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, 2022

☐ **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	98-0551945
(State or other jurisdiction of incorporation or organization)	(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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
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, 2022 (the last business day of the registrant's most recently completed second fiscal quarter) was $76,245,419 based on the closing price as reported on the Nasdaq Capital Market ("*Nasdaq*"). 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.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 41,256,885 shares of common stock, par value $0.0001 per share, as of February 28, 2023.

Documents Incorporated by Reference

The registrant incorporates information required by Part III (Items 10, 11, 12, 13, and 14) of this report by reference to portions of the registrant's definitive proxy statement with respect to its 2023 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year ended December 31, 2022, pursuant to Regulation 14A.

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PART I

FORWARD-LOOKING STATEMENTS

In addition to historical information, this Annual Report on form 10-K (the "Annual Report") contains "forward-looking statements" within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, including but not limited to: statements regarding the Company's overall business; total addressable market; and expectations regarding future sales, expenses and break-even and profitability expectations, and the Company desires to take advantage of the "safe harbor" provisions thereof. Words included in this Annual Report such as "expect", "anticipate", "should", "believe", "target", "project", "goals", "estimate", "potential", "predict", "may", "will", "could", "intend", and variations of these terms or the negative of these terms and similar expressions are intended to identify these forward-looking statements. Moreover, forward-looking statements are subject to a number of risks and uncertainties, many of which involve factors or circumstances that are beyond the Company's control. The Company's actual results could differ materially from those stated or implied in forward-looking statements due to a number of factors, including but not limited to: the Company's ability to successfully implement training programs for the use of its products; the Company's ability to manufacture and produce product for its customers; the Company's ability to develop sales for its new product solution; the acceptance of existing and future products, including the acceptance of the BolaWrap 150; 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 business impact of health crises or outbreaks of disease, such as epidemics or pandemics; 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, as well as other risk factors included in this Annual Report. These forward-looking statements are made as of the date of this Annual Report and were based on current expectations, estimates, forecasts and projections as well as the beliefs and assumptions of management. Except as required by law, the Company undertakes no duty or obligation to update any forward-looking statements contained in this Annual Report as a result of new information, future events or changes in its expectations.

For purposes of this Annual Report, the terms "we," "us," "our" "Wrap" and the "Company" refer to Wrap Technologies, Inc. and its consolidated subsidiary.

Use of Market and Industry Data

This Annual Report 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 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.

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 "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™, many 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. We have omitted the ® and ™ designations, as applicable, for the trademarks used in this Annual Report.

ITEM 1. BUSINESS

Overview

We are a global public safety technology and services company organized in March 2016 delivering modern policing solutions to law enforcement and security personnel. We are a mission-driven organization focused on improving public safety encounters and outcomes. In late 2018, we commenced the sale of our initial public safety product, the BolaWrap 100 remote restraint device. In 2020, we expanded our public safety technology offerings by introducing a virtual reality training platform called Wrap Reality, which is now being sold to law enforcement and corrections departments for simulation training and societal reentry scenarios. In early 2022, we delivered an improved version of our flagship product, the BolaWrap 150, which is electronically deployed, more robust, lighter, and simpler to use compared to the BolaWrap 100s.

We believe our solutions have an immediate addressable market consisting of about 900,000 full-time sworn law enforcement officers at over 18,000 federal, state, and local law enforcement agencies in the US, as well as 12.4 million police officers in more than 100 countries. Additionally, we are exploring other domestic markets such as military and private security when allowable, while also targeting countries with the largest police forces as part of our international focus. We operate in a segment of the non-lethal products global market, which is expected to reach $16.1 billion by 2027, as projected by 360iResearch, a market research consulting firm.

We focus our efforts on the following products and services:

BolaWrap Remote Restraint Device – is a safe hand-held remote restraint device that discharges a seven and a half-foot Kevlar tether to wrap an individual at a range of 10-25 feet. BolaWrap assists law enforcement to safely detain individuals without the need for pain compliance and higher uses-of-force.

Wrap Reality – is a virtual reality training system employing immersive computer graphics with proprietary software-enabled content. It allows up to two participants to enter a simulated training environment simultaneously with customized weapon controllers that enable trainees to engage in strategic decision making along including non-use-of-force and verbal training.

In addition to the US law enforcement market, we have shipped our products to 59 countries. We have established an active distributor network representing 50 states and one dealer representing Puerto Rico. We have distribution agreements with 49 international distributors covering 54 countries. We focus on significant sales, training and business development efforts to support our global distribution network.

We allocate significant resources to research and development for product innovation and product improvement. We believe we have built a robust brand and global market presence, with notable competitive advantages in our industry. Wrap is at the forefront of designing remote restraint tools that focus on de-escalating law enforcement encounters by wrapping up a subject to prevent mobility and fighting which reduces risk of injury to the officer and to the individuals with whom they are interacting.

Recent Developments

In November 2022, the Company entered into a Professional Services and Technology Acquisition Agreement (the "*Agreement*") with Lumeto, Inc. ("*Lumeto*") and Spatial Industries Group, Inc. ("*Spatial*"), whereby Lumeto and Spatial will provide the Company certain technology, services, and perpetual licenses for use within the Company's Wrap Reality virtual simulation training platform. The Company expects to realize the benefit of an upgraded cloud virtual reality platform as a result of the Agreement, as well as capabilities and resources to support its growth of law enforcement and corrections virtual reality training modules and enhanced capabilities. Wrap Reality's Cloud VR platform also has significant value in the firearms safety, concealed weapons, and civilian training space in addition to law enforcement, corrections, military and private security 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 and Wrap Reality virtual reality system. Recent events, such as the rise in mental health cases, police reform, and reorganization of police departments, have started a growing conversation on the need for de-escalation before pain-compliance policing policy across the country. 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 every interaction with public safety officers is 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 the 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 in 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 US. 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 59 countries and have entered into agreements with international distributors, with international sales representing a significant portion of our revenues in 2022. 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 2021) estimated that there were 240,000 correctional officers in over 1,000 federal and state correctional facilities in the US, 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 2019 Bureau of Labor Statistics estimates ("Occupational Employment Statistics," US Department of Labor), there were 1.1 million privately employed security guards in the US They represent a broad range of individuals, including those employed by investigation and security services, hospitals, schools, local government, and others. We believe that some security personnel armed with the BolaWrap could be effective to de-escalate some encounters without eliminating other devices available today. Providing guards with the BolaWrap may reduce the potential liability of private security companies and personnel in such encounters.

Today, ATF classifications play a role in restricting Wrap's ability to transfer easily to non-government security firms. We believe the classification is overly onerous and we will continue to work with the ATF and others to change our nonlethal product's classification. We note that some of our international customer countries do not have any transfer or possession restrictions on the non-lethal BolaWrap devices and we believe this should be the future for BolaWrap.

Virtual Reality Training Market

The virtual training and simulation market is projected to reach $602 billion by 2027, according to a 2019 report by Allied Market Research. We expect the growth of virtual reality and simulation to continue expanding into many nascent industries, including law enforcement, corrections, military, school, and private security although it currently represents a relatively small segment of the overall market. The law enforcement and military sectors are important segments of the market, and increasing awareness of the benefits of virtual training and simulation is driving market growth. Advancements in technology now enable virtual reality to recreate real-world scenarios in a 360-degree immersive environment.

Wrap Products and Services

BolaWrap Remote Restraint

Our BolaWrap product line includes the BolaWrap 100, which was our first remote restraint product, and the BolaWrap 150, delivered to the market in Q1 of 2022. The BolaWrap 150 offers electronic deployment and is more robust, smaller, lighter, and simpler to use. 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 FORCE FACTOR* AND FORCE OPTIONS

LAUNCHERS: Byrna Technologies (BYRN), Pepper Ball (Private) CEWS / TASER: Axon Enterprises (AXON) FIREARMS: Glock (Private), Smith & Wesson (SWBI), Beretta (Private), Heckler & Koch (MLHK: Paris Stock Exchange), Sig Sauer (Private)
* Garner, J. H., & Maxwell, C. D. (2001). Understanding the use of force by and against the police in six jurisdictions in the United States, 1996-1997. ICPSR Data Holdings, 55–60. https://doi.org/10.3886/icpsr03172

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 ignored.

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 both the subject and officer. 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 the 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. 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 or because of its use. 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

- Via the sound emitted by the BolaWrap upon deployment and causing a distraction

- Through the feeling of being wrapped and/or restraint of the Kevlar cord around the suspect's legs, arms, or torso

- 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 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 polices. 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 declared that the BolaWrap 150 will be our primary product and will be supported 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

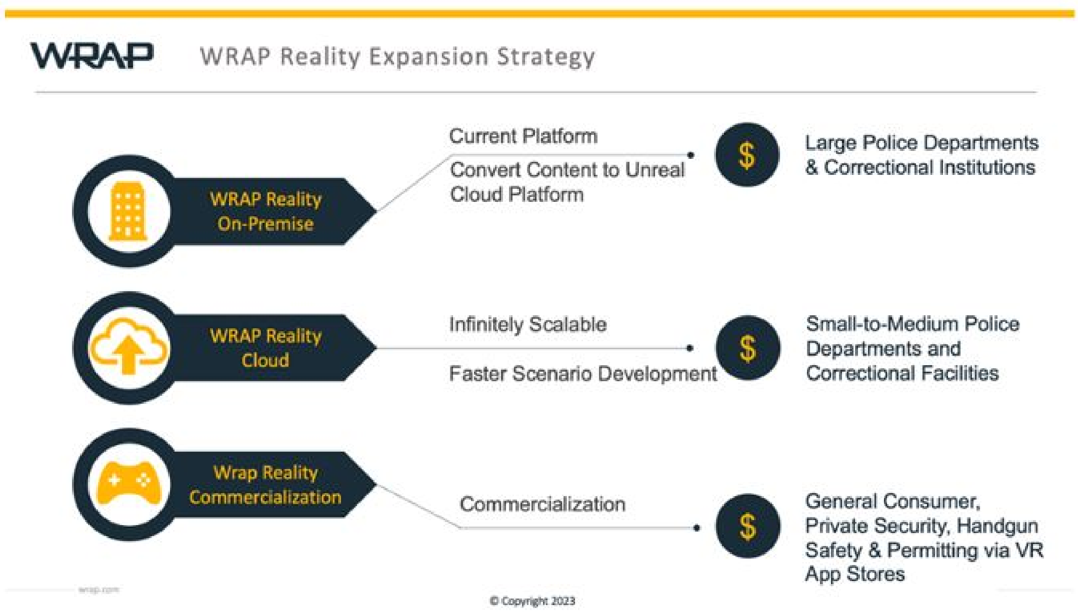
In 2019, we partnered with an independent technology company to create a virtual reality system with training scenarios. We acquired NSENA Inc. in December 2020, a provider of law enforcement training employing immersive computer graphics virtual reality with proprietary software-enabled content. We 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 some of the most advanced virtual reality hardware available and allows up to two participants to enter the simulated training environment simultaneously.

