The ability to register securities for resale may also be limited as a result of the loss of Form S-3 eligibility.

As a result of our failure to timely file our Annual Report on Form 10-K for the year ended December 31, 2023, our Quarterly Report on Form 10-Q for the quarter ended March 31, 2024 and our Quarterly Report on Form 10-Q for the quarter ended June 30, 2024, we are currently ineligible to file registration statements on Form S-3. Our inability to use Form S-3 may impair our ability to raise necessary capital to fund our operations and execute our strategy. If we seek to access the capital markets through a registered offering during the period of time that we are unable to use Form S-3, we may be required to publicly disclose the proposed offering and the material terms thereof before the offering commences, we may experience delays in the offering process due to SEC review of a Form S-1 registration statement and we may incur increased offering and transaction costs and other considerations. Disclosing a public offering prior to the formal commencement of an offering may result in downward pressure on the stock price of our Common Stock. If we are unable to raise capital through a registered offering, we would be required to conduct our equity financing transactions on a private placement basis, which may be subject to pricing, size and other limitations imposed under the Nasdaq rules, or seek other sources of capital. The foregoing limitations on our financing approaches could have a material adverse effect on our results of operations, liquidity, and financial position.

***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 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.

***We face risks commercializing our virtual reality training platform and may be unsuccessful in growing revenues.***

We continue to invest substantial funds in further developing and commercializing 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. 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 full cloud 3D Virtual Reality we plan to compete on both fronts; however, 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 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 face competition from companies with greater financial, technical, sales, marketing and other resources, and, if we are unable to compete effectively with these competitors, our business could be harmed.***

We face competition from other established companies. A number of our competitors have longer operating histories, larger customer bases, significantly greater financial, technological, sales, marketing and other resources than we do. As a result, our competitors may be able to respond more quickly than we can to new or changing opportunities, technologies, standards or client requirements, more quickly develop new products or devote greater resources to the promotion and sale of their products and services than we can. Likewise, their greater capabilities in these areas may enable them to better withstand periodic downturns in the global public safety industry and compete more effectively on the basis of price and production. In addition, new companies may enter the markets in which we compete, further increasing competition in the global public safety solutions industry.

We believe that our ability to compete successfully depends on a number of factors, including the type and quality of our products and the strength of our brand names, as well as many factors beyond our control. We may not be able to compete successfully against current or future competitors, and increased competition may result in price reductions, reduced profit margins, loss of market share and an inability to generate cash flows that are sufficient to maintain or expand the development and marketing of new products, any of which would adversely impact our results of operations and financial condition.

***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 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.

***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.

***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 laws, 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; 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 and international governmental laws and regulations applicable to international business, such as the Foreign Corrupt Practices Act or US export control regulations, could have an adverse impact on our business with the US and international governments.

***Global economic weakness and uncertainty, 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. Geopolitical conflict, such as the current 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.

***Public health crises could adversely affect our business, financial condition and results of operations.***

Our business could be adversely impacted by the effects of future pandemics, epidemics or infectious disease outbreaks. The extent to which the COVID-19 or other pandemics will in the future 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.

Substantially all our employees are located in the US. 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, 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, 2023, we generated approximately 38% of our revenue from international sales. Due principally to the longer sales cycle, 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 ending December 31, 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 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 our manufacturing capability. Rapid expansion may strain our 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 may not be adequate to support our future growing operations, and we have started to upgrade them and will continue to do so in 2024. We 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.

***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. 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 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 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 prospects.

***Our future success is dependent on our ability to expand sales, 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 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 products, 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.

***Most of our intended end-users are subject to budgetary and political constraints that may delay or prevent sales.***

Most of our 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 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.

***Our dependence on third-party suppliers for key components of our products 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 waned caused, and may continue to cause, significant stress on global supply chains. As economies around the world have reopened, sharp increases in demand created significant disruptions to the global supply chain, which 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 attempt to 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.***

In November 2022, we acquired the rights to certain software assets and services to drive the rapid enhancement of our Wrap Reality Cloud platform, and in August 2023 we acquired Intrensic, LLC, which included a Body-Worn Camera and Digital Evidence Management solution. 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 risks, some or all of which could have a material adverse effect on our acquired businesses, products or 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.

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 “Any other Weapon” (“AOW”). Both firearms and explosive devices are regulated by the US 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 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 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 Department of Commerce (“DOC”) for exports directly from the US. Consequently, we need to obtain export licenses from the DOC for the export of our products from the US. Compliance with or future changes in US 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.

***Our products, including the BolaWrap 100 and BolaWrap 150, are protected by limited patent 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 twenty-two issued US patents related to the BolaWrap technology and have eight US patents pending. We have filed foreign patent applications in the European Union (up to 39 countries) and 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 67 issued domestic and international patents for our small global company. During 2023 we filed nine patent applications, seven 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 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 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 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.

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 may seek indemnity from us if 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 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.

***Our business is dependent on the ability to attract and retain key personnel.***

We are 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 changed our customer service department into a customer success team. We improved our pricing on devices and cassettes. We built additional distributor relationships. The new management team significantly reduced operating expenses in almost all areas. These changes reduced overall headcount, contractor costs and spending. While greatly improving our financial foundation, it also required turnover of personnel and changes to how we operate.

## 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 2024. We expect our revenue to vary significantly due to several 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;
- 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.

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.

***Our expenses may vary from period to period, which could affect quarterly results and our stock price.***

If we incur additional 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;
- 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.

#### Risk Factors Related to Our Series A Preferred Stock

***The Certificate of Designations for the Series A Convertible Preferred Stock provides for dividends to be issued in the form of shares of Common Stock at a conversion price that varies with the trading price of our Common Stock, and it contains “full ratchet” anti-dilution provisions applicable to the dividend conversion price and the conversion price for voluntary conversions of Series A Convertible Preferred Stock into Common Stock. These features may result in a greater number of shares of Common Stock being issued upon conversions than if the conversions were effected at the conversion price in effect at the time of this offering. Sales of these shares will dilute the interests of other security holders and may depress the price of our Common Stock and make it difficult for us to raise additional capital.***

The Certificate of Designations (the “Certificate of Designations”) for our Series A Convertible Preferred Stock (“Series A Preferred Stock”) provides for the payment of dividends to the holder of our Series A Preferred Stock in cash or shares of Common Stock, or a combination thereof, at the Company’s option. If the Company elects to pay any dividends in shares of Common Stock, the Conversion Price (as defined herein) used to calculate the number of shares issuable will equal to the lower of (i) the then applicable Conversion Price and (ii) 85% of the arithmetic average of the three (3) lowest closing prices of the Common Stock during the twenty (20) consecutive trading day period ending on the trading day immediately preceding the dividend payment date, subject to a floor price. The Certificate of Designations also contains “full ratchet” anti-dilution provisions applicable to the conversion prices used in voluntary conversions of Series A Preferred Stock by the holders thereof and by the Company in paying any dividends in shares of Common Stock, which provisions require the lowering of the applicable conversion price, as then in effect, to the purchase price of equity or equity-linked securities issued in subsequent offerings. If in the future, while any of our Series A Preferred Stock is outstanding, we issue securities at an effective Common Stock purchase price that is less than the applicable conversion price of our Series A Preferred Stock, as then in effect, we will be required, subject to certain limitations and adjustments as provided in the Certificate of Designations for the Preferred Stock, to further reduce the relevant conversion price, which will result in a greater number of shares of Common Stock being issuable upon conversion of the Preferred Stock or upon the payment of dividends to the holders of the Preferred Stock in shares of Common Stock, which in turn will have a greater dilutive effect on our shareholders. The potential for such additional issuances may depress the price of our Common Stock regardless of our business performance. We may find it more difficult to raise additional equity capital while any of our Preferred Stock is outstanding.

Further, it is possible that we will not have a sufficient number of available shares to satisfy the conversion of the Preferred Stock or the payment of dividends to the holders of the Preferred Stock in shares of Common Stock if we enter into a future transaction that reduces the applicable conversion price. If we do not have a sufficient number of available shares for any Preferred Stock conversions, we will be required to increase our authorized shares, which may not be possible and will be time consuming and expensive.

***The Series A Preferred Stock provides for the payment of dividends in cash or in shares of our Common Stock, or a combination thereof, and we may not be permitted to pay such dividends in cash, which will require us to have shares of Common Stock available to pay the dividends.***

Each share of the Series A Preferred Stock is entitled to receive cumulative dividends at the rate per share of 8% per annum of the stated value per share. The dividends are payable in cash, out of any funds legally available for such purpose, or shares of Common Stock, or a combination thereof, at the Company’s option. The conversion price used to calculate the number of shares of Common Stock issuable in connection with a given dividend payment is subject to reduction if in the future we issue securities for less than the conversion price of our Series A Preferred Stock, as then in effect. This may have the effect of increasing the number of shares we would be obligated to issue in order to make a dividend payment in shares of Series A Common Stock. We will not be permitted to pay the dividend in cash unless we are legally permitted to do so under Delaware law. As such, we may rely on having available shares of Common Stock to pay such dividends, which will result in dilution to our stockholders. If we do not have such available shares, we may not be able to satisfy our dividend obligations.

## 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 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 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. Stock prices of nanocap securities and small cap securities have fluctuated even more than medium and large cap companies in recent years.

***We have been, and in the future may be, subject to securities litigation, which has and may be expensive and has 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 lawsuit was dismissed in May 2022.

Lawsuits of this nature divert financial and management resources that would otherwise be used to benefit our operations. Although we denied the material allegations in the lawsuits and 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, 2023. 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.

***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 we maintain a closing bid price for our Common Stock of at least \$1.00, 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, and timely file all required reports with the SEC.

On April 18, 2024, the Company received a notice (the "Initial Notice") from the Listing Qualifications Staff of the Nasdaq Stock Market LLC ("Nasdaq") notifying the Company that as it has not yet filed its Annual Report on Form 10-K (the "Form 10-K") for the year ended December 31, 2023, the Company is not in compliance with Listing Rule 5250(c)(1) (the "Listing Rule") for continued listing on Nasdaq. Additionally, on May 17, 2024, the Company received a notice (the "May Notice") from Nasdaq notifying the Company that as it has not yet filed its Quarterly Report on Form 10-Q (the "Q1 Form 10-Q") for the three months ended March 31, 2024, that the Company is not in compliance with the Listing Rule.

On August 16, 2024, the Company received a notice (the "August Notice," and collectively with the Initial Notice and the May Notice, the "Notices") from Nasdaq notifying the Company that as it has not yet filed its Quarterly Report on Form 10-Q (the "Q2 Form 10-Q," and collectively with the Form 10-K and Q1 Form 10-Q, the "Delinquent Filings") for the six months ended June 30, 2024, that the Company is not in compliance with the Listing Rule for continued listing on Nasdaq.

The Company previously submitted a plan to Nasdaq to regain compliance with respect to the delinquent Form 10-K and Q1 Form 10-Q (the "Plan"), and Nasdaq granted an exception until August 30, 2024, to file the delinquent Form 10-K and Q1 Form 10-Q. Pursuant to the August Notice, the Company is required to submit an update to the Plan to Nasdaq no later than September 3, 2024, to regain compliance with respect to the filing requirements. Nasdaq may grant the Company an additional exception of up to a maximum of 180 calendar days from the filing due date of the Form 10-K to file all Delinquent Filings, or until October 14, 2024, to regain compliance.



A delisting of our common stock from The Nasdaq Capital Market could materially reduce the liquidity of our common stock and result in a corresponding material reduction in the price of our common stock. In addition, delisting could harm our ability to raise capital through alternative financing sources on terms acceptable to us, or at all, and may result in the potential loss of confidence by investors, suppliers, customers and employees and fewer business development opportunities.

***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.

***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, 2023, we had we had outstanding options and unvested stock units of 5.2 million shares of our Common Stock. The issuance of shares of Common Stock issuable upon the exercise of options 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.

***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.

General Risk Factors

***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, 2023, 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.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

## **ITEM 1C. CYBERSECURITY**

We maintain a comprehensive process for identifying, assessing, and managing material risks from cybersecurity threats (as such term is defined in Item 106(a) of Regulation S-K) as part of our broader risk management system and processes. The cybersecurity risk management system involves risk assessments, implementation of security measures, and ongoing monitoring of systems and networks, including networks on which we rely. We actively monitor the current threat landscape in an effort to identify material risks arising from new and evolving cybersecurity threats. We obtain input, as appropriate, for our cybersecurity risk management program on the security industry and threat trends from consultants, cybersecurity assessors, auditors and other third parties to gather certain insights designed to identify and assess material cybersecurity threat risks, their severity and potential mitigations. We depend on and engage various third parties, including suppliers, vendors, and service providers. Our risk management, legal, information technology, and compliance personnel identify and oversee risks from cybersecurity threats associated with our use of such entities. Any incident assessed as potentially being or potentially becoming material is immediately escalated for further assessment, and then reported to Mr. Srinivasan, our designated member of our Board of Directors.

Mr. Srinivasan has oversight responsibility for risks and incidents relating to cybersecurity threats, including compliance with disclosure requirements, cooperation with law enforcement, and related effects on financial and other risks, and report any findings and recommendations, as appropriate, to the full Board of Directors for consideration. Senior management regularly discusses cyber risks and trends and, should they arise, any material incidents with the designated member of the Board of Directors.

Our business strategy, results of operations and financial condition have not been materially affected by risks from cybersecurity threats, but we cannot provide assurance that they will not be materially affected in the future by such risks or any future material incidents. Further, a cyber incident impacting our systems or a third-party's systems could subject us to business, regulatory, litigation and reputational risk, which could have a negative effect on our business, results of operations and financial condition. For more information on our cybersecurity related risks, see Item 1A Risk Factors of this Annual Report.

## **ITEM 2. PROPERTIES**

In November 2023, we commenced a lease in an office building located at 3480 Main Highway, Coconut Grove, Florida. The lease of 4,487 square feet for an initial term of 94 months, including 5 months of rent abatement in the first two years of the lease. The aggregate monthly payments will restart in 2024 for \$39,635 per month, increasing 3% each year through the lease term, plus other certain costs and charges as specified in the lease agreement.

Our executive offices, sales, training, assembly, and warehouse facilities are located at 1817 West 4th Street, Tempe, Arizona. The lease of 11,256 square feet commenced in June 2019 and was for an initial lease term through July 2022. In January 2022 we renewed this lease for three years with aggregate monthly payments of \$9,905 commencing August 2022, increasing 4% annually through the term ending July 31, 2025.

Beginning in October 2017, we commenced reimbursing former officer, stockholder and consultant, Mr. Elwood Norris, \$1,500 per month on a month-to-month basis for laboratory facility costs. The Company leased the laboratory facilities for all twelve months in 2023.

## **ITEM 3. LEGAL PROCEEDINGS**

We may become subject to other legal proceedings, as well as demands and claims that arise in the normal course of our business, including claims of alleged infringement of third-party patents and other intellectual property rights, breach of contract, employment law violations, and other matters and matters involving requests for information from us or our customers under federal or state law. Such claims, even if not meritorious, could result in the expenditure of significant financial and management resources. We make a provision for liability relating to legal matters when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed and adjusted to include the impacts of negotiations, estimated settlements, legal rulings, advice of legal counsel, and other information and events pertaining to a particular matter. On December 31, 2023, we had no provision for liability under existing litigation.

An unfavorable outcome on any litigation matters could require payment of substantial damages, or, in connection with any intellectual property infringement claims, could require us to pay ongoing royalty payments or could prevent us from selling certain of our products. As a result, a settlement of, or an unfavorable outcome on, any of the matters referenced above or other litigation matters, or legal proceedings could have a material adverse effect on our business, operating results, financial condition and cash flows.

## **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

## **PART II**

### **ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

#### **Market Information**

Our Common Stock is listed on the Nasdaq Capital Market under the symbol "WRAP".

#### **Holders**

As of August 26, 2024 there were 45,860,545 shares of Common Stock outstanding and approximately 32 stockholders of record.

#### **Dividends**

We have never declared or paid any cash dividends on our Common Stock. The decision to pay dividends is at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements, and other factors that our board of directors deems relevant.

#### **Recent Sales of Unregistered Securities**

No unregistered securities were issued during the fiscal year that were not previously reported in a Quarterly Report on Form 10-Q or Current Report on Form 8-K.

#### **Repurchases**

Not applicable.

### **ITEM 6. [RESERVED]**

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The discussion and analysis set forth below should be read in conjunction with the information presented in other sections of this Annual Report, including "Item 1. Business," "Item 1A. Risk Factors," and "Item 8. Financial Statements and Supplementary Data." The following discussion may contain forward-looking statements that reflect our plans, estimates and beliefs. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions or variations of such words are intended to identify forward-looking statements but are not the only means of identifying forward-looking statements. Our actual results could differ materially from those discussed in these forward-looking statements.*

### Overview

We are a global public safety technology and services company that delivers safe and effective policing solutions to law enforcement and security personnel worldwide. We are leading the movement for safer outcomes by equipping law enforcement with safer, non-painful compliance tools and immersive training for modern society. We began sales of our first public safety product, the BolaWrap 100 remote restraint device, in late 2018. In late 2020 we added a new solution to our public safety technologies, which is our virtual reality ("VR") training platform, Wrap Reality. Wrap Reality is now sold to law enforcement agencies for simulation training as well as corrections departments for the societal reentry scenarios. In the first quarter of 2022 we delivered a new generation product, the BolaWrap 150. The BolaWrap 150 is electronically deployed and is more robust, smaller, lighter and simpler to deploy than the BolaWrap 100 that has been phased out.

Our target market for our solutions includes approximately 900,000 full-time sworn law enforcement officers in over 18,000 federal, state, and local law enforcement agencies in the U.S. and over 12 million police officers in more than 100 countries. Additionally, we are exploring opportunities in other domestic markets, such as military and private security. Our international focus is on countries with the largest police forces. According to 360iResearch, a market research consulting firm, our non-lethal products are part of a global market segment expected to grow to \$16.1 billion by 2027.

We focus our efforts on the following products and services:

*BolaWrap Remote Restraint Device* – a hand-held remote restraint device that discharges a seven and half-foot Kevlar tether to entangle an individual at a range of 10-25 feet. BolaWrap assists law enforcement to safely and effectively control encounters early without resorting to painful force options.

*Wrap Reality* – a law enforcement 3D training system employing immersive computer graphics VR with proprietary software-enabled content. It allows up to two participants to enter a simulated training environment simultaneously, and customized weapons controllers enable trainees to engage in strategic decision making along the force continuum. Wrap Reality has 43 scenarios for law enforcement and corrections and 15 scenarios for societal reentry. Wrap Reality is one of the most robust 3D Virtual Reality solutions on the market for law enforcement and societal reentry today.

*Wrap Intrinsic* – a Body-Worn Camera ("BWC") and Digital Evidence Management ("DEM") solutions provider. BWC and DEM play crucial role in capturing, storing, and managing digital evidence, such as video and audio recordings for various purposes, including criminal investigations and maintaining transparency in public interactions. The Wrap Intrinsic X2 camera hardware and storage and data management capability, along with awareness of front-line operations, provides customers with a solution to meet their challenges. Wrap Intrinsic Evidence on Cloud provides an unlimited video storage platform that includes video and other evidence uploading, search, retrieval, redaction, and evidence sharing while reducing the need for resources required to manage this evidence.

In addition to the US law enforcement market, we have shipped our restraint products to 62 countries. We have established an active distributor network representing 50 states and one dealer representing the US territory of Puerto Rico. We have distribution agreements with international distributors covering 75 countries. We focus significant sales, training and business development efforts to support our distribution network in addition to our internal sales team.

We focus significant resources on research and development innovations and continue to enhance our products and plan to introduce new products. We believe we have established a strong brand and market presence globally and have established significant competitive advantages in our markets.

## Recent Developments

### *Nasdaq Deficiency Notice*

On April 18, 2024, the Company received a notice (the “Initial Notice”) from the Listing Qualifications Staff of the Nasdaq Stock Market LLC (“Nasdaq”) notifying the Company that as it has not yet filed its Annual Report on Form 10-K (the “2023 Form 10 K”) for the year ended December 31, 2023, the Company is not in compliance with Listing Rule 5250(c)(1) (the “Listing Rule”) for continued listing on Nasdaq. Additionally, on May 17, 2024, the Company received a notice (the “May Notice”) from Nasdaq notifying the Company that as it has not yet filed its Quarterly Report on Form 10-Q (the “Q1 Form 10 Q”) for the three months ended March 31, 2024, that the Company is not in compliance with the Listing Rule.

On August 16, 2024, the Company received a notice (the “August Notice,” and collectively with the Initial Notice and the May Notice, the “Notices”) from Nasdaq notifying the Company that as it has not yet filed its Quarterly Report on Form 10-Q (the “Q2 Form 10 Q,” and collectively with the 2023 Form 10-K and Q1 Form 10-Q, the “Delinquent Filings”) for the six months ended June 30, 2024, that the Company is not in compliance with the Listing Rule for continued listing on Nasdaq.

The Company previously submitted a plan to Nasdaq to regain compliance with respect to the delinquent 2023 Form 10-K and Q1 Form 10-Q (the “Plan”), and Nasdaq granted an exception until August 30, 2024, to file the delinquent 2023 Form 10-K and Q1 Form 10-Q. Pursuant to the August Notice, the Company is required to submit an update to the Plan to Nasdaq no later than September 3, 2024, to regain compliance with respect to the filing requirements. Nasdaq may grant the Company an additional exception of up to a maximum of 180 calendar days from the filing due date of the 2023 Form 10-K to file all Delinquent Filings, or until October 14, 2024, to regain compliance.

The Notices do not have an immediate effect on the listing of the Company’s common stock. The Company is currently evaluating its options for regaining compliance. There can be no assurance that the Company will regain compliance with the Nasdaq’s rules or maintain compliance with any of the other Nasdaq continued listing requirements.

During the year ended December 31, 2023, we accomplished the following:

- The Company initiated a cost containment plan, recruitment, operations efforts, and significant customer acquisitions over the past year.
- New Board Members: Welcomed Bruce Bernstein, an experienced securities industry leader; Marc Savas, a skilled executive known for accelerating company revenue; Vice Admiral (ret.) Timothy Szymanski, a former Navy SEAL with over 36 years of service leveraging his expertise in special operations and national security; Rajiv Srinivasan, a technology sales leader with senior roles at Microsoft, VMware, and a cybersecurity startup, and accredited U.S. Army veteran awarded with a Bronze Star.
- Launched "Use of Force Reduction Guarantee": A new program affirming Wrap’s dedication to safer outcomes, guaranteeing a 10% reduction in an agency’s use of force with BolaWrap or a device buyback after 12 months.
- Strategic Redirection Announced: Transitioning Wrap Technologies from a product-focused entity to a mission-based solutions provider, paving the way for purpose-driven innovation and growth.
- Capital Funding and Acquisition: Closed a significant funding round with \$10 million gross proceeds.  
Acquired Intrinsic, LLC, expanding into body cam and Cloud evidence services.
- Major Orders: Received a full deployment order for BolaWrap 150 from a large Mid-Atlantic domestic agency.
- Successful Integration: Integrated Wrap Intrinsic, enhancing our offerings in Body-Worn Cameras and Digital Evidence Management.
- AI Advancements in Wrap Intrinsic BWC: Launched new AI functionalities for Body-Worn Camera and Digital Evidence Management System, including AI Video Redaction and Automated Transcription, enhancing law enforcement efficiency and accountability.
- BolaWrap 150 Expanded in Italy: Wrap Technologies announced the adoption of the BolaWrap 150 remote restraint devices by eleven police departments across Italy, underscoring the Company's commitment to advancing public safety solutions globally.



## **Business Outlook and Challenges**

We believe our Company's products and solutions are gaining global recognition and awareness through various channels such as social media, trade shows, and media exposure, among others. In part, this recognition and awareness can be attributed to positive feedback from law enforcement agencies and the successful deployment of our products. As a result, we believe our brand is becoming increasingly recognized on a global scale as a leader in remote restraint and non-lethal solutions.

In addition, we are focused on marketing and public relations efforts. We believe there are market opportunities for our remote restraint and virtual reality solutions in the law enforcement and security sectors worldwide. These opportunities are driven by the increasing demand for less-lethal policing.

In the law enforcement sector, our BolaWrap product has been successfully deployed in the field, as reported by many agencies. BolaWrap is now in use by over 900 US law enforcement agencies and in 62 countries. Due to its safe remote restraint capabilities, some agencies do not deem its usage a categorical reportable use of force and rather place it underneath early use of force such as handcuffs. In our strategic roadmap, we clarified that law enforcement agencies deploy BolaWrap when verbal commands breakdown but long before there is justifiable escalation to pepper spray, pepper ball, batons, bean bags, tasers or Conducted Electrical Weapons (CEW's) or firearms.

Some agencies voluntarily report usage to Wrap but many do not. In the usage reports we have been provided, officers have reported successful outcomes in 84% of the use cases. This percentage is higher than what is often seen with less lethal tools. From the information we have been provided, the most common BolaWrap use case is for individuals with behavioral health issues, and the second most common BolaWrap use case is during domestic violence calls. 26% percent of the reported persons who are wrapped with the BolaWrap are thought to be under the influence of alcohol or drugs.

There are many reasons why we may not receive reports on all the use of the BolaWrap, including, when uses of BolaWrap are considered evidence in ongoing criminal cases, are controlled by local policy or regulation, or require officer and union permission to be shared with us. However, some agencies have shared bodycam footage of successful field deployments with us, which we may use in our training and education efforts. We believe that as the reports of BolaWrap's effectiveness in de-escalation continue to increase, it will contribute to our future revenue growth.

