

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2024

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

For the transition period from _____ to _____

Commission File Number: 000-55838



Wrap Technologies, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

98-0551945
(I.R.S. Employer
Identification Number)

1817 W 4th Street
Tempe, Arizona 85281
(Address of principal executive offices) (Zip Code)

(800) 583-2652
(Registrant's Telephone Number, Including Area Code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

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

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of October 11 2024, a total of 45,874,382 shares of the Registrant's common stock, par value \$0.0001 per share ("Common Stock"), were issued and outstanding.

WRAP TECHNOLOGIES, INC.

INDEX

Page

PART I. FINANCIAL INFORMATION

Item 1.	Financial Statements:	1
	Condensed Consolidated Balance Sheets as of June 30, 2024 (unaudited) and December 31, 2023 (audited)	1
	Condensed Consolidated Statements of Operations and Comprehensive Loss for the three and six months ended June 30, 2024 and 2023 (unaudited)	2
	Condensed Consolidated Statements of Stockholders' Equity for the three and six months ended June 30, 2024 and 2023 (unaudited)	3
	Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2024 and 2023 (unaudited)	5
	Notes to Condensed Consolidated Interim Financial Statements (unaudited)	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	18
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	30
Item 4.	Controls and Procedures	30

PART II. OTHER INFORMATION

Item 1.	Legal Proceedings	31
Item 1A.	Risk Factors	31
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	31
Item 3.	Defaults Upon Senior Securities	31
Item 4.	Mine Safety Disclosures	32
Item 5.	Other Information	32
Item 6.	Exhibits	32

SIGNATURES

33

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2024 (unaudited)	December 31, 2023 (audited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,064	\$ 3,955
Short-term investments	2,500	7,500
Accounts receivable and contract assets, net	3,262	3,025
Inventories, net	6,489	5,794
Prepaid expense and other current assets	693	953
Total current assets	15,008	21,227
Property and equipment, net	292	509
Operating lease right-of-use asset, net	2,113	2,256
Intangible assets, net	2,526	2,648
Goodwill	1,610	1,610
Other assets	214	251
Total assets	\$ 21,763	\$ 28,501
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,138	\$ 1,110
Accrued liabilities	1,154	692
Customer deposits	-	1,002
Deferred revenue - short term	452	407
Operating lease liability - short term	621	616
Warrants	12,786	19,703
Total current liabilities	16,151	23,530
Long-term liabilities:		
Deferred revenue - long term	133	137
Operating lease liability - long term	1,638	1,671
Total long-term liabilities	1,771	1,808
Total liabilities	\$ 17,922	\$ 25,338
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Preferred stock - 5,000,000 authorized; par value \$0.0001 per share; 0 shares issued and outstanding at June 30, 2024 and December 31, 2023, respectively	-	-
Common stock - 150,000,000 authorized; par value \$0.0001 per share; 45,793,112 and 43,855,503 shares issued and outstanding at June 30, 2024 and December 31, 2023, respectively	\$ 4	\$ 4
Convertible Preferred Stock - 10,000 authorized, par value \$0.0001 per share; 8,207 and 9,898 shares issued and outstanding at June 30, 2024 and December 31, 2023, respectively	-	-
Additional paid-in capital	102,793	101,147
Accumulated deficit	(98,956)	(97,988)
Total stockholders' equity	3,841	3,163
Total liabilities and stockholders' equity	\$ 21,763	\$ 28,501

See accompanying notes to unaudited condensed consolidated interim financial statements.