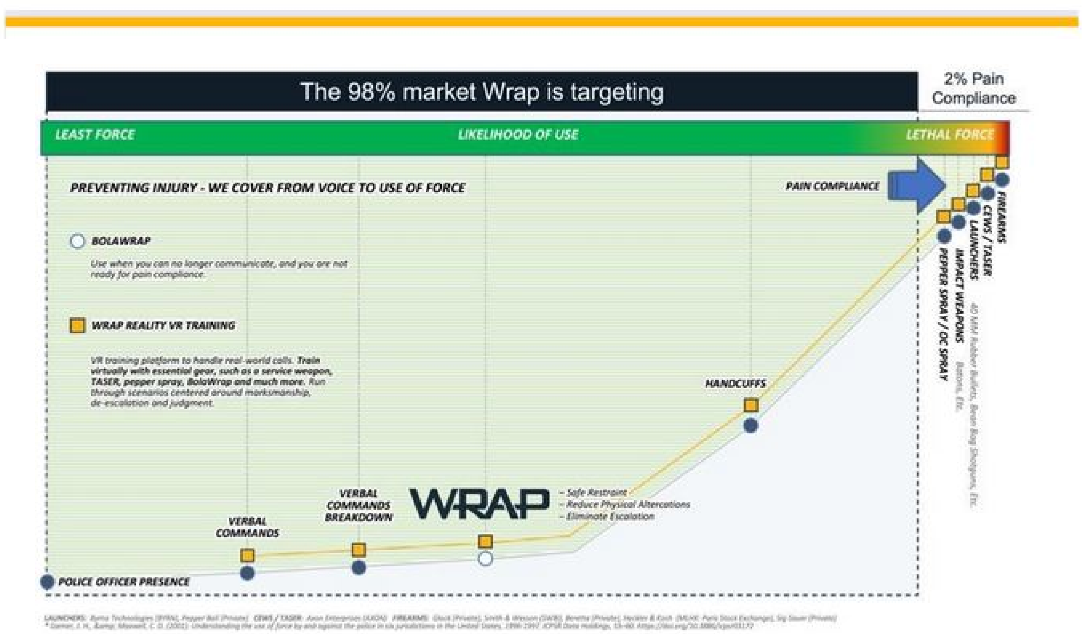
In August 2021, we announced the development of an expanded Wrap Reality Virtual Training platform with a collaboration with Amazon Web Services (AWS). This new platform combines our law enforcement simulator with secure cloud services to track training progress and provide the ability to replay recorded 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.

Additionally, we entered into a Professional Services and Technology Acquisition Agreement with Lumeto and Spatial in November 2022, which is expected to provide the Company with an upgraded cloud virtual reality platform, capabilities, and resources to support the growth of law enforcement and corrections virtual reality training modules and enhanced capabilities.

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 with the Lumeto Acquisition, 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.





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 Q3 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 distractions.

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 49 international distributors covering 54 countries. These agreements are generally requiring minimum sales and follow up performance and allow us to sell direct to customers subject 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 take remote restraint and the BolaWrap into a key new area of their policy for non-invasive tools that did not previously exist. BolaWrap is typically not a categorical use of force, or if classified as force, 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. We have developed and offer robust training and class materials that certify law enforcement officers and trainers as BolaWrap Instructors in the use of the BolaWrap solution.

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 being updated on BolaWrap and practice 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 immediate 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.

In the coming year of 2023, 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 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 have 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 2023, we recognize that future supplier shortages and logistics issues could have a material adverse effect on our operations and financial results.

Backlog

At December 31, 2022, we had backlog of approximately $257 thousand expected to be delivered in the first quarter of 2023. 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

Our 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 circumstance. We believe every law enforcement officer in the world who carries handcuffs should carry a BolaWrap at the same time. BolaWrap is leveraged just prior to handcuffs, and we are doing everything we can to educate the public and agencies about the important need to adopt this critical non-invasive and safe tool.

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 the BolaWrap will likely be used so much more often than all of the other tools combined, we believe we stand 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 are extremely impressed with the depth and capability of our 3D Virtual Reality (VR) Wrap Reality Capability. We have 38 fully formed law enforcement scenarios and 25 corrections and societal reentry scenarios in 3D plus the customizability of Wrap Reality Adapt which we believe provides more robust 3D options than the competitive. The largest capitalized competitor in 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 implementing 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 nineteen issued US patents related to the BolaWrap technology and eight additional US patents pending. In September 2018, we commenced filing our foreign patent applications targeting the European Union (38 countries) and seventeen other countries, of which thirty-four have been issued to date. To date we have a total of 53 issued domestic and international patents for our small global company. During 2022 we filed thirty-three patent applications, two of which were US filings. We feel the significant investment in patent protection in the US and abroad creates a significant amount of IP and value in Wrap Technologies. 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, 2022, and 2021, we spent approximately $5.1 million and $6.2 million, respectively, on company-sponsored research and development. This equates to 63% of revenue in 2022 and 80% of revenue in 2021. 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 2023 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, 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 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, 2022 $720 thousand have been paid out under this royalty obligation leaving a maximum of $280 thousand to be paid out in the future.

Seasonality

We do find that local and international law enforcement does have seasonality in how they purchase and expend funds. Many local law enforcement agencies in the US are on a July 1 to June 30th calendar year resulting in increased spending in Q3 and Q4 of the fiscal year. The US federal government is on an October 1 to September 30th budget year resulting in use or loose spending that often occurs in Q3 of the fiscal year. Some domestic and international budgets are on a calendar fiscal year resulting in Q4 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 17, Major Customers and Related Information to our consolidated financial statements.

Human Capital

Executive Officers

The Company's executive officers serve at the discretion of the board of directors. The current executive officers of Wrap Technologies, Inc. and their ages and business experience are set forth below.

TJ Kennedy, *age 51,* was appointed as a director of the Company in April 2021, and Chief Executive Officer of the Company in April 2022. Prior to his appointment as the Company's Chief Executive Officer, Mr. Kennedy served as the Chief Executive Officer, president, and member of the board of directors of Qumu, Inc. (NASDAQ: QUMU) ("*Qumu*") from July 2020 to April 2022. Qumu was acquired in 2023 by Enghouse Systems. From January 2019 to July 2020, Mr. Kennedy served as the Chief Executive Officer and member of the board of directors of Allerio, Inc., and a director of the Public Safety Network from January 2018 to July 2020. From July 2013 to January 2018, Mr. Kennedy served as the President/Deputy Executive Director of FirstNet – the First Responder Network Authority and independent authority of the US federal government. FirstNet was the federal authority created by the US Congress to build out the first nationwide public safety broadband network for first responders in the world. Mr. Kennedy negotiated the public private partnership that was a result of the $100B IDIQ contract with the US federal government. Mr. Kennedy holds a Bachelor of Science in Health Promotion and Education from the University of Utah, and a Master of Business Administration from Johns Hopkins University.

Kevin Mullins, age 53, began serving as the Company's President on April 18, 2022. Prior to being appointed as the Company's President, Mr. Mullins served as the President and Chief Executive Officer of Intrensic, LLC since 2015, which provides digital evidence and video management software solutions for law enforcement agencies. Mr. Mullins has also served on the board of directors of SaferMobility, LLC since 2013, a provider of a campus security solution that delivers personal safety through an easy-to-use smartphone application that connects directly to your security or law enforcement teams. Mr. Mullins received a Bachelor of Arts in Business Administration from Virginia's College at Wise, Virginia, and a Master in Business Administration from the University of Virginia in Charlottesville, Virginia.

Chris DeAlmeida, age 45, was appointed as Chief Financial Officer of the Company in July 2022. Mr. DeAlmeida is an accomplished senior financial executive, with experience in financial management and analysis, financial reporting, and mergers and acquisitions activity. Prior to his appointment, Mr. DeAlmeida was Chief Financial Officer of Encore Dredging Partners since January 2020, and acted as a consulting partner at BCH Group since 2018. Additional roles include Executive Vice President, Chief Financial Officer, Chief Accounting Officer and Treasurer at Orion Group Holdings, Inc. (NYSE: ORN) from 2012 to 2018, Vice President Accounting and Finance at Orion Group Holdings, Inc. from 2007 to 2012 and Investor Relations at Continental Airlines, Inc. (NYSE: UAL) from 2005 to 2007. Mr. DeAlmeida holds a Bachelor of Science in Finance from the University of Houston at Clear Lake.

Glenn Hickman, age 34, was appointed as the Company's Chief Operating Officer ("*COO*") on July 1, 2021. Prior to his appointment, since March 2021, Mr. Hickman served as a consultant to the Company. From 2014 to 2019, Mr. Hickman served as Vice President of Research and Development for Axon Enterprises (formerly TASER International). At Axon, Hickman led the launch of six hardware products, all connected to an ecosystem of cloud software and mobile apps. He created engineering and supply chain processes and grew the engineering team from 35 to 70. Hickman was responsible for establishing Axon's first manufacturing line in Shenzhen, China, and an optics engineering team in Finland. Mr. Hickman graduated with distinction from Stanford University, receiving his Bachelor and Master of Science in Mechanical Engineering, and his MBA with honors from Northwestern University's Kellogg School of Management with a double major in Strategy and Marketing.

Employees

We employ 69 full-time employees with 66 in the US, two located in the United Kingdom and one located in Australia. In addition to our four executive officers, we had 16 persons engaged in sales, marketing, sales support and training, 28 in production, 13 in research and development and 8 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.

Our Internet address is 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, 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, 2022 and 2021 was $17.6 million and $24.4 million, respectively. Our reduction in net losses in 2022 was primarily attributable to a new strategic roadmap with tighter cost controls and reduced operating expenses. Our ability to achieve future profitability is dependent on a variety of factors, many of which are outside of our control. Failure to achieve profitability or sustain profitability, if achieved, may require us to raise additional financing, which could have a material negative impact on the market value of our Common Stock.

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.

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 later in 2023 full cloud 3D Virtual Reality we plan to compete on both fronts, our ability to commercialize this 3D Virtual Reality product line may be influenced by many factors, including:

- our ability to continue to develop new products and new content;
- our ability to obtain, set up and service new VR customers;
- our ability to achieve and maintain market acceptance;
- the impact of competition; and
- our ability to attract and retain talent.

We are materially dependent on the acceptance of our product by the law enforcement market. If law enforcement agencies do not purchase our product or we do not meet their expectations, our revenue will be adversely affected and we may not be able to expand into other markets, or otherwise continue as a going concern.

A substantial number of law enforcement agencies may not purchase our remote restraint product. In addition, if our product is not widely accepted by the law enforcement market or we do not meet their expectations, we may not be able to expand sales of our product into other markets. Law enforcement agencies may be influenced by claims or perceptions that our product is not effective or may be used in an abusive manner. Our reputation could be damaged if we do not meet customer expectations for performance, value and quality. Sales of our product to agencies may be delayed or limited by such claims or perceptions or to any negative publicity or damage to our reputation. We now receive earned media that is often positive and helps our sales and growth and having negative earned media will create the opposite effect.

We may incur significant and unpredictable warranty costs as our products are 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 recent conflict in Ukraine, and related international economic sanctions and their impact may exacerbate this volatility. Specifically, our revenues and gross margins depend significantly on global economic conditions and the demand by foreign governments and agencies for the BolaWrap and Wrap Reality in many of our target markets. Economic weakness and uncertainty in these markets have resulted, and may result in the future, in decreased revenue attributable to these markets, gross margin, earnings or growth rates, and difficulty managing inventory levels. Sustained uncertainty about global economic conditions and geopolitical events may adversely affect demand for the BolaWrap and could cause demand to differ materially from our expectations as foreign governments and agencies curtail or delay spending. Economic weakness and uncertainty also make it more difficult for us to make accurate forecasts of revenues, gross margins and expenses.

The continued impact of COVID-19 and uncertain market conditions may continue to adversely affect our business, financial condition and results of operations.