We anticipate and believe that our portfolio of safe, remote restraint products and training services has a strong and expanding pipeline of market opportunities in the law enforcement, military, corrections, and homeland security sectors both domestically and internationally. With the increasing demand for more humane and safer policing practices, we expect a continued surge in our global business. Currently, we are exploring major international business prospects while simultaneously seeking to establish relationships with large police agencies in the US. However, we acknowledge that it is challenging to predict the exact timeline for closing these deals, or whether they will ultimately materialize.

As part of our efforts to expand our sales and distribution operations, we provide a comprehensive training program for law enforcement officers and trainers in using the BolaWrap. This training equips them with knowledge about the appropriate use and limitations of BolaWrap in tandem with modern policing techniques for de-escalation of encounters. We now focus on also teaching when and why BolaWrap should be used, including the specific area of success, such as after verbal commands break down and before the law enforcement officer is ready to escalate to less lethal pain compliance tools. We believe that law enforcement trainers and officers who have been trained to use our products, or have witnessed demonstrations, are more inclined to support the acquisition and deployment of our products by their respective departments to drive successful outcomes. As of December 31, 2023, over 1,520 agencies have received BolaWrap training with over 5,440 training officers at those agencies certified as BolaWrap instructors and qualified to train the rest of their departments, representing a 12% increase in agencies and a 30% increase in trained officers as compared to December 31, 2022.

Operating expenses for the year ended December 31, 2023 were relatively flat with 2023 expenses equal to \$21.6 million as compared to \$21.5 million in 2022. Our new management team has prioritized reducing operating expenses, and in the second quarter, conducted a thorough top to bottom assessment of all aspects of the business. As a result of these actions, the Company recorded \$1.0 million of severance related charges during 2023. We expect to realize the results of the cost reduction actions beginning in 2024 as we expect to significantly reduce our cost profile. This assessment culminated in the creation of a strategic roadmap aimed at achieving sustainable growth and delivering long-term value to our stockholders. Our strategic roadmap centers on expanding our sales by building repeatable domestic BolaWrap sales, increasing international sales of the new BolaWrap 150, and expanding the deployment of BolaWrap to full patrol-wide utilization via a customer success function. Additionally, we have established a dedicated inside sales leader to increase our velocity on new leads. To catalyze sales growth, we are expanding our distributor and partner relationships while simultaneously diversifying and innovating our product offerings. As part of our strategic roadmap, we have made the decision to improve the pricing on BolaWrap 150 devices and cassettes, given the product's success as a significant upgrade for law enforcement. We believe these increased margins could drive us to breakeven and profitability more quickly. We also began charging for our respected training services.

Changes have been implemented in how we sell Wrap Reality, and we have established a Software as a Service (SaaS) model for our virtual reality technology moving forward. We acquired cloud software capability and both on premise and cloud 3D Virtual Reality options for Wrap Reality in 2023. We anticipate these changes will have a significant positive impact on our future success and growth.

We believe the synergy in BolaWrap to de-escalate and reduce uses of force and the immersive 3D Virtual Reality training for law enforcement and corrections create a unique and well positioned law enforcement technology company that is prepared for modern policing and driving safe outcomes. With our key focus on where BolaWrap and Wrap Reality fit into the Force Factor diagram below in Figure X, agencies are likely to see significant increased usage where BolaWrap has shown to be a tool that could appropriately de-escalate dangerous situations and save the lives and careers of officers and the individuals they interact with in such situations.



Management believes that implementing these strategic changes may lead to substantial sales growth and put us on a path towards sustainable profitability. Although geopolitical tensions and macroeconomic challenges have affected our quarterly results in the past and may in the future, we believe our company is uniquely positioned to provide lifesaving technologies and training that enable law enforcement officers worldwide to conduct safe and effective encounters while reducing the use of force. If departments follow our Use of Force Guarantee requirements, we have offered to buy back their BolaWrap devices if their reportable use of force is not reduced by 10%. With an increasing addressable market, the Company offers what we believe is a unique value proposition. Our improved pricing strategy, coupled with reduced operating expenses and our growing sales outlook, is expected to help reduce losses and improve cash flow in the future.



We plan to increase the number of product demonstrations and training sessions, particularly in international markets. Our new focus on the when and why BolaWrap is used has shown improved results. This is a departure from the hardware product only approach of the past. Our sales of the BolaWrap 150 and Wrap Reality are expected to continue to rise, aided by our ongoing cost savings and cost control measures, which we expect to lead to an overall reduction in cash burn.

We have continued to invest in our VR system while working to continue to develop real-world scenarios into our robust Wrap Reality platform. We plan to increase marketing activities for our VR solution to both law enforcement and corrections throughout 2023 and expect to launch the cloud-based version in mid-2023.

As of December 31, 2023 we had backlog of approximately \$209 thousand was delivered in the first quarter of 2024. Additionally, we had deferred revenue of approximately \$544 thousand expected to be recognized generally over the next five years. Our deferred revenue is generally from Wrap Reality subscription and other revenue. We expect our deferred revenue to grow in future years due to the SaaS business model on Wrap Reality. Distributor and customer orders for future deliveries are generally subject to modification, rescheduling or in some instances, cancellation, in the normal course of business.

Since inception, we have generated significant losses from operations and anticipate that we will continue to generate significant losses from operations for the foreseeable future. We believe that we have adequate financial resources to sustain our operations for the twelve months. For the year ended December 31, 2023 our net loss from operations increased by approximately \$1.0 million compared to the year ended December 31, 2022. Net cash used in operations during the year ended December 31, 2023 was approximately \$2.1 million more than cash used in operations during the year ended December 31, 2022. This increase in cash used in operations reflects an increase in accounts receivable during the period along with an increase in the operating loss compared to the year ended December 31, 2022.

We expect that we will continue to innovate new applications for our public safety technology, open new geographies, develop new products and technologies to meet diverse customer requirements and identify and develop new markets for our products.

We believe that our sales during the fiscal year ended December 31, 2022, and to a lesser extent, December 31, 2023, were adversely affected by the shift to our BolaWrap 150 product and the discontinuation of the BolaWrap 100 production line in 2022, along with the limited ability to demonstrate and train customers due to the COVID-19 pandemic, particularly internationally. Although customers were generally satisfied with the BolaWrap 100, many distributors were concerned with the Company's ability to continue to expand with the BolaWrap 100. This device was completely discontinued in 2021 and product delays kept the BolaWrap 150 from being fully delivered to customers until late early 2022. This gap in having a product to sell as well as the unhappiness in phasing out the first-generation product while it was still having success in the field, created significant work throughout 2022 to get the BolaWrap 150 approved by departments as well as by import and federal authorities for international countries. We also had a much slower than expected trade in the timeframe of BolaWrap 100 to BolaWrap 150 due to the customer affinity for our first to market device.

We realized a rebound in sales of the BolaWrap 150 in the second half of 2022, following the full-scale production and sales of the BolaWrap 150. New device supply chain and product issues improved, but did not completely abate until the first half of 2023, at which point, management was able to fully resume international travel and demonstrate the new and enhanced capabilities of the BolaWrap 150.

Supply chain disruptions also affected our operations and could negatively impact our ability to source materials, manufacture and distribute products in the future. Moreover, financial markets continue to experience significant volatility, which could potentially affect our ability to enter into or modify favorable terms and conditions regarding equity and debt financing activities. Nevertheless, we had \$11.5 million in cash and cash equivalents and short-term investments as of December 31, 2023, which we believe provides sufficient capital to fund our operations in the short-term and absorb the potential near-term impacts of economic uncertainty. However, we may require additional working capital and liquidity constraints and access to capital markets could still negatively affect our liquidity and require changes to our plan of operations.

Our Company may be positively or negatively impacted by continued social unrest, protests against racial inequality, and movements like "Defund the Police." Such unrest may be further fueled by misleading information or negative publicity about our solutions. We believe our solutions are the answer to reducing use of force and driving safer outcomes for officers and the citizens they interact with each day. Although the intensity of these events may have subsided, some may still indirectly or directly, influence police agency budgets and the funding available to current and potential customers. In addition, participants in these events may attempt to create the impression that our solutions are contributing to the perceived problems, potentially harming our business and operations, including our revenues, earnings, and cash flows from operations.

Changes in our management and other critical personnel have the potential to positively or negatively affect our business. Such disruptions could have an adverse impact on our operations, programs, growth, financial condition, or results of operations. On the other hand, improvements in our operations, operating expenses, and go-to-market approaches could positively influence the success of our business in the future.

## Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the US (“*US GAAP*”) requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expense, and related disclosure of contingent assets and liabilities. We evaluate our estimates, on an on-going basis, including those estimates related to recognition and measurement of contingencies and accrued expense. We base our estimates on historical experience and on various other assumptions we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

As part of the process of preparing our financial statements, we are required to estimate our provision for income taxes. Significant management judgment is required in determining our provision for income taxes, deferred tax assets and liabilities, tax contingencies, unrecognized tax benefits, and any required valuation allowance, including taking into consideration the probability of the tax contingencies being incurred. Management assesses this probability based upon information provided by its tax advisers, its legal advisers and similar tax cases. If later our assessment of the probability of these tax contingencies changes, our accrual for such tax uncertainties may increase or decrease. Our effective tax rate for annual and interim reporting periods could be impacted if uncertain tax positions that are not recognized are settled at an amount which differs from our estimates.

Some of our accounting policies require higher degrees of judgment than others in their application. These include share-based compensation and contingencies and areas such as revenue recognition, allowance for doubtful accounts, valuation of inventory and intangible assets, estimates of product line exit costs, warranty liabilities and impairments.

*Revenue Recognition.* We sell our products to customers including law enforcement agencies, domestic distributors and international distributors and revenue from such transactions is recognized in the periods that products are shipped (free on board (“*FOB*”) shipping point) or received by customers (FOB destination), when the fee is fixed or determinable and when collection of resulting receivables is reasonably assured. We identify customer performance obligations, determine the transaction price, allocate the transaction price to the performance obligations and recognize revenue as we satisfy the performance obligations. Our primary performance obligations are products/accessories and VR software licensing or sale. Our customers do not have the right to return product unless the product is found to be defective.

*Share-Based Compensation.* We follow the fair value recognition provisions issued by the Financial Accounting Standards Board (“*FASB*”) in Accounting Standards Codification (“*ASC*”) Topic 718, Stock Compensation (“*ASC 718*”) and we adopted Accounting Standards Update (“*ASU*”) 2018-07 for share-based transactions with non-employees. Share-based compensation expense recognized includes stock option and restricted stock unit compensation expense. The grant date fair value of stock options is determined using the Black-Scholes option-pricing model. The grant date is the date at which an employer and employee or non-employee reach a mutual understanding of the key terms and conditions of a share-based payment award. The Black-Scholes option-pricing model requires inputs including the market price of the Company’s Common Stock on the date of grant, the term that the stock options are expected to be outstanding, the implied stock volatilities of several publicly traded peers over the expected term of stock options, risk-free interest rate and expected dividend. Each of these inputs is subjective and generally requires significant judgment to determine. The grant date fair value of restricted stock units is based upon the market price of the Company’s Common Stock on the date of the grant. We determine the amount of share-based compensation expense based on awards that we ultimately expect to vest and account for forfeitures as they occur. The fair value of share-based compensation is amortized to compensation expense over the vesting term.

*Allowance for Doubtful Accounts.* Our products are sold to customers in many different markets and geographic locations. We estimate our bad debt reserve on a case-by-case basis and the aging of accounts due to a limited number of customers mostly government agencies or well-established distributors. We base these estimates on many factors including customer credit worthiness, past transaction history with the customer, current economic industry trends and changes in customer payment terms. Our judgments and estimates regarding collectability of accounts receivable have an impact on our financial statements.

*Valuation of Inventory.* Our inventory is comprised of raw materials, assemblies and finished products. We must periodically make judgments and estimates regarding the future utility and carrying value of our inventory. The carrying value of our inventory is periodically reviewed and impairments, if any, are recognized when the expected future benefit from our inventory is less than carrying value.

*Valuation of Intangible Assets.* Intangible assets consisted of (a) capitalized legal fees and filing expense related to obtaining patents and trademarks, (b) customer agreements, tradenames, software, non-solicitation and non-compete agreements acquired in business combinations and valued at fair value at the acquisition date, and (c) the purchase cost of indefinite-lived website domains. We must make judgments and estimates regarding the future utility and carrying value of intangible assets. The carrying values of such assets are periodically reviewed and impairments, if any, are recognized when the expected future benefit to be derived from an individual intangible asset is less than carrying value. This generally could occur when certain assets are no longer consistent with our business strategy and whose expected future value has decreased.

*Accrued Expense.* We establish a warranty reserve based on anticipated warranty claims at the time product revenue is recognized. This reserve requires us to make estimates regarding the amount and costs of warranty repairs we expect to make over a period of time. Factors affecting warranty reserve levels include the number of units sold, anticipated cost of warranty repairs, and anticipated rates of warranty claims. We have very limited history to make such estimates and warranty estimates have an impact on our financial statements. Warranty expense is recorded in cost of revenues. We evaluate the adequacy of this reserve each reporting period.

We use the recognition criteria of FASB ASC Topic 450-20, Loss Contingencies, to estimate the amount of bonuses when it becomes probable a bonus liability will be incurred and we recognize expense ratably over the service period. We accrue bonus expense each quarter based on estimated year-end results, and then adjust the actual in the fourth quarter based on our final results compared to targets.

Historically, our assumptions, judgments and estimates relative to our critical accounting policies have not differed materially from actual results. Other than the planned production change requiring a new estimate of exit expense, there were no significant changes or modification of our critical accounting policies and estimates involving management valuation adjustments affecting our results for the period ended December 31, 2023.

#### **Recent Accounting Pronouncements**

New pronouncements issued for future implementation are discussed in Note 1 to our financial statements.

#### **Segment and Related Information**

The Company operates as a single segment. The Company's chief operating decision maker is Scot Cohen, the Company's Executive Chairman and Chief Executive Officer, who manages operations for purposes of allocating resources. Refer to Note 18, Major Customers and Related Information, in our financial statements for further discussion.

#### **Operating Expense**

Our operating expenses include (i) selling, general and administrative expense, (ii) research and development expense, (iii) and in the most recent fiscal quarter, product line exit expense. Research and development expense is comprised of the costs incurred in performing research and development activities and developing production on our behalf, including compensation and consulting, design and prototype costs, contract services, patent costs and other outside expense. The scope and magnitude of our future research and development expense is difficult to predict at this time and will depend on elections made regarding research projects, staffing levels and outside consulting and contract costs. The future level of selling, general and administrative expense will be dependent on staffing levels, elections regarding expenditures on sales, marketing and customer training, the use of outside resources, public company and regulatory expense, and other factors, some of which are outside of our control.

We expect our operating costs will remain at comparable current levels in the near term. We may also incur additional non-cash share-based compensation costs depending on future option and restricted stock unit grants that are impacted by stock prices and other valuation factors. Historical expenditures are not indicative of future expenditures.

## Results of Operations

### Year Ended December 31, 2023 Compared to year ended December 31, 2022

The following table and narrative sets forth for the periods indicated certain items of our statement of operations, expressed in thousands of dollars. The financial information and the discussion below should be read in conjunction with the financial statements and notes contained in this Annual Report on Form 10-K.

	Year Ended December 31,		Change	
	2023	2022	\$	%
<i>(in thousands)</i>				
<b>Revenues:</b>				
Product sales.....	\$ 5,337	\$ 7,481	\$ (2,143)	(29)%
Other revenue.....	796	568	228	40%
Total revenues.....	6,133	8,049	(1,915)	(24)%
<b>Cost of revenues</b>				
Products and services.....	3,227	4,315	(1,088)	(25)%
		-		%
<b>Gross profit</b> .....	2,906	3,734	(828)	(22)%
<b>Operating expenses:</b>				
Selling, general and administrative.....	18,361	16,386	1,975	12%
Research and development.....	3,267	5,078	(1,811)	(36)%
Total operating expenses.....	21,628	21,464	164	1%
Loss from operations.....	\$ (18,722)	\$ (17,730)	\$ (1,033)	(6)%

#### Revenue

We reported revenue of approximately \$6.1 million for the year ended December 31, 2023, as compared to revenue of approximately \$8.0 million for the year ended December 31, 2022, an approximate 29% decrease. International revenues decreased from approximately \$2.7 million for the year ended December 31, 2022 to approximately \$2.3 million for the year ended December 31, 2023. The decrease in international revenue was driven by the prior year having certain large orders and continued stronger demand for our products in the EMEA region during 2022. We incurred discounts of approximately \$169 thousand during the year ended December 31, 2023, compared to approximately \$898 thousand during the year ended December 31, 2022, primarily as a result of promotional programs designed to encourage domestic customers to upgrade to the BolaWrap 150. We expect a decline to minimal discounts in 2024 as we have phased out our promotional upgrade offer.

International revenue generally consists of larger orders with the end user being large, centralized government agencies. These orders continue to be lumpy and difficult to predict as to both timing and amount. We anticipate a revenue increase in 2024 compared to 2023 for two key reasons: (i) from an international perspective, there is growing demand for less-lethal alternatives like BolaWrap, especially in regions where lethal force is often prohibited, and (ii) from a domestic perspective, despite a saturated market for less-lethal use-of-force solutions, BolaWrap stands out as what we believe to be the only pain-free compliance tool.

We incurred product promotional costs of approximately \$249 thousand for the year ended December 31, 2023, related primarily to BolaWrap 150 demonstration products and the cost of training products and accessories delivered to law enforcement agencies that were expensed as marketing costs. We are responding to increased demand for training as a result of expanded product and brand awareness and increased successful field use by agencies but due to awareness expect reductions in product promotional costs from 2022. A total of approximately \$688 thousand of such product promotional costs were incurred during the year ended December 31, 2022.

As of December 31, 2023, the Company's deferred revenue of approximately \$544 thousand consisted of approximately \$139 thousand related to BolaWrap extended warranties and services, approximately \$216 thousand related to Intrinsic extended warranties and services, \$171 thousand related to VR, and \$18 thousand related to increased training for Wrap Reality and BolaWrap extended warranties.

As of December 31, 2023, we had backlog of approximately \$209 thousand which was delivered in the first quarter of 2024. Distributor and customer orders for future deliveries are generally subject to modification, rescheduling or in some instance's cancellation in the normal course of business.

### Gross Profit

Our gross profit for the year ended December 31, 2023 was approximately \$2.9 million, or a gross margin of 47%. Our gross profit for year ended December 31, 2022 was approximately \$3.7 million, or a gross margin of 46%. For the year ended December 31, 2023, gross profit represented a 22% decrease compared to December 31, 2022, as a result of lower sales slightly offset by continued cost containment efforts on production.

As our revenue history is limited, historical margins may not accurately reflect future margins. However, we expect higher margins with the production of the BolaWrap 150 compared to previous production due to design changes and improved pricing. Our margins are also subject to variations based on the sales channels and product mix through which our products are sold. At present, our cassettes have lower margins than the BolaWrap devices. As we scale cassette production, we will look to reduce our costs and drive higher cassette margins. Cassettes were a total of 19.5% of our overall revenue in the year ended December 31, 2023, and may continue to grow as a recurring revenue base as more BolaWrap devices are used in the field and as the use of BolaWrap increases due to the need of officers to de-escalate to prevent injuries and the use of higher levels of force.

We regularly introduce updates and revisions to our products, which may include changes to raw materials and components, and can impact our product costs. Given our limited experience with warranty costs, our estimated future warranty expense may affect our gross margins.

### Selling, General and Administrative Expense

Selling, general and administrative (“SG&A”) expense increased by approximately \$2.0 million during the year ended December 31, 2023, compared to the year ended December 31, 2022, due to one-time costs associated with severance, the Intrinsic acquisition, and the Company’s financing.

Advertising and promotion costs were approximately \$1.2 million during the year December 31, 2023, or a decrease of approximately \$0.1 million as compared to approximately \$1.1 million during the year December 31, 2022. The decrease in advertising costs was related to reductions in consultants and other cost containment efforts.

Share-based compensation costs allocated to SG&A was \$1.5 for the year ended December 31, 2023, a decrease of approximately \$1.2 million, compared to approximately \$2.7 million for the year ended December 31, 2022. The decrease resulted primarily due to changes in management, one-time costs in the prior year period, and changes in the Company’s stock price.

Salaries and burden costs was \$6.0 million for the year ended December 31, 2023, an approximately \$0.5 million or 8% decrease compared to approximately \$6.5 million for year ended December 31, 2022. During 2023, we recorded approximately \$1.0 million of severance cost related to management restructuring efforts. During year ended December 31, 2023, compared to December 31, 2022, we increased professional fees by approximately \$0.8 million, and increased consulting and contract services fees by approximately \$350 thousand. We expect expenditures for SG&A expense in 2024 to be slightly lower than 2023, as a result of restructuring actions taken in late 2023 and early 2024.

### Research and Development Expense

Research and development expense was approximately \$3.3 million for the year ended December 31, 2023, a decrease of approximately \$1.8 million, compared to \$5.1 million for year ended December 31, 2022. In 2023, we incurred a \$252 thousand period over period decrease in share-based compensation expense allocated to research and development expense as a result of personnel changes made in April 2023. Outside consulting costs decreased by \$332 thousand and prototype related costs decreased by \$443 thousand for the year ended December 31, 2023, primarily due to reduced costs related to finalizing the BolaWrap 150 product.

### Operating Loss

Loss from operations during the year December 31, 2023 was approximately \$18.8 million, an increase of approximately \$1.1 million compared to approximately \$17.7 million during the year December 31, 2022, reflecting increased margin and the Company’s focus on reducing operating costs.

### **Liquidity and Capital Resources**

#### *Overview*

Our primary source of liquidity to date has been funding from our stockholders from the sale of equity securities and the exercise of derivative securities, consisting of options and warrants. We expect our primary source of future liquidity will be from the sale of products, exercise of stock options and warrants and from future equity or debt financings.

We have experienced net losses and negative cash flows from operations since our inception. As of December 31, 2023, we had cash and cash equivalents of approximately \$4.0 million, negative working capital of approximately \$2.3 million primarily reflecting the approximate \$19.7 value of the Series A Warrants (as defined herein) recorded in connection with the issuance of the Series A Preferred Stock in July 2023, and had sustained cumulative losses attributable to stockholders of approximately \$98.0 million. Our working capital net of the Warrants-short term at December 31, 2023 was approximately \$17.4, a decrease of approximately \$6.3 million compared to December 31, 2022, as a result of the operating losses offset by an increase in inventories of approximately \$1.8 million, an increase in customer deposits totaling approximately \$1.0 million in 2023 and the receipt of \$8.9 million in net proceeds from the Offering. As a result, we had approximately \$4.0 million in cash and cash equivalents and short-term investments as of December 31, 2023. We therefore believe we have sufficient capital to fund our operations for the next twelve months. However, liquidity constraints and access to capital markets could still negatively affect our liquidity and require changes to our investment strategy.

### *Capital Requirements*

Our future liquidity requirements or future capital needs will depend on, among other things, capital required to introduce new products and the operational staffing and support requirements, as well as the timing and amount of future revenue and product costs. We anticipate that demands for operating and working capital may grow depending on decisions on staffing, development, production, marketing, training and other functions and based on other factors outside of our control, including the timing of receipt of revenue.

Our future capital requirements, cash flows and results of operations could be affected by, and will depend on, many factors, some of which are currently unknown to us, including, among other things:

- Any future outbreaks pandemics or contagious diseases or fear of such outbreaks;
- Decisions regarding staffing, development, production, marketing and other functions;
- The timing and extent of market acceptance of our products;
- Costs, timing and outcome of planned production and required customer and regulatory compliance of our products;
- Costs of preparing, filing and prosecuting our patent applications and defending any future intellectual property-related claims;
- Costs and timing of additional product development;
- Costs, timing and outcome of any future warranty claims or litigation against us associated with any of our products;
- Ability to collect accounts receivable; and
- Timing and costs associated with any new financing.

Principal factors that could affect our ability to obtain cash from external sources including from exercise of outstanding warrants and options include:

- Volatility in the capital markets; and
- Market price and trading volume of our common stock.



## *2023 Offering*

On June 29, 2023, the Company entered into a Series Purchase Agreement (“Series A Purchase Agreement”) with certain accredited investors, including the Company’s Executive Chairman and Chief Executive Officer (collectively, the “Series A Investors”), pursuant to which it agreed to sell to the Series A Investors in a registered direct offering (the “Series A Offering”) (i) an aggregate of 10,000 shares of Series A Preferred Stock, initially convertible into up to 6,896,553 shares of the Company’s common stock, at an initial conversion price of \$1.45 per share, and (ii) warrants (the “Series A Warrants”) to acquire up to an aggregate of 6,896,553 shares of Common Stock (the “Series A Warrant Shares”). The conversion price of the Series A Preferred Stock is subject to customary adjustments for stock dividends, stock splits, reclassifications and the like, and subject to price-based adjustment in the event of any issuances of Common Stock, or securities convertible, exercisable or exchangeable for Common Stock, at a price below the then-applicable conversion price (subject to certain exceptions). The closing of the Series A Offering occurred on July 3, 2023. The aggregate gross proceeds from the Series A Offering were \$10 million. The Company expects to use the net proceeds from the Series A Offering for general corporate purposes.

The Company engaged Katalyst Securities LLC (the “Placement Agent”) to act as exclusive placement agent in connection with the Series A Offering. Pursuant to an Engagement Letter with the Placement Agent, we paid to the Placement Agent or its designees (i) a cash fee equal to 8% of the gross proceeds of the Series A Offering and (ii) warrants to purchase an aggregate of 551,725 shares of Common Stock (equal to 8% of the shares of Common Stock underlying the Series A Preferred Stock sold in the Series A Offering) at an exercise price of \$1.45 per share.