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

	Three Months ended June 30,		Six Months ended June 30,	
	2024	2023	2024	2023
Revenues:				
Product sales	\$ 1,251	\$ 1,034	\$ 2,578	\$ 1,650
Other revenue	322	168	471	263
Total revenues	<u>1,573</u>	<u>1,202</u>	<u>3,049</u>	<u>1,913</u>
Cost of revenues	589	534	1,229	893
Gross profit	<u>984</u>	<u>668</u>	<u>1,820</u>	<u>1,020</u>
Operating expenses:				
Selling, general and administrative	3,475	4,745	7,695	8,286
Research and development	679	1,002	1,434	2,073
Total operating expenses	<u>4,154</u>	<u>5,747</u>	<u>9,129</u>	<u>10,359</u>
Loss from operations	<u>(3,170)</u>	<u>(5,079)</u>	<u>(7,309)</u>	<u>(9,339)</u>
Other income (expense):				
Interest income	55	88	133	324
Change in fair value of warranty liabilities	2,738	-	6,917	-
Other	(8)	(16)	(9)	(20)
Total other income (expense), net	<u>2,785</u>	<u>72</u>	<u>7,041</u>	<u>304</u>
Net loss	<u>\$ (385)</u>	<u>\$ (5,007)</u>	<u>\$ (268)</u>	<u>\$ (9,035)</u>
Less: convertible preferred stock dividends	(511)	-	(700)	-
Net loss attributable to common stockholders	<u>\$ (896)</u>	<u>\$ (5,007)</u>	<u>\$ (968)</u>	<u>\$ (9,035)</u>
Net loss per basic and diluted common share	<u>\$ (0.02)</u>	<u>\$ (0.12)</u>	<u>\$ (0.02)-</u>	<u>\$ (0.22)</u>
Weighted average common shares used to compute net loss per basic and diluted common share	<u>45,324,917</u>	<u>41,709,718</u>	<u>44,740,183</u>	<u>41,483,669</u>
Comprehensive loss:				
Net loss	\$ (385)	\$ (5,007)	(268)	(9,035)
Comprehensive loss	<u>\$ (385)</u>	<u>\$ (5,007)</u>	<u>\$ (268)</u>	<u>\$ (9,035)</u>

See accompanying notes to unaudited condensed consolidated interim financial statements.

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

Three Months Ended June 30, 2024

	Common Stock		Convertible Preferred Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance at April 1, 2024	44,373,107	\$ 4	9,798	\$ -	\$ 102,539	\$ (98,060)	\$ -	\$ 4,483
Share-based compensation expense	-	-	-	-	243	-	-	243
Dividends on convertible preferred stock	-	-	-	-	11	(511)	-	(500)
Common shares issued upon vesting of restricted stock units	103,306	-	-	-	-	-	-	-
Common shares issued upon convertible preferred stock exercising conversion rights	1,316,699	-	(1,591)	-	-	-	-	-
Net loss for the period	-	-	-	-	-	(385)	-	(385)
Balance at June 30, 2024	45,793,112	\$ 4	8,207	\$ -	\$ 102,793	\$ (98,956)	\$ -	\$ 3,841

Six Months Ended June 30, 2024

Balance at January 1, 2024	43,855,503	\$ 4	9,898	\$ -	\$ 101,147	\$ (97,988)	\$ -	\$ 3,163
Common shares issued upon exercise of stock options	232,081	-	-	-	588	-	-	588
Share-based compensation expense	-	-	-	-	918	-	-	918
Dividends on convertible preferred stock	128,233	-	-	-	140	(700)	-	(560)
Common shares issued upon convertible preferred stock exercising conversion rights	1,391,183	-	(1,691)	-	-	-	-	-
Common shares issued upon vesting of restricted stock units	186,112	-	-	-	-	-	-	-
Net income for the period	-	-	-	-	-	(268)	-	(268)
Balance at June 30, 2024	45,793,112	\$ 4	8,207	\$ -	\$ 102,793	\$ (98,956)	\$ -	\$ 3,841

Three Months Ended June 30, 2023

	Common Stock		Convertible Preferred Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance at April 1, 2023	41,270,300	\$ 4	-	\$ -	\$ 94,961	\$ (71,404)	\$ -	\$ 23,561
Common shares issued upon exercise of stock options	-	-	-	-	-	-	-	-
Share-based compensation expense	-	-	-	-	1,221	-	-	1,221
Common shares issued upon vesting of restricted stock units	640,387	-	-	-	-	-	-	-
Net loss for the period	-	-	-	-	-	(5,007)	-	(5,007)
Balance at June 30, 2023	41,910,687	\$ 4	-	\$ -	\$ 96,182	\$ (76,411)	\$ -	\$ 19,775