The COVID-19 pandemic, which has caused significant uncertainty and disruption to global financial markets and supply chains since early calendar year 2020, continues to adversely affect the Company's business, operating results, and financial condition, although such disruptions and uncertainties have abated. The extent to which the COVID-19 pandemic continues to impact our financial conditions and results of operations, or those of our third-party suppliers, will depend on future developments, which are highly uncertain and cannot be predicted with confidence at this time, including the continued duration of the outbreak in the markets we target, new information which may emerge concerning the severity of COVID-19 and its variants, and the actions being taken to contain COVID-19 or treat its impact, among others. Uncertainty surrounds the duration and broader impact of the COVID-19 pandemic and therefore, the effects it will have on our financial results and operations. If economic or market conditions in key global markets deteriorate, we may experience material adverse effects on our business, financial condition, and results from operations.

Factors deriving from the domestic and international response to the COVID-19 pandemic that may negatively impact sales and gross margin in the future include but are not limited to: limitations on the ability of our suppliers to meet delivery requirements and commitments; limitations on the ability of employees to perform their work due to illness caused by the pandemic or local, state or federal orders requiring employees to remain at home; limitations on the ability of carriers to deliver products to customers; limitations on the ability of our customers to conduct their business and purchase our products and services; and limitations on the ability of our customers to pay us on a timely basis.

Substantially all 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, 2022, we generated approximately 34% 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 2023. 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, whether involving our product. Our product may cause or be associated with such injuries. A person injured in a confrontation or otherwise in connection with the use of our product may bring legal action against us to recover damages based on 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 even though they are likely more dangerous, time in market, product reliability and budget constraints. The length of our sales cycle may range from 30 days to a year or more. We may incur substantial selling costs and expend significant effort in connection with the evaluation of our product by potential customers before they place an order if they place an order at all. If these potential customers do not purchase our product, we will have expended significant resources without corresponding revenue.

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 wanes has caused, and is expected to continue to cause, significant stress on global supply chains. As economies around the world have reopened, sharp increases in demand have created significant disruptions to the global supply chain, which have affected our ability to source and receive certain goods on a timely basis and at anticipated costs. Increases in input costs and freight due to price inflation and global supply chain disruptions may adversely affect our financial performance.

We do not have any long-term supply agreements with any suppliers. We actively monitor and mitigate supply chain risk, but there can be no assurance that our mitigation plans will be effective to prevent disruptions that may arise from shortages of materials that we use in the production of our products. Any interruption of supply for any material components of our products could significantly delay production and shipment of our products and have a material adverse effect on our revenue, profitability, and financial condition.

We may not be able to successfully integrate acquisitions in the future, and we may not be able to realize, revenue enhancements or other synergies from such acquisitions.

On November 30, 2022, we acquired the rights to certain software assets and services to drive the rapid enhancement of our Wrap Reality Cloud platform. We believe this acquisition should help speed up our path to marketing with 3D Virtual Reality in the cloud in addition to our robust 3D Virtual Reality on premise. However, our ability to successfully implement our business plan and achieve targeted financial results and other benefits including, among other things, greater market presence and development, and enhancements to our product portfolio and customer base, is dependent on our ability to successfully identify, consummate and integrate acquisitions we may acquire in the future. We may not realize the intended benefits of the acquisition of other businesses in the future as rapidly as, or to the extent, anticipated by our management. There can be no assurance that we will be able to successfully integrate any other acquired businesses, products or technologies without substantial expense, delay or other operational or financial problems. Acquisitions involve several 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 nineteen 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 38 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 53 issued domestic and international patents for our small global company. During 2022 we filed thirty-three patent applications, two of which were US filings. We feel the significant investment in patent protection in the US and abroad creates a significant amount of IP and value in Wrap Technologies. However, there 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. In the last three quarters of 2022, 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 2023. 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.

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, 2022, it is possible that material weaknesses will be identified in the future. In addition, components of our internal control over financial reporting may require improvement from time to time. If management is unable to assert that our internal control over financial reporting is effective in any future period, investors may lose confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on the Company's stock price.

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 are and, in the future, may be subject to securities litigation, which may be expensive and could divert management attention.

Our share price is volatile, and in the past companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. For instance, in September 2020 a putative class action lawsuit and in November 2020 a shareholder derivative lawsuit were filed against us and certain of our directors and officers. The 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, 2022. As a result, our management and certain directors, acting individually or as a group, has the potential ability to exert influence on the outcome of issues requiring approval by our stockholders.

Sales of a substantial number of shares of our Common Stock may adversely affect the market price of our Common Stock.

Sales or distributions of a substantial number of shares of our Common Stock in the public market, or the perception that such sales could occur, could adversely affect the market price of our Common Stock. Many of the outstanding shares of our Common Stock, other than the shares held by executive officers and directors, are eligible for immediate resale in the public market. Substantial selling of our Common Stock could adversely affect the market price of our Common Stock.

Our Common Stock could be delisted from the Nasdaq Stock Market.

Nasdaq's continued listing standards for our Common Stock require, among other things, that (i) we maintain a closing bid price for our Common Stock of at least $1.00, and (ii) we maintain: (A) stockholders' equity of $2.5 million; (B) market value of listed securities of $35 million; or (C) net income from continuing operations of $500,000 in the most recently completed fiscal year or in two of the last three most recently completed fiscal years. Any failures to satisfy any continued listing requirements could lead to the receipt of a deficiency notice from Nasdaq and ultimately to a delisting from trading of our Common Stock. If our Common Stock were delisted from Nasdaq, among other things, this could result in a number of negative implications, including reduced liquidity in our Common Stock as a result of the loss of market efficiencies associated with Nasdaq and the loss of federal preemption of state securities laws as well as the potential loss of confidence by suppliers, customers and employees, institutional investor interest, fewer business development opportunities, greater difficulty in obtaining financing and possible breaches of certain contractual obligations.

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, 2022, we had we had outstanding options and unvested stock units of on 6.4 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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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. The aggregate monthly payments were $8,120 per month, increasing 3% for June and July 2022 during the lease term, plus other certain costs and charges as specified in the lease agreement, including the Company's proportionate share of the building operating expense and real estate taxes. In January 2022 we renewed this lease for three years with aggregate 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.

We rent space from time to time on a month-to-month basis for remotely located employees. We currently have three Wrap Reality employees located in a 4,000 square foot space in Buffalo, New York on a month-to-month rental agreement, which payments are currently $2,750 per month.

ITEM 3. LEGAL PROCEEDINGS

Shareholder Derivative Litigation

On November 13, 2020, Naresh Rammohan filed a shareholder derivative action in the US District Court for the Central District of California against current and former Company officers as well as current and former Company directors alleging unjust enrichment, breach of fiduciary duty, waste of corporate assets, and contribution claims under the Securities Exchange Act of 1934, docketed as Case No. 2:20-cv-10444-DMG-PVCx. The derivative action was dismissed with prejudice by stipulation of the parties on May 3, 2022.

Other Legal Information

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, 2022, 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 COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

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

Holders

At December 31, 2022 there were 41,175,993 shares of Common Stock outstanding and approximately 19 stockholders of record.

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. The Plan permits the qualification of awards under the plan as “performance-based compensation” within the meaning of Section 162(m) of the Internal Revenue Code.

Stockholders ratified 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 reserved for issuance under the Plan as of the date of this Report. At December 31, 2022, there were 1,556,291 shares of Common Stock available for grant under the Plan.

The following table sets forth information as of December 31, 2022, with respect to compensation plans (including individual compensation arrangements) under which our equity securities are authorized for issuance, aggregated as follows:

Plan Category	Number of securities to be issued upon exercise of outstanding options and rights (a)	Weighted-average exercise price of outstanding options and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	5,491,399	$ 4.55	1,556,291
Equity compensation plans not approved by security holders	-	-	-
Total	5,491,399	$ 4.55	1,556,291

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.

Transfer Agent

Our Transfer Agent and Registrar for our Common Stock is Colonial Stock Transfer, located at 66 Exchange Place, Suite 100, Salt Lake City, Utah 84111.

Issuer Purchases of Equity Securities

Not applicable.

ITEM 6. SELECTED FINANCIAL DATA

Information requested by this Item is not included, as we are electing to take advantage of scaled disclosure requirements available to Smaller Reporting Companies.

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 safe, non-pain compliance tools and immersive training for the modern world. 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 Q1 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 US 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 – is a hand-held remote restraint device that discharges a seven and half-foot bola style Kevlar tether to entangle an individual at a range of 10-25 feet. BolaWrap assists law enforcement to safely and effectively control encounters early in the use of force continuum without resorting to painful force options.

Wrap Reality – is 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 38 scenarios for law enforcement and corrections and 25 scenarios at this time 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.

In addition to the US law enforcement market, we have shipped our restraint products to 59 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 49 international distributors covering 54 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

During the year ended December 31, 2022, we accomplished the following:

- Through our strategic roadmap process, determined the exact market fit for where BolaWrap and Wrap Reality operate in the law enforcement marketplace. (See our Force Factor slide for a visual depiction)
- Created and implemented a strategic roadmap to lead the company to long-term growth and produce lasting value for shareholders
- Controlled our costs and reduced full year 2022 operating expenses $5.0 million or 19% as compared to 2021
- Our strategic roadmap is centered on sustainably growing sales through building repeatable domestic BolaWrap sales, ramping international sales on the new BolaWrap 150, and implementing a customer success function expanding existing agencies to full patrol-wide BolaWrap deployment. Customer Success did not exist as a specific function until mid Q3 of 2022 and is building on our proactive approach to expand sales in 2023 with existing customers and agencies.
- Added a dedicated inside sales function to grow our velocity and follow up on new leads.
- Expanded our distributor and partner relationships
- Leveraged product diversification and innovation to catalyze sales growth.
- Improved pricing on BolaWrap 150 devices and cassettes now that the product has proven itself to law enforcement as a significant upgrade. This has a direct and positive impact on future gross margins.
- Adjusted our training curriculum to include the when and the why BolaWrap is used. Transitioned to charging for our respected training services. Documented our curriculum for submittal to all US Peace Officers Standards and Training (POST) councils.
- Implemented changes to how we sell Wrap Reality and have now solidified our go forward virtual reality model as a Software as a Service ("*SaaS*") model.
- Entered into a Professional Services and Technology Acquisition Agreement with Lumeto and Spatial, whereby Lumeto and Spatial will provide the Company certain technology, services, and perpetual licenses for use within the Company's Wrap Reality virtual simulation training platform.

Management Changes

As previously reported in January 2022, the Board of Directors approved and initiated a leadership transition plan to support the next phase of its company strategy. The transition and corporate strategy included the resignation of Thomas P. Smith, our President, Chief Executive Officer and director, and the announcement of the planned retirement of James A. Barnes our former Chief Financial Officer, Secretary and Treasurer, who retired in July 2022 upon the appointment of Chris DeAlmeida as our Chief Financial Officer. After a period of transition managed by Special Transition Committee consisting of directors Scot Cohen and Kim Sentovich and including interim contract executives, on April 18, 2022, the Company appointed TJ Kennedy, a current director, as our Chief Executive Officer and Kevin Mullins as our President. Both Messrs. Kennedy and Mullins have significant leadership experience in public safety technology prior to their appointment. Mr. Mullins is leading go to market functions in the President role. In late December 2022, we also brought onboard Tracey Friedlander as our General Counsel.

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, our brand, Wrap, is becoming increasingly recognized on a global scale as a leader in remote restraint and non-lethal solutions.