### *Series A Preferred Stock*

The terms of the Series A Preferred Stock are as set forth in the form of Certificate of Designations of the Series A Preferred Stock. The Series A Preferred Stock is convertible into shares of common stock (the “Conversion Shares”) at the election of the holder at any time at an initial conversion price of \$1.45 (the “Conversion Price”). The Conversion Price is subject to customary adjustments for stock dividends, stock splits, reclassifications and the like, and subject to price-based adjustment in the event of any issuances of common stock, or securities convertible, exercisable or exchangeable for common stock, at a price below the then-applicable Conversion Price (subject to certain exceptions).

The holders of the Series A Preferred Stock are entitled to dividends of 8% per annum, compounded monthly, which are payable in cash or shares of Common Stock, or a combination thereof, at the Company’s option in accordance with the terms of the Certificate of Designations. Upon the occurrence and during the continuance of a Triggering Event (as defined in the Certificate of Designations), the Series A Preferred Stock will accrue dividends at the rate of 20% per annum. If the Company elects to pay any dividends in shares of Common Stock, the Conversion Price used to calculate the number of shares issuable will equal to the lower of (i) the then applicable Conversion Price and (ii) 85% of the arithmetic average of the three (3) lowest closing prices of the Common Stock during the twenty (20) consecutive trading day period ending on the trading day immediately preceding the dividend payment date, provided that such price shall not be lower than the lower of (x) \$0.2828 (subject to adjustment for stock splits, stock dividends, stock combinations, recapitalizations or other similar events ) and (y) 20% of the “Minimum Price” (as defined in Nasdaq Stock Market Rule 5635) on the date of the Nasdaq Stockholder Approval (as defined herein) (subject to adjustment for stock splits, stock dividends, stock combinations, recapitalizations or other similar events) or, in any case, such lower amount as permitted, from time to time, by the Nasdaq Stock Market.

The Company may require holders to convert their Series A Preferred Stock into shares of Common Stock if the closing price of the Common Stock exceeds \$8.00 per share (subject to adjustment for stock splits, stock dividends, stock combinations, recapitalizations or other similar events) for 20 consecutive trading days and the daily dollar trading volume of the Common Stock exceeds \$2,000,000 per day during the same period and certain equity conditions described in the Certificate of Designations are satisfied.

At any time beginning 18 months from the date of the issuance, provided that certain equity conditions described in the Certificate of Designations are satisfied, and provided further that the Company has filed all reports required to be filed by it pursuant to the 1934 Act on a timely basis for a continuous period of one year, the Company has the right to redeem in cash all or some of the shares of the Series A Preferred Stock outstanding at such time at a redemption price equal to the product of (x) 125% multiplied by (y) the sum of (A) the stated value of the Series A Preferred Stock plus (B) all declared and unpaid dividends on such Preferred Stock and any other unpaid amounts then due and payable hereunder with respect to such Series A Preferred Stock, plus (C) the make-whole amount, plus (D) any accrued and unpaid late charges with respect to such stated value and amounts payable pursuant to clause (B) as of such date of determination.

On August 19, 2024, the Company entered into an Amendment Agreement (the “Series A Amendment”) with the Required Holders (as defined in the Certificate of Designations). Pursuant to the Series A Amendment, the Required Holders agreed that (A) the unpaid and accrued dividends on the Series A Preferred Stock due July 1, 2024 (the “July Delinquent Dividend Amount”), shall be payable, at the option of the Company, in (i) cash and/or (ii) shares of Common Stock, at a price per share of Common Stock equal to the lower of (x) \$1.00 and (y) the Dividend Conversion Price (as defined in the Certificate of Designations), using July 1, 2024, as the applicable date of determination in accordance with the Certificate of Designations; (B) the dividends due on October 1, 2024

(the “October Dividend Amount” and, together with the July Delinquent Dividend Amount, the “Delinquent Dividend Amounts”), shall be payable in shares of Common Stock based on a per share price of Common Stock equal to 80% of the arithmetic average of the three (3) lowest closing sale prices of the Common Stock during the month of September 2024; and (C) such Delinquent Dividend Amounts and any Dividend Balance Shares (as defined in the Certificate of Designations), with respect thereto, if applicable, shall be delivered on October 1, 2024. The Company and the Required Holders further agreed pursuant to the Agreement to amend (i) the Certificate of Designations, as described below, by filing a Certificate of Amendment to the Certificate of Designations (the “Certificate of Amendment”) and (ii) the Series A Purchase Agreement to amend the definition of “Excluded Securities.”

The Certificate of Amendment amends the Certificate of Designations to, among other things, (A) allow for the payment of dividends in the form of Common Stock to a holder of the Series A Preferred Stock who serves as a director, officer or employee of the Company; provided that such issuance is approved by the Company’s stockholders prior to such issuance, and (B) amend certain conditions required for (i) a mandatory conversion of the Series A Preferred Stock, and (ii) the Company’s right to redeem, all or a portion, of the Series A Preferred Stock outstanding pursuant to an optional redemption, in each case, pursuant to the terms of the Certificate of Designations.

There is no established public trading market for the Series A Preferred Stock and we do not intend to list the Series A Preferred Stock on any national securities exchange or nationally recognized trading system.

### *Warrants*

The Company issued the Series A Warrants to purchase up to an aggregate of 6,896,553 shares of Common Stock. Each Series A Warrant has an exercise price of \$1.45, became exercisable after the date that was six months from the date of issuance and will expire 5 years following the date of issuance. The exercise price is subject to customary adjustments for stock dividends, stock splits, reclassifications and the like, and subject to price-based adjustment, on a “full ratchet” basis, in the event of any issuances of Common Stock, or securities convertible, exercisable or exchangeable for Common Stock, at a price below the then-applicable exercise price (subject to certain exceptions).

### *Nasdaq Stockholder Approval*

The Company’s ability to issue Conversion Shares and Series A Warrant Shares using shares of Common Stock is subject to certain limitations set forth in the Certificate of Designations. Prior to receiving the Nasdaq Stockholder Approval, such limitations included a limit on the number of shares that may be issued until the time, if any, that the Company’s stockholders have approved the issuance of more than 19.99% of the Company’s outstanding shares of Common Stock in accordance with the rules of the Nasdaq Stock Market (the “Nasdaq Stockholder Approval”). Such Nasdaq Stockholder Approval was received at a special meeting of stockholders held on September 19, 2023.

### *Off-Balance Sheet Arrangements*

We have no off-balance sheet arrangements.

### *Cash Flow*

#### *Operating Activities*

During year ended December 31, 2023, net cash used in operating activities was approximately \$16.7 million. The net loss of approximately \$30.3 million was decreased by non-cash expense of approximately \$16.8 million consisting primarily of change in fair value of warrant liabilities of approximately \$12.0 million and share-based compensation expense of approximately \$2.0 million. Other major component changes using operating cash included an increase of approximately \$2.2 million in inventories and an increase in customer deposits of \$1.0 million.

During year ended December 31, 2022, net cash used in operating activities was approximately \$14.6 million. The net loss of approximately \$17.6 million was decreased by non-cash expense of approximately \$4.4 million consisting primarily of share-based compensation expense of approximately \$3.2 million. Other major component changes using operating cash included an increase of approximately \$2.4 million in inventories and a net increase in accounts payable and accrued liabilities of approximately \$250 thousand. A decrease in accounts receivable of approximately \$957 thousand increased the cash used in operating activities.

#### *Investing Activities*

During the year ended December 31, 2023, we used approximately \$10.0 million of cash to purchase short-term investments, \$554 thousand of cash for the purchase of Intrinsic, \$230 thousand of cash for the purchase of property and equipment and invested approximately \$396 thousand in patents and trademarks. During the year ended December 31, 2023, we had proceeds from maturities of short-term investments of approximately \$16.4 million.

During the year ended December 31, 2022, we used approximately \$30.5 million of cash to purchase short-term investments, \$256 thousand of cash for the purchase of property and equipment and invested \$173 thousand in patents and trademarks. During the year ended December 31, 2022, we had proceeds from maturities of short-term investments of approximately \$46.6 million.

#### *Financing Activities*

During the year ended December 31, 2023 we received approximately \$10.0 million in gross proceeds from the issuance of securities, which is reflected in cash and cash equivalents, with an offset to accrued expense, reflected in the Company's Condensed Consolidated Balance Sheet at December 31, 2023. During year ended December 31, 2023, we received approximately \$208 thousand in proceeds from the exercise of previously issued stock options and paid out approximately \$58 thousand in preferred stock dividends.

During year ended December 31, 2022, we received approximately \$83 thousand in proceeds from the exercise of previously issued stock options.

#### **Contractual Obligations and Commitments**

Pursuant to that certain exclusive Amended and Restated Intellectual Property License Agreement dated September 30, 2016, by and between the Company and Syzygy Licensing, LLC ("Syzygy"), we are obligated to pay to Syzygy a 4% royalty fee on future product sales up to an aggregate amount of \$1.0 million in royalty payments or until September 30, 2026, whichever occurs earlier.

Pursuant to the Professional Services and Technology Acquisition Agreement, dated as of November 22, 2022, and as amended on April 2, 2023, by and among the Company, Lumeto, Inc. and Spatial Industries Group, Inc. (collectively, "Service Provider"), the Service Provider provides to the Company certain technology, services, and perpetual licenses for use within the Company's Wrap Reality virtual simulation training platform (the "Technology, Services, and License"), in consideration for a cash payment of \$700 thousand made to the Service Provider upon the execution of the Agreement.

In January 2022 we extended our facility lease for three years through July 2025 and we are committed to aggregate lease payments on the facility lease of \$126 thousand in 2024 and \$75 thousand in 2025.

In September 2023, we committed to a lease of office space in Coconut Grove, Florida in a multi-year term concluding in 2031 which includes aggregate lease payments totaling \$3.6 million.

At December 31, 2023, we were committed for approximately \$0.7 million for future component deliveries and contract services that are generally subject to modification or rescheduling in the normal course of business.

On August 9, 2023, the Company entered into a Membership Interest Purchase Agreement (the "Intinsic Purchase Agreement") with certain members of Intinsic, including Kevin Mullins, the Company's former Chief Executive Officer (collectively, "Sellers") and Buford Ortale, as the Seller's representative. Under the terms of the Intinsic Purchase Agreement, the Company agreed to purchase, and Sellers agreed to sell, 100% of the membership interests (the "Membership Interests") of Intinsic for the following consideration upon the consummation of the sale of the Membership Interests (the "Intinsic Closing"): (i) \$553,588 in cash, subject to adjustment based upon the outstanding indebtedness of Intinsic and Intinsic's working capital as of the Intinsic Closing; and (ii) 1,250,000 shares of Common Stock of the Company the "Intinsic Acquisition"). The Intinsic Acquisition closed on August 16, 2023, in accordance with the terms of the Purchase Agreement.

#### **Effects of Inflation**

In 2023 we experienced increased costs in labor and materials due to inflation. We believe in 2024 that low unemployment and higher salaries will create higher payroll costs and increased operating expense in the business. We have seen increases in costs from multiple suppliers for materials as well as labor.

#### **Recent Accounting Pronouncements**

There have been no recent accounting pronouncements or changes in accounting pronouncements during the year ended December 31, 2023, or subsequently thereto, that we believe are of potential significance to our financial statements.

#### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

#### **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The Financial Statements of the Company required to be included in this Item 8 are set forth in a separate section of this report following Item 15 commencing on Page F-1.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

There have been no disagreements or any reportable events requiring disclosure under Item 304(b) of Regulation S-K.

### **ITEM 9A. CONTROLS AND PROCEDURES.**

#### **Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Our disclosure controls and procedures are also designed to ensure that information required to be disclosed in our Exchange Act reports is accumulated and communicated to management, including our Executive Chairman and Chief Executive Officer, to allow timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Our management, with the participation of our Executive Chairman and Chief Executive Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2023 and, based on this evaluation, our Executive Chairman and Chief Executive Officer concluded that our disclosure controls and procedures were effective as of December 31, 2023.

#### **Management's Report on Internal Control Over Financial Reporting**

We are responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Internal control over financial reporting refers to the process designed by, or under the supervision of, our Executive Chairman and Chief Executive Officer, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP, including those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and the disposition of our assets, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with GAAP and that receipts and expenditures are being made only in accordance with authorizations of our management and board of directors, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance of achieving their control objectives.

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. With our participation, an evaluation of the effectiveness of our internal control over financial reporting was conducted as of December 31, 2023, based on the framework and criteria established in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and SEC guidance on conducting such assessments. Based on this evaluation, our Executive Chairman and Chief Executive Officer concluded that our internal control over financial reporting was effective as of December 31, 2023.

This Annual Report on Form 10-K does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting due to our status as an emerging growth company under the JOBS Act, which permits the Company to provide only management's report in this Annual Report on Form 10-K.

#### **Changes in Internal Controls**

There have been no changes in our internal control over financial reporting during the fiscal quarter ended December 31, 2023, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Our process for evaluating controls and procedures is continuous and encompasses constant improvement of the design and effectiveness of established controls and procedures and the remediation of any deficiencies, which may be identified during this process.

### **ITEM 9B. OTHER INFORMATION**

None.

### **ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS**

Not applicable.

## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

#### Board of Directors

The Company's Board of Directors (the "Board") is currently composed of five members of the Board. Under the amended and restated Bylaws of the Company, the number of Directors will be fixed by the Board or the stockholders at an annual meeting of the stockholders, and directors serve until the next annual election and their successors are duly elected and qualified, or until their earlier resignation, removal or death.

Below is a list of the names, ages as of August 26, 2024, and positions of the individuals who currently serve as our directors.

Name	Age	Position
Scot Cohen .....	54	Chief Executive Officer and Executive Chairman of the Board
Bruce Bernstein(1)(2).....	60	Director
Marc Savas(1)(3).....	56	Director
Rajiv Srinivasan(1)(2)(3) .....	38	Director
Vice Admiral Tim Szymanski(2)(3).....	61	Director

(1) Member of our Audit Committee.

(2) Member of our Compensation Committee.

(3) Member of our Nominating Committee.

#### Director Biographies

Information concerning our directors is set forth below. The biographical description of each director includes the specific experience, qualifications, attributes and skills that led the Board to conclude that such person should serve as a director.

**Scot Cohen** – Mr. Cohen cofounded the Company in March 2016, and has previously served as a non-independent Director of the Company from June 2021 until October 2023 and Executive Chairman of the Company from July 2017 until June 2021 and then again beginning in October 2023, and currently serves as Chief Executive Officer, Principal Executive Officer and interim Principal Financial Officer and Principal Accounting Officer. Mr. Cohen has over 20 years of experience in institutional asset management, wealth management, and capital markets. He currently manages several operating partnerships that actively invest in the energy sector in addition to maintaining an active investment portfolio in various public companies, early-stage private companies, hedge funds and alternative assets including real estate. Mr. Cohen is the Founder and Managing Partner of V3 Capital Partners, a private investment firm focused on early-stage companies primarily in the consumer products industry, and Co-Manager of Red Fortune Fund, a private equity fund based in Hong Kong. Mr. Cohen also is the Founder of Petro River Oil, LLC and Chairman of Petro River Oil Corp. (OTCBB: PTRC), a publicly traded oil and gas producer with assets in Kansas and Oklahoma, and Petro Spring LLC, a global oil and gas technology solutions provider. Prior to creating V3 Capital Partners, Mr. Cohen was the Founder and Managing Partner at Iroquois Capital Opportunity Fund, a special situations private equity investment fund, and a Co-Founder of Iroquois Capital, a hedge fund with investments in small and micro-cap private and public companies. Mr. Cohen currently serves on the board of directors of Charlie's Holding, Inc. (OTCQB: CHUC), and has served as Executive Chair of the board of directors of Petro River Oil Corp. since 2012. Mr. Cohen earned his Bachelor of Science degree from Ohio University in 1991.

The Board believes Mr. Cohen's success with multiple private investment firms, his extensive contacts within the investment community and financial expertise strengthens the Company's efforts to raise capital to fund the continued implementation of its business plan.

**Bruce Bernstein** - Mr. Bernstein was appointed as a director of the Company in April 2023. Mr. Bernstein has over thirty-five years of experience in the securities industry, primarily as senior portfolio manager for two alternative finance funds as well as in trading and structuring of arbitrage strategies. Mr. Bernstein has served as President of Rockmore Capital, LLC since 2006, the manager of a direct investment and lending fund with peak assets under management of \$140 million. Previously, he served as Co-President of Omicron Capital, LP, an investment firm based in New York, which he joined in 2001. Omicron Capital focused on direct investing and lending to public small cap companies and had peak assets under management of \$260 million. Prior to joining Omicron Capital, Mr. Bernstein was with Fortis Investments Inc., where he was Senior Vice President in the bank's Global Securities Arbitrage business unit, specializing in equity structured products and equity arbitrage and then President in charge of the bank's proprietary investment business in the United States. Prior to Fortis, Mr. Bernstein was Director in the Equity Derivatives Group at Nomura Securities International specializing in cross-border tax arbitrage, domestic equity arbitrage and structured equity swaps. Mr. Bernstein started his career at Kidder Peabody, where he rose to the level of Assistant Treasurer. Mr. Bernstein serves as a member of the Board of Directors of Xwell, Inc. (Formerly XpresSpa Holdings, Inc.) the leading airport spa company in the



world, based in New York, serves as a Director for Neurotrope since November 14, 2016 and, Petros Pharmaceuticals, Inc. Mr. Bernstein holds a Bachelor of Business Administration from City University of New York (Baruch).

The Board believes that Mr. Bernstein's experience in finance, audit, capital markets and in advising public companies provides significant benefit to the Company and as a member of the Board.

**Marc Savas** – Mr. Savas was appointed as a director of the Company in April 2023. Mr. Savas has over 35 years of experience in accelerating revenue for companies, and is skilled in developing and guiding leadership teams, executing tactical, strategic and technical plans, and brings a comprehensive understanding of organizational efficiency. Mr. Savas currently serves as President of Vector97, a privately held waste hauling and recycling consulting firm, since February 2012. He has overseen Vector97 from a startup company through engineering its sale to SIB in June of 2022. Mr. Savas remains President of Vector97 and has joined the SIB leadership team. He currently serves as a Director of SRAX since October 2015. Previously, he founded Unfair Advantage, Inc. and Living Full Blast, Inc., a management and efficiency consulting firm serving the Venture Capital and Legal vertical markets serving as Chief Executive officer until January 2012. Mr. Savas has also served as a member of the Board of Directors of Motivational, Inc., a charitable organization, from July 2020 to present, and as a member of the Board of Directors of RMP, a charitable organization, from December 2022 to present. Mr. Savas holds a Bachelor of Science in Marketing from Northern Arizona University of Flagstaff Arizona, and completed the Executive Development Program of the Marshall School of Business of the University of Southern California.

The Board believes that Mr. Savas' experience in organizational efficiency and effectiveness, together with his extensive knowledge in finance, scalability and implementing successful business strategies, makes him a valuable member of the Board.

**Rajiv Srinivasan** – Mr. Srinivasan was appointed director in October 2023. Mr. Srinivasan served at LinkedIn by Microsoft (NYSE:MSFT) from 2019 to 2023, as the Director of the NAMER Globals Program from 2021 to 2023, and the Director of Global Clients from 2019 to 2021. Prior to that, he served as a Global Account manager at VMware (NYSE: VMW) from 2016 to 2019, and as a sales manager at MobileIron (NYSE: MOBL) from 2013 to 2015. Mr. Srinivasan's startup experience includes Investor and Sales Advisor at Nirmata since 2017, Interim VP of Sales at Intuition Machines during 2022, Interim VP of Sales at Myally from 2018 to 2020 and Co-Founder and Head of Sales at Morta Security from 2011 to 2013. Mr. Srinivasan served as a Captain of the U.S. Army from 2004 to 2011 and is a contributor and commentator on military and veterans affairs, is on the board of directors and finance committee of Families Against Mandatory Minimums, a lobby to end mass incarceration, and is a Resource & Development Board Member on the California Council on Science and Technology. Mr. Srinivasan earned a Bachelor of Science in Arabic and Comparative Politics from the U.S. Military Academy, a Master of Science in Applied Mathematics with a focus on Data Science and Numerical Methods from Columbia University, and a Masters of Business Administration from the Wharton School of Business.

The Board believes that Mr. Srinivasan's experience in technology based companies and early stage growth firms, together with his extensive knowledge and experience in implementing successful business strategies, makes him a valuable member of the Board.

**Vice Admiral Tim Szymanski** – Mr. Szymanski was appointed a director in October 2023. Mr. Szymanski is a distinguished retired United States Navy vice admiral, with thirty-seven years of military service. Mr. Szymanski currently provides consulting services to Pallas Advisors as a principal, a strategic advisory firm specializing in navigating complex national and international security dynamics, which he joined in August 2023, Odyssey Group International, Inc., Senseye, Inc., and Q30 Sports Science, LLC. Mr. Szymanski further serves as an advisor for Cohen Veterans Bioscience on the Veteran Advisory Committee, at NanoDx Inc. on the Military Advisory Board, and at Verkada Inc., on the Federal Advisory Board. Prior to his retirement from the United States Navy, Mr. Szymanski last served as deputy commander of United States Special Operations Command and as the Commander of Naval Special Warfare (NSW). Mr. Szymanski also served on the Joint Staff as the J3 deputy directorate for Special Operations, as the Global War on Terror branch chief and as chief staff officer of Pakistan-Afghanistan Coordination Cell. Mr. Szymanski currently serves on the Military Advisory Board of Odyssey Health, Inc. Mr. Szymanski graduated from the United States Naval Academy in 1985. He completed a Master of Joint Campaign Planning and Strategy at the Joint Advanced Warfighting School.



The Board believes that Vice Admiral Szymanski's experience in organizational efficiency and effectiveness, together with his military leadership experience, makes him a valuable member of the Board.

## Executive Officers

Below is a list of the names, ages as of August 26, 2024, positions, and a brief account of the business experience of the individuals who serve as our executive officers.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Scot Cohen .....	54	Chief Executive Officer and Executive Chairman of the Board
Jared Novick.....	40	Chief Operating Officer

## Executive Officer Biographies

**Jared Novick** - Mr. Novick joined the Company as Chief Operating Officer in December 2023. From June 2023 to December 2023, Mr. Novick served as Chief Operating Officer and Senior Vice President of Strategy and Special Projects at Sidus Space, Inc. (NASDAQ:SIDU), where he oversaw diverse areas such as manufacturing, sales, product development, supply chain management, marketing, and human resources. Since 2018, he has also served on the Board of Advisors at BlueVoyant LLC ("Blue Voyant"), where he also served as Head of Strategy from 2017 until 2018. Before his tenure in public companies, Mr. Novick experienced success with two early-stage technology ventures, each culminating in notable exits. He co-founded and served as Chief Executive Officer of BitVoyant, a cybersecurity threat monitoring product and service provider for commercial enterprises, later acquired by cybersecurity unicorn BlueVoyant. Additionally, he founded and led CurvedSkies LLC, serving as Chief Executive Officer of a professional services firm catering to classified U.S. Federal Government customers in the aerospace and defense sectors. Mr. Novick's professional career includes significant roles as a U.S. Intelligence Community Civil Servant and a contractor for Special Projects to the Office of the Secretary of Defense. He collaborated extensively with the U.S. Intelligence Community, the Department of Defense, and international partners to then deploy and operationally support critical National Security challenges across South America, Central-Asia and Africa. In the early stages of his career, Mr. Novick trained as a NASA Aircrew Member, operating High-Altitude Technologies above 60,000 feet and necessitating NASA pressure suit operations. He has logged over 2,000 hours of flight time in various fixed-wing aircrafts. During Operation Enduring Freedom, he accumulated over 400 combat flight hours while supporting special military units of the Special Operations community. Mr. Novick actively contributes to board activities, including a gubernatorial appointment by Florida Governor Ron DeSantis to the Department of Business & Professional Regulation. Mr. Novick holds a Bachelor of Arts in Physics from the University of Florida in Gainesville.

Mr. Cohen's biography is incorporated by reference from Item 10 of this Annual Report above.

There is no arrangement or understanding between any of the directors or officers identified above and any other person pursuant to which he was selected as a director or officer. None of the directors or officers identified above is, or has been, a participant in any transaction involving the Company, and is not a participant in any proposed transaction with the Company, in each case, required to be disclosed pursuant to Item 404(a) of Regulation S-K, other than as described in the "Certain Relationships and Related Transactions, and Director Independence" section contained herein.

## Family Relationships

There are no family relationships among our directors or executive officers.

## Involvement in Certain Legal Proceedings

None of our directors or executive officers has been involved in any of the following events during the past ten years:

- any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
- any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offences);

- being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his or her involvement in any type of business, securities or banking activities; or
- being found by a court of competent jurisdiction (in a civil action), the SEC or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated.

### **Director Independence**

Our Board has reviewed the independence of our directors based on the listing standards of the Nasdaq Stock Market (“Nasdaq”). Based on this review, the Board of Directors determined that Messrs. Bernstein, Savas, Srinivasan and Vice Admiral Szymanski are independent, as defined in Rule 5605(a)(2) of the Nasdaq rules. In making this determination, our Board considered the relationships that each of these non-employee directors has with us and all other facts and circumstances our Board deemed relevant in determining their independence.

### **Committees of the Board of Directors**

Our Board currently has three standing committees which consist of the Audit Committee, Compensation Committee and Nominating and Governance Committee. Our Board has adopted written charters for each of the Audit Committee, Compensation Committee, and Nominating and Governance Committee, copies of which are publicly available on our website at <https://ir.wrap.com/> under the “Governance” tab. Our Board may establish other committees from time to time as it deems necessary or appropriate.