Six Months Ended June 30, 2023

Balance at January 1, 2023	41,175,993	\$ 4	-	\$ -	\$ 94,333	\$ (67,376)	\$ 94	\$ 27,055
Common shares issued upon exercise of stock options	250	-	-	-	-	-	-	-
Share-based compensation expense	-	-	-	-	1,849	-	-	1,849
Common shares issued upon convertible preferred stock exercising conversion rights	734,444	-	-	-	-	-	-	-
Settlement – US Treasury bills	-	-	-	-	-	-	(94)	(94)
Net loss for the period	-	-	-	-	-	(9,035)	-	(9,035)
Balance at June 30, 2023	41,910,687	\$ 4	-	\$ -	\$ 96,182	\$ (76,411)	\$ -	\$ 19,775

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

	Six Months ended June 30,	
	2024	2023
Cash Flows From Operating Activities:		
Net loss	\$ (268)	\$ (9,035)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	451	403
Share-based compensation	918	1,849
Warranty provision	17	(44)
Change in fair value of warrant liabilities	(6,917)	-
Non-cash lease expense	143	53
Provision for doubtful accounts	-	(4)
Inventory obsolescence reserve	12	-
Changes in assets and liabilities:		
Accounts receivable	(236)	884
Inventories	(707)	(2,545)
Prepaid expenses and other current assets	261	53
Accounts payable	25	508
Operating lease liability	(29)	(52)
Customer deposits	(1,002)	3
Accrued liabilities and other	39	7,149
Warranty settlement	(34)	(6)
Deferred Revenue	41	8
Changes in other non-current assets	37	-
Net cash used in operating activities	<u>(7,249)</u>	<u>(776)</u>
Cash Flows From Investing Activities:		
Purchase of short-term investments	-	(2,645)
Proceeds from maturities of short-term investments	5,000	10,000
Capital expenditures for property and equipment	(13)	(66)
Investment in patents and trademarks	(97)	(176)
Purchase of intangible assets	-	(10)
Proceeds from long-term deposits	-	31
Net cash provided by investing activities	<u>4,890</u>	<u>7,134</u>
Cash Flows From Financing Activities:		
Proceeds from exercise of stock options	588	-
Dividends settled in Cash	(120)	-
Net cash provided by financing activities	<u>468</u>	<u>-</u>
Net (decrease) increase in cash and cash equivalents	(1,891)	6,358
Cash and cash equivalents, beginning of period	3,955	5,330
Cash and cash equivalents, end of period	\$ 2,064	\$ 11,688
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Change in unrealized gain on short-term investments	\$ 94	\$ (94)
Dividends on convertible preferred stock	\$ 700	\$ -
Dividends settled with common stock	\$ 140	\$ -

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

1. ORGANIZATION, SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RECENT DEVELOPMENTS

Organization and Business Description

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

Basis of Presentation

The Company’s unaudited interim condensed consolidated financial statements included herein have been prepared in accordance with the instructions to Form 10-Q and Article 8 of Regulation S-X and the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) have been condensed or omitted pursuant to such rules and regulations. In management’s opinion, the accompanying financial statements reflect adjustments necessary to present fairly the financial position, results of operations, and cash flows for those periods indicated, and contain adequate disclosure to make the information presented not misleading. Adjustments included herein are of a normal, recurring nature unless otherwise disclosed in the footnotes. The condensed consolidated financial statements and notes thereto should be read in conjunction with the Company’s audited financial statements and notes thereto for the year ended December 31, 2023, included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2023 (the “Annual Report”), as filed with the SEC on August 28, 2024. The accompanying condensed consolidated balance sheet as of December 31, 2023 has been derived from the audited consolidated balance sheet as of December 31, 2023, contained in the Annual Report. Results of operations for interim periods are not necessarily indicative of the results of operations for a full year.