In addition, we are focused on aggressive marketing and public relations efforts. We are confident in the potential 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 59 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 82% 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. Twenty-six percent of the reported persons who are wrapped with the BolaWrap are thought to be under the influence of alcohol or drugs.

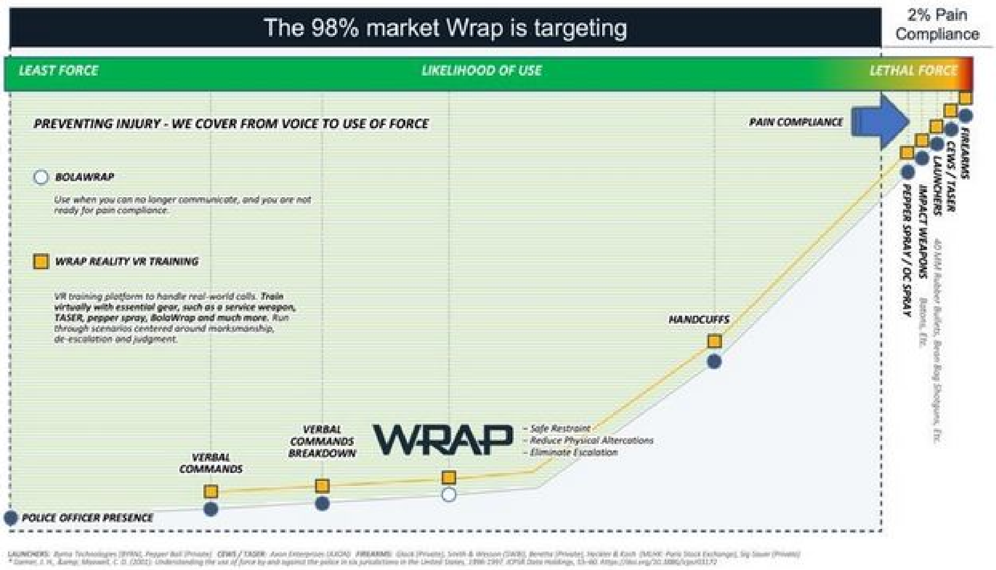
There are many reasons why we may not receive reports on all the use of the BolaWrap, including, when uses of BolaWrap are considered evidence in ongoing criminal cases, are controlled by local policy or regulation, or require officer and union and other released to be shared with us. However, some agencies 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.

Our company anticipates/believes 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 (I.e., after verbal commands break down and before the law enforcement officer is ready to escalate to less lethal pain compliance tools. Our company believes 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, 2022, over 1,360 agencies have received BolaWrap training with over 4,580 training officers at those agencies certified as BolaWrap instructors and qualified to train the rest of their departments, representing a 32% increase in agencies and a 30% increase in trained officers as compared to December 31, 2021.

Operating expenses for the full year 2022 reduced by $5.0 million or 19% as compared to the full year 2021. Our new management team immediately prioritized reducing operating expenses, and in the second quarter, conducted a thorough top to bottom assessment of all aspects of our business. This assessment culminated in the creation of a strategic roadmap aimed at achieving sustainable growth and delivering long-term value to our shareholders. 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 proven success as a significant upgrade for law enforcement. These increased margins will drive us to breakeven and profitability more quickly. We have also begun 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 a cloud software capability and will now be offering both on premise and cloud 3D Virtual Reality options for Wrap Reality later in 2023. 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 well positioned law enforcement technology company that is prepared for 21st Century policing and driving safe outcomes. Now 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 is a tool that can be used every week to appropriately de-escalate a dangerous situation and save the lives and careers of the officers we serve and save the lives of the individuals they interact with on dangerous calls. We anticipate these changes will have a significant positive impact on our future success and growth.



Our company is confident that implementing these strategic changes will 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 firm 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 newly released Use of Force Guarantee requirements, we are confident enough to offer that in 12 months we would buy their BolaWrap devices back if they do not reduce their reportable use of force by 10%. With an increasing addressable market, Wrap offers 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.

Looking ahead to the coming years, 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 is already showing improved results. This is a departure of the hardware product only approach of the past. Our sales of the BolaWrap 150 and Wrap Reality are expected to continue to rise significantly, aided by our ongoing cost savings and cost control measures, which should lead to an overall reduction in cash burn. As a result, we anticipate reaching an adjusted EBITDA break-even point by the conclusion of fiscal 2023, and if strong sales persist, we may achieve profitability by the end of 2024.

With the transaction with Lumeto in late November 2022, we have continued to invest in our VR system while working to continue to develop real-world scenarios into our robust Wrap Reality platform. In the future, the Lumeto transaction will allow for a cloud-based option of our Wrap Reality platform including a lower initial capital commitment for hardware. 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.

At December 31, 2022 we had backlog of approximately $257 thousand expected to be delivered in the first quarter of 2023. Additionally, we had deferred revenue of $333 thousand expected to be recognized generally over the next five years. Our deferred revenue mostly is 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 next year. For the full year 2022 we reduced our net loss by more than $6.8 million versus the comparable prior year. Net cash used in operations during the full year 2022 was $3.6 million less than cash used in operations during the full year 2021. This improvement was a result of our strategic roadmap as well as our cost control measures implemented in Q2, Q3 and Q4 of last year.

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 in 2022, were significantly adversely affected by the shift to our BolaWrap 150 product and the discontinuation of the BolaWrap 100 production line, along with the limited ability to demonstrate and train customers in 2021 due to the COVID-19 pandemic, particularly internationally. We had many customers that were happy with the BolaWrap 100 and many distributors who also like the BolaWrap 100 that were concerned about not being able to continue to expand with the first-generation device. This device was completely turned off from sales in Q4 of 2021 and product delays kept our BolaWrap 150 from being fully delivered to customers until late Q1 in 2022. This gap in having product to sell as well as the unhappiness in turning off 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. A lesson learned by the company was to continue to sell BolaWrap 100 cartridges and to announce in late 2022 that we will build and supply the BolaWrap 150 for at least five years from its launch date. This will allow departments that are going to do very large agency wide deployments to count on the BolaWrap 150 to be available even if we bring to market a newer device that has new features.

However, we witnessed a rebound 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. We got on the road and demonstrated the new and enhanced capabilities of the BolaWrap 150 and customers clearly saw the enhanced capabilities and have come to respect and want the new technology.

Supply chain disruptions have also affected our operations and could negatively impact our ability to source materials, manufacture and distribute products. Moreover, financial markets are experiencing 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 currently have $19.3 million in cash and cash equivalents and short-term investments as of December 31, 2022, which we believe provides sufficient capital to fund our operations for the next twelve months and absorb the potential near-term impacts of the pandemic and other economic uncertainty. However, liquidity constraints and access to capital markets could still negatively affect our liquidity and require changes to our investment strategy.

We acknowledge that the work carried out by our employees and associates is critical and essential, as per various published standards. We have taken several measures to ensure the safety and security of our employees, while also ensuring the availability and functionality of our critical infrastructure. In compliance with the guidelines issued by the Centers for Disease Control and local authorities, we have implemented COVID-19 safety measures in the workplace. Nevertheless, we recognize that events related to the pandemic could potentially result in lost or delayed revenue for our Company. These events include restrictions on our suppliers' ability to meet delivery requirements and commitments, employees' inability to perform their work due to illness caused by the pandemic or local, state, or federal mandates requiring employees to stay home. Delays in carriers' ability to deliver our products to customers, unforeseen deviations from customers or foreign governments restricting the ability to conduct business, and customers' inability to pay us on a timely basis, if at all, could also limit our revenue.

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 actually 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.

Periodically, certain customers request bill and hold transactions for future delivery as scheduled and designated by them. In such cases, revenue is not recognized until after control, title and risk of ownership has transferred which is generally when the customer has requested such transaction under normal billing and payment terms and has been notified that the product (i) has been completed according to customer specifications, (ii) has passed quality control inspections, and (iii) has been tagged and packed for shipment, separated from other inventory and ready for physical transfer to the customer. The value associated with custodial storage services is deemed immaterial in the context of such contracts and in total, and accordingly, none of the transaction price is allocated to such service.

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, 2022.

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 its Chief Executive Officer, who manages operations for purposes of allocating resources. Refer to Note 17, 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, and in the most recent fiscal quarter, (iii) 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, 2022 Compared to Year Ended December 31, 2021

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 Report.

	Year Ended December 31,		Change	
	2022	2021	$	%
(in thousands)				
Revenues:				
Product sales	$ 7,481	$ 7,381	$ 100	1%
Other revenue	568	348	220	63%
Total revenues	8,049	7,729	320	4%
Cost of revenues				
Products and services	4,315	4,987	(672)	(13%)
Product line exit expense	-	747	(747)	(100%)
Total cost of revenues	4,315	5,734	(1,419)	(25%)
Gross profit	3,734	1,995	1,739	87%
Operating expenses:				
Selling, general and administrative	16,386	20,276	(3,890)	(19%)
Research and development	5,078	6,214	(1,136)	(18%)
Total operating expenses	21,464	26,490	(5,026)	(19%)
Loss from operations	$ (17,730)	$ (24,495)	$ 6,765	28%

Revenue

We reported revenue of $8.0 million for the year ended December 31, 2022 ("*Fiscal 2022*") as compared to revenue of $7.7 million for the year ended December 31, 2021 ("*Fiscal 2021*"), a 4% increase over the prior year. International revenues decreased from $4,372 thousand for the year ended December 31, 2021 to $2,734 thousand for the year ended December 31, 2022. We incurred discounts of $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. These discounts compare to business discounts of $561 thousand in the prior year. We expect a decline to minimal discounts in 2023 as we have phased out our promotional upgrade offer.

International revenues generally consist 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. International orders anticipated in the second quarter were delayed significantly due to the changeover from the BolaWrap 100 but those orders for BolaWrap 150 are anticipated in future quarters. Some key international customers had approved the BolaWrap 100 and even purchased just prior to our announcement of the BolaWrap 150 a significant number of devices and cartridges. Because of the large size of these agencies, they wanted to grow on a single device and not multiple devices, but Wrap management made the decision to shut down the BolaWrap 100 product line for new devices in 2021. We believe that revenue during the fiscal year 2023 will increase overall compared to the revenue recorded during 2022 due to growth of domestic sales and anticipated international orders from a robust pipeline, although no assurances can be given. We believe based on pipeline that these larger international deals are more likely to book and ship in the latter half of 2023.

We incurred product promotional costs of $688 thousand for Fiscal 2022, 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. A total of $924 thousand of such product promotional costs were incurred during the Fiscal 2021.

We had $333 thousand of deferred revenue at December 31, 2022, of which $198 thousand related to VR, $11 thousand was related to training and $124 thousand related to BolaWrap extended warranties and services. As we potentially secure increased bookings for Wrap Reality, as well as BolaWrap extended warranties, we expect our deferred revenue to grow in future quarters.

At December 31, 2022, we had backlog of $257 thousand expected to be delivered in the first quarter of 2023. 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 Fiscal 2022 was $3.7 million or a gross margin of 46%. Excluding the non-cash charge related to a restructuring inventory charge, our gross profit for Fiscal 2021 was $2.7 million resulting in a gross margin of 35%. The Fiscal 2022 gross profit represented an 87% increase over prior year as a result of rolling out the BolaWrap 150 product, selling price adjustments implemented in September of 2022, and a reduction of promotional pricing, offset by some supply chain issues and inventory adjustments.