#### ***Audit Committee***

The Audit Committee assists our Board in fulfilling its legal and fiduciary obligations in matters involving our accounting, auditing, financial reporting, internal control and legal compliance functions by approving the services performed by our independent accountants and reviewing their reports regarding our accounting practices and systems of internal accounting controls. The Audit Committee also oversees the audit efforts of our independent accountants and takes those actions as it deems necessary to satisfy that the accountants are independent of management. The Audit Committee currently consists of Messrs. Bruce Bernstein, Savas and Srinivasan, with Mr. Bernstein serving as the Chair of the Audit Committee, each of whom is a non-management member of our Board that we believe meets the criteria for independence under the applicable Nasdaq rules and SEC rules and regulations. Our Board has determined that Mr. Bernstein is an audit committee financial expert as defined under the applicable rules of the SEC and has the requisite financial sophistication under the applicable rules and regulations of Nasdaq.

#### ***Compensation Committee***

The Compensation Committee determines our general compensation policies and the compensation provided to our directors and officers. The Compensation Committee also reviews and determines bonuses for our officers and other employees. In addition, the Compensation Committee reviews and determines equity-based compensation for our directors, officers, employees and consultants and administers the 2017 Plan. The Compensation Committee currently consists of Messrs. Szymanski, Bernstein and Srinivasan with Mr. Bernstein serving as Chair of the Compensation Committee, each of whom is a non-management member of our Board that we believe meets the criteria for independence under the applicable Nasdaq rules and SEC rules and regulations.

#### ***Nominating and Governance Committee***

The Nominating and Governance Committee is responsible for making recommendations to our Board regarding candidates for directorships and the size and composition of our Board. In addition, the Nominating and Governance Committee is responsible for overseeing our corporate governance guidelines and reporting and making recommendations to the full Board concerning corporate governance matters. The Nominating and Governance Committee currently consists of Messrs. Savas, Srinivasan and Szymanski, with Mr. Savas serving as Chair of the Nominating and Governance Committee.

## **Code of Business Conduct and Ethics**

We have adopted a Code of Business Conduct and Ethics (the “Code”) applicable to all of our employees, including our principal executive officer, principal financial officer and principal accounting officer. Our Code is available to security holders in the “Investors” section on our website, <https://ir.wrap.com/>. We intend to disclose any amendments to, or waivers from, our Code at the same website address provided above.

## **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires that each of our directors and executive officers, and any other person who owns more than ten percent (10%) of our common stock, file with the SEC initial reports of ownership and reports of changes in ownership of our common stock. To our knowledge, based solely on information furnished to us and written representations by such persons that no such other reports were required to be filed, we believe that all such SEC filing requirements were met in a timely manner during 2023 other than with respect to the following:

On February 3, 2023, a Form 4 for Glenn M Hickman was filed late to report forfeiture of shares of Common Stock to satisfy certain tax withholding obligations on January 3, 2023.

On March 9, 2023, a Form 4 for TJ Kennedy was filed late to report forfeiture of shares of Common Stock to satisfy certain tax withholding obligations on March 9, 2023 and on March 1, 2023.

On April 26, 2023, a Form 4 for Bruce Bernstein was filed late to report a grant of stock options granted on April 21, 2023.

On April 27, 2023, a Form 4 for Marc Savas was filed late to report a grant of stock options granted on April 21, 2023.

On October 19, 2023, a Form 4 for each of Bruce Bernstein, Scot Cohen, Marc Savas, Kevin Sherman, Wayne Walker, and Michael Parris was filed late to report a grant of Common Stock that was granted on September 30, 2023.

On October 19, 2023, a Form 4 for each of Michael Parris and Wayne Walker was filed late to report grants of Common Stock that were granted on September 30, 2023 and October 12, 2023.

On October 19, 2023, a Form 4 for Rajiv Srinivasan to report a grant of stock options granted on October 12, 2023.

On October 24, 2023, a Form 4 for Timothy Szymanski was filed late to report a grant of stock options granted on October 12, 2023.

On December 29, 2023, a Form 4 for Jared Novick was filed late to report a grant of stock options on December 26, 2023.

## ITEM 11. EXECUTIVE COMPENSATION.

### Summary Compensation Table

The following table sets forth information regarding the compensation awarded to or earned by the current and former executive officers listed below during the years ended December 31, 2023, and 2022. We have opted to comply with the reduced executive compensation disclosure rules applicable to “smaller reporting companies,” as such term is defined in the rules promulgated under the Securities Act, which require compensation disclosure for only our principal executive officers, the two most highly compensated executive officers other than our principal executive officer and up to two additional executive officers during the year. Throughout this document, the officers below are referred to as our “Named Executive Officers” or “NEOs”.

Name and Principal Position	Year	Salary	Bonus	Stock Awards(1)	Option Awards(2)	All Other Compensation(3)	Total
Scot Cohen ..... <i>Chief Executive Officer and Executive Director</i>	2023	\$ 39,312	-	\$ 675,000	\$ 1,801,543	-	\$ 2,515,855
Jared Novick..... <i>Chief Operating Officer</i>	2023	\$ -	-	-	\$ 443,622	-	\$ 443,622
Kevin Mullins (4)..... <i>Former Chief Executive Officer and Director</i>	2023	\$ 300,000	\$ 75,000	\$ 75,000	\$ -	-	\$ 450,000
	2022	\$ 200,000	-	\$ 506,250	\$ 1,721,691	-	\$ 2,427,941
Chris DeAlmeida (5) ..... <i>Former Chief Financial Officer, Treasurer and Secretary</i>	2023	\$ 275,000	\$ 28,646	\$ 28,646		-	\$ 332,292
	2022	\$ 103,125	-	\$ 227,500	\$ 318,500	-	\$ 649,125
TJ Kennedy (6)..... <i>Former Chief Executive Officer and Director</i>	2023	\$ 157,417	\$ 115,625			\$ 328,296	\$ 601,338
	2022	\$ 276,667	\$ 50,000	\$ 742,982	\$ 2,293,879	-	\$ 3,363,528
Glenn Hickman (7)..... <i>Former Chief Operating Officer</i>	2023	\$ 75,000	\$ 22,500	\$ 22,500	-	\$ 112,500	232,500
	2022	\$ 225,000	\$ 25,000	\$ 106,500	-	-	356,500

(1) Amounts reported in this column do not reflect the amounts actually received by our named executive officers. Instead, these amounts reflect the aggregate grant date fair value of restricted stock units (“RSUs”) granted to the named executive officers during the fiscal year ended December 31, 2022, as computed in accordance with the Financial Accounting Standards Board Accounting Standards Codification 718 (“ASC 718”). Assumptions used in the calculation of these amounts are included in the notes to our financial statements included in this Annual Report. As required by SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. Specifically, the number in the table above includes:

- for Mr. Cohen, RSUs granted in October 2023, as part of an Inducement grant in connection with being named Chief Executive Officer;
- for Mr. Mullins, RSUs granted in April 2023 in connection with annual bonus and RSUs granted in April 2022, as part of an Inducement grant in connection with being named President;
- for Mr. DeAlmeida, RSUs granted in April 2023 in connection with annual bonus and RSUs granted in July 2022, in connection with being named Chief Financial Officer;
- for Mr. Kennedy, \$725,000 for RSUs granted in April 2022, in connection with being named Chief Executive Officer and \$17,982 for RSUs granted for Board responsibilities from January 1, 2022 through April 17, 2022;
- for Mr. Hickman, RSUs granted in April 2023 in connection with annual bonus and RSUs granted March 2022 for continued service.

- (2) Amounts reported in this column do not reflect the amounts actually received by our named executive officers. Instead, these amounts reflect the aggregate grant date fair value of each stock option granted to the named executive officers during each fiscal year, as computed in accordance with ASC 718. Assumptions used in the calculation of these amounts are included in the notes to our financial statements included in our Annual Report. As required by SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. Our named executive officers will only realize compensation to the extent the trading price of our Common Stock is greater than the exercise price of such stock options. Specifically, the number in the table above includes:
- for Mr. Cohen, options granted in October 2023, as part of an Inducement grant in connection with being named Chief Executive Officer;
  - for Mr. Novick options granted in December 2023, as part of an Inducement grant in connection with being named Chief Operating Officer;
  - for Mr. Mullins, \$856,193 for options granted in April 2022 and \$865,498 for Performance Options granted in April 2022 in connection with being named President.;
  - for Mr. DeAlmeida, options granted in July 2022, in connection with being named Chief Financial Officer;
  - for Mr. Kennedy, \$1,141,589 for options granted in April 2022 and \$1,152,290 for Performance Options granted in April 2022 in connection with being named Chief Executive Officer;
  - for Mr. Hickman, options granted in March 2021 for continued service.
- (3) Amounts reported in this column represent other compensation paid to executive officers. Amounts for Mr. Hickman include \$41,918 for his consulting agreement in 2021. For Mr. Varner, the amount reflects the consulting payments made to his consulting firm, LWV Consulting, LLC. For his services as Interim Chief Executive Officer during 2022. Amounts for Mr. Smith represent the severance payments made per his Separation Agreement.
- (4) Kevin Mullins was appointed as the Company's President on April 18, 2022, as the Company's Chief Executive Officer on April 14, 2023, and was appointed as a member of the Board of Directors on April 21, 2023.
- (5) Chris DeAlmeida served as the Company's Chief Financial Officer and Treasurer from July 25, 2022, to January 5, 2024 and served as Secretary from April 21, 2023 to January 5, 2024.
- (6) TJ Kennedy served as the Company's Chief Executive Officer from April 18, 2022, to April 14, 2023.
- (7) Glenn Hickmann served as the Company's Chief Operating Officer from July 2021 to April 17, 2023. He was paid \$41,918 for consulting services in 2021 prior to becoming an employee.

## Employment Arrangements

**Scot Cohen.** On October 12, 2023, the Board of Directors appointed Scot Cohen to the position of Executive Chairman, effective October 12, 2023.

In connection with Mr. Cohen's appointment as Executive Chairman, the Company and Mr. Cohen entered into an agreement on October 12, 2023 (the "Cohen Employment Agreement"). Pursuant to the Agreement, unless earlier terminated pursuant to the terms therein, Mr. Cohen will serve as the Company's Executive Chairman for an initial term of two years from the effective date of his appointment (the "Initial Term"). On the second anniversary of such effective date of appointment (if Mr. Cohen's employment has not been earlier terminated), and on each subsequent anniversary thereafter, the Cohen Employment Agreement will automatically renew and extend for a period of twelve (12) months (each such twelve (12)-month period, a "Renewal Term") unless written notice of non-renewal is delivered by either party to the other not less than sixty (60) days prior to the expiration of the then-existing Initial Term or Renewal Term, as applicable, or the Cohen Employment Agreement has been earlier terminated in accordance with its terms. As compensation for Mr. Cohen's services to the Company, the Cohen Employment Agreement entitles Mr. Cohen to an annualized base salary of \$200,000 (the "Base Salary") and eligibility to participate in customary benefits offered to other executives of the Company. In the event Mr. Cohen's employment is terminated by either party for any reason, Mr. Cohen will be entitled to: (i) any earned but unpaid Base Salary earned during his employment and applicable to all pay periods prior to the termination date; (ii) any documented and actually incurred unreimbursed business expenses, so long as Mr. Cohen makes any reimbursement request within 30 days following termination; and (iii) any employee benefits to which Mr. Cohen may be entitled under the Company's employee benefit plans or programs in which Mr. Cohen participates as of the date of termination of Mr. Cohen's employment. If Mr. Cohen's employment is terminated by the Company without Cause (as defined in the Cohen Employment Agreement), or by Mr. Cohen for Good Reason (as defined in the Cohen Employment Agreement), or upon the end of the Initial Term or a Renewal Term, as applicable, as the result of the Company's issuance of a notice of non-renewal, then, subject to certain conditions set forth in the Cohen Employment Agreement (including the execution and non-revocation of a general release of claims), Mr. Cohen will be entitled to: (i) severance payments in a total amount equal to 12 months' worth of the Base Salary; (ii) any earned but unpaid annual bonus in respect of any completed year that has ended prior to the date of termination; and (iii) receive reimbursement, for a period of up to 12 months, for a portion of the premiums that Mr. Cohen elects to pay for continuation coverage under the Company's group health plans pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, subject to Mr. Cohen's timely submission of applicable documentation.

On December 12, 2023, the Board of Directors appointed Mr. Cohen to the position of Principal Executive Officer. On January 14, 2024, the Board of Directors appointed Mr. Cohen, who previously served as the Company's Executive Chairman and Principal Executive Officer, to the position of Executive Chairman and Chief Executive Officer. In connection therewith, the Company and Mr. Cohen entered into an amendment, dated January 14, 2024, to the Cohen Employment Agreement, dated October 12, 2023, to, among other things, reflect Mr. Cohen's new title. On April 5, 2024, the Board of Directors appointed Scot Mr. Cohen, who serves as the Company's Executive Chairman and Chief Executive Officer, and as its Principal Executive Officer, to the position of Interim Principal Financial Officer and Principal Accounting Officer.

**Jared Novick.** On December 26, 2023, the Board of appointed Jared Novick to the position of Chief Operating Officer. In connection with Mr. Novick's appointment, on December 26, 2023 (the "Novick Effective Date"), the Company entered into an employment agreement (the "Novick Employment Agreement") with Mr. Novick setting forth the terms and conditions of Mr. Novick's employment as the Company's Chief Operating Officer. Pursuant to the Novick Employment Agreement, Mr. Novick will serve as the Chief Operating Officer of the Company for a two-year initial term commencing on the Effective Date, which term automatically renews each year for successive one-year terms, unless earlier terminated by either party in accordance with the terms of the Novick Employment Agreement.

The Novick Employment Agreement provides that Mr. Novick will be entitled to receive an annual base salary of two hundred thousand dollars (\$200,000) ("Base Salary"), payable in equal installments pursuant to the Company's customary payroll practices. Mr. Novick is entitled to a one-time sign-on bonus of \$75,000, payable in two equal installments as follows, subject to Mr. Novick's continued service on such dates: (i) 50% on the first payroll date following the Novick Effective Date, and (ii) 50% on the first payroll date following the six-month anniversary of the Novick Effective Date. Mr. Novick is also eligible to receive for each fiscal year during the term of his employment, an annual discretionary bonus, with the actual amount determined by the Board in its sole discretion ("Annual Bonus"), payable prior to March 15 of the fiscal year following the fiscal year to which the bonus relates. The Novick Employment Agreement also entitles Mr. Novick to receive customary benefits and reimbursement for reasonable out-of-pocket business expenses.

The Company may terminate Mr. Novick's employment due to death or disability, for cause (as defined in the Novick Employment Agreement) at any time, and without cause at any time upon written notice. Mr. Novick may terminate his employment without good reason (as defined in the Novick Employment Agreement) at any time upon thirty days' written notice or with good reason, which requires delivery of a written notice to the Board of Directors of the existence of condition(s) giving rise to the good reason within forty-five days after the initial occurrence of such condition(s), and failure of the Company to cure such condition(s) within thirty days following the Board of Director's receipt of such notice.



If Mr. Novick's employment is terminated by either the Company or Mr. Novick for any reason, Mr. Novick shall receive any earned but unpaid Base Salary and expenses required to be reimbursed pursuant to the Novick Employment Agreement and any employee benefits Mr. Novick is entitled to under the Company's employee benefit plans or programs in which Mr. Novick participates. In addition, if Mr. Novick's employment is terminated by the Company without cause (as defined in the Novick Employment Agreement) or upon non-renewal or by Mr. Novick for good reason (as defined in the Novick Employment Agreement), then, subject to compliance with the restrictive covenants set forth in the Novick Employment Agreement and the execution of a release of claims in favor of the Company, the Company will pay the following severance payments and benefits: (i) an amount equal to twelve months' Base Salary, payable in equal monthly installments over a twelve-month severance period; (ii) an amount equal to any earned, but unpaid, Annual Bonus for services rendered during the year preceding the date of termination; and (iii) an amount intended to assist Mr. Novick with his post-termination health coverage, provided however, he is under no obligation to use such amounts to pay for continuation of coverage under the Company's group health plan pursuant to COBRA.

**Kevin Mullins.** On April 13, 2022, the Company entered into an employment agreement with Mr. Mullins (as amended, the "*Mullins Employment Agreement*") for Mr. Mullins to serve as the Company's President, effective April 18, 2022. Mr. Mullins was appointed as Chief Executive Officer on April 14, 2023 and was appointed as a member of the Company's Board of Directors on April 21, 2023. On January 14, 2024, the Board appointed Kevin Mullins, who previously served as the Company's Chief Executive Officer, to the position of President. In connection therewith, the Company and Mr. Mullins entered into an amendment, dated January 14, 2024, to the Mullins Employment Agreement, dated April 13, 2022 (the "*Mullins Amendment*") to, among other things, reflect Mr. Mullin's new title. On May 7, 2024, Mr. Mullins resigned from his position as President of the Company, effective May 23, 2024. On May 28, 202, Mr. Mullins resigned from his role as director of the Company, effective May 28, 2024.

Pursuant to the Mullins Employment Agreement, unless earlier terminated pursuant to the terms therein, Mr. Mullins will serve as the Company's President for a term of two years from the effective date of his appointment. On the second anniversary of such effective date of appointment (if Mr. Mullins's employment has not been earlier terminated or a written notice of non-renewal has not been provided in the time provided to do so), and on each subsequent anniversary thereafter, the Mullins Employment Agreement will automatically renew and extend for a period of 12 months, unless otherwise terminated in accordance with its terms. As compensation for Mr. Mullins's services to the Company, the Mullins Employment Agreement entitled Mr. Mullins to the following cash payments: (i) an annualized base salary of \$300,000 (the "*Mullins Base Salary*") and (ii) eligibility for a discretionary cash bonus, with a target amount initial set at 75% of the Mullins Base Salary, but with the final amount to be determined at the sole discretion of the Board.

Pursuant to the Mullins Employment Agreement, in the event Mr. Mullins' employment is terminated by either party for any reason, Mr. Mullins is entitled to: (i) any earned but unpaid Base Salary earned during his employment with the Company and applicable to all pay periods prior to the termination date; (ii) any unreimbursed business expenses properly incurred, so long as Mr. Mullins makes any reimbursement request within 30 days following termination; and (iii) any employee benefits to which Mr. Mullins may be entitled under the Company's employee benefit plans or programs which Mr. Mullins participates as of the date of termination of Mr. Mullins' employment.

**Chris DeAlmeida.** On July 25, 2022, the Board of Directors appointed Chris DeAlmeida as Chief Financial Officer of the Company. On January 5, 2024, Mr. DeAlmeida's employment as Chief Financial Officer of the Company was terminated without cause pursuant to a Separation Agreement and Mutual Release of Claims (the "*DeAlmeida Separation Agreement*"). Pursuant to the DeAlmeida Separation Agreement, Mr. DeAlmeida is entitled to receive severance payments in a total amount equal to \$137,500, representing six months of Mr. DeAlmeida's base salary as in effect immediately prior to the Termination Date, payable in substantially equal installments over a six-month period in accordance with the Company's payroll schedule, beginning after any applicable revocation period has expired without exercise.

**TJ Kennedy.** On April 13, 2022, the Company entered into an employment agreement with Mr. Kennedy (the "*Kennedy Employment Agreement*") for Mr. Kennedy to serve as the Company's Chief Executive Officer, effective April 18, 2022.

Effective April 13, 2023 (the "*Resignation Date*"), TJ Kennedy resigned as Chief Executive Officer and as a member of the Board of Directors of the Company pursuant to a separation agreement entered into by and between the Company and Mr. Kennedy (the "*Kennedy Separation Agreement*"). Under the terms of the Kennedy Separation Agreement, Mr. Kennedy is entitled to (i) a one-time payment of \$115,625 for the achievement of certain business objectives in 2022; (ii) severance in an amount equal to six months of his base salary paid in installments over a period of six months following the Resignation Date; (iii) the issuance of 122,670 shares of the Company's Common Stock in connection with the continued vesting of certain equity-based awards previously granted to Mr. Kennedy; (iv) the immediate vesting of nonqualified options to purchase 158,554 shares of Common Stock, (v) an extension of the time period during which Mr. Kennedy may exercise outstanding vested stock options through the first anniversary of the Resignation Date (or, if earlier, through the original expiration date of the applicable stock option); and (vi) reimbursement for the Company portion of any healthcare premiums provided to Mr. Kennedy and any covered dependents under the Consolidated Omnibus Reconciliation Act of 1986, as amended ("*COBRA*"), for a period of 12 months following the Resignation Date, subject to Mr. Kennedy's election of coverage under COBRA. As part of the Kennedy Separation Agreement, Mr. Kennedy entered into a general release of claims in favor of the Company and affirmed his obligations to abide by restrictive covenants.

**Glenn Hickman.** On July 1, 2021, the Board appointed Glenn Hickman as Chief Operating Officer of the Company. Effective April 17, 2023 (the “Hickman Resignation Date”), Glenn Hickman’s employment with the Company as Chief Operating Officer was terminated effective April 17, 2023 (the “Hickman Separation Date”) pursuant to a Severance Agreement and Release of Claims, dated as of May 8, 2023 (the “Hickman Severance Agreement”). Pursuant to the Hickman Severance Agreement, Mr. Hickman was entitled to (i) a one-time payment of \$22,500, less applicable taxes, deductions and withholdings required by law less applicable taxes and withholdings; and (ii) 16,605 shares of Common Stock pursuant to the Plan on the Hickman Separation Date. Additionally, pursuant to the Hickman Severance Agreement, Mr. Hickman was entitled to a total severance payment of \$112,500, (the “Severance Payment”), over the six-month period following the Separation Date, and reimbursement for any portion of any healthcare premiums and any covered dependents under the Consolidated Omnibus Reconciliation Act of 1986, as amended (“COBRA”), for a period of 3 months following the Hickman Separation Date.

## Outstanding Equity Awards at 2023 Fiscal Year-End

The following table sets forth information concerning outstanding equity awards held by each of our named executive officers as of December 31, 2023.

Name	Grant Date	Option Awards			Option Exercise Price	Option Expiration Date	Number of Shares of Stock That Have Not Vested (#)	Stock Awards		Equity Incentive Plan Awards: Number of Unearned Shares, Units or Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Rights That Have Not Vested (\$)
		Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable					Market Value of Shares of Stock That Have Not Vested (\$)			
Scot Cohen .....	10/12/2023	-	482,143 (2)	\$	1.40	10/12/2033					
	10/12/2023	-	1,290,165 (3)	\$	1.40	10/12/2033	482,143 (4)	\$ 1,494,643	-	-	
	9/29/2023	-	-			-		5,294 (5)	\$	16,410	-
	6/30/2023	-	-			-		2,720 (6)	\$	8,430	-
	4/1/2021	100,000 (7)	-	\$	5.56	4/1/2031	-			-	-
Jared Novick.....	12/23/2023	-	250,000 (8)	\$	3.10	12/26/2033	-			-	-
Kevin Mullins.....	4/20/2023	-	-			-				-	-
	4/19/2022	-	692,398 (9)	\$	2.89	4/19/2032	-			-	-
	4/19/2022	118,915 (10)	237,832	\$	2.89	4/19/2032	-			-	-
Chris DeAlmeida.	4/20/2023	-	-			-				-	-
	7/25/2022	58,333 (11)	116,667	\$	1.82	7/25/2032	-			-	-
TJ Kennedy .....	4/13/2023	-	-			-				-	-
	4/19/2022	158,554 (12)	-	\$	2.89	4/19/2032	-			-	-
	4/23/2021	30,000 (13)	-	\$	5.23	4/23/2031					
Glenn Hickman ...	4/17/2023	-	-			-		16,605 (14)	\$	51,476	-

1. The market value is computed based on the closing market price of our Common Stock on December 29, 2023 of \$3.10 per share.
2. Mr. Cohen was awarded stock options which vest in four substantially equal installments at the end of each of the Company’s fiscal years beginning on December 31, 2024 and ending on December 31, 2027, provided Mr. Cohen is employed by or providing services to the Company or an affiliate on the applicable vesting date.
3. Mr. Cohen nonqualified stock options issued in connection with Mr. Cohen’s appointment as Executive Chairman. The stock options will vest, subject to Mr. Cohen’s continued employment with the Company through each vesting date, as follows: (i) 1/3rd on the date on which the Company’s market capitalization meets or exceeds \$100 million for each

trading day during 2 consecutive months; (ii) 1/3rd on the date on which the Company's market capitalization meets or exceeds \$150 million for each trading day during 2 consecutive months; and (ii) 1/3rd on the date on which the Company's market capitalization meets or exceeds \$200 million for each trading day during 2 consecutive months, subject to accelerated vesting upon the occurrence of certain events.