Where necessary, the prior year’s information has been reclassified to conform to the current year presentation.

Principles of Consolidation

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

Segment and Related Information

The Company operates as a single segment. The Company’s chief operating decision maker is Scot Cohen, the Company’s Executive Chairman and Chief Executive Officer, who manages operations for purposes of allocating resources. Refer to Note 15. Major Customers and Related Information for further discussion.

Goodwill

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

Definite-lived Intangible Assets

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

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions (e.g., stock-based compensation valuation, allowance for doubtful accounts, valuation of inventory and intangible assets, warranty reserve, accrued expense, valuation of warrants, 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 revenue and expense during the reporting period. Actual results could materially differ from those estimates.

Warrants

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

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

Series A Preferred Stock

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

The Company issued the Series A Warrants (as defined herein), which are classified as liabilities and measured at fair value on a recurring basis, and Series A Preferred Stock (as defined herein) in one transaction. The issuance proceeds were allocated by using the with-and-without method. Under this method, The Company first allocated the issuance proceeds to the Series A Warrants based on their initial fair value measurement, and then allocated the remaining proceeds to the Series A Preferred Stock.

Revenue Recognition

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

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

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

Loss per Share

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

In computing diluted EPS, we adjust the numerator used in the basic EPS computation, subject to anti-dilution requirements, to add back the dividends (declared or cumulative undeclared) applicable to the Series A Preferred Stock. Such add-back would also include any adjustments to equity in the period to accrete the Series A Preferred Stock to its redemption price, or recorded upon a redemption or induced conversion, if any. We adjust the denominator used in the basic EPS computation, subject to anti-dilution requirements, to include the dilution from potential shares resulting from the issuance of the Series A Preferred Stock, restricted stock units, and stock options. Stock options and restricted stock units exercisable or issuable for a total of 4,903,951 and 4,117,586 shares of Common Stock were outstanding as of June 30, 2024 and 2023, 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.

Reclassification of Prior Year Presentation

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations. An adjustment has been made to the Consolidated Balance Sheet and Consolidated Statements of Cash Flows for fiscal year ended December 31, 2023, to reclassify the Convertible Preferred Stock at par value.

Recently Issued Accounting Guidance

In November 2023, the Financial Accounting Standards Board (FASB) issued ASU No. 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures (ASU 2023-07), which requires an enhanced disclosure of significant segment expenses on an annual and interim basis. This guidance will be effective for the annual periods beginning the year ended December 31, 2024, and for interim periods beginning January 1, 2025. Early adoption is permitted. Upon adoption, the guidance should be applied retrospectively to all prior periods presented in the financial statements. The Company is currently evaluating segment disclosures related to its annual report for fiscal year 2024.

In December 2023, the FASB issued ASU No. 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures (ASU 2023-09), which improves the transparency of income tax disclosures by requiring consistent categories and greater disaggregation of information in the effective tax rate reconciliation and income taxes paid disaggregated by jurisdiction. It also includes certain other amendments to improve the effectiveness of income tax disclosures. This guidance will be effective for the annual periods beginning the year ended December 31, 2025. Early adoption is permitted. Upon adoption, the guidance can be applied prospectively or retrospectively. The Company is currently evaluating income tax disclosures related to its annual report for fiscal year 2025.

2. REVENUE AND PRODUCT COSTS

Revenue consists of product revenue and other revenue. Product sales include BolaWrap products and accessories. Other revenue includes VR revenue, service, training and shipping revenue.