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 BolaWrap devices. As we scale cassette production, we will look to reduce our costs and drive higher cassette margins. Cassettes in 2022 were a total of 23% of our overall revenue and will continue to grow as a recurring revenue base as more BolaWrap devices are in the field and the usage of BolaWrap increases due to the need of officers to de-escalate earlier to prevent injuries and 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 expenses may affect our gross margins.

Our global supply chain has experienced notable component shortages, extended lead times, cost fluctuations, and logistical constraints, all of which have affected our product costs. Although we anticipate these supply chain obstacles to ease in 2023, we acknowledge that future supplier shortages, quality problems, and logistics delays could impact our production schedules and have a material negative impact on our financial condition, results of operation, and cash flows.

Selling, General and Administrative Expense

Selling, general and administrative ("*SG&A*") expense decreased significantly by $3.9 million during Fiscal 2022 when compared to Fiscal 2021 due to cost containment efforts.

Share-based compensation costs allocated to SG&A decreased to $2.7 million compared to $4.6 million for the comparable prior year. This $1.9 million decrease resulted primarily from changes in management, one-time costs in the prior year period, and changes in the stock price.

Salaries and burden costs of $6.5 million for Fiscal 2022 was an increase of $951 thousand or a 17% increase due to higher bonus accrual as a result of meeting full year targets, and one-time recruiting expenses associated with changes in management. During Fiscal 2022, as compared to the prior year, we incurred reduced advertising and promotions costs (including product promotion costs) of $769 thousand, increased professional fees of $377 thousand, and reduced consulting and contract services fees of $905 thousand. We expect expenditures for SG&A expenses in 2023 to remain in line with 2022 despite expected revenue growth.

Advertising and promotion costs were $1.1 million for during Fiscal 2022 or a decrease of $0.8 million as compared to $1.9 Million during Fiscal 2021. The changes in advertising costs were related to reductions in consultants and other cost containment efforts.

Research and Development Expense

Research and development expense decreased by $1.1 million for Fiscal 2022, when compared to Fiscal 2021. We incurred a $257 thousand period over period decrease in share-based compensation expense allocated to research and development expense as a result of cost containment efforts and changes in personnel. Outside consulting costs decreased by $847 thousand and prototype related costs decreased by $2 thousand for Fiscal 2022, primarily due to reduced costs related to finalizing the BolaWrap 150 product.

Operating Loss

Loss from operations during Fiscal 2022 of $17.6 million was a reduction of $6.8 million when compared to Fiscal 2021, reflecting increased margin and the focus on reducing operating costs and implementation of our strategic roadmap.

Liquidity and Capital Resources

Overview

We have experienced net losses and negative cash flows from operations since our inception. As of December 31, 2022, we had cash and cash equivalents of $5.3 million, short-term investments of $13.9 million, positive working capital of $23.7 million and had sustained cumulative losses attributable to stockholders of $67.4 million. We believe that our cash on hand and short-term investments will sustain our operations for at least the next twelve months.

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 if required from future equity or debt financings.

Capital Requirements

Due in part to the volatility caused by COVID-19, we do not have a high degree of confidence in our estimates for our future liquidity requirements or future capital needs, which will depend on, among other things, capital required to grow product revenues and the 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. We believe we have sufficient capital to sustain our operations for the next twelve months.

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:

- The speed at which BolaWrap is accepted to be on every officer and the speed at which departments move from small deployments to all field officers;
- The speed of new sales being booked and the success of our marketing efforts;
- 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.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Cash Flow

Operating Activities

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

During Fiscal 2021, net cash used in operating activities was $18.2 million. The net loss of $24.4 million was decreased by non-cash expense of $7.2 million, consisting primarily of share-based compensation expense of $5.4 million, restructuring inventory charges of $747 thousand, depreciation and amortization expense of $478 thousand, and shares issued for services of $239 thousand. Other major component changes using operating cash included an increase of $2.1 million in accounts receivable, and an increase in prepaid expense of $109 thousand. A decrease in inventories of $559 thousand, an increase in accounts payable and accrued expense of $492 thousand, and an increase of $249 thousand in deferred revenue reduced the cash used in operating activities.

Investing Activities

During Fiscal 2022, we used $30.5 million of cash to purchase short-term investments and we had proceeds from maturities of short-term investments of $46.6 million.

During Fiscal 2021, we used $55 million of cash to purchase short-term investments and had proceeds from maturities of short-term investments of $50 million.

We used $256 thousand and $995 thousand of cash for the purchase of property and equipment during Fiscal 2022 and Fiscal 2021, respectively. We invested $173 thousand and $187 thousand in patents during Fiscal 2022 and Fiscal 2021, respectively.

Financing Activities

During Fiscal 2022, we received $83 thousand in proceeds from the exercise of previously issued stock options.

During Fiscal 2021, we received $12 million from previously issued stock purchase warrants, $1.7 million in proceeds from the exercise of previously issued stock options and paid $275 thousand in debt relating to the December 2020 acquisition of NSENA.

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 (the "*Agreement*") entered into with Lumeto, Inc. and Spatial Industries Group, Inc. (collectively, "*Service Provider*"), which Agreement provides that the Service Provider will provide 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*"), we are obligated to pay to the Service Provider (a) a cash payment upon the execution of the Agreement of $700,000, (b) a cash payment of $125,000 upon the completion of certain project delivery milestones expected in Q1, and (c) a cash payment of $125,000 upon the completion and delivery of the final Technology, Services, and License which is expected in Q2.

In January 2022 we extended our facility lease for three years through July 2025 and we are committed to aggregate lease payments on the lease of $121 thousand in 2023, $126 thousand in 2024 and $75 thousand in 2025.

At December 31, 2022 we were committed for approximately $3.6 million for future component deliveries and contract services that are generally subject to modification or rescheduling in the normal course of business.

Effects of Inflation

In 2022 we had increased in labor and materials due to inflation. We believe in 2023 that low unemployment and higher salaries will create higher payroll costs and increased operating expenses in the business. We have seen increases 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, 2022, 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.

We are required to maintain disclosure controls and procedures designed to ensure that material information related to us, is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms.

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 interim Chief Executive Officer and Chief Financial 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 interim Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2022 and, based on this evaluation, our interim Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective at the reasonable assurance level.

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). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes of GAAP.

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, 2022, based on the framework and criteria established in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our interim Chief Executive Officer and Chief Financial Officer concluded that our internal control over financial reporting was effective as of December 31, 2022.

This Annual Report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the independent registered public accounting firm pursuant to rules of the SEC that permit the Company to provide only management's report in this Annual Report.

Changes in Internal Controls

There have been no changes in our internal control over financial reporting during the fiscal quarter ended December 31, 2022, 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.

PART III

Certain information required by this Part III is omitted from this report and is incorporated by reference to our Definitive Proxy Statement to be filed with the SEC in connection with the Annual Meeting of Stockholders to be held in 2023 (the "*Proxy Statement*"), which must be filed no later than 120 days after the close of the fiscal year ended December 31, 2022, pursuant to Regulation 14A.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information required by this item will be incorporated by reference from the Company's definitive proxy statement, to be filed with the SEC on or before May 1, 2023.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this item will be incorporated by reference from the Company's definitive proxy statement, to be filed with the SEC on or before May 1, 2023.

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

The information required by this item will be incorporated by reference from the Company's definitive proxy statement, to be filed with the Securities and Exchange Commission on or before May 1, 2023.

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

The information required by this item will be incorporated by reference from the Company's definitive proxy statement, to be filed with the SEC on or before May 1, 2023.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required by this item will be incorporated by reference from the Company's definitive proxy statement, to be filed with the SEC on or before May 1, 2023.

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

(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.

Exhibit Number	Description
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 Registration Statement on Form S-1, filed 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 Registration Statement on Form S-1, filed on April 17, 2017.
3.1	Amended and Restated Certificate of Incorporation of the Registrant. Incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-1, filed on April 17, 2017.
3.2	Bylaws of the Registrant. Incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-1, filed on April 17, 2017.
3.3	Amended and Restated Bylaws of the Registrant. Incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K, filed on February 10, 2023.
4.1	Form of Common Stock Certificate. Incorporated by reference to Exhibit 4.1 to Amendment No. 1 to the Registration Statement on Form S-1, filed on May 30, 2017.
4.2	Form of Investor Warrant, dated October 30, 2018. Incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K, filed on November 5, 2018.
4.3	Form of Placement Agent Warrant, dated October 30, 2018. Incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K, filed on November 5, 2018.
4.4	Form of Investor Warrant, dated June 18, 2019. Incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K, filed on June 18, 2019.
4.5	Form of Offering Agent Warrant, dated June 18, 2019. Incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K, filed on June 18, 2019.
4.6	Form of Warrant Agreement. Incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K, filed on June 2, 2020.
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 Registration Statement on Form S-1, filed on April 17, 2017.
10.2+	2017 Equity Compensation Plan. Incorporated by reference to Exhibit 10.2 to the Registration Statement on Form S-1, filed on April 17, 2017.
10.3	Form of Placement Agent Agreement, dated October 30, 2018. Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed on November 5, 2018.
10.4	Form of Registration Rights Agreement, dated October 30, 2018. Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K, filed on November 5, 2018.
10.5	Supplemental Engagement Letter by and between Wrap Technologies, Inc. and Katalyst Securities LLC, dated June 7, 2019. Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed on June 13, 2019.
10.6	Engagement Letter by and between Wrap Technologies, Inc., Dinosaur Financial Group, LLC and Katalyst Securities LLC, dated June 12, 2019. Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K, filed on June 18, 2019.
10.7	Amended 2017 Equity Compensation Plan. Incorporated by reference to Exhibit 10.1 to the Registration Statement on Form S-8, filed on June 24, 2019.
10.8	Industrial Real Estate Lease, dated May 10, 2019, by and between Wrap Technologies, Inc. and JM Sky Harbor Properties LLC. Incorporated by reference from Exhibit 10.1 to the Current Report on Form 8-K, filed on June 6, 2019.

10.9	Promissory Note by and between Wrap Technologies, Inc. and Bank of America, N.A. dated May 1, 2020. Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed on May 5, 2020.
10.10	Consulting Agreement by and between the Company and V3, effective April 1, 2020. Incorporated by reference to Exhibit 10.1 to the Registration Statement on Form S-8, filed on May 29, 2020.
10.11	Amendment No. 2 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 on June 17, 2020.
10.12	Form of Subscription Agreement. Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed on June 2, 2020.
10.13	Employment Agreement by and between Wrap Technologies, Inc., and Marc T. Thomas, dated July 30, 2020. Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed on July 31, 2020.
10.14	At-Will Employment, Confidential Information, Non-Compete/Non-Solicitation, Invention Assignment, and Arbitration Agreement, dated September 9, 2020 between the Company and Thomas Smith. Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed on September 14, 2020.
10.15	Asset Purchase Agreement between NSENA Inc. and Wrap Reality, Inc. dated as of December 14, 2020. In accordance with the instructions to Item 601(b)(2) of Regulation S-K, the schedules and exhibits to the Asset Purchase Agreement are not filed herewith. The Asset Purchase Agreement identifies such schedules and exhibits, including the general nature of their content. The Company undertakes to provide such schedules and exhibits to the SEC upon request. Incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K, filed on September 14, 2020.
10.16	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 2.2 to the Current Report on Form 8-K, filed on September 14, 2020.
10.17	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 Current Report on Form 8-K, filed on March 9, 2021.
10.18	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 on November 5, 2021.
10.19	Separation Agreement between the Company and Mr. Smith, dated January 24, 2022. Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed on January 26, 2022.
10.20	Consulting Agreement between the Company and LWV Consulting, LLC, dated January 24, 2022. Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K, filed on January 26, 2022.
10.21	Consulting Agreement between the Company and LRHIRSH, LLC, dated January 24, 2022. Incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K, filed on January 26, 2022.
10.22	Employment Agreement between Wrap Technologies, Inc. and TJ Kennedy, dated April 13, 2022. Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed on April 19, 2022.
10.23	Employment Agreement between Wrap Technologies, Inc. and Kevin Mullins, dated April 13, 2022. Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K, filed on April 19, 2022.
10.24	Letter Agreement by and between Wrap Technologies, Inc. and Chris DeAlmeida, executed July 20, 2022. Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed on July 25, 2022.
10.25	Transition Agreement and Release of Claims, dated July 24, 2022, by and between Wrap Technologies, Inc. and James Barnes. Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K, filed on July 25, 2022.
10.26	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 Current Report on Form 8-K, filed on November 29, 2022.
14.1	Code of Ethics of the Registrant Applicable to Directors, Officers and Employees. Incorporated by reference to Exhibit 14.1 to the Annual Report on Form 10-K, filed on March 4, 2021.
21.1	Subsidiaries of Wrap Technologies, Inc. Incorporated by reference to Exhibit 21.1 to the Annual Report on Form 10-K, filed on March 4, 2021.
23.1	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 *
31.2	Certification pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 *
32.1	Certifications pursuant to 18 USC. Section 1350. This certification is being furnished solely to accompany this Annual Report on Form 10-K and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company.*
	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)

* Filed concurrently herewith.
+ Management contract or compensatory plan or arrangement.