4. Mr. Cohen was granted restricted shares of common stock of the Company issued in connection with Mr. Cohen's appointment as Executive Chairman. The restricted shares will be issued upon vesting and shall vest, subject to Mr. Cohen's continued employment, (i) 1/3rd on the date on which the Company's market capitalization meets or exceeds \$100 million for each trading day during 2 consecutive months; (ii) 1/3rd on the date on which the Company's market capitalization meets or exceeds \$150 million for each trading day during 2 consecutive months; and (iii) 1/3rd on the date on which the Company's market capitalization meets or exceeds \$200 million for each trading day during 2 consecutive months.
5. Mr. Cohen was awarded restricted shares of common stock of the Company in connection with Mr. Cohen's service on the Board. 30% of such shares were vested as of the date of the grant, with the remainder vesting ratably in eight monthly tranches beginning November 1, 2023.
6. Mr. Cohen was awarded restricted shares of common stock of the Company in connection with Mr. Cohen's service on the Board. 30% of the Shares were vested as of the date of the grant, with the remainder vesting ratably in eight monthly tranches beginning August 1, 2023.
7. Mr. Cohen was awarded stock options in connection with his previous position with the Company.
8. Mr. Novick was granted stock options in connection with the Novick Employment Agreement. The stock options vest in three substantially equal installments at the end of each of the Company's first through third fiscal years beginning on December 31, 2024 and ending on December 31, 2026, provided that Mr. Novick is employed by or providing services to the Company through the applicable vesting date.
9. Mr. Mullins received nonqualified options to purchase shares of common stock. The options will vest, subject to Mr. Mullins' continued employment with the Company through each vesting date, (x) with respect to 1/3rd of the award on the date on which the Company's market capitalization meets or exceeds \$250 million for each trading day during three consecutive months, (y) with respect to 1/3rd of the award on the date on which the Company's market capitalization meets or exceeds \$500 million for each trading day during three consecutive months, and (z) with respect to the remaining 1/3rd of the award on the date on which the Company's market capitalization meets or exceeds \$1 billion for each trading day during three consecutive months..
10. Mr. Mullins was awarded nonqualified option to purchase shares of the Company's common stock, which will (x) vest in substantially equal installments on each of the first through third anniversaries of the Commencement Date, subject to Mr. Mullins' continued employment with the Company through each vesting date, (y) upon the later of (I) Mr. Mullins' satisfaction of the Release Condition following a Qualifying Termination and (II) the consummation of a Corporate Transaction (as defined in the Equity Plan), in each case, during the Change in Control Protection Period.
11. Mr. DeAlmeida was granted restricted stock units which shall vest in three equal annual installments beginning July 25, 2023, subject to Mr. DeAlmeida's continued employment through each vesting date
12. Pursuant to the terms of the Kennedy Separation Agreement, following his resignation, shares of the Company's Common Stock were issued to Mr. Kennedy in connection with the continued vesting of certain previously issued equity-based awards, and nonqualified options to purchase shares of Common Stock were immediately vested and must be exercised, if at all, prior to the first anniversary of the Resignation Date (or, if earlier, through the original expiration date of the applicable stock option).
13. In Connection with the Kennedy Employment Agreement, Mr. Kennedy was granted nonqualified options to purchase shares of the Company's common stock, which will (x) vest in substantially equal installments on each of the first through third anniversaries of the Commencement Date, subject to Mr. Kennedy's continued employment with the Company through each vesting date, (y) upon the later of (I) Mr. Kennedy's satisfaction of the Release Condition following a Qualifying Termination and (II) the consummation of a Corporate Transaction (as defined in the Equity Plan), in each case, during the Change in Control Protection Period.
14. A total of 30,000 RSUs were held by Mr. Hickman on the date of his appointment as Chief Operating Officer, with one-third, or 10,000 shares, vesting on July 1, 2022, and the balance vesting ratably every six months over the two-year period thereafter, subject to continued service. Mr. Hickman's employment with the Company terminated on April 17, 2023. As a result of his termination, all unvested RSUs held by Mr. Hickman terminated.

## Director Compensation Program

The following table sets forth the compensation awarded to, earned by, or paid to each person who served as a director during the fiscal year ended December 31, 2023

Name (1)	Fees Earned or Paid in Cash (\$) (2)	Stock Awards (\$) (3)	Option Awards (\$) (4)	Total (\$)
Scot Cohen .....	\$ 47,875	\$ 63,508	\$ -	\$ 111,383
Wayne R. Walker .....	\$ 88,000	\$ 93,757	\$ -	\$ 181,757
Michael Parris .....	\$ 60,600	\$ 93,757	\$ -	\$ 154,357
Kimberly Sentovich.....	\$ 40,250	\$ 48,585	\$ -	\$ 88,835
Kevin Sherman.....	\$ 52,875	\$ 138,739	\$ -	\$ 191,614
Bruce Bernstein .....	\$ 26,926	\$ 26,643	\$ 181,867	\$ 235,436
Marc Savas .....	\$ 29,426	\$ 26,643	\$ 181,867	\$ 237,936
Rajiv Srinivasan .....	\$ -	\$ -	\$ 29,138	\$ 29,138
Timothy Szymanski.....	\$ -	\$ -	\$ 29,138	\$ 29,138

- (1) On June 28, 2023, Ms. Sentovich resigned from the Board. On October 12, 2023, Mr. Walker and Mr. Parris resigned from the Board. On December 31, 2023, Mr. Sherman resigned from the Board. Messrs. Srinivasan and Szymanski were appointed to the Board on October 12, 2023.
- (2) Mr. Cohen, Mr. Parris, Mr. Walker, Ms. Sentovich, Mr. Sherman, Mr. Bernstein and Mr. Savas received 38,187, 59,794, 59,794, 29,237, 70,37, 18,166 and 18,166 shares of Common Stock, respectively, for their respective services to the Board. The number of shares was calculated based on the amount due to such Board members at the end of each quarter, divided by the closing price of the stock on the applicable grant date.
- (3) As of December 31, 2023, the aggregate number of shares of Common Stock underlying outstanding options held by our directors were as follows: Mr. Bernstein 130,000 shares; Mr. Savas, 130,000 shares; Mr. Srinivasan 30,000 shares; and Mr. Szymanski, 30,000 shares.

## Additional Director Compensation Information

On April 1, 2021, the Board approved a new director compensation plan payable to all non-employee independent directors (“Amended Board Plan”). As revised, under the terms of the Amended Board Plan, non-employee independent directors received \$121,000 annually effective January 1, 2021, payable one-half in cash and one half in restricted stock units to be settled in shares of the Company’s Common Stock, with 30% vesting immediately, and the remaining 70% vesting in monthly installments throughout the remainder of the year following the date of grant. In addition, each independent director that chairs a standing committee of the Board will receive an additional annual cash payment of \$10,000, and any independent director serving as lead independent director of the Board received additional annual cash compensation of \$25,000. In lieu of director compensation, the Executive Chairman, if any, was to be paid \$121,000 annually, effective January 1, 2021, in addition to the grant of an option to purchase 100,000 shares of Common Stock with 30% vesting immediately and the remaining 70% vesting in equal monthly installments over the twelve months from the date of grant.

In addition to annual compensation paid to each member of the Board, each new director appointed to the Board received an initial grant of options to purchase 30,000 shares of Common Stock at an exercise price based on the closing price of the Company’s Common Stock as reported on the Nasdaq Capital Market on the date of grant, which options shall expire, if not previously exercised, ten years from the date of grant, and shall vest as follows: (i) 50% on the one-year anniversary of the date of grant, and (ii) the remaining 50% in four equal quarterly installments over the following year.

In October 2023, the Board approved a revised director compensation plan payable to all non-employee independent directors, effective October 1, 2023 (“Revised Board Plan”). As revised, under the terms of the Revised Board Plan, non-employee independent directors receive \$121,000 annually, payable in restricted stock units to be settled in shares of the Company’s Common Stock, with 30% vesting immediately, and the remaining 70% vesting in monthly installments throughout the remainder of the year following the date of grant. In addition, each independent director that chairs a standing committee of the Board will receive an additional annual payment of \$10,000, payable in restricted stock units to be settled in shares of the Company’s Common Stock, with 30% vesting immediately, and the remaining 70% vesting in monthly installments throughout the remainder of the year following the date of grant.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

### Equity Compensation Plan Information

On March 31, 2017, the Company adopted, and the stockholders approved, the 2017 Stock Incentive Plan (as amended from time to time, the “Plan”). The Plan reserved 2.0 million shares of our Common Stock for issuance as one of four types of equity incentive awards: (i) stock options, (ii) shares of Common Stock, (iii) restricted stock awards, and (iv) restricted stock units.

Stockholders authorized an increase to the shares authorized under the plan of an additional 2,100,000 shares in May 2019, an additional 1,900,000 shares in June 2020, an additional 1,500,000 shares in June 2021, and an additional 1,500,000 shares in May

2022, for a total of 9,000,000 shares authorized for issuance under the Plan as of the date of this Report. At December 31, 2023, there were 1,391,183 shares of Common Stock available for grant under the Plan.

The following table sets forth information as of December 31, 2023, with respect to compensation plans (including individual compensation arrangements) under which our equity securities are authorized for issuance, aggregated as follows:

<b>Plan Category</b>	<b>(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights</b>	<b>(b) Weighted-average exercise price of outstanding options, warrants and rights</b>	<b>(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</b>
Equity compensation plans approved by security holders.....	4,657,635	\$ 2.61	1,391,183
Equity compensation plans not approved by security holders.....	-	-	-
Total .....	4,657,635	\$ 2.61	1,391,183

### Security Ownership of Certain Beneficial Owners and Management

The following table sets forth information regarding beneficial ownership of our common stock as of August 26, 2024 (i) by each person who is known by us to beneficially own more than 5% of our common stock; (ii) by each of our named executive officers and directors; and (iii) by all of our executive officers and directors as a group. Unless otherwise indicated in the following table, the address for each person named in the table is 1817 W 4th Street, Tempe, Arizona 8528.

<b>Name and Address of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership (1)</b>	<b>Percent of Class (2)</b>
<b>5% Stockholders</b>		
Elwood G. Norris (3).....	6,451,957	14.02%
<b>Named Executive Officers and Directors</b>		
Scot Cohen (4).....	4,780,055	10.40%
Timothy Szymanski (5).....	47,616	0.10%
Bruce Bernstein (6) .....	174,554	0.38%
Marc Savas (7) .....	174,454	0.38%
Rajiv Srinivasan (8).....	47,616	0.10%
Jared Novick.....	-	-
<b>All directors and executive officers as a group (6 persons).....</b>	<b>5,224,295</b>	<b>11.30%</b>

\* Less than one percent.

- (1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Each of the beneficial owners listed above has direct ownership of and sole voting power and investment power with respect to the shares set forth in the above table.
- (2) A total of 45,860,545 shares of our Common Stock are considered to be outstanding pursuant to SEC Rule 13d-3(d)(1) as of August 26, 2024.
- (3) Based on the Schedule 13D/A filed jointly with the SEC on March 9, 2021, by the Norris Family 1997 Trust (the “Norris Trust”), Elwood G. Norris and Stephanie A. Norris and certain information made available to the Company. The shares of Common Stock are directly held by the Trust and Mr. Norris. The shares of Common Stock directly held by Mr. Norris and the Norris Trust are also indirectly beneficially owned by Stephanie A. Norris, as a trustee of the Norris Trust. The amount reported herein consists of (i) 6,301,957 shares of Common Stock, and (ii) stock options to purchase 150,000 shares of Common Stock. The address of each of the parties herein is 15891 Blue Crystal Trail, Poway, CA 92064.
- (4) The amount reported herein consists of (i) 4,679,906 shares of common stock, (ii) 100,000 shares of common stock underlying stock options that were vested as of August 26, 2024, or will vest within 60 days thereafter, and (iii) 149 shares of common stock underlying RSUs that were vested as of August 26, 2024, or will vest within 60 days thereafter. The address of Mr. Cohen is 3480 Main Highway, 2nd Floor, Miami, Florida 33133.



- (5) The amount reported herein consists of (i) 29,370 shares of common stock, (ii) 15,000 shares of common stock underlying stock options that were vested as of August 26, 2024, or will vest within 60 days thereafter and (iii) 3,246 shares of common stock underlying RSUs that were vested as of August 26, 2024, or will vest within 60 days thereafter.
- (6) The amount reported herein consists of (i) 48,706 shares of common stock, (ii) 122,500 shares of common stock underlying stock options that were vested as of August 26, 2024, or will vest within 60 days thereafter, and (iii) 3,348 shares of common stock underlying RSUs that were vested as of August 26, 2024, or will vest within 60 days thereafter.
- (7) The amount reported herein consists of (i) 48,606 shares of common stock, (ii) 122,500 shares of common stock underlying stock options that were vested as of August 26, 2024, or will vest within 60 days thereafter and (iii) 3,348 shares of common stock underlying RSUs that were vested as of August 26, 2024, or will vest within 60 days thereafter.
- (8) The amount reported herein consists of (i) 29,370 shares of common stock, (ii) 15,000 shares of common stock underlying stock options that were vested as of August 26, 2024, or will vest within 60 days thereafter and (iii) 3,246 shares of common stock underlying RSUs that were vested as of August 26, 2024, or will vest within 60 days thereafter.

## **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE.**

### **Transactions with Related Persons**

SEC rules require us to disclose any transaction or currently proposed transaction in which we are a participant and in which any related person has or will have a direct or indirect material interest involving an amount that exceeds the lesser of \$120,000 or one percent (1%) of the average of the Company's total assets as of the end of last two completed fiscal years. A related person is any executive officer, director, nominee for director, or holder of 5% or more of the Company's common stock, or an immediate family member of any of those persons.

#### *Series A Preferred Stock*

On June 29, 2023, the Company entered into the Series A Purchase Agreement with certain investors, including Scot Cohen, the Company's Chief Executive Officer, and V4 Global LLC ("V4"). Mr. Cohen has voting and dispositive control with respect to the securities as is deemed to be the beneficial owner of the securities held by V4. Pursuant to the Series A Purchase Agreement, the Company issued Mr. Cohen and V4 an aggregate of 3,000 shares of Series A Preferred Stock and Series A Warrants to purchase up to an aggregate of 2,068,966 shares of Common Stock for aggregate gross proceeds of \$3,000,000.

#### *Consulting Services*

Commencing in October 2017, the Company began reimbursing Mr. Elwood Norris, a former officer, current 5% stockholder and consultant of the Company, \$1,500 per month on a month-to-month basis for laboratory facility costs and \$7,000 per month on a month-to-month basis for invention consulting services, for an aggregate of \$108,000 during each of the years ended December 31, 2022, and 2021.

The Company is obligated to pay royalties and development and patent costs pursuant to an exclusive Amended and Restated Intellectual Property License Agreement dated September 30, 2016, with Syzygy Licensing, LLC ("Syzygy"), a company owned and controlled by a 5% stockholder of the Company, Mr. Elwood Norris, and a former officer of the Company, Mr. James Barnes. The agreement provides for royalty payments of 4% of revenue from products employing the licensed ensnarement device technology up to an aggregate of \$1,000,000 in royalties or until September 30, 2026, whichever occurs earlier. During the years ended December 31, 2023, and 2022 the Company incurred royalties to Syzygy of \$199,718 and \$270,520, respectively.

#### *Intinsic Acquisition*

On August 9, 2023, the Company entered into the Intinsic Purchase Agreement with the Sellers, including Kevin Mullins, the Company's former Chief Executive Officer. Under the terms of the Intinsic Purchase Agreement, the Company agreed to purchase, and Sellers agreed to sell, 100% of the Membership Interests of Intinsic for the following consideration upon the Intinsic Closing: (i) \$553,588 in cash, subject to adjustment based upon the outstanding indebtedness of Intinsic and Intinsic's working capital as of the Intinsic Closing; and (ii) 1,250,000 shares of Common Stock of the Company. The Intinsic Acquisition closed on August 16, 2023, in accordance with the terms of the Intinsic Purchase Agreement.

### **Director Independence**

See "Directors, Executive Officers and Corporate Governance - Director Independence" and "Directors, Executive Officers and Corporate Governance - Board Committees" above.



## ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

### Independent Registered Public Accounting Firm

On April 24, 2024, the Company received notice from Rosenberg Rich Baker Berman, P.A. (“RRBB P.A.”) that it had resigned as the Company’s independent registered public accounting firm, effective immediately. The Audit Committee, effective as of May 7, 2024, appointed HTL International, LLC (“HTL”) as the Company’s independent registered public accounting firm for the Company’s fiscal year ended December 31, 2023.

### Audit and Non-Audit Fees

The Company engaged RRBB P.A. as its independent auditors from March 8, 2017, to April 24, 2024. The Company engaged HTL from May 7, 2024, to present. The following table presents fees for professional audit services rendered by RRBB P.A for audit and other services provided for the fiscal years ended December 31, 2023 and December 31, 2022.

	<b>2023</b>	<b>2022</b>
Audit Fees .....	\$ 171,697	\$ 109,200
Audit Related Fees(1).....	-	3,897
Tax Fees(1) .....	-	-
All Other Fees(1).....	-	-
Total .....	<u>\$ 171,697</u>	<u>\$ 113,097</u>

(1) There were no audit related, other fees or tax related fees.

### Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors

Consistent with SEC policies and guidelines regarding audit independence, the Audit Committee is responsible for the pre-approval of all audit and permissible non-audit services provided by our principal accountants. Our Audit Committee has established a policy regarding approval of all audit and permissible non-audit services provided by our principal accountants. No non-audit services were performed by our principal accountants during the fiscal years ended December 31, 2023 and 2022. Our Audit Committee pre-approves these services by category and service. Our Audit Committee has pre-approved 100% of the services provided by our principal accountants.

## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) List of documents filed as a part of this report:

(1) Index to Financial Statements

Report of Independent Registered Public Accounting Firm (PCAOB ID: 7000) .....	F-2
Report of Independent Registered Public Accounting Firm (PCAOB ID: 89) .....	F-3
Balance Sheets as of December 31, 2023 and 2022 .....	F-4
Statements of Operations and Comprehensive Loss for the Years Ended December 31, 2023 and 2022 .....	F-5
Statements of Stockholders' Equity for the Years Ended December 31, 2023 and 2022 .....	F-6
Statements of Cash Flows for the Years Ended December 31, 2023 and 2022 .....	F-7
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(2) Financial Statement Schedules

All schedules have been omitted because the information is not applicable, is not material or because the information required is included in the financial statements or the notes thereto.

(3) Index to Exhibits

The exhibits listed on the accompanying index to exhibits immediately following the financial statements are filed as part of, or hereby incorporated by reference into, this Form 10-K.

(a)(2) Consolidated Financial Statement Schedules:

Schedules not filed are omitted because of the absence of the conditions under which they are required or because the required information is included in the consolidated financial statements or the notes thereto.

<b><u>Exhibit Number</u></b>	<b><u>Description</u></b>
2.1	Stock Purchase Agreement, dated March 22, 2017, by and between Wrap Technologies, LLC, Petro River Oil Corp., and Megawest Energy Montana Corp (incorporated by reference to Exhibit 2.1 to the Company's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on April 17, 2017).
2.2	Merger Agreement between Wrap Technologies, LLC and Megawest Energy Montana Corp., dated March 30, 2017 (incorporated by reference to Exhibit 2.2 to the Company's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on April 17, 2017).
3.1	Amended and Restated Certificate of Incorporation of Wrap Technologies, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on April 17, 2017).
3.2	Amended and Restated Bylaws of Wrap Technologies, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 10, 2023).
3.3	Amendment No.1 to the Amended and Restated Bylaws of Wrap Technologies, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 13, 2023).
3.4	Certificate of Designations of Series A Convertible Preferred Stock (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 30, 2023).
3.5	Certificate of Amendment of Certificate of Designations of Series A Convertible Preferred Stock. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 23, 2024).
4.1	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1/A filed with the Securities and Exchange Commission on May 30, 2017).
4.2	Form of Investor Warrant, dated October 30, 2018 (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 5, 2018).
4.3	Form of Placement Agent Warrant, dated October 30, 2018 (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 5, 2018).
4.4	Form of Investor Warrant, dated June 18, 2019 (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 18, 2019).
4.5	Form of Offering Agent Warrant, dated June 18, 2019 (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 18, 2019).
4.6	Form of Warrant Agreement (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 2, 2020).
4.7	Form of Placement Agent Warrant (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 30, 2023).
4.8*	Description of Securities.
10.1	Amended and Restated Intellectual Property License Agreement, dated September 30, 2016, by and between Wrap Technologies, LLC and Syzygy Licensing LLC (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on April 17, 2017).
10.2+	Wrap Technologies, Inc. 2017 Equity Compensation Plan (incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on April 17, 2017).
10.2.1+	Amendment No. 1 to the Wrap Technologies, Inc. 2017 Equity Compensation Plan (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on June 24, 2019).
10.2.2+	Amendment No. 2 to the Wrap Technologies, Inc. 2017 Equity Compensation Plan (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on June 17, 2020).
10.2.3+	Amendment No. 3 to the Wrap Technologies, Inc. 2017 Equity Compensation Plan (incorporated by reference to Exhibit 10.1 to the Registration Statement on Form S-8 filed with the Securities and Exchange Commission on November 5, 2021).

- 10.4+ Form of At-Will Employment, Confidential Information, Non-Compete/ Non-Solicitation, Invention Assignment, and Arbitration Agreement between the Key Employees and the Company dated December 14, 2020 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on September 14, 2020).
- 10.5 Cooperation Agreement by and between the Company and Elwood G. Norris and certain of his affiliates dated March 4, 2021 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 9, 2021).
- 10.6 Consulting Agreement between the Company and LWV Consulting, LLC, dated January 24, 2022 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission filed on January 26, 2022).
- 10.7 Consulting Agreement between the Company and LRHIRSH, LLC, dated January 24, 2022 (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 26, 2022).
- 10.8+ Employment Agreement between Wrap Technologies, Inc. and TJ Kennedy, dated April 13, 2022 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 19, 2022).
- 10.9+ Employment Agreement between Wrap Technologies, Inc. and Kevin Mullins, dated April 13, 2022. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 19, 2022).
- 10.9.1+ First Amendment to Employment Agreement, by and between Kevin Mullins and Wrap Technologies, Inc. dated January 14, 2024 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 19, 2024).
- 10.10+ Letter Agreement by and between Wrap Technologies, Inc. and Chris DeAlmeida, executed July 20, 2022 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 25, 2022).
- 10.11 Professional Services and Technology Acquisition Agreement, dated November 22, 2022, by and between Wrap Technologies, Inc., Lumeto, Inc. and Spatial Industries Group, Inc (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 29, 2022).
- 10.12 Separation Agreement between the Company and Mr. Kennedy (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 19, 2023).
- 10.13 Severance Agreement and Release of Claims, dated May 8, 2023, by and between Wrap Technologies, Inc. and Glenn Hickman (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 10, 2023).
- 10.14 Form of Securities Purchase Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 30, 2023).
- 10.15 Engagement Letter, dated June 29, 2023 by and between Wrap Technologies, Inc. and Katalyst Securities LLC (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 30, 2023).
- 10.16\*\* Membership Interest Purchase Agreement, dated August 9, 2023, by and among Wrap Technologies, Inc., Buford Ortale, and the sellers signatory thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 21, 2023).
- 10.17+ Employment Agreement by and between Scot Cohen and Wrap Technologies, Inc. dated October 12, 2023 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 16, 2023).
- 10.17.1+ First Amendment to Employment Agreement, by and between Scot Cohen and Wrap Technologies, Inc. dated January 14, 2024 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 19, 2024).
- 10.18+ Employment Agreement, by and between the Company and Jared Novick, effective as of December 26, 2023 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 26, 2023).
- 10.19 Separation Agreement and Mutual Release of Claims, dated January 5, 2024, by and between Wrap Technologies, Inc. and Chris DeAlmeida (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 5, 2024).
- 10.20 Form of Amendment, dated August 19, 2024, by and between Wrap Technologies, Inc. and the investors party thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 23, 2024).
- 14.1 Code of Ethics of the Registrant Applicable to Directors, Officers and Employees (incorporated by reference to Exhibit 14.1 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 4, 2021).
- 21.1 Subsidiaries of Wrap Technologies, Inc (incorporated by reference to Exhibit 21.1 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 4, 2021).
- 23.1\* Consent of Independent Registered Public Accounting Firm - HTL International, LLC.
- 23.2\* Consent of Independent Registered Public Accounting Firm - Rosenberg Rich Baker Berman, P.A.

- 31.1\* Certification pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934  
32.1\*\*\* Section 1350 Certification - Principal Executive Officer and Principal Financial Officer.  
97.1\* Wrap Technologies, Inc. Compensation Recovery Policy

**Extensible Business Reporting Language (XBRL) Exhibits\***

- 101.INS Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document  
101.SCH Inline XBRL Taxonomy Extension Schema Document  
101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document  
101.DEF Inline XBRL Taxonomy Extension Definition Linkbase Document  
101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document  
101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document  
104 Cover Page Interactive Data File (embedded within the Inline XBRL Document and include in Exhibit 101)

+ Management contract or compensatory plan or arrangement.

\* Filed concurrently herewith.

\*\* Certain portions of this exhibit (indicated by “[\*\*\*]”) have been omitted as the Company has determined (i) the omitted information is not material and (ii) the omitted information would likely cause harm to the Company if publicly disclosed.

\*\*\* Furnished herewith.

**Item 16. Form 10-K Summary.**

**None.**

**WRAP TECHNOLOGIES, INC.**

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Wrap Technologies Inc.

### Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of Wrap Technologies Inc. (the “Company”) as of December 31, 2023, and the related consolidated statements of operations and comprehensive loss, changes in shareholders’ equity, and cash flows for the year then ended, including the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2023, and the consolidated results of its operations and its consolidated cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

### Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

#### *Evaluation and estimation of warrants and convertible preferred stock*

As discussed in Note 1, 4, 10 and 12 to the consolidated financial statements, on June 29, 2023, the Company sold for \$10 million in gross proceeds via private placement: (i) warrants to acquire the Company’s Common Stock, and (ii) the Company’s Series A Convertible Preferred Stock. The warrants are classified as liabilities at their fair value using the modified Black-Scholes option pricing model whereas the preferred stock are classified as equity. We identified the evaluation and estimation of the warrants and convertible preferred stock as a critical audit matter. Evaluating the Company’s estimation of stock price volatility, dividend yield and expected life, involved auditor judgment.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the appropriateness of the Company’s evaluation and estimation of the warrants and the preferred stock by:

- evaluating the design and testing the implementation of certain internal controls related to the process of accounting and estimating the value of the warrants and the preferred stock
- reviewing the agreements pertaining to the offering transaction
- evaluating the method and certain assumptions used
- testing the application of the method and certain assumptions used

/s/ HTL International, LLC

We have served as the Company’s auditor since 2024.

Houston, TX

August 28, 2024

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and  
Stockholders of Wrap Technologies, Inc.