The timing of revenue recognition may differ from the timing of invoicing to customers. The Company generally has an unconditional right to consideration when customers are invoiced, and a receivable is recorded. A contract asset is recognized when revenue is recognized prior to invoicing, or a contract liability (deferred revenue) when revenue will be recognized subsequent to invoicing. The Company recognizes an asset if there are incremental costs of obtaining a contract with a customer such as commissions. These costs are ascribed to or allocated to the underlying performance obligations in the contract. The Company may receive consideration, per terms of a contract, from customers prior to transferring goods to the customer. The Company records customer deposits as a contract liability. Additionally, the Company may receive payments, most typically for service and warranty contracts, at the onset of the contract and before the services have been performed. In such instances, a deferred revenue liability is recorded. The Company recognizes these contract liabilities as revenue after all revenue recognition criteria are met. The table below details the activity in our contract liabilities during the six months ended June 30, 2024.

	Customer Deposits	Deferred Revenue
Balance at January 1, 2024	\$ 1,002	\$ 544
Additions, net	20	409
Transfer to revenue	(1,022)	(368)
Balance at June 30, 2024	\$ -	\$ 585
Current portion	\$ -	\$ 452
Long-term portion	\$ -	\$ 133

As of June 30, 2024, the Company's deferred revenue of \$585 consisted of \$122 related to VR, \$358 related to Intrensic, and \$105 related to BolaWrap extended warranties and services.

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 the cost of products sold.

3. FINANCIAL INSTRUMENTS

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

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

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

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

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

The following table shows the Company's short-term investments by significant investment category as of June 30, 2024 and December 31, 2023.

	As of June 30, 2024			
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Market Value
Level 1:				
Money Market Funds	\$ 1,406	-	\$ -	\$ 1,406
Certificate of Deposits	2,500	-	-	2,500
Total Financial Assets	<u>\$ 3,906</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,906</u>
	As of December 31, 2023			
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Market Value
Level 1:				
Money Market Funds	1,793	-	-	1,793
Certificate of Deposits	7,500	-	-	7,500
Total Financial Assets	<u>\$ 9,293</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,293</u>

Unrealized gains or losses resulting from our short-term investments are recorded in accumulated other comprehensive gain or loss as they are classified as available for sale. During the six months ended June 30, 2024 as well as the six months ended June 30, 2023, no gain (loss) was recorded to comprehensive loss, respectively.

The warrant liabilities are measured at fair value on a recurring basis. The subsequent measurement of the warrant liabilities as of June 30, 2024, is classified as Level 3 due to the use of an observable market quote in a non-active market and the management's assumption of the expected stock price volatility.

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

	June 30, 2024	December 31, 2023
Level 3:		
Fair value at inception for December 31, 2023 or the beginning of the period for June 30, 2024	\$ (19,703)	\$ (7,717)
Change in fair value of warrant liabilities	6,917	(11,986)
Fair value as of period end	<u>\$ (12,786)</u>	<u>\$ (19,703)</u>

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

	As of June 30, 2024	As of December 31, 2023
Expected stock price volatility	167%	143%
Risk-free interest rate	4.38%	3.85%
Dividends yield	0%	0%
Expected life of warrants (years)	4.00	4.50
Exercise price	\$ 1.45	\$ 1.45

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

4. INVENTORIES

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

	June 30, 2024	December 31, 2023
Finished goods	\$ 4,640	\$ 3,521
Raw materials	2,326	2,738
Reserve for Obsolescence	(477)	(465)
Inventories - net	<u>\$ 6,489</u>	<u>\$ 5,794</u>

5. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following:

	June 30, 2024	December 31, 2023
Production and lab equipment	\$ 542	\$ 542
Tooling	572	562
Computer equipment	618	615
Furniture, fixtures and improvements	196	196
	\$ 1,928	\$ 1,915
Accumulated depreciation	(1,636)	(1,406)
Property and equipment, net	<u>\$ 292</u>	<u>\$ 509</u>

Depreciation expense was \$114 and \$230 for the three and six months ended June 30, 2024, respectively, and \$118 and \$236 for the three and six months ended June 30, 2023, respectively.