WRAP TECHNOLOGIES, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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 sheets of Wrap Technologies, Inc. (the Company) as of December 31, 2022 and 2021, and the related statements of operations and comprehensive income, stockholders' equity, and cash flows for each of the years in the two-year 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 2021, and the results of its operations and its cash flows for each of the years in the two-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 audits. 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 audits 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 audits, 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 audits 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 audits 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 audits provide a reasonable basis for our opinion.

Critical Audit Matters

Critical audit matters are matters arising from the current period audit of the consolidated financial statements that were 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 are 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)

	December 31, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,330	$ 4,937
Short-term investments	13,949	29,983
Accounts receivable and contract assets, net	2,830	3,859
Inventories, net	3,975	1,566
Prepaid expenses and other current assets	775	868
Total current assets	26,859	41,213
Property and equipment, net	758	976
Operating lease right-of-use asset, net	285	51
Intangible assets, net	2,569	1,982
Other assets	100	9
Total assets	$ 30,571	$ 44,231
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,419	$ 1,779
Accrued liabilities	1,463	824
Customer deposits	-	43
Deferred revenue- short term	166	155
Operating lease liability - short term	108	56
Total current liabilities	3,156	2,857
Long-term liabilities:		
Deferred revenue- long term	167	110
Operating lease liability - long term	193	-
Total long-term liabilities	360	110
Total liabilities	3,516	2,967
Commitments and contingencies (Note 9 and 14)		
Stockholders' equity:		
Preferred stock - 5,000,000 authorized; par value $0.0001 per share; none issued and outstanding	-	-
Common stock - 150,000,000 authorized; par value $0.0001 per share; 41,175,993 and 40,851,945 shares issued and outstanding each period, respectively	4	4
Additional paid-in capital	94,333	91,025
Accumulated deficit	(67,376)	(49,759)
Accumulated other comprehensive loss	94	(6)
Total stockholders' equity	27,055	41,264
Total liabilities and stockholders' equity	$ 30,571	$ 44,231

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)

	Year Ended December 31, 2022	Year Ended December 31, 2021
Revenues:		
Product sales	$ 7,481	$ 7,381
Other revenue	568	348
Total revenues	8,049	7,729
Cost of revenues		
Products and services	4,315	4,987
Product line exit expense	-	747
Total cost of revenues	4,315	5,734
Gross profit	3,734	1,995
Operating expenses:		
Selling, general and administrative	16,386	20,276
Research and development	5,078	6,214
Total operating expenses	21,464	26,490
Loss from operations	(17,730)	(24,495)
Other income (expense):		
Investment income	52	31
Other	61	15
	113	46
Net loss	$ (17,617)	$ (24,449)
Net loss per basic and diluted common share	$ (0.43)	$ (0.62)
Weighted average common shares used to compute net loss per basic and diluted common share	41,174,812	39,281,620
Comprehensive loss:		
Net loss	$ (17,617)	$ (24,449)
Net unrealized gain (loss) on short-term investments	100	(21)
Comprehensive loss	$ (17,517)	$ (24,470)

See accompanying notes to consolidated financial statements.

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

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at January 1, 2021	37,554,162	$ 4	$ 71,705	$ (25,310)	$ 15	$ 46,414
Common shares issued upon exercise of warrants at $6.50 per share	1,661,320	-	10,798	-	-	10,798
Common shares issued upon exercise of warrants at $8.125 per share	153,692	-	1,249	-	-	1,249
Common shares issued upon exercise of stock options	915,404	-	1,678	-	-	1,678
Common shares issued upon vesting of restricted stock units	524,491	-	-	-	-	-
Common shares issued for services	42,876	-	239	-	-	239
Share-based compensation expense	-	-	5,356	-	-	5,356
Net unrealized loss on short-term investments	-	-	-	-	(21)	(21)
Net loss for the period	-	-	-	(24,449)	-	(24,449)
Balance at December 31, 2021	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)
Balance at December 31, 2022	41,175,993	$ 4	$ 94,333	$ (67,376)	$ 94	$ 27,055

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31, 2022	Year Ended December 31, 2021
Cash Flows From Operating Activities:		
Net loss	$ (17,617)	$ (24,449)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	762	478
Share-based compensation	3,225	5,356
Common shares issued for services	-	239
Product line exit expense	-	747
Gain on sale of assets	-	(27)
Warranty provision	210	10
Software impairment charge	-	170
Change in contingent liability	-	(23)
Non-cash lease expense	101	88
Provision for doubtful accounts	72	123
Changes in assets and liabilities:		
Accounts receivable	957	(2,111)
Inventories	(2,410)	559
Prepaid expenses and other current assets	93	(109)
Accounts payable	(360)	546
Operating lease liability	(91)	(94)
Customer deposits	(43)	41
Accrued liabilities and other	611	(54)
Warranty settlement	(181)	38
Deferred revenue	68	249
Net cash used in operating activities	(14,603)	(18,223)
Cash Flows From Investing Activities:		
Purchase of short-term investments	(30,466)	(55,014)
Proceeds from maturities of short-term investments	46,600	50,005
Capital expenditures for property and equipment	(256)	(995)
Investment in patents and trademarks	(173)	(187)
Purchase of intangible assets	(700)	(750)
Proceeds from long-term deposits	(92)	4
Net cash provided by (used in) investing activities	14,913	(6,937)
Cash Flows From Financing Activities:		
Proceeds from exercise of warrants	-	12,047
Proceeds from exercise of stock options	83	1,678
Repayment of debt	-	(275)
Net cash provided by financing activities	83	13,450
Net (decrease) increase in cash and cash equivalents	393	(11,710)
Cash and cash equivalents, beginning of period	4,937	16,647
Cash and cash equivalents, end of period	$ 5,330	$ 4,937
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Change in unrealized gain on short-term investments	$ 100	$ (21)
Right-of-use asset and liability recorded during period	$ 234	$ -

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 our 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, the Middle East and Asia.

Principles of Consolidation
The Company has one wholly owned subsidiary, Wrap Reality, Inc. formed in December 2020 that sells a virtual reality ("*VR*") training system primarily targeting law enforcement agencies. The consolidated financial statements include the accounts of this subsidiary after elimination of intercompany transactions and accounts.

Basis of Presentation and Use of Estimates
The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the US of America ("*US GAAP*"). The preparation of financial statements in conformity with accounting principles generally accepted in the US 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 17).

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.

Impact of COVID-19 – In December 2019, a novel strain of coronavirus ("*COVID-19*") emerged in China. In March 2020, the World Health Organization declared the outbreak as a pandemic. The extent to which the coronavirus impacts our operations will continue to depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the outbreak, new information which may emerge concerning the severity of the coronavirus and the actions to contain the coronavirus or treat its impact, among others. In particular, the continued spread of the coronavirus globally and emergence of new strains could adversely impact our operations, including our manufacturing, logistics and supply chain. Our operations could be negatively affected if employees are quarantined as the result of exposure to a contagious illness. Similarly, travel restrictions resulting from the rapid spread of contagious illnesses may have a material adverse effect on our business and results of operations.

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 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, 2021, 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 2022 and 2021 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 common share is computed by dividing net loss for the period by the weighted-average number of shares of Common Stock outstanding during the period. Diluted net loss per common share reflects the potential dilution of securities that could share in the earnings of an entity. The Company's losses for the periods presented cause the inclusion of potential Common Stock instruments outstanding to be antidilutive. Stock options and restricted stock units exercisable or issuable for a total of 6,413,546 and 5,596,853 shares of Common Stock were outstanding at December 31, 2022 and 2021, 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, 2022 and 2021, the Company had an allowance for credit losses related to accounts receivable of $205 and $134, 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.

At December 31, 2022 and 2021 the Company had no reserve 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

Transactions in which the Company obtains control of a business are accounted for according to the acquisition method as described in ASC 805, Business Combinations. The assets acquired and liabilities assumed are recognized and measured at their fair values as of the date control is obtained. The Company measures goodwill as the excess of consideration transferred, which the Company also measures at fair value, over the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed. Acquisition related costs in connection with a business combination are expensed as incurred. Contingent consideration is recognized and measured at fair value at the acquisition date and until paid is re-measured on a recurring basis and classified as a liability.

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. The Company did not recognize any other impairment loss during the years ended December 31, 2022 and 2021.

Classification and Valuation of Warrants

The Company accounts for warrants as either equity or liabilities based upon the characteristics and provisions of each particular instrument. Warrants valued and classified as equity are recorded as additional paid-in capital based on the issue date fair value and no further adjustment to valuation is made. As of December 31, 2022, the Company has no warrants or other derivative financial instruments that require separate accounting as liabilities and periodic revaluation.

Advertising and Promotion Costs
Advertising costs are charged to expense as incurred and were $426 and $145 for the years ended December 31, 2022 and 2021, respectively. The Company also incurred product promotion costs for demonstration products delivered to prospective customers of $688 and $924 for the years ended December 31, 2022 and 2021, 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.

A performance obligation is a promise in a contract to transfer a distinct good or service to a customer and is the unit of account in Topic 606. For contracts with a single performance obligation, the entire transaction price is allocated to the single performance obligation. For contracts with multiple performance obligations, the Company allocates the contract transaction price to each performance obligation using the Company's estimate of the standalone selling price ("*SSP*" or "*SSPs*") of each distinct good or service in a contract. The Company determines SSPs based on the relative SSP. If the SSP is not observable through past transactions, the Company estimates the SSP considering available information such as market conditions and internally approved pricing guidelines related to the performance obligations.

Most of the Company's products and accessories are sold through domestic and international distributors. Performance obligations to deliver products and accessories are generally satisfied at the point in time the Company ships the product, as this is when the customer obtains control of the asset under our standard terms and conditions. Periodically, certain customers request bill and hold transactions for future delivery as scheduled and designated by them. In such cases, revenue is not recognized until after control, title and risk of ownership has transferred which is generally when the customer has requested such transaction under normal billing and payment terms and has been notified that the product (i) has been completed according to customer specifications, (ii) has passed quality control inspections, and (iii) has been tagged and packed for shipment, separated from other inventory and ready for physical transfer to the customer. The value associated with custodial storage services is deemed immaterial in the context of such contracts and in total, and accordingly, none of the transaction price is allocated to such service.