### **Opinion on the Financial Statements**

We have audited the accompanying balance sheet of Wrap Technologies, Inc. (the Company) as of December 31, 2022, and the related statements of operations and comprehensive income, stockholders' equity, and cash flows for the one-year in the period ended December 31, 2022 and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022, and the results of its operations and its cash flows for the one-year period ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### **Critical Audit Matters**

Critical audit matters are matters arising from the audit of the consolidated financial statements for the year ended December 31, 2022 that was communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. We determined that there were no critical audit matters.

/s/ Rosenberg Rich Baker Berman, P.A.

We have served as the Company's auditor since 2016.  
Somerset, New Jersey  
March 2, 2023

**Wrap Technologies, Inc.**  
**Consolidated Balance Sheets**  
(in thousands, except par value and share amounts)

	<b>December 31, 2023</b>	<b>December 31, 2022</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents .....	\$ 3,955	\$ 5,330
Short-term investments .....	7,500	13,949
Accounts receivable and contract assets, net .....	3,025	2,830
Inventories, net .....	5,794	3,975
Prepaid expense and other current assets .....	953	775
<b>Total current assets</b> .....	<b>21,227</b>	<b>26,859</b>
Property and equipment, net .....	509	758
Operating lease right-of-use asset, net .....	2,256	285
Intangible assets, net .....	2,648	2,569
Goodwill .....	1,610	-
Other assets .....	251	100
<b>Total assets</b> .....	<b>\$ 28,501</b>	<b>\$ 30,571</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable .....	\$ 1,110	\$ 1,419
Accrued liabilities .....	692	1,463
Customer deposits .....	1,002	-
Deferred revenue - short term .....	407	166
Operating lease liability - short term .....	616	108
Warrants .....	19,703	-
<b>Total current liabilities</b> .....	<b>23,530</b>	<b>3,156</b>
Long-term liabilities:		
Deferred revenue - long term .....	137	167
Operating lease liability - long term .....	1,671	193
<b>Total long-term liabilities</b> .....	<b>1,808</b>	<b>360</b>
<b>Total liabilities</b> .....	<b>\$ 25,338</b>	<b>\$ 3,516</b>
<b>Commitments and contingencies</b>		
Stockholders' equity:		
Preferred stock - 5,000,000 authorized; par value \$0.0001 per share .....	-	-
Common stock - 150,000,000 authorized; par value \$0.0001 per share; 43,855,503 and 41,175,993 shares issued and outstanding at December 31, 2023 and 2022, respectively .....	4	4
Convertible Preferred Stock - 10,000 authorized, par value \$0.0001 per share; 9,898 and 0 issued and outstanding at December 31, 2023 and 2022, respectively .....	2,016	-
Additional paid-in capital .....	99,131	94,333
Accumulated deficit .....	(97,988)	(67,376)
Accumulated other comprehensive income .....	-	94
<b>Total stockholders' equity</b> .....	<b>3,163</b>	<b>27,055</b>
<b>Total liabilities and stockholders' equity</b> .....	<b>\$ 28,501</b>	<b>\$ 30,571</b>

See accompanying notes to consolidated financial statements.

**Wrap Technologies, Inc.**  
**Consolidated Statements of Operations and Comprehensive Loss**  
(in thousands, except share and per share amounts)

	<b>Year Ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
<b>Revenues:</b>		
Product sales.....	\$ 5,337	\$ 7,481
Other revenue .....	796	568
Total revenues.....	6,133	8,049
Cost of revenues .....	3,227	4,315
<b>Gross profit</b> .....	<b>2,906</b>	<b>3,734</b>
<b>Operating expenses:</b>		
Selling, general and administrative.....	18,361	16,386
Research and development .....	3,267	5,078
Total operating expenses .....	21,628	21,464
Loss from operations .....	(18,722)	(17,730)
<b>Other income (expense):</b>		
Interest income .....	375	52
Change in fair value of warranty liabilities.....	(11,986)	-
Other.....	113	61
Total other income (expense), net.....	(11,498)	113
<b>Net loss</b> .....	<b>\$ (30,220)</b>	<b>\$ (17,617)</b>
Less: convertible preferred stock dividends .....	(392)	-
<b>Net loss attributable to common stockholders</b> .....	<b>\$ (30,612)</b>	<b>\$ (17,617)</b>
Net loss per basic and diluted common share.....	<u>\$ (0.72)</u>	<u>\$ (0.43)</u>
Weighted average common shares used to compute net loss per basic and diluted common share .....	<u>42,324,190</u>	<u>41,174,812</u>
<b>Comprehensive loss:</b>		
Net loss .....	\$ (30,612)	\$ (17,617)
Net unrealized gain on short-term investments .....	-	100
<b>Comprehensive loss</b> .....	<b>\$ (30,612)</b>	<b>\$ (17,517)</b>

**Wrap Technologies, Inc.**  
**Consolidated Statements of Stockholders' Equity**  
(in thousands, except share and per share amounts)

	Common Stock Shares	Amount	Convertible Preferred Stock Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
<b>Balance at January 1, 2022</b> .....	40,851,945	\$ 4	-	\$ -	\$ 91,025	\$ (49,759)	\$ (6)	\$ 41,264
Common shares issued upon exercise of stock options .....	55,500	-	-	-	83	-	-	83
Share-based compensation expense .....	-	-	-	-	3,225	-	-	3,225
Common shares issued upon vesting of restricted stock units .....	268,548	-	-	-	-	-	-	-
Net unrealized gain on short-term investments .....	-	-	-	-	-	-	100	100
Net loss for the period .....	-	-	-	-	-	(17,617)	-	(17,617)
<b>Balance at December 31, 2022</b> .....	41,175,993	\$ 4	-	\$ -	\$ 94,333	\$ (67,376)	\$ 94	\$ 27,055
Common shares issued upon exercise of stock options .....	123,056	-	-	-	\$ 208	-	-	\$ 208
Share-based compensation expense .....	-	-	-	-	2,400	-	-	2,400
Dividends on convertible preferred stock .....	173,654	-	-	-	232	(392)	-	(160)
Convertible preferred stock issued, net of offering costs .....	-	-	10,000	2,036	-	-	-	2,036
Common shares issued upon convertible preferred stock exercising conversion rights ..	76,440	-	(102)	(20)	20	-	-	-
Common shares issued upon vesting of restricted stock units .....	1,056,360	-	-	-	-	-	-	-
Issuance of common stock for acquisition .....	1,250,000	-	-	-	1,938	-	-	1,938
Settlement – US Treasury bills .....	-	-	-	-	-	-	(94)	(94)
Net loss for the period .....	-	-	-	-	-	(30,220)	-	(30,220)
<b>Balance at December 31, 2023</b> .....	43,855,503	\$ 4	9,898	\$ 2,016	\$ 99,131	\$ (97,988)	\$ -	\$ 3,163

See accompanying notes to consolidated financial statements.

**Wrap Technologies, Inc.**  
**Consolidated Statements of Cash Flows**  
(in thousands)

	<b>Year Ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
<b>Cash Flows From Operating Activities:</b>		
Net loss .....	\$ (30,220)	\$ (17,617)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization .....	823	762
Write off of intangibles .....	700	-
Share-based compensation .....	1,985	3,225
Warranty provision .....	116	210
Change in fair value of warrant liabilities .....	11,986	-
Non-cash lease expense .....	177	101
Provision for doubtful accounts .....	180	72
Write off of accounts receivable .....	413	-
Inventory obsolescence reserve .....	465	-
Changes in assets and liabilities:		
Accounts receivable .....	(696)	957
Inventories .....	(2,224)	(2,410)
Prepaid expenses and other current assets .....	(179)	93
Accounts payable .....	(617)	(360)
Operating lease liability .....	(160)	(91)
Customer deposits .....	1,002	(43)
Accrued liabilities and other .....	(344)	611
Warranty settlement .....	(169)	(181)
Deferred Revenue .....	210	68
Changes in other non-current assets .....	(151)	-
Net cash used in operating activities .....	<u>(16,703)</u>	<u>(14,603)</u>
<b>Cash Flows From Investing Activities:</b>		
Purchases of short-term investments .....	(10,000)	(30,466)
Proceeds from maturities of short-term investments .....	16,355	46,600
Capital expenditures for property and equipment .....	(230)	(256)
Investment in patents and trademarks .....	(393)	(173)
Purchase of intangible assets .....	-	(700)
Net cash paid for acquisition of Intrinsic .....	(554)	-
Proceeds from long-term deposits .....	-	(92)
Net cash provided by investing activities .....	<u>5,178</u>	<u>14,913</u>
<b>Cash Flows From Financing Activities:</b>		
Proceeds from exercise of stock options .....	208	83
Proceeds from issuance of warrants and convertible preferred stock .....	10,000	-
Dividends settled in cash .....	(58)	-
Net cash provided by financing activities .....	<u>10,150</u>	<u>83</u>
<b>Net (decrease) increase in cash and cash equivalents .....</b>	<b>(1,375)</b>	<b>393</b>
<b>Cash and cash equivalents, beginning of period .....</b>	<b>5,330</b>	<b>4,937</b>
<b>Cash and cash equivalents, end of period .....</b>	<b><u>\$ 3,955</u></b>	<b><u>\$ 5,330</u></b>
<b>Supplemental Disclosure of Non-Cash Investing and Financing Activities:</b>		
Change in unrealized gain on short-term investments .....	\$ (94)	\$ 100
Right-of-use asset and liability recorded during period .....	\$ 2,109	\$ 234
Issuance of common stock for acquisition .....	\$ 1,938	\$ -
Net assets acquired from acquisition .....	\$ 2,491	\$ -
Dividends on convertible preferred stock .....	\$ (334)	\$ -
Dividends settled with common stock .....	\$ 232	\$ -

See accompanying notes to consolidated financial statements.



**Wrap Technologies, Inc.**  
**Notes to Consolidated Financial Statements**  
(in thousands, except per share and share amounts)

## **1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### Organization and Business Description

Wrap Technologies, Inc., a Delaware corporation (the “Company”, “we”, “us”, and “our”), is a publicly traded company with its common stock, par value \$0.0001 per share (“Common Stock”), listed on the Nasdaq Capital Market (“Nasdaq”) under the trading symbol “WRAP”. The Company is a developer and supplier of public safety products and training services for law enforcement and security personnel. The Company’s primary product is the BolaWrap® remote restraint device. The principal markets for the Company’s proprietary products and services are in North and South America, Europe, Middle East and Asia.

### Principles of Consolidation

The Company has two wholly owned subsidiaries, Wrap Reality, Inc., an Arizona corporation, formed in December 2020 that sells a virtual reality (“VR”) training system primarily targeting law enforcement agencies and Intrinsic, LLC, which the Company acquired in August 2023, which specializes in Body Worn Camera and Digital Evidence Management solutions. The consolidated financial statements include the accounts of these subsidiaries after elimination of intercompany transactions and accounts.

### Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (“US GAAP”). The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions (e.g., share-based compensation valuation, allowance for doubtful accounts, valuation of inventory and intangible assets, warranty reserve, accrued costs, valuation allowance related to deferred tax assets and recognition and measurement of contingencies) that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and affect the reported amounts of revenues and expenses during the reporting period. Actual results could materially differ from those estimates.

### Concentrations of Risk

*Credit Risk* – Financial instruments that potentially subject the Company to concentration of credit risk consisted primarily of cash, cash equivalents, US treasury bills and accounts receivable from customers. The Company maintains its cash and cash equivalent deposits at two domestic financial institutions. The Company is exposed to credit risk in the event of default by a financial institution to the extent that cash and cash equivalents are in excess of the amount insured by the Federal Deposit Insurance Corporation. The Company places its cash and cash equivalents with high-credit quality financial institutions and are managed within established guidelines to mitigate risks. To date, the Company has not experienced any losses on its cash and cash equivalents.

*Concentrations of Accounts Receivable and Revenue* – The Company has a limited number of domestic and international customers. The Company may experience concentrations in both accounts receivable and revenue due to the timing of sales and collections of related payments (see Note 18).

*Concentration of Suppliers* – The Company assembles its BolaWrap products in-house using components and subassemblies from a limited number of suppliers and contract suppliers. In particular, a single supplier is currently the sole manufacturer of the BolaWrap battery assembly, and another single supplier is the sole manufacturer of the propulsion component for BolaWrap cassettes. Other parts are solely sourced from other suppliers. If supplier shortages or logistic delays occur, or quality problems arise, production schedules could be significantly delayed or costs significantly increased, which could in turn have a material adverse effect on the Company’s financial condition, results of operation and cash flows.

### Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with original maturities of three months or less from the purchase date to be cash equivalents. Cash equivalents consist primarily of amounts invested in Money Market Funds and US (“US”) Treasury bills and are stated at fair value.

### Short-Term Investments

The Company’s short-term investments consist of certificates of deposits and US Treasury bills with original maturities beyond three months at the date of purchase and one year or less from the balance sheet date. As of December 31, 2023, all of the Company’s short-term investments were classified as available-for-sale and are carried at estimated fair value with any unrealized gains and losses, unrelated to credit loss factors, included in other comprehensive income in our consolidated statements of stockholders’ equity.

### Share-Based Compensation

The Company follows the fair value recognition provisions issued by the FASB in ASC Topic 718, Stock Compensation (“ASC 718”) and has adopted Accounting Standards Update (“ASU”) 2018-07 for share-based transactions with non-employees. Share-based compensation expense recognized during 2023 and 2022 includes stock option and restricted stock unit compensation expense. The grant date fair value of stock options is determined using the Black-Scholes option-pricing model. The grant date is the date at which an employer and employee or non-employee reach a mutual understanding of the key terms and conditions of a share-based payment award and approved by the Company’s Board of Directors. The Black-Scholes option-pricing model requires inputs including the market price of the Company’s Common Stock on the date of grant, the term that the stock options are expected to be outstanding, the implied stock volatilities of several publicly traded peers over the expected term of stock options, risk-free interest rate and expected dividend. Each of these inputs is subjective and generally requires significant judgment to determine. The grant date fair value of restricted stock units is based upon the market price of the Company’s Common Stock on the date of the grant. We determine the amount of share-based compensation expense based on awards that we ultimately expect to vest and account for forfeitures as they occur. The fair value of share-based compensation is amortized to compensation expense over the vesting term.

### Loss per Share

Basic loss per share (EPS) is computed by dividing net loss, less any dividends, accretion or decrction, redemption or induced conversion, if any, on our Series A Convertible Preferred Stock, by the weighted average number of shares outstanding during the reported period.

In computing diluted EPS, we adjust the numerator used in the basic EPS computation, subject to anti-dilution requirements, to add back the dividends (declared or cumulative undeclared) applicable to the Series A Convertible Preferred Stock. Such add-back would also include any adjustments to equity in the period to accrete the Series A Convertible Preferred Stock to its redemption price, or recorded upon a redemption or induced conversion, if any. We adjust the denominator used in the basic EPS computation, subject to anti-dilution requirements, to include the dilution from potential shares resulting from the issuance of the Series A Convertible Preferred Stock, restricted stock units, and stock options. Stock options and restricted stock units exercisable or issuable for a total of 5,468,223 and 6,413,731 shares of Common Stock were outstanding at December 31, 2023 and 2022, respectively. These securities are not included in the computation of diluted net loss per common share for the periods presented as their inclusion would be antidilutive due to losses incurred by the Company.

### Accounts Receivable and Allowance for Credit Losses

ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326)* requires that financial assets measured at amortized cost be presented at the net amount expected to be collected. The expected credit losses are developed using an estimated loss rate method that considers historical collection experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The estimated loss rates are applied to accounts receivables with similar risk characteristics such as the length of time the balance has been outstanding and the location of the customer. In certain instances, the Company may identify individual accounts receivable assets that do not share risk characteristics with other accounts receivables, in which case the Company records its expected credit losses on an individual asset basis. If an accounts receivable asset is evaluated on an individual basis, the Company excludes those assets from the portfolios of accounts receivables evaluated on a collective basis.

At December 31, 2023 and 2022, the Company had an allowance for credit losses related to accounts receivable of \$386 and \$205, respectively. If a major customer’s creditworthiness deteriorates, or actual defaults exceed our historical experience, such estimates could change and impact our future reported financial results.

### Inventories

Inventories are valued at the lower of cost or net realizable value. The cost of substantially all the Company's inventory is determined by the FIFO cost method. Inventory is comprised of raw materials, assemblies and finished products intended for sale to customers. The Company evaluates the need for reserves for excess and obsolete inventories determined primarily based upon estimates of future demand for the Company's products.

As of December 31, 2023 and 2022 the Company had \$465 and \$0 reserves, respectively for obsolescence.

### Property, Equipment and Depreciation

Property and equipment is stated at cost. Depreciation on property and equipment is computed over the estimated useful lives of three years using the straight-line method. On any retirement or disposition of property and equipment, the related cost and accumulated depreciation or amortization is removed, and a gain or loss recorded.

### Business Combinations

The Company accounts for its business combinations under the provisions of Accounting Standards Codification ("ASC") Topic 805-10, Business Combinations ("ASC 805-10"), which requires that the purchase method of accounting be used for all business combinations. Assets acquired and liabilities assumed, including non-controlling interests, are recorded at the date of acquisition at their respective fair values. The estimated fair value of net assets acquired, including the allocation of the fair value to identifiable assets and liabilities, was determined using established valuation techniques. ASC 805-10 also specifies criteria that intangible assets acquired in a business combination must meet to be recognized and reported apart from goodwill. Goodwill represents the excess purchase price over the fair value of the tangible net assets and intangible assets acquired in a business combination. Acquisition-related expenses are recognized separately from the business combinations and are expensed as incurred.

The estimated fair value of the acquired intangible assets was determined using a method which reflects the present value of the operating cash flows generated by this asset after taking into account the cost to realize the revenue, and an appropriate discount rate to reflect the time value and risk associated with the invested capital.

Certain adjustments to the assessed fair values of the assets and liabilities made subsequent to the acquisition date, but within the measurement period, which is up to one year, are recorded as adjustments to goodwill. Any adjustments subsequent to the measurement period are recorded in income.

### Goodwill

Goodwill represents the difference, if any, between the aggregate consideration paid for an acquisition and the fair values of the underlying net assets and liabilities assumed from an acquired business. Goodwill is not amortized, but instead is tested for impairment. The Company tests goodwill for impairment on an annual basis during the fourth quarter, or more frequently if conditions indicate that such impairment could exist. The Company evaluates qualitative factors to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying value and whether it is necessary to perform goodwill impairment process.

### Definite-lived Intangible Assets

Definite-lived intangible assets represent certain trade names, patents, licenses, software, acquired technology and customer relationships. Definite-lived intangible assets are recorded at cost less any accumulated amortization and accumulated impairment losses, if any. Definite-lived intangible assets acquired through the business combination are measured at fair value at the acquisition date. The Company amortizes these acquired definite-lived intangibles assets with a finite life on a straight-line basis, over 6 years for technology; 7 years for customer relationships; and 8 years for trademarks and trade names.

### Intangible Assets

Intangible assets consist of (a) capitalized legal fees and filing costs related to obtaining patents and trademarks, (b) tradenames and software, (c) purchased software, and (d) the purchase cost of indefinite-lived website domains. The estimated useful lives of identifiable intangible assets with definite useful lives have been estimated to be between one and twenty years. Purchased website domain costs with an indefinite useful life are not subject to amortization, but are subject to an annual impairment test, by comparing their carrying amount with their corresponding fair value. For any given intangible asset with an indefinite useful life, if its fair value exceeds its carrying amount no impairment loss shall be recognized.

The carrying value of intangibles is periodically reviewed and impairments, if any, are recognized when the future undiscounted cash flows realized from the assets is less than its carrying value.

#### Impairment of Long-Lived Assets

Long-lived assets and identifiable intangibles held for use are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of undiscounted expected future cash flows is less than the carrying amount of the asset or if changes in facts and circumstances indicate, an impairment loss is recognized and measured using the asset's fair value. In December 2023, it was determined that the intangible related to development of proprietary software by Lumeto, Inc. would not have future economic value and was written down; the Company recognized an impairment loss of \$700. The Company did not recognize any impairment loss during the year ended December 31, 2022.

#### Warrants

The Company accounts for warrants as liability-classified instruments based on an assessment of the warrant's specific terms and applicable authoritative guidance in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 480, Distinguishing Liabilities from Equity ("ASC 480") and ASC 815, Derivatives and Hedging ("ASC 815"). The assessment considers whether the warrants are freestanding financial instruments pursuant to ASC 480, meet the definition of a liability pursuant to ASC 480, and whether the warrants meet all of the requirements for equity classification under ASC 815, including whether the warrants are indexed to the Company's own common stock and whether the warrant holders could potentially require "net cash settlement" in a circumstance outside of the Company's control, among other conditions for equity classification. This assessment, which requires the use of professional judgment, is conducted at the time of warrant issuance and as of each subsequent quarterly period end date while the warrants are outstanding.

For issued warrants that do not meet all the criteria for equity classification, the warrants are required to be recorded at their initial fair value on the date of issuance, and each balance sheet date thereafter. The Company accounts for the warrants issued in accordance with the guidance contained in ASC 815-40-15-7C, under which the warrants do not meet the criteria for equity treatment and must be recorded as liabilities. Accordingly, the Company classifies the warrants as liabilities at their fair value and adjusts the warrants to fair value at each reporting period. This liability is subject to re-measurement at each balance sheet date until exercised, and any change in fair value is recognized in the Company's condensed consolidated statement of operations.

#### Convertible Preferred Stocks

The Company evaluates and accounts for conversion options embedded in its convertible instruments in accordance with ASC 480 and ASC 815 to determine if those instruments or embedded components of those instruments qualify as derivatives and are subject to bifurcation accounting. The Company determines that the economic characteristics and risks of the embedded derivative instrument are clearly and closely related to the economic characteristics and risks of the host contract. The convertible instruments are accounted for as a single hybrid instrument. Additionally, the convertible instruments do not have any redemption features that would preclude permanent equity classification in accordance with the guidance contained in ASC 480-10-S99.

#### Advertising and Promotion Costs

Advertising costs are charged to expense as incurred and were \$925 and \$426 for the years ended December 31, 2023 and 2022, respectively. The Company also incurred product promotion costs for demonstration products delivered to prospective customers of \$225 and \$688 for the years ended December 31, 2023 and 2022, respectively. Advertising and promotion costs are included in selling, general and administrative expenses in the accompanying statements of operations.

#### Demonstration and Training Costs

The Company maintains a demonstration and training department as a part of its sales and marketing activities and does not charge for product demonstrations or training. Training is not a condition or requirement of sale as most sales are made through distributors to their end customers. The Company conducts local and regional in-person, webinar and on-line demonstrations and use of force and escalation training to support law enforcement agencies with no purchase requirement. Such training, when provided, may occur before or after initial or subsequent purchase or field deployment of the Company's products. The Company believes that law enforcement trainers and officers that have seen demonstrations or have been trained about its products are more supportive of their departments purchase and deployment of product.

### Research and Development Costs

Research and development costs are expensed as incurred.

### Contract Manufacturers

The Company employs contract manufacturers for production of certain components and sub-assemblies. The Company may provide parts and components to such parties from time to time but recognizes no revenue or markup on such transactions.

### Leases

The Company adopted ASC Topic 842, Leases ("*Topic 842*") on January 1, 2019. In accordance with the guidance in Topic 842, the Company recognizes lease liabilities and corresponding right-of-use-assets for all leases with terms of greater than 12 months. Leases with a term of 12 months or less will be accounted for in a manner similar to the guidance for operating leases prior to the adoption of Topic 842. Refer to Note 9, Leases for more information.

### Revenue Recognition

The Company adopted ASC Topic 606, Revenue from Contracts with Customers on January 1, 2018. The Company enters into contracts that include various combinations of products, accessories, software and services, each of which are generally distinct and are accounted for as separate performance obligations. Product sales include BolaWrap products and accessories. Other revenue includes VR revenues, service, training and shipping revenues.

The timing of revenue recognition may differ from the timing of invoicing to customers. The Company generally has an unconditional right to consideration when customers are invoiced, and a receivable is recorded. A contract asset is recognized when revenue is recognized prior to invoicing, or a contract liability (deferred revenue) when revenue will be recognized subsequent to invoicing. The Company recognizes an asset if there are incremental costs of obtaining a contract with a customer such as commissions. These costs are ascribed to or allocated to the underlying performance obligations in the contract. The Company may receive consideration, per terms of a contract, from customers prior to transferring goods to the customer. The Company records customer deposits as a contract liability. Additionally, the Company may receive payments, most typically for service and warranty contracts, at the onset of the contract and before the services have been performed. In such instances, a deferred revenue liability is recorded. The Company recognizes these contract liabilities as revenue after all revenue recognition criteria are met.

Estimated costs for the Company's standard warranty, generally one-year, are charged to cost of products sold when revenue is recorded for the related product. Royalties are also charged to cost of products sold.

### Shipping and Handling Costs

Shipping and handling costs are included in cost of revenues. Shipping and handling costs invoiced to customers are included in revenue. Actual shipping and handling costs were \$200 and \$296 for the years ended December 31, 2023 and 2022, respectively. Actual revenues from shipping and handling were \$37 and \$109 for the years ended December 31, 2023 and 2022, respectively.

### Warranty Reserves

The Company warrants its products and accessories to be free from defects in materials and workmanship for a period of one year from the date of purchase. The warranty is generally limited. The Company currently provides direct warranty service. International market warranties are generally similar to the US market.

The Company establishes a warranty reserve based on anticipated warranty claims at the time product revenues are recognized. Factors affecting warranty reserve levels include the number of units sold, anticipated cost of warranty repairs and anticipated rates of warranty claims. The Company evaluates the adequacy of the provision for warranty costs each reporting period. The warranty reserve was \$72 and \$125 at December 31, 2023 and 2022. Actual warranty costs could differ from estimates.