6. INTANGIBLE ASSETS AND GOODWILL

Intangible Assets, net

Intangible assets, net consisted of the following:

	June 30, 2024	December 31, 2023
Amortizable intangible assets:		
Patents	\$ 957	\$ 873
Trademarks	262	248
Purchased software and technology	1,752	1,752
Customer Relationships	160	160
	<u>\$ 3,131</u>	<u>\$ 3,033</u>
Accumulated amortization	(1,026)	(806)
Total amortizable	\$ 2,105	\$ 2,227
Indefinite life assets (non-amortizable)	421	421
Total intangible assets, net	<u>\$ 2,526</u>	<u>\$ 2,648</u>

Amortization expense was \$113 and \$220 for the three and six months ended June 30, 2024, respectively, and \$85 and \$167 for the three and six months ended June 30, 2023, respectively.

As of June 30, 2024, future amortization expense is as follows:

2024 (6 months)	\$ 227
2025	447
2026	360
2027	210
2028	210
Thereafter	651
Total estimated amortization expense	<u>\$ 2,105</u>

Goodwill

There has been no change to the value of goodwill from December 31, 2023 through the period ended June 30, 2024.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

We are obligated to pay royalties pursuant to an exclusive Amended and Restated Intellectual Property License Agreement (the "License Agreement"), dated as of September 30, 2016, with Syzygy Licensing, LLC ("Syzygy"), a private technology invention, consulting and licensing company owned and controlled by Elwood G. Norris, a founder and former officer and current 5% or greater stockholder of the Company, and James A. Barnes, a former officer and stockholder of the Company (see Note 13). Accounts payable includes \$81 and \$14 due to Syzygy as of June 30, 2024 and December 31, 2023, respectively.

Accrued liabilities consist of the following:

	June 30, 2024	December 31, 2023
Patent and legal costs	\$ 184	\$ 21
Accrued compensation	216	325
Warranty costs	55	72
Taxes and other	699	274
Total	<u>\$ 1,154</u>	<u>\$ 692</u>

Changes in our estimated product warranty costs were as follows:

	Six Months Ended June 30,	
	2024	2023
Balance, beginning of period	\$ 72	\$ 125
Warranty settlements	(34)	(6)
Warranty provision	17	(44)
Balance, end of period	<u>\$ 55</u>	<u>\$ 75</u>

8. WARRANTS

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

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

9. LEASES

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

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

Amortization expense was \$72 and \$143 for the three and six months ended June 30, 2024, respectively, and \$27 and \$53 for the three and six months ended June 30, 2023, respectively

Operating lease expense for capitalized operating leases included in operating activities was \$166 and \$415 for the three months and six months ended June 30, 2024, and \$26 and \$76 for the three and six months ended June 30, 2023, respectively.

Operating lease obligations recorded on the balance sheet at June 30, 2024 are:

Operating lease liability- short term	\$	621
Operating lease liability - long term	\$	1,638
Total Operating Lease Liability	\$	2,259

Future lease payments included in the measurement of lease liabilities on the balance sheet at June 30, 2024 for future periods are as follows:

2024 (6 months)	\$	222
2025		567
2026		507
2027		522
2028		538
Thereafter		1,273
Total future minimum lease payments	\$	3,629
Less imputed interest	\$	(1,370)
Total	\$	2,259

The weighted average remaining lease term is 6.41 years, and the weighted average discount rate is 14.4%.

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 \$14 and \$24 variable lease expenses for the three and six months ended June 30, 2024, respectively, and \$6 and \$25 for the three and six months ended June 30, 2023, respectively.

The Company had \$4 and \$15 short-term lease expense for the three and six months ended June 30, 2024, respectively, and \$13 and \$27 for the three and six months ended June 30, 2023, respectively. The Company does not have any finance leases.

10. STOCKHOLDERS' EQUITY

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

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

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

The Series A Preferred Stock cannot be converted to Common Stock if the holder, other than Scot Cohen, V4 Global LLC or their transferees, and its affiliates would beneficially own more than 4.99%, or 9.99% at the election of the holder, of the outstanding Common Stock. However, any holder may increase or decrease such percentage to any other percentage not in excess of 9.99% upon notice to us, provided that any increase in this limitation will not be effective until 61 days after such notice from the holder to