The Company has elected to recognize shipping costs as an expense in cost of revenue when control has transferred to the customer.

Time-based VR system contracts generally include setup, training and the use of software and hardware for a fixed term, generally one to five years and support and upgrade services during the same period. The Company does not sell time-based arrangements without setup, training and support services and therefore revenues for the entire arrangement are recognized on a straight-line basis over the term. When hardware is bundled and not sold separately the Company allocates the contract transaction price to each performance obligation using the SSP of each distinct good and service in the contract.

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 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 $296 and $167 for the years ended December 31, 2022 and 2021, respectively. Actual revenues from shipping and handling were $109 and $88 for the years ended December 31, 2022 and 2021, respectively.

Exit Activity Expense
During 2021 the Company recorded $747 of product line exit costs related to the wind down and closure of the BolaWrap 100 product line related to a shift in production efforts to a new BolaWrap 150 generation product requiring new tooling, new production equipment and processes and additional licensing. These non-cash inventory costs included end of life raw material write offs of $641 and tooling retirement costs of $106.

The $747 of exit costs were recorded as a component of cost of revenues. There was no such expense recorded during the year ended December 31, 2022. Development and start-up expense of new products are expensed as incurred except for capitalized equipment and tooling.

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 $125 and $96 at December 31, 2022 and 2021. 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, 2022 and 2021 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

In October 2021, the Financial Accounting Standards Board ("*FASB*") issued Accounting Standards Update ("*ASU*") 2021-08, Business Combinations (Topic 805): *Accounting for Contract Assets and Contract Liabilities from Contracts with Customers* ("*ASU 2021-08*"), to require that an acquirer recognize, and measure contract assets and contract liabilities acquired in a business combination in accordance with FASB Accounting Standards Codification ("*ASC*") Topic 606, *Revenue from Contracts with Customers* ("*Topic 606*"). At the acquisition date, an acquirer should account for the related revenue contracts in accordance with Topic 606 as if it had originated the contracts. The amendments in ASU 2021-08 should be applied prospectively and are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. We do not expect the adoption of ASU 2021-08 to have a material impact on our consolidated financial statements and related disclosures.

The Company has reviewed other 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.

2. REVENUE 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, 2022.

	Customer Deposits	Deferred Revenue
Balance at January 1, 2022	$ 43	$ 265
Additions, net	-	301
Transfer to revenue	(43)	(233)
Balance at December 31, 2022	$ -	$ 333
Current portion	$ -	$ 166
Long-term portion	$ -	$ 167

At December 31, 2022, the Company's deferred revenue of $333 thousand of deferred revenue at December 31, 2022, of which $198 thousand related to VR, $11 thousand was related to training and $124 thousand related to BolaWrap extended warranties and services. At December 31, 2021, the Company's deferred revenue of $265 consisted of $172 related to VR training and $67 related to 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 at December 31, 2022 and 2021. 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 ACQUISITION

On November 22, 2022, Wrap Technologies, Inc. (the "*Company*"), entered into a Professional Services and Technology Acquisition Agreement (the "*Agreement*") with Lumeto, Inc. and Spatial Industries Group, Inc. (collectively, "*Service Provider*"), pursuant to which Service Provider will provide 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 exchange for (a) a cash payment upon the execution of the Agreement of $700, (b) a cash payment of $125 upon the completion of certain project delivery deadlines, with such delivery deadline projected to be on February 13, 2023, and (c) a cash payment of $125 upon the completion and delivery of the final Technology, Services, and License. Among other things, the Company expects to realize the benefit of an upgraded cloud virtual reality platform as well as capabilities and resources to support its growth of law enforcement and corrections virtual reality training modules and enhanced capabilities. Identified intangible assets associated with this acquisition included software of $700. The useful life of the software is 3 years. There is no assumed residual value for the software.

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 cash equivalent Money Market Funds and short-term investments consisting of US Treasury bill securities are classified as Level 1 because they are valued using quoted market prices.

The following table shows the Company's cash and cash equivalents, Money Market Funds and short-term investments by significant investment category as of December 31, 2022 and 2021.

	As of December 31, 2022			
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Market Value
Level 1:				
Money Market Funds	$ 3,004	$ -	$ -	$ 3,004
US Treasury securities in short-term investments	9,849	100	-	9,949
Certificate of Deposits	4,000	-	-	4,000
Total Financial Assets	$ 16,853	$ 100	$ -	$ 16,953

	As of December 31, 2021			
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Market Value
Level 1:				
Money Market Funds	$ 1,670	$ -	$ -	$ 1,670
US Treasury securities in short-term investments	29,989	-	(6)	29,983
Total Financial Assets	$ 31,659	$ -	$ (6)	$ 31,653

Unrealized gains or losses resulting from our short-term investments are recorded in accumulated other comprehensive gain or loss. During the year ended December 31, 2022 and 2021, $100 and $(21) was recorded to accumulated other comprehensive loss and gain, respectively.

Our 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 sheets.

5. INVENTORIES, NET

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,	
	2022	2021
Finished goods	$ 2,293	$ 1,027
Work in process	-	2
Raw materials	1,682	537
Inventories - net	$ 3,975	$ 1,566

As part of product line exit costs end of life raw material costs aggregating $621 were written off during the year ended December 31, 2021.

6. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following:

	December 31, 2022	December 31, 2021
Production and lab equipment	$ 513	$ 500
Tooling	448	273
Computer equipment	531	467
Furniture, fixtures and improvements	181	176
	1,673	1,416
Accumulated depreciation	(915)	(440)
Property and equipment, net	$ 758	$ 976

Depreciation expense was $475 and $297 for the years ended December 31, 2022 and 2021, respectively. As part of product line exit costs unamortized production tooling costs of $106 were written off in the second quarter of 2021.

7. INTANGIBLE ASSETS, NET

Intangible assets consisted of the following:

	December 31, 2022	December 31, 2021
Amortizable intangible assets:		
Patents	$ 575	$ 416
Trademarks	150	134
Purchased software	1,962	1,212
Other	-	50
	2,687	1,812
Accumulated amortization	(462)	(174)
Total amortizable	2,225	1,638
Indefinite life assets (non-amortizable)	344	344
Total intangible assets, net	$ 2,569	$ 1,982

Amortization expense was $287 and $182 for the years ended December 31, 2022 and 2021, respectively. An additional impairment charge of $170 for purchased software was recorded in the second quarter of 2021.

At December 31, 2022, annual amortization of intangible assets, based upon the Company's existing intangible assets and current useful lives, is estimated to be the following:

2023	$ 498
2024	518
2025	513
2026	212
2027	42
Thereafter	442
Total estimated amortization expense	$ 2,225

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable includes $127 and $228 due to related party Syzygy Licensing, LLC ("*Syzygy*") as of December 31, 2022 and 2021, respectively.

Accrued liabilities consist of the following:

	December 31,	
	2022	2021
Patent and legal costs	$ 135	$ 28
Accrued compensation	1,100	628
Warranty costs	125	96
Taxes and other	103	72
	$ 1,463	$ 824

Accrued compensation includes $1,022 and $305 in employee bonuses and commissions payable at December 31, 2022 and 2021, respectively.

Changes in our estimated product warranty costs were as follows:

	Year Ended December 31,	
	2022	2021
Balance, beginning of period	$ 96	$ 48
Warranty settlements	(181)	(62)
Warranty provision	210	110
Balance, end of period	$ 125	$ 96

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, 2022, 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 $101 and $88 for the years ended December 31, 2022 and 2021, respectively.

Operating lease expense for capitalized operating leases included in operating activities was $118 and $95 for the years ended December 31, 2022 and 2021, respectively. Operating lease obligations recorded on the balance sheet at December 31, 2022 are:

Operating lease liability- short term	$	108
Operating lease liability - long term		193
Total Operating Lease Liability	$	301

Future lease payments included in the measurement of lease liabilities on the balance sheet at December 31, 2022 for future periods are as follows:

2023	$	121
2024		126
2025		75
Total future minimum lease payments		322
Less imputed interest		(21)
Total	$	301

The weighted average remaining lease term is 2.58 years, and the weighted average discount rate is 5.0%.

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 $39 and $29 variable lease expenses during year ended December 31, 2022 or 2021.

The Company had $11 and $0 short-term lease expense during year ended December 31, 2022, or 2021. The Company does not have any finance leases.

10. DEBT

The Company's debt at December 31, 2022 and 2021 included operating lease liabilities (see Note 9). The Company's debt at December 31, 2021 also included business acquisition liabilities.

11. STOCKHOLDERS' EQUITY

The Company's authorized capital consists of 150,000,000 shares of Common Stock, par value $0.0001 per share, and 5,000,000 shares of preferred stock, par value $0.0001 per share ("*Preferred Stock*").

During the year ended December 31, 2021, the Company received proceeds of $12,047 from the exercise of 1,815,012 warrants. At December 31, 2021 the Company had outstanding Common Stock purchase warrants exercisable for 1,391,667 shares that expired on June 1, 2022, and had no purchase warrants outstanding at December 31, 2022.

12. 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 ratified an increase in the Plan authorizing an additional 2,100,000 shares of Common Stock, in June 2020 ratified an additional 1,900,000 shares of Common Stock, in June 2021 ratified an additional 1,500,000 shares of Common Stock and in June 2022 ratified an additional 1,500,000 shares of Common Stock, for a total of 9,000,000 shares subject to the Plan. At December 31, 2022, there were 1,556,291 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 January 2022 the Company recognized severance acceleration of $242 of share-based compensation expense resulting from the resignation of the Company's Chief Executive Officer as part of a management transition plan.

The following table summarizes stock option activity for the year ended December 31, 2022:

	Options on Common Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding January 1, 2022	3,935,883	$ 5.24	4.79	
Granted	4,153,885	$ 3.64		
Exercised	(55,500)	$ 1.50		
Forfeited, cancelled, expired	(2,542,869)	$ 5.79		
Outstanding December 31, 2022	5,491,399	$ 3.72	5.96	$ 92
Exercisable December 31, 2022	2,465,110	$ 4.55	2.13	$ 92

At December 31, 2022, there were 3,877,169 service-based stock options outstanding, and 1,614,230 performance-based stock options outstanding, which performance-based stock options were granted in April 2022 to the Company's Chief Executive Officer and President, subject to future market capitalization targets. 1,049,145 of the 4,153,885 stock options granted included in the table above were granted in April 2022 outside the Plan as an employment inducement grant but are subject to the terms and conditions of the Plan.

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, 2022	For the Year Ended December 31, 2021
Expected stock price volatility	49%	50%
Risk-free interest rate	2.47%	0.90%
Forfeiture rate	0%	0%
Expected dividend yield	0%	0%
Expected life of options - years	5.96	5.74
Weighted-average fair value of options granted	$ 0.88	$ 2.57

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 US 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 1,614,230 market condition performance options granted in April 2022 to the Company's newly appointed Chief Executive Officer and a newly appointed President. The assumptions used in the Monte Carlo Simulation were stock price on date of grant of $2.89, contract term of 10 years, expected volatility of 49% and risk-free interest rate of 2.9%. Vesting is based on sustained market capitalization of $250 million, $500 million and $1 billion and resulted in implied service periods ranging from approximately 4 to 7 years.