## Segment Information

ASC Topic 280, “Segment Reporting,” requires use of the “management approach” model for segment reporting. The management approach model is based on the way a company’s management organizes segments within the company for making operating decisions and assessing performance. The Company operates as a single segment and will evaluate additional segment disclosure requirements as it expands its operations.

## Income Taxes

No income tax expense was recorded for the periods ended December 31, 2023 and 2022 due to losses incurred. Deferred tax assets and liabilities are determined based on temporary differences between the bases of certain assets and liabilities for income tax and financial reporting purposes.

The Company maintains a valuation allowance with respect to deferred tax assets. The Company establishes a valuation allowance based upon the potential likelihood of realizing the deferred tax asset and taking into consideration the Company’s financial position and results of operations for the current period. Future realization of the deferred tax benefit depends on the existence of sufficient taxable income within the carry-forward period under the Federal tax laws. Changes in circumstances, such as the Company generating taxable income, could cause a change in judgment about the realizability of the related deferred tax asset. Any change in the valuation allowance will be included in income in the year of the change in estimates.

## Recently Issued Accounting Guidance

The Company has reviewed recently issued, but not yet effective, accounting pronouncements and does not believe the future adoptions of any such pronouncements will be expected to cause a material impact on its financial condition or the results of operations.

In July 2023, the SEC adopted the final rule under SEC Release No. 33-11216, Cybersecurity Risk Management, Strategy, Governance, and Incident Disclosure, requiring disclosure of material cybersecurity incidents on Form 8-K and periodic disclosure of a registrant’s cybersecurity risk management, strategy and governance in annual reports. Regulation S-K Item 6 disclosure requirements under this rule will be effective for us in the fourth quarter of 2023. Incident disclosure requirements in Form 8-K will be effective for us on June 15, 2024. We are still evaluating for any impact on our financial statement disclosures from the adoption of this final rule.

## **2. REVENUES AND PRODUCT COSTS**

Revenues consist of product revenue and other revenue. Product sales include BolaWrap products and accessories. Other revenue includes VR revenues, service, training and shipping revenues.

The table below details the activity in our contract liabilities during the year ended December 31, 2023.

	<b>Customer Deposits</b>	<b>Deferred Revenue</b>
Balance at January 1, 2023.....	\$ -	\$ 333
Additions, net.....	1,002	407
Transfer to revenue.....	-	(196)
Balance at December 31, 2023 .....	<u>\$ 1,002</u>	<u>\$ 544</u>
Current portion.....	<u>\$ 1,002</u>	<u>\$ 407</u>
Long-term portion .....	<u>\$ -</u>	<u>\$ 137</u>

As of December 31, 2023, the Company’s deferred revenue of \$544 consisted of \$139 related to BolaWrap extended warranties and services, \$216 related to Intrinsic extended warranties and services, \$171 related to VR, and \$18 related to training.

As of December 31, 2022, the Company’s deferred revenue of \$333 consisted of \$198 related to VR, \$11 related to training, and \$124 related to BolaWrap extended warranties and services.



The Company recognizes an asset if there are incremental costs of obtaining a contract with a customer such as commissions. These costs are ascribed to or allocated to the underlying performance obligations in the contract and amortized consistent with the recognition timing of the revenue for any such underlying performance obligations. The Company had no such assets as of December 31, 2023 and 2022. The Company will apply the practical expedient to expense any sales commissions related to performance obligations with an amortization of one year or less when incurred within selling, general and administrative expense.

### 3. ASSET ACQUISITIONS

Pursuant to the Professional Services and Technology Acquisition Agreement (the “Services Agreement”), dated as of November 22, 2022, and as amended on April 2, 2023, by and among the Company, Lumeto, Inc. (“Lumeto”) and Spatial Industries Group, Inc. (collectively, “Service Provider”), the Service Provider provides to the Company certain technology, services, and perpetual licenses for use within the Company’s Wrap Reality virtual simulation training platform (the “Technology, Services, and License”), in consideration for a one-time cash payment upon the execution of the Services Agreement of \$700,

The Company determined during 2023 that the intangible related to software developed by Lumeto would not have future economic benefit and the value of the intangible was written off as a loss on impairment of \$700.

On August 9, 2023, the Company entered into a Membership Interest Purchase Agreement (the “Intinsic Purchase Agreement”) by and among the Company, certain members of Intinsic, including Kevin Mullins, the Company’s former Chief Executive Officer (collectively, “Sellers”) and Buford Ortale, as the Seller’s representative. Under the terms of the Intinsic Purchase Agreement, the Company agreed to purchase, and Sellers agreed to sell, 100% of the membership interests (the “Membership Interests”) of Intinsic for the following consideration upon the consummation of the sale of the Membership Interests (the “Intinsic Closing”): (i) \$553,588 in cash, subject to adjustment based upon the outstanding indebtedness of Intinsic and Intinsic’s working capital as of the Intinsic Closing; and (ii) 1,250,000 shares of Common Stock of the Company the “Intinsic Acquisition”). The Intinsic Acquisition closed on August 16, 2023, in accordance with the terms of the Purchase Agreement.

### 4. FINANCIAL INSTRUMENTS

Assets and liabilities recorded at fair value on a recurring basis in the Consolidated Balance Sheets and assets and liabilities measured at fair value on a non-recurring basis or disclosed at fair value, are categorized based upon the level of judgment associated with inputs used to measure their fair values. The accounting guidance for fair value provides a framework for measuring fair value and requires certain disclosures about how fair value is determined. Fair value is defined as the price that would be received upon the sale of an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. The accounting guidance also establishes a three-level valuation hierarchy that prioritizes the inputs to valuation techniques used to measure fair value based upon whether such inputs are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions made by the reporting entity. The three-level hierarchy for the inputs to valuation techniques is briefly summarized as follows:

*Level 1*—Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date;

*Level 2*—Inputs are observable, unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities; and

*Level 3*—Unobservable inputs that are significant to the measurement of the fair value of the assets or liabilities that are supported by little or no market data.

The Company’s short-term investments consisting of US Treasury bill securities and Certificate of Deposits are classified as Level 1 because they are valued using quoted market prices.

The following table shows the Company's short-term investments by significant investment category as of December 31, 2023 and 2022.

	As of December 31, 2023			
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Market Value
Level 1:				
Money Market Funds .....	\$ 1,793	\$ -	\$ -	\$ 1,793
Certificate of Deposits .....	7,500	-	-	7,500
Total Financial Assets .....	<u>\$ 9,293</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,293</u>
	As of December 31, 2022			
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Market Value
Level 1:				
Money Market Funds .....	\$ 3,004	\$ -	\$ -	\$ 3,004
U.S. Treasury securities in short-term investments .....	9,849	100	-	9,949
Certificate of Deposits .....	4,000	-	-	4,000
Total Financial Assets .....	<u>\$ 16,853</u>	<u>\$ 100</u>	<u>\$ -</u>	<u>\$ 16,953</u>

Unrealized gains or losses resulting from our short-term investments are recorded in accumulated other comprehensive gain or loss as they are classified as available for sale. During the year ended December 31, 2023 and 2022, \$0 and \$100 was recorded to accumulated other comprehensive loss and gain, respectively.

Warrant liabilities are measured at fair value on a recurring basis. The subsequent measurement of the warrant liabilities as of December 31, 2023, is classified as Level 3 due to the use of an observable market quote in a non-active market and the management's assumption of the expected stock price volatility.

The following table presents the fair value in the beginning of the period, the changes in the fair value, and the fair value at the end of the period of warrant liabilities:

	December 31, 2023
Level 3:	
Fair value at inception or the beginning of the period .....	\$ (7,717)
Change in fair value of warrant liabilities .....	(11,986)
Fair value as of December 31, 2023 .....	<u>\$ (19,703)</u>

The Company uses the modified Black-Scholes option pricing model to determine the fair value of warrant liabilities. The following table summarizes the assumptions used to compute the fair value of Warrants:

	As of December 31, 2023
Expected stock price volatility .....	143%
Risk-free interest rate .....	3.85%
Dividends yield .....	0%
Expected life of warrants (years) .....	4.50
Exercise price .....	<u>\$ 1.45</u>

Our other financial instruments also include accounts receivable, accounts payable, accrued liabilities and business acquisition liabilities. Due to the short-term nature of these instruments, their fair values approximate their carrying values on the balance sheet.

## 5. INVENTORIES

Inventory is recorded at the lower of cost or net realizable value. The cost of substantially all the Company's inventory is determined by the FIFO cost method. Inventories consisted of the following:

	December 31,	
	2023	2022
Finished goods .....	\$ 3,521	\$ 2,293
Raw materials .....	2,738	1,682
Reserve for Obsolescence .....	(465)	-
Inventories – net .....	<u>\$ 5,794</u>	<u>\$ 3,975</u>

## 6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	December 31,	
	2023	2022
Production and lab equipment.....	\$ 542	\$ 513
Tooling .....	562	448
Computer equipment .....	615	531
Furniture, fixtures and improvements .....	196	181
	<u>1,915</u>	<u>1,673</u>
Accumulated depreciation .....	(1,406)	(915)
Property and equipment, net.....	<u>\$ 509</u>	<u>\$ 758</u>

Depreciation expense was \$479 and \$475 for the years ended December 31, 2023 and 2022, respectively.

## 7. INTANGIBLE ASSETS AND GOODWILL

### Intangible Assets

Intangible assets consisted of the following:

	December 31,	
	2023	2022
Amortizable intangible assets:		
Patents .....	\$ 873	\$ 575
Trademarks.....	248	150
Purchased software and technology.....	1,752	1,962
Customer Relationship .....	160	-
	<u>3,033</u>	<u>2,687</u>
Accumulated amortization .....	(806)	(462)
Total amortizable .....	<u>2,227</u>	<u>2,225</u>
Indefinite life assets (non-amortizable) .....	421	344
Total intangible assets, net .....	<u>\$ 2,648</u>	<u>\$ 2,569</u>

Amortization expenses were \$345 and \$287 for the years ended December 31, 2023 and 2022, respectively.

The purchase of Intrensic in August 2023 resulted in several intangible assets recognized on the balance sheet including \$80 in trademarks, \$490 in purchased technology and \$160 in customer relationships.

The Company determined in December 2023 that the intangible related to software developed by Lumeto would not have future economic benefit and the value of the intangible was written down, incurring a loss on impairment of \$700.

At December 31, 2023, annual amortization of intangible assets, based upon the Company's existing intangible assets and current useful lives, is estimated to be the following:

2024.....	\$ 427
2025.....	422
2026.....	335
2027.....	185
2028.....	185
Thereafter .....	<u>673</u>
Total estimated amortization expense .....	<u>\$ 2,227</u>

## Goodwill

The table below summarizes the changes in the carrying amount of goodwill:

Balance at January 1, 2023.....	\$	-
Acquired goodwill.....		1,610
Balance at December 31, 2023.....	\$	<u>1,610</u>

Goodwill acquired in 2023 relates to the purchase of Intrensic in August 2023.

## 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

We are obligated to pay royalties pursuant to an exclusive Amended and Restated Intellectual Property License Agreement (the “License Agreement”), dated as of September 30, 2016, with Syzygy Licensing, LLC (“Syzygy”), a private technology invention, consulting and licensing company owned and controlled by Elwood G. Norris, a founder and former officer and current 5% stockholder of the Company, and James A. Barnes, a former officer and stockholder of the Company (see Note 16).

Accounts payable includes \$14 and \$127 due to Syzygy pursuant to the License Agreement as of December 31, 2023 and 2022, respectively.

Accrued liabilities consist of the following:

	December 31,	
	2023	2022
Patent and legal costs .....	\$ 21	\$ 135
Accrued compensation .....	325	1,100
Warranty costs.....	72	125
Taxes and other .....	274	103
	<u>\$ 692</u>	<u>\$ 1,463</u>

Accrued compensation includes \$0 and \$1,022 in employee bonuses and commissions payable at December 31, 2023 and 2022, respectively.

Changes in our estimated product warranty costs were as follows:

	Year Ended December 31,	
	2023	2022
Balance, beginning of period.....	\$ 125	\$ 96
Warranty settlements.....	(169)	(181)
Warranty provision.....	116	210
Balance, end of period.....	<u>\$ 72</u>	<u>\$ 125</u>

## 9. LEASES

The Company determines if an arrangement is a lease at inception. The guidance in FASB ASC Topic 842, *Leases* defines a lease as a contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration. Operating lease right of use (“ROU”) assets and lease liabilities are recognized based on the present value of future minimum lease payments over the lease term at commencement date. The Company’s leases do not provide an implicit rate. Due to a lack of financing history or ability, the Company uses an estimate of low-grade debt rate published by the Federal Reserve Bank as its incremental borrowing rate based on the information available at the commencement date in determining the present value of future payments. The ROU asset includes any lease payments made and excludes lease incentives and initial direct costs incurred.

For leases beginning on or after January 1, 2019, lease components are accounted for separately from non-lease components for all asset classes. On January 21, 2023, the Company's lease was amended to extend the expiration date to July 31, 2025. Upon execution of the amendment, which was deemed a lease modification, the Company reassessed the lease liability using the discount rate determined at the modification date and recorded an additional ROU asset for the same amount. The Company's lease contains renewal provisions and escalating rental clauses and generally requires the Company to pay utilities, insurance, taxes and other operating expenses. The renewal provisions of the existing lease agreement were not included in the determination of the operating lease liabilities and the ROU assets. The Company also reassessed the lease classification and concluded that the lease continues to be an operating lease.

Amortization of ROU operating lease assets was \$138 and \$101 for the years ended December 31, 2023 and 2022, respectively.

Operating lease expense for capitalized operating leases included in operating activities was \$177 and \$118 for the years ended December 31, 2023 and 2022, respectively. Operating lease obligations recorded on the balance sheet at December 31, 2023 are:

Operating lease liability - short term .....	\$	616
Operating lease liability - long term .....		1,671
Total Operating Lease Liability .....	\$	<u>2,287</u>

Future lease payments included in the measurement of lease liabilities on the balance sheet at December 31, 2023 for future periods are as follows

2024.....	\$	443
2025.....		567
2026.....		507
2027.....		522
2028.....		538
Thereafter .....		<u>1,271</u>
Total future minimum lease payments.....		3,848
Less imputed interest .....		<u>(1,561)</u>
Total .....	\$	<u>2,287</u>

The weighted average remaining lease term is 6.77 years, and the weighted average discount rate is 14.2%.

Certain leases contain provisions for payment of real estate taxes, insurance and maintenance costs by the Company. These expenses are treated as variable lease payments and recognized in the period in which the obligation for those payments was incurred. The Company had \$8 and \$39 variable lease expenses during the year December 31, 2023 or 2022.

The Company had \$92 and \$11 short-term lease expense during the year December 31, 2023, or 2022. The Company does not have any finance leases.

## 10. WARRANTS

On June 29, 2023, the Company entered into a Securities Purchase Agreement (the "Series A Purchase Agreement") with certain directors of the Company and certain accredited and institutional investors (collectively, the "Series A Investors"), pursuant to which it agreed to sell to the Series A Investors in a registered direct offering (the "Series A Offering") (i) an aggregate of 10,000 shares of the Company's newly-designated Series A Convertible Preferred Stock, with par value \$0.0001 per share and a stated value of \$1,000 per share (the "Series A Preferred Stock"), initially convertible into up to 6,896,553 shares of the Company's common stock, at an initial conversion price of \$1.45 per share (the "Conversion Price"), and (ii) warrants to acquire up to an aggregate of 6,896,553 shares of Common Stock (the "Series A Warrants").

Each Series A Warrant has an exercise price of \$1.45, became exercisable after the date that was six months from the date of issuance and will expire 5 years following the date of issuance. The exercise price is subject to customary adjustments for stock dividends, stock splits, reclassifications and the like, and subject to price-based adjustment, on a "full ratchet" basis, in the event of any issuances of Common Stock, or securities convertible, exercisable or exchangeable for Common Stock, at a price below the then-applicable exercise price (subject to certain exceptions). The closing of the Offering occurred on July 3, 2023. The aggregate gross proceeds from the Offering were \$10,000, of which \$7,717 was allocated to the Warrants. The Company expects to use the net proceeds from the Offering for general corporate purposes.

## 11. DEBT

The Company's debt at December 31, 2023 and 2022 included operating lease liabilities (see Note 9).

## 12. STOCKHOLDERS' EQUITY

The Company's authorized capital consists of 150,000,000 shares of Common Stock and 5,000,000 shares of preferred stock, par value \$0.0001 per share ("Preferred Stock"), of which 10,000 are designated as Series A Preferred Stock.

On July 3, 2023, the Company filed the Certificate of Designations with the State of Delaware, designating 10,000 shares of its Preferred Stock as Series A Convertible Preferred Stock. The terms of the Series A Preferred Stock are as set forth in the form of Certificate of Designations of the Series A Preferred Stock (the "Certificate of Designations"). The Series A Preferred Stock is convertible into shares of common stock (the "Conversion Shares") at the election of the holder at any time at an initial conversion price of \$1.45. The Conversion Price is subject to customary adjustments for stock dividends, stock splits, reclassifications and the like, and subject to price-based adjustment in the event of any issuances of common stock, or securities convertible, exercisable or exchangeable for common stock, at a price below the then-applicable Conversion Price (subject to certain exceptions).

The holders of the Series A Preferred Stock are entitled to dividends of 8% per annum, compounded monthly, which are payable in cash or shares of Common Stock, or a combination thereof, at the Company's option in accordance with the terms of the Certificate of Designations. Upon the occurrence and during the continuance of a Triggering Event (as defined in the Certificate of Designations), the Series A Preferred Stock will accrue dividends at the rate of 20% per annum. If the Company elects to pay any dividends in shares of Common Stock, the Conversion Price used to calculate the number of shares issuable will equal to the lower of (i) the then applicable Conversion Price and (ii) 85% of the arithmetic average of the three (3) lowest closing prices of the Common Stock during the twenty (20) consecutive trading day period ending on the trading day immediately preceding the dividend payment date, provided that such price shall not be lower than the lower of (x) \$0.2828 (subject to adjustment for stock splits, stock dividends, stock combinations, recapitalizations or other similar events) and (y) 20% of the "Minimum Price" (as defined in Nasdaq Stock Market Rule 5635) on the date of the Stockholder Approval (subject to adjustment for stock splits, stock dividends, stock combinations, recapitalizations or other similar events) or, in any case, such lower amount as permitted, from time to time, by the Nasdaq Stock Market.

The holders of the Series A Preferred Stock have no voting rights, other than with respect to certain matters affecting the rights of the Series A Preferred Stock.

The Company may require holders to convert their shares of Series A Preferred Stock into shares of Common Stock if the closing price of the Company's Common Stock exceeds \$8.00 per share (subject to adjustment for stock splits, stock dividends, stock combinations, recapitalizations or other similar events) for 20 consecutive trading days and the daily dollar trading volume of the Common Stock exceeds \$2,000,000 per day during the same period, provided that certain equity conditions described in the Certificate of Designations are satisfied.

At any time beginning 18 months from the date of the issuance, provided that provided that the Company has filed all reports required to be filed by it pursuant to the Exchange Act on a timely basis for a continuous period of one year and provided further that certain equity conditions described in the Certificate of Designations are satisfied, the Company has the right to redeem in cash all or some of the shares of the Series A Preferred Stock outstanding at such time at a redemption price equal to the product of (x) 125% multiplied by (y) the sum of (A) the stated value of the Series A Preferred Stock plus (B) all declared and unpaid Dividends on such Preferred Stock and any other unpaid amounts then due and payable hereunder with respect to such Series A Preferred Stock, plus (C) the make-whole amount, plus (D) any accrued and unpaid late charges with respect to such stated value and amounts payable pursuant to clause (B) as of such date of determination.

On August 19, 2024, the Company entered into an Amendment Agreement (the "Series A Amendment") with the Required Holders (as defined in the Certificate of Designations). Pursuant to the Series A Amendment, the Required Holders agreed that (A) the unpaid and accrued dividends on the Series A Preferred Stock due July 1, 2024 (the "July Delinquent Dividend Amount"), shall be payable, at the option of the Company, in (i) cash and/or (ii) shares of Common Stock, at a price per share of Common Stock equal to the lower of (x) \$1.00 and (y) the Dividend Conversion Price (as defined in the Certificate of Designations), using July 1, 2024, as the applicable date of determination in accordance with the Certificate of Designations; (B) the dividends due on October 1, 2024 (the "October Dividend Amount" and, together with the July Delinquent Dividend Amount, the "Delinquent Dividend Amounts"), shall be payable in shares of Common Stock based on a per share price of Common Stock equal to 80% of the arithmetic average of the three (3) lowest closing sale prices of the Common Stock during the month of September 2024; and (C) such Delinquent Dividend Amounts and any Dividend Balance Shares (as defined in the Certificate of Designations), with respect thereto, if applicable, shall be delivered on October 1, 2024. The Company and the Required Holders further agreed pursuant to the Agreement to amend (i) the Certificate of Designations, as described below, by filing a Certificate of Amendment to the Certificate of Designations (the "Certificate of Amendment") and (ii) the Series A Purchase Agreement to amend the definition of "Excluded Securities."



The Certificate of Amendment amends the Certificate of Designations to, among other things, (A) allow for the payment of dividends in the form of Common Stock to a holder of the Series A Preferred Stock who serves as a director, officer or employee of the Company; provided that such issuance is approved by the Company's stockholders prior to such issuance, and (B) amend certain conditions required for (i) a mandatory conversion of the Series A Preferred Stock, and (ii) the Company's right to redeem, all or a portion, of the Series A Preferred Stock outstanding pursuant to an optional redemption, in each case, pursuant to the terms of the Certificate of Designations. The Certificate of Amendment was filed with the Secretary of State of the State of Delaware on August 23, 2024.

\$2,036 of the net proceeds less transaction cost of the Series A Purchase Agreement was allocated to the Series A Preferred Stock. For the year ended December 31, 2023, authorized and declared dividends totaling \$392 of which \$58 was paid in cash \$232 was paid in shares of the Company's Common Stock and the balance of \$102 was accrued in payables as of December 31, 2023. As of December 31, 2023, 102 Shares of Series A Preferred Stock were converted into approximately 77 thousand shares of Common Stock.

The Company's failure to timely file its Annual Report on Form 10-K for the year ended December 31, 2023, its Quarterly Report on Form 10-Q for the quarter ended March 31, 2024 and its Quarterly Report on Form 10-Q for the quarter ended June 30, 2024, each constituted a Triggering Event (the "Filing Triggering Events") and equity conditions failures pursuant to the terms of the Certificate of Designations. As a result, the dividend rate of the Series A Preferred Stock was automatically increased to 20% per annum beginning on April 16, 2024, or the filing deadline of the Form 10-K for the year ended December 31, 2023, and shall continue until such date as the Filing Triggering Event is cured. As of the date of this Annual Report on Form 10-K for the year ended December 31, 2023, the Filing Triggering Event has not been cured.

### 13. SHARE-BASED COMPENSATION

On March 31, 2017, the Company adopted, and the stockholders approved, the 2017 Stock Incentive Plan (the "Plan") authorizing 2,000,000 shares of Common Stock for issuance as awards to employees, directors or consultants. In May 2019, the stockholders authorized an increase in the Plan authorizing an additional 2,100,000 shares of Common Stock, in June 2020 authorized an additional 1,900,000 shares of Common Stock, in June 2021 authorized an additional 1,500,000 shares of Common Stock and in June 2022 authorized an additional 1,500,000 shares of Common Stock, for a total of 9,000,000 shares subject to the Plan. At December 31, 2023, there were 1,391,183 shares of Common Stock remaining available for grant under the Plan.

The Company generally recognizes share-based compensation expense on the grant date and over the period of vesting or period that services will be provided. In April 2023, the Company recognized severance acceleration of \$112 of share-based compensation expense resulting from the resignation of the Company's former Chief Executive Officer and Chief Operating Officer due to a reduction in force that resulted in changes in the composition of the executives of the Company.

The following table summarizes stock option activity for the year ended December 31, 2023:

	Options on Common Shares	Weighted Average		Aggregate Intrinsic Value
		Exercise Price	Remaining Contractual Term	
Outstanding January 1, 2023 .....	5,491,399	\$ 3.72	5.96	\$ 92
Granted.....	2,592,309	\$ 1.68		
Exercised .....	(123,056)	\$ 1.69		
Forfeited, cancelled, expired .....	(3,303,017)	\$ 3.80		
Outstanding December 31, 2023 .....	4,657,635	\$ 2.52	8.75	\$ 3,979
Exercisable December 31, 2023 .....	1,160,580	\$ 4.02	7.86	\$ 274

At December 31, 2023, there were 2,675,071 service-based stock options outstanding, and 1,982,564 performance-based stock options outstanding, of which 692,398 performance-based stock options were granted in April 2022 to the Company's previous Chief Executive Officer and 1,290,166 were granted in October 2023 to the Company's current Chief Executive Officer subject to future market capitalization targets.

The Company uses the Black-Scholes option pricing model to determine the fair value of service-based options granted. The following table summarizes the assumptions used to compute the fair value of options granted to employees and non-employees:

	For the Year Ended December 31,	
	2023	2022
Expected stock price volatility .....	76%	49%
Risk-free interest rate .....	4.21%	2.47%
Forfeiture rate .....	0%	0%
Expected dividend yield .....	0%	0%
Expected life of options – years .....	6.00	5.96
Weighted-average fair value of options granted..... \$	1.33	\$ 0.88

Estimated volatility is a measure of the amount by which the Company's stock price is expected to fluctuate each year during the expected life of awards. The Company's estimated volatility was based on an average of the historical volatility of peer entities whose stock prices were publicly available. The Company's calculation of estimated volatility is based on historical stock prices of these peer entities over a period equal to the expected life of the awards. The Company uses the historical volatility of peer entities due to the lack of sufficient historical data of its stock price. The Company records forfeitures as they are incurred.