Stock option expense was $1,770 and $2,608 for the years ended December 31, 2022 and 2021, respectively.

The following table summarizes information about stock options outstanding at December 31, 2022:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 1.50 – 2.27	820,750	0.39	$ 1.62	481,750	$ 1.50
$ 2.55 – 3.83	876,409	0.87	$ 2.92	35,000	$ 3.61
$ 3.85 – 5.78	2,050,010	2.19	$ 5.24	1,869,613	$ 5.28
$ 5.88 – 8.82	130,000	6.25	$ 6.42	78,747	$ 6.36

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, 2022 and 2021:

	Service-Based RSU's	Weighted Average Grant Date Fair Value	Weighted Average Vesting Period (Years)
Unvested at January 1, 2021	428,006	$ 6.13	2.3
Granted - service based	398,662	$ 5.59	
Vested	(524,491)	$ 5.55	
Forfeited and cancelled	(32,874)	$ 6.10	
Unvested at December 31, 2021	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	922,057	$ 2.88	2.11

A total of 175,173 RSUs included in the table above were granted in April 2022 outside the Plan as an employment inducement grant but are subject to the terms and conditions of the Plan.

RSU expense was $1,455 and $2,748 for the years ended December 31, 2022 and 2021, 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, 2022	2021
Selling, general and administrative	$ 2,684	$ 4,558
Research and development	541	798
Total share-based expense	$ 3,225	$ 5,356

As of December 31, 2022, total estimated compensation cost of stock options granted and outstanding but not yet vested was $3,327 which is expected to be recognized over the weighted average period of 3.38 years. As of December 31, 2022, total estimated compensation cost of RSUs granted and outstanding but not yet vested was $1,900 which is expected to be recognized over the weighted average period of 2.11 years.

13. 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 year ended December 31, 2022 was $0 respectively.

14. COMMITMENTS AND CONTINGENCIES

Facility Lease

See Note 9.

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 $274 and $278 for royalties incurred during the years ended December 31, 2022 and 2021, respectively. Maximum payout still available under this arrangement is $280.

Service Provider Agreement
Pursuant to the Professional Services and Technology Acquisition Agreement (the "*Agreement*") entered into with Lumeto, Inc. and Spatial Industries Group, Inc. (collectively, "*Service Provider*"), which Agreement provides that the Service Provider will provide 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*"), we are obligated to pay to the Service Provider (a) a cash payment upon the execution of the Agreement of $700, (b) a cash payment of $125 upon the completion of certain project delivery milestones expected in Q1and (c) a cash payment of $125 upon the final completion and delivery of the final Technology, Services, and License in Q2.

Purchase Commitments

At December 31, 2022 the Company was committed for approximately $3,626 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

Securities Litigation

On November 15, 2021, the Hon. Dolly M. Gee of the US District Court for the Central District of California (the "*Court*") granted the motion to dismiss filed by the Company, David Norris ("*Norris*"), James A. Barnes ("*Barnes*"), Thomas Smith ("*Smith*"), Mike Rothans ("*Rothans*") and Marc Thomas ("*Thomas*") (collectively, "Defendants") in the action captioned *In re Wrap Technologies, Inc. Securities Exchange Act Litigation* (the "*Securities Action*"). The Court granted Defendants' motion on the grounds that the complaint failed to identify any statement by Defendants that was either false or made with scienter. Concurrently, the Court granted Plaintiff leave to file a second amended complaint on or before December 6, 2021, noting that a failure to file a second amended complaint by that date would result in dismissal of the Securities Action with prejudice. On December 20, 2021, following Plaintiff's failure to file a second amended complaint, the Court dismissed the Securities Action with prejudice.

Shareholder Derivative Litigation

On November 13, 2020, Naresh Rammohan filed a shareholder derivative action in the US District Court for the Central District of California against current and former Company officers as well as current and former Company directors alleging unjust enrichment, breach of fiduciary duty, waste of corporate assets, and contribution claims under the Securities Exchange Act of 1934, docketed as Case No. 2:20-cv-10444-DMG-PVCx. The derivative action was dismissed with prejudice by stipulation of the parties on May 3, 2022.

15. RELATED PARTY TRANSACTIONS

Commencing in October 2017 the Company began reimbursing Mr. Elwood Norris, a former officer and current stockholder and consultant of the Company, $1.5 per month on a month-to-month basis for laboratory facility expense, for an aggregate of $18 during the years months ended December 31, 2022, and 2021, respectively. Mr. Norris retired as the Company's Chief Technology Officer effective June 30, 2021 and commencing July 1 was engaged as a month-to-month consultant. A greater than 10% stockholder, Mr. Norris was paid a monthly fee of $7.5 per month for aggregate consulting payments of $90 for the period ended December 31, 2022, and $45 for the six-month period ended December 31, 2021.

See Notes 8 and 14 for additional information on related party transactions and obligations.

16. 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 Company did not provide any current or deferred US federal income tax provision or benefit for the periods presented because of operating losses since inception. As of December 31, 2022, the Company has federal net operating loss carryforwards of approximately $51,774 to reduce future taxable income. Approximately $703 will expire in 2037 with the balance having an indefinite carryforward period. Certain changes in stock ownership can result in a limitation on the amount of net operating loss and tax credit carryovers that can be utilized each year. As of December 31, 2022, management has not determined the extent of any such limitations, if any. The Company is subject to taxation in the US and various state jurisdictions. All the Company's historical tax years are subject to examination by the Internal Revenue Service and various state jurisdictions due to the generation of net operating losses and credit carryforwards.

The Company provided a full valuation allowance on the net deferred tax asset, consisting primarily of net operating loss carry forwards, because management has determined that it is more likely than not that the Company will not earn income sufficient to realize the deferred tax assets during the carry forward period. As a result of the change in future Federal statutory tax rates due to the passing of the Tax Cuts and Jobs Act of 2017, management determined that the deferred tax assets and liabilities should be valued at a federal statutory rate of 21%.

The Company has not taken a tax position that, if challenged, would have a material effect on the financial statements for the periods ended December 31, 2022, and 2021 applicable under FASB ASC 740. The Company did not recognize any adjustment to the liability for uncertain tax position and therefore did not record any adjustment to the beginning balance of accumulated deficit on the balance sheet.

The provision for (benefit from) income taxes consist of the following:

	Year Ended December 31,	
	2022	2021
Current tax benefit	$ -	$ -
Deferred tax benefit	3,756	6,409
Change in valuation allowance	(3,756)	(6,409)
Income tax benefit (provision)	$ -	$ -

A reconciliation of the provision for income taxes at the federal statutory rate of 21% to the Company's provision for income tax is as follows:

	Year Ended December 31,	
	2022	2021
Income taxes benefit computed at federal statutory rate	$ 3,700	$ 5,139
State income taxes, net of federal effect	345	480
Permanent differences and other	(289)	790
Change in valuation allowance	(3,756)	(6,409)
Income tax benefit (provision)	$ -	$ -

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The following table presents the significant components of the Company's deferred tax assets and liabilities for the periods presented:

	December 31,	
	2022	2021
Deferred tax assets:		
Net operating losses	$ 14,898	$ 11,773
Research tax credits	65	60
Stock compensation	1,216	847
Accruals and other	324	211
	16,503	12,891
Deferred tax liabilities:		
Depreciation and other	534	678
	534	678
Net deferred tax assets	15,969	12,213
Less valuation allowance	(15,969)	(12,213)
Net deferred taxes after valuation allowance	$ -	$ -

In accordance with ASU 2016-09, *Compensation-Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting*, the Company recognizes windfall tax benefits associated with the exercise of stock options as a component of tax expense (rather than equity). Accordingly, our federal and state operating loss carryforwards include net windfall tax deductions from stock option exercises and RSU vesting of approximately $(597) and $3,168 during the years ended December 31, 2022 and 2021, respectively.

17. MAJOR CUSTOMERS AND RELATED INFORMATION

Major Customers

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.

For the year ended December 31, 2021, revenues from three distributors accounted for approximately 26%, 19% and 17% of revenues with no other single customer accounting for more than 10% of total revenues. Accounts receivable from three distributors accounted for 48%, 16% and 15% of net accounts receivable at December 31, 2021.

The following table summarizes revenues by geographic region. Revenues are attributed to countries based on customer's delivery location.

	For the Year Ended December 31, 2022	2021
Americas	$ 5,315	$ 3,357
Europe, Middle East and Africa	2,487	2,385
Asia Pacific	247	1,987
Total revenues	$ 8,049	$ 7,729

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

18. SUBSEQUENT EVENTS

The Company has evaluated other events subsequent to December 31, 2022 through the date the accompanying financial statements were filed with the Securities and Exchange Commission and noted that there have been no other events or transactions which would affect the Company's financial statements for the year ended December 31, 2022.

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 2nd day of March 2023.

WRAP TECHNOLOGIES, INC

Date: March 2, 2023

By: /s/ TJ Kennedy
TJ Kennedy
(Principal Executive 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.

Name	Position	Date
/s/ TJ Kennedy TJ Kennedy	Chief Executive Officer (Principal Executive Officer)	March 2, 2023
/s/ Chris DeAlmeida Chris DeAlmeida	Chief Financial Officer, Secretary and Treasurer (Principal Accounting Officer)	March 2, 2023
/s/ Wayne R. Walker Wayne R. Walker	Chairman of the Board	March 2, 2023
/s/ Scot Cohen Scot Cohen	Director	March 2, 2023
/s/ Michael Parris Michael Parris	Director	March 2, 2023
/s/ Kevin Sherman Kevin Sherman	Director	March 2, 2023
/s/Kimberly Sentovich Kimberly Sentovich	Director	March 2, 2023

Exhibit 23.1

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ACCOUNTANTS + ADVISORS
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CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Wrap Technologies, Inc.
Tempe, Arizona

We consent to the incorporation by reference in the Registration Statements (No. 333-225102, 333-232314, 333-239234 and 333-260841) on Form S-8 and (No. 333-228974, 333-239329 and 333-260612) on Form S-3 of Wrap Technologies, Inc. of our reports dated March 2, 2023, relating to the financial statements of Wrap Technologies, Inc., appearing in this Annual Report on Form 10-K of Wrap Technologies, Inc. for the year ended December 31, 2022.

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

Somerset, New Jersey
March 2, 2023

Exhibit 31.1

CERTIFICATION

I, TJ Kennedy, certify that:

1. I have reviewed this annual report on Form 10-K of Wrap Technologies, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 2, 2023

/s/ TJ Kennedy
TJ Kennedy
Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Chris DeAlmeida, certify that:

1. I have reviewed this annual report on Form 10-K of Wrap Technologies, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 2, 2023

/s/ Chris DeAlmeida
Chris DeAlmeida
Chief Financial Officer, Secretary and Treasurer
(Principal Accounting Officer)

Exhibit 32.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER
PURSUANT TO
18 USC. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Each of the undersigned hereby certifies, in accordance with 18 USC. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in his or her capacity as an officer of Wrap Technologies, Inc. (the "Company"), that, to his or her knowledge, the Annual Report of the Company on Form 10-K for the period ended December 31, 2022, fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date: March 2, 2023

/s/ TJ Kennedy
TJ Kennedy
Chief Executive Officer
(Principal Executive Officer)

Date: March 2, 2023

/s/ Chris DeAlmeida
Chris DeAlmeida
Chief Financial Officer, Secretary and Treasurer
(Principal Accounting Officer)