The risk-free interest rate assumption is based upon observed interest rates on zero coupon U.S. Treasury bonds whose maturity period is appropriate for the term of the options. The dividend yield of zero is based on the fact that the Company has never paid cash dividends and has no present intention to pay cash dividends. The Company calculates the expected life of the options using the Simplified Method for the employee stock options as the Company does not have sufficient historical exercise data.

The Company used the Monte Carlo Simulation Model to value at the grant date the aggregate of 1,290,166 market condition performance options granted in October 2023 to the Company's Chief Executive Officer. The assumptions used in the Monte Carlo Simulation were stock price on date of grant of \$1.40, contract term of 10 years, expected volatility of 76% and risk-free interest rate of 4.65 %. Vesting is based on sustained market capitalization of \$100 million, \$150 million and \$200 million and expected to be exercised at the midpoint of the vesting period resulted in implied service periods ranging from approximately 1 to 3 years.

Stock option expense was \$967 and \$1,770 for the years ended December 31, 2023 and 2022, respectively.

The following table summarizes information about stock options outstanding at December 31, 2023:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
1.00 – 2.00	2,084,503	9.59	\$ 1.44	75,527	\$ 1.79
2.01 – 3.00	1,675,699	8.00	\$ 2.76	487,967	\$ 2.69
3.01 – 4.00	250,000	10.00	\$ 3.10	-	\$ -
4.01 – 25.00	647,433	5.57	\$ 5.39	597,086	\$ 5.39

## Restricted Stock Units

The Plan provides for the grant of restricted stock units (“RSUs”). RSUs are settled in shares of the Company’s Common Stock as the RSUs become vested. The following table summarizes RSU activity for the years ended December 31, 2023 and 2022:

	Service-Based RSU's	Weighted Average Grant Date Fair Value	Weighted Average Vesting Period (Years)
Unvested at January 1, 2022.....	269,303	\$ 6.47	2.0
Granted - service based .....	988,850	\$ 2.49	
Vested.....	(268,548)	\$ 4.13	
Forfeited and cancelled .....	(67,273)	\$ 6.45	
Unvested at December 31, 2022.....	922,332	\$ 2.88	2.11
Granted - service based .....	1,289,784	\$ 1.41	
Vested.....	(1,056,360)	\$ 1.83	
Forfeited and cancelled .....	(345,168)	\$ 2.70	
Unvested at December 31, 2023.....	810,588	\$ 1.73	2.52

482,143 of the 1,289,784 RSUs granted included in the table above were granted in October 2023 are performance based RSUs, subject to vesting terms based on future market capitalization.

RSU expense was \$1,018 and \$1,455 for the years ended December 31, 2023 and 2022, respectively.

## Share-Based Compensation Expense

The Company recorded share-based compensation in its statements of operations for the relevant periods for options and RSUs as follows:

	For the Year Ended December 31,	
	2023	2022
Selling, general and administrative .....	\$ 1,696	\$ 2,684
Research and development.....	289	541
Total share-based expense.....	\$ 1,985	\$ 3,225

As of December 31, 2023, total estimated compensation cost of stock options granted and outstanding but not yet vested was \$3,103 which is expected to be recognized over the weighted average period of 2.65 years.

As of December 31, 2023, total estimated compensation cost of RSUs granted and outstanding but not yet vested was \$1,144 which is expected to be recognized over the weighted average period of 1.81 years.

## **14. DEFINED CONTRIBUTION PLAN**

The Company has a defined contribution savings plan for all eligible U.S. employees established under the provisions of Section 401(k) of the Internal Revenue Code. This plan was formed on January 1, 2022. Eligible employees may contribute a percentage of their salary subject to certain limitations. The Company’s contributions for the years ended December 31, 2023 and 2022, was \$0 and \$0, respectively.

## **15. COMMITMENTS AND CONTINGENCIES**

### Facility Lease

In November 2023, the Company commenced a lease in an office building located at 3480 Main Highway, Coconut Grove, Florida. The lease of 4,487 square feet for an initial term of 94 months, including 5 months of rent abatement in the first two years of the lease. The aggregate monthly payments will restart in 2024 for \$40 per month, increasing 3% each year through the lease term, plus other certain costs and charges as specified in the lease agreement.

Our executive offices, sales, training, assembly, and warehouse facilities are located at 1817 West 4th Street, Tempe, Arizona. The lease of 11,256 square feet commenced in June 2019 and was for an initial lease term through July 2022. In January 2022 we renewed this lease for three years with aggregate monthly payments of \$10 commencing August 2022, increasing 4% annually through the term ending July 31, 2025.

#### Related Party Technology License Agreement

The Company is obligated to pay royalties and development and patent costs pursuant to an exclusive Amended and Restated Intellectual Property License Agreement dated as of September 30, 2016, with Syzygy, a company owned and controlled by stockholder/consultant Mr. Elwood Norris and stockholder/consultant Mr. James Barnes. The agreement provides for royalty payments of 4% of revenue from products employing the licensed ensnarement device technology up to an aggregate of \$1,000 in royalties or until September 30, 2026, whichever occurs earlier. The Company recorded \$199 and \$274 for royalties incurred during the years ended December 31, 2023 and 2022, respectively. Maximum payout still available under this arrangement is \$81.

#### Purchase Commitments

At December 31, 2023 the Company was committed for approximately \$662 for future component deliveries that are generally subject to modification or rescheduling in the normal course of business

#### Indemnifications and Guarantees

Our officers and directors are indemnified as to personal liability as provided by the Delaware law and the Company's articles and bylaws. The Company may also undertake indemnification obligations in the ordinary course of business related to its operations. The Company is unable to estimate with any reasonable accuracy the liability that may be incurred pursuant to any such indemnification obligations now or in the future. Because of the uncertainty surrounding these circumstances, the Company's current or future indemnification obligations could range from immaterial to having a material adverse impact on its financial position and its ability to continue in the ordinary course of business. The Company has no liabilities recorded for such indemnities.

#### Regulatory Agencies

The Company is subject to oversight from regulatory agencies regarding firearms that arises in the ordinary course of its business.

#### Litigation

The Company is subject to litigation and other claims in the ordinary course of business. The Company records a provision for a liability relating to legal matters when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed and adjusted to include the impacts of negotiations, estimated settlements, legal rulings, advice of legal counsel, and other information and events pertaining to a particular matter. At December 31, 2023, we had no provision for liability under existing litigation.

## **16. RELATED PARTY TRANSACTIONS**

#### *Series A Preferred Stock*

On June 29, 2023, the Company entered into the Series A Purchase Agreement with certain investors, including Scot Cohen, the Company's Chief Executive Officer, and V4 Global LLC ("V4"). Mr. Cohen has voting and dispositive control with respect to the securities as is deemed to be the beneficial owner of the securities held by V4. Pursuant to the Series A Purchase Agreement, the Company issued Mr. Cohen and V4 an aggregate of 3,000 shares of Series A Preferred Stock and Series A Warrants to purchase up to an aggregate of 2,068,966 shares of Common Stock for aggregate gross proceeds of \$3,000.

## Consulting Services

Commencing in October 2017, the Company began reimbursing Mr. Elwood Norris, a former officer, current 5% stockholder and consultant of the Company, \$1.5 per month on a month-to-month basis for laboratory facility costs and \$7.5 per month on a month-to-month basis for invention consulting services, for an aggregate of \$108 during each of the years ended December 31, 2023, and 2022.

The Company is obligated to pay royalties and development and patent costs pursuant to an exclusive Amended and Restated Intellectual Property License Agreement dated September 30, 2016, with Syzygy Licensing, LLC ("Syzygy"), a company owned and controlled by a 5% stockholder of the Company, Mr. Elwood Norris, and a former officer of the Company, Mr. James Barnes. The agreement provides for royalty payments of 4% of revenue from products employing the licensed ensnarement device technology up to an aggregate of \$1,000 in royalties or until September 30, 2026, whichever occurs earlier. During the years ended December 31, 2023, and 2022 the Company incurred royalties to Syzygy of \$199 and \$274, respectively.

## Intrensic Acquisition

On August 9, 2023, the Company entered into the Intrensic Purchase Agreement with the Sellers, including Kevin Mullins, the Company's former Chief Executive Officer. Under the terms of the Intrensic Purchase Agreement, the Company agreed to purchase, and Sellers agreed to sell, 100% of the Membership Interests of Intrensic for the following consideration upon the Intrensic Closing: (i) \$554 in cash, subject to adjustment based upon the outstanding indebtedness of Intrensic and Intrensic's working capital as of the Intrensic Closing; and (ii) 1,250,000 shares of Common Stock of the Company. The Intrensic Acquisition closed on August 16, 2023, in accordance with the terms of the Intrensic Purchase Agreement.

See Notes 8 and 15 for additional information on related party transactions and obligations.

## 17. INCOME TAXES

Until its reverse recapitalization on March 31, 2017, the Company was treated as a partnership for federal and state income tax purposes and did not incur income taxes. The Company accounts for income taxes under ASC 740. Deferred income tax assets and liabilities are determined based upon differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Accounting standards require the consideration of a valuation allowance for deferred tax assets if it is "more likely than not" that some component or all of the benefits of deferred tax assets will not be realized.

The provision/(benefit) for Income Taxes for the years ended December 31, 2023 and 2022, consists of the following:

	<b>Year Ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
<b>Current Tax Expense/(Benefit)</b>		
Deferred Tax Expense/(Benefit).....	\$ (4,333)	\$ 3,756
Change in Valuation Allowance.....	4,333	(3,756)
Income Tax Provision/(Benefit).....	<u>\$ -</u>	<u>\$ -</u>

The Company's effective income tax rate is different from the federal statutory tax rate in 2023 predominantly due to the valuation allowance, permanent differences, and state taxes. A reconciliation of the statutory U.S. Federal Tax Rate to the Company's Effective Tax Rate is as follows:

	<b>Year Ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
U.S. Statutory Federal Income Tax Rate.....	\$ (6,355)	\$ 3,700
State Income Taxes, net of Federal Income tax Benefit .....	(421)	345
Permanent differences and other .....	2,433	(289)
Valuation Allowance .....	4,333	(3,756)
Income Tax Provision/(Benefit).....	<u>\$ -</u>	<u>\$ -</u>

Deferred income taxes represent the tax effect of transactions that are reported in different periods for financial and tax reporting purposes. The combined temporary differences and carryforwards of each tax paying component of the Company that give rise to a significant portion of the deferred income tax benefits and liabilities are as follows as of December 31, 2023 and 2022:

	<b>Year Ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
Deferred income tax assets:		
Net operating loss carryforwards .....	\$ 17,002	\$ 14,898
Sec. 174 capitalization .....	1,494	-
Research and development credits .....	81	65
Stock Based Compensation .....	1,447	1,216
Accruals and Other .....	995	324
Total deferred tax assets (gross) .....	21,018	16,503
Less valuation allowance .....	(20,302)	(15,969)
Net deferred tax assets .....	716	534
Deferred income tax liabilities:	-	-
Depreciation and other .....	(716)	(534)
Net deferred tax liabilities .....	\$ (716)	\$ (534)
Net deferred income taxes .....	<u>\$ -</u>	<u>\$ -</u>

As of December 31, 2023, the Company had available federal net operating loss carryforwards of approximately \$703 which begin to expire in 2037, and approximately \$78.8 million which will never expire. The Company has available state net operating loss carryforwards of approximately \$30.8 million as of December 31, 2023, which begin to expire in 2037. As of December 31, 2023, the Company has federal research and development tax credits of approximately \$81.

The Company has provided a valuation allowance against the Company's deferred tax assets, since, in the opinion of management, based upon the earnings history of the Company, it is not more likely than not that the benefits will be realized. All or a portion of the remaining valuation allowance may be reduced in future years based on an assessment of earnings sufficient to fully utilize these potential tax benefits.

ASC 740 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under ASC 740, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Company has no material uncertain tax positions that qualify for either recognition or disclosure in consolidated financial statements.

It is the Company's policy to recognize interest and/or penalties related to income tax matters in income tax expense. As of December 31, 2023 and 2022, the Company has accrued no interest and no penalties related to uncertain tax positions. The Company does not have any federal, or state and local income tax returns currently under examination.



## 18. MAJOR CUSTOMERS AND RELATED INFORMATION

### Major Customers

For the year ended December 31, 2023, revenues from one distributor accounted for approximately 37% of revenues with no other single customer accounting for more than 10% of total revenues. Accounts receivable from one distributor accounted for 67% of net accounts receivable at December 31, 2023.

For the year ended December 31, 2022, revenues from two distributors accounted for approximately 36% and 25% of revenues with no other single customer accounting for more than 10% of total revenues. Accounts receivable from one distributor accounted for 70% of net accounts receivable at December 31, 2022.

The following table summarizes revenue by geographic region. Revenue is attributed to countries based on customer's delivery location.

	<b>For the Year Ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
Americas .....	\$ 3,773	\$ 5,315
Europe, Middle East and Africa .....	2,302	2,487
Asia Pacific .....	58	247
Total revenues .....	<u>\$ 6,133</u>	<u>\$ 8,049</u>

See Note 1 – *Concentrations of Risks* for information on reliance on suppliers.

## 19. BUSINESS COMBINATION

On August 8, 2023, the Company entered into the Intrinsic Purchase Agreement with the Sellers. The Intrinsic Closing occurred on August 16, 2023. Under the terms of the Intrinsic Purchase Agreement, the Company agreed to purchase, and Sellers agreed to sell, the Membership Interests for the following consideration at the Intrinsic Closing: (i) \$554 in cash, subject to adjustment based upon the outstanding indebtedness of Intrinsic and Intrinsic's working capital as of the Intrinsic Closing; and (ii) 1,250,000 shares of Common Stock of the Company valued at approximately \$1,938.

The Company assessed the historical financial information of Intrinsic to determine if it would materially impact the Company's historical financial statements for the purposes of disclosing proforma financial information. The Company determined that in the current or prior reporting periods the acquired business contributed immaterially to the Company's financial statements. Therefore, a pro forma disclosure of the Company as if the business combination had occurred is not warranted under ASC 805.

The table below sets forth the allocation of the fair value of Intrinsic's net assets acquired and the corresponding line item in the Company's consolidated balance sheet at the date of acquisition. Intangible assets were valued using established valuation techniques, as follows: Technology and trade names and trademarks were valued using the relief-from-royalty method, whereby the benefit of ownership of the intellectual property is valued as the relief from the royalty expense that would otherwise be incurred.

Customer relationships were valued using the multi-period excess earnings method under the income approach.

Cash and cash equivalents .....	\$ 3
Accounts receivable .....	91
Inventory .....	61
Technology (included in Intangibles) .....	490
Customer relationships (included in Intangibles) .....	160
Trademarks and trade names (included in Intangibles) .....	80
Goodwill .....	1,610
<b>Total assets .....</b>	<b><u>\$ 2,495</u></b>
Liabilities .....	3
Equity .....	2,492
<b>Total liabilities and equity .....</b>	<b><u>\$ 2,495</u></b>

### Purchase Price:

Cash .....	554
Equity .....	1,938
Liabilities assumed .....	3
<b>Total .....</b>	<b><u>\$ 2,495</u></b>

Legal fees incurred in connection with the transaction totaled approximately \$38 and have been expensed as incurred.

## 20. SUBSEQUENT EVENTS

On January 5, 2024, Chris DeAlmeida's employment as Chief Financial Officer of the Company was terminated without cause, effective immediately, pursuant to a Separation Agreement and Mutual Release of Claims. The termination of Mr. DeAlmeida's employment was not the result of any disagreement regarding any matter relating to the Company's operations, policies, or practices.

On January 14, 2024, the Board of Directors appointed Scot Cohen the position of Executive Chairman and Chief Executive Officer. In connection therewith, the Company and Mr. Cohen entered into an amendment, dated January 14, 2024, to Mr. Cohen's Employment Agreement, dated October 12, 2023, to among other things, reflect Mr. Cohen's new title.

In connection with Mr. Cohen's appointment as Chief Executive Officer, on January 14, 2024, the Board of Directors approved an amendment to the Non-Statutory Stock Option Agreement, dated as of October 12, 2023, between the Company and Mr. Cohen, providing that the stock options issued thereunder shall vest in four annual installments, provided that Mr. Cohen is still employed by the Company or an affiliate of the Company on the applicable vesting date. The other terms of the stock options remain unchanged. In addition, on January 18, 2024, the Board granted Mr. Cohen an award of 632,911 restricted shares of Common Stock of the Company under the Company's 2017 Equity Compensation Plan, vesting upon the achievement of certain performance goals.

On January 14, 2024, the Board of Directors appointed Kevin Mullins to the position of President. In connection therewith, the Company and Mr. Mullins entered into an amendment, dated January 14, 2024, to Mr. Mullins's Employment Agreement, dated April 13, 2022 to, among other things, reflect Mr. Mullin's new title.

On April 5, 2024, the Board of Directors appointed Mr. Cohen to the position of Interim Principal Financial Officer and Principal Accounting Officer.

On April 24, 2024, the Company received notice from Rosenberg Rich Baker Berman, P.A. ("RRBB P.A.") that it had resigned as the Company's independent registered public accounting firm, effective immediately. The reports of RRBB P.A. on the Company's financial statements for the fiscal years ended December 31, 2022 and December 31, 2021, did not contain an adverse opinion or a disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope, or accounting principles. During the fiscal years ended December 31, 2022, and December 31, 2021, and the subsequent interim period through April 24, 2024, there were no disagreements (as defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions to Item 304 of Regulation S-K) with RRBB P.A. on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of RRBB P.A., would have caused RRBB P.A. to make reference to the subject matter of the disagreements in connection with its reports on the Company's financial statements for such years. Also during this time, there were no "reportable events," as defined in Item 304(a)(1)(v) of Regulation S-K.

On May 7, 2024, Kevin Mullins notified the Company of his intention to resign from his position as President of the Company, effective May 23, 2024. Mr. Mullins' resignation was not the result of any disagreement regarding any matter relating to the Company's operations, policies, or practices.

On May 7, 2024, the Audit Committee of the Board of Directors engaged HTL International, LLC ("HTL") as the Company's independent registered public accounting firm for the fiscal year ended December 31, 2023, effective May 7, 2024. During the fiscal years ended December 31, 2023, 2022 and 2021, and the subsequent interim period from January 1, 2024 through May 7, 2024, neither the Company nor anyone on its behalf has consulted with HTL regarding (i) the application of accounting principles to any specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's consolidated financial statements, and neither a written report nor oral advice was provided to the Company that HTL concluded was an important factor considered by the Company in reaching a decision as to any accounting, auditing or financial reporting issue, or (ii) any matter that was either the subject of a "disagreement" as defined in Item 304(a)(1)(iv) of Regulation S-K, or a "reportable event" as defined in Item 304(a)(1)(v) of Regulation S-K.

On May 28, 2024, Kevin Mullins, tendered his resignation from his role as director of the Company, effective as of May 28, 2024. Mr. Mullins's resignation from the Board of Directors was not in connection with any disagreement between Mr. Mullins and the Company, its management, the Board of Directors or any committee of the Board of Directors on any matter relating to the Company's operations, policies or practices, or any other matter.

### *Nasdaq Deficiency Notice*

On April 18, 2024, the Company received a notice (the “Initial Notice”) from the Listing Qualifications Staff of the Nasdaq Stock Market LLC (“Nasdaq”) notifying the Company that as it has not yet filed its Annual Report on Form 10-K (the “2023 Form 10 K”) for the year ended December 31, 2023, the Company is not in compliance with Listing Rule 5250(c)(1) (the “Listing Rule”) for continued listing on Nasdaq. Additionally, on May 17, 2024, the Company received a notice (the “May Notice”) from Nasdaq notifying the Company that as it has not yet filed its Quarterly Report on Form 10-Q (the “Q1 Form 10 Q”) for the three months ended March 31, 2024, that the Company is not in compliance with the Listing Rule.

On August 16, 2024, the Company received a notice (the “August Notice,” and collectively with the Initial Notice and the May Notice, the “Notices”) from Nasdaq notifying the Company that as it has not yet filed its Quarterly Report on Form 10-Q (the “Q2 Form 10 Q,” and collectively with the 2023 Form 10-K and Q1 Form 10-Q, the “Delinquent Filings”) for the six months ended June 30, 2024, that the Company is not in compliance with the Listing Rule for continued listing on Nasdaq.

The Company previously submitted a plan to Nasdaq to regain compliance with respect to the delinquent 2023 Form 10-K and Q1 Form 10-Q (the “Plan”), and Nasdaq granted an exception until August 30, 2024, to file the delinquent 2023 Form 10-K and Q1 Form 10-Q. Pursuant to the August Notice, the Company is required to submit an update to the Plan to Nasdaq no later than September 3, 2024, to regain compliance with respect to the filing requirements. Nasdaq may grant the Company an additional exception of up to a maximum of 180 calendar days from the filing due date of the 2023 Form 10-K to file all Delinquent Filings, or until October 14, 2024, to regain compliance.

The Notices do not have an immediate effect on the listing of the Company’s common stock. The Company is currently evaluating its options for regaining compliance. There can be no assurance that the Company will regain compliance with the Nasdaq’s rules or maintain compliance with any of the other Nasdaq continued listing requirements.

### *Series A Preferred Stock Amendment*

On August 19, 2024, the Company entered into an Amendment Agreement (the “Series A Amendment”) with the Required Holders (as defined in the Certificate of Designations). Pursuant to the Series A Amendment, the Required Holders agreed that (A) the unpaid and accrued dividends on the Series A Preferred Stock due July 1, 2024 (the “July Delinquent Dividend Amount”), shall be payable, at the option of the Company, in (i) cash and/or (ii) shares of Common Stock, at a price per share of Common Stock equal to the lower of (x) \$1.00 and (y) the Dividend Conversion Price (as defined in the Certificate of Designations), using July 1, 2024, as the applicable date of determination in accordance with the Certificate of Designations; (B) the dividends due on October 1, 2024 (the “October Dividend Amount” and, together with the July Delinquent Dividend Amount, the “Delinquent Dividend Amounts”), shall be payable in shares of Common Stock based on a per share price of Common Stock equal to 80% of the arithmetic average of the three (3) lowest closing sale prices of the Common Stock during the month of September 2024; and (C) such Delinquent Dividend Amounts and any Dividend Balance Shares (as defined in the Certificate of Designations), with respect thereto, if applicable, shall be delivered on October 1, 2024. The Company and the Required Holders further agreed pursuant to the Agreement to amend (i) the Certificate of Designations, as described below, by filing a Certificate of Amendment to the Certificate of Designations (the “Certificate of Amendment”) and (ii) the Series A Purchase Agreement to amend the definition of “Excluded Securities.”

The Certificate of Amendment amends the Certificate of Designations to, among other things, (A) allow for the payment of dividends in the form of Common Stock to a holder of the Series A Preferred Stock who serves as a director, officer or employee of the Company; provided that such issuance is approved by the Company’s stockholders prior to such issuance, and (B) amend certain conditions required for (i) a mandatory conversion of the Series A Preferred Stock, and (ii) the Company’s right to redeem, all or a portion, of the Series A Preferred Stock outstanding pursuant to an optional redemption, in each case, pursuant to the terms of the Certificate of Designations.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Tempe, State of Arizona, on the 28th day of August, 2024.

### WRAP TECHNOLOGIES, INC

Date: August 28, 2024

By: /s/ Scot Cohen  
Scot Cohen  
(Principal Executive Officer and Interim  
Principal Financial Officer and Principal  
Accounting Officer)

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Name</u>	<u>Position</u>	<u>Date</u>
<u>/s/ Scot Cohen</u> Scot Cohen	Chief Executive Officer and Director (Principal Executive Officer and Interim Principal Financial Officer and Principal Accounting Officer)	August 28, 2024
<u>/s/ Bruce Bernstein</u> Bruce Bernstein	Director	August 28, 2024
<u>/s/ Marc Savas</u> Marc Savas	Director	August 28, 2024
<u>/s/ Rajiv Srinivasan</u> Rajiv Srinivasan	Director	August 28, 2024
<u>/s/ Timothy Szymanski</u> Timothy Szymanski	Director	August 28, 2024



## CORPORATE INFORMATION

<b><u>DIRECTORS AND EXECUTIVE OFFICERS</u></b>  <b>Scot Cohen</b> <i>Chief Executive Officer and Executive Chairman of the Board</i>  <b>Jared Novick</b> <i>Chief Operating Officer</i>  <b>Bruce Bernstein</b> <i>Director</i>  <b>Marc Savas</b> <i>Director</i>  <b>Rajiv Srinivasan</b> <i>Director</i>  <b>Vice Admiral Tim Szymanski</b> <i>Director</i>	<b><u>CORPORATE HEADQUARTERS</u></b>  1817 W 4 <sup>th</sup> Street Tempe, Arizona 85281 Telephone: (800) 583-2652  <b><u>STOCK LISTING</u></b>  NASDAQ Capital Market: WRAP  <b><u>INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u></b>  HTL International, LLC Houston, Texas  <b><u>TRANSFER AGENT AND REGISTRAR</u></b>  Colonial Stock Transfer 7840 S 700 E Sandy, UT 84070 Telephone: (801) 355-5740  <b><u>ANNUAL GENERAL MEETING OF SHAREHOLDERS</u></b>  The 2024 Annual Meeting of Stockholders will be held at 10:00 a.m. Eastern Time on December 23, 2024, only via live webcast over the Internet at <a href="http://www.virtualshareholdermeeting.com/WRAP2024">www.virtualshareholdermeeting.com/WRAP2024</a> . Stockholders of record on November 5, 2024 are entitled to notice of and to vote at the Annual Meeting.  <b><u>COMPANY WEBSITE</u></b>  <a href="https://wrap.com/">https://wrap.com/</a>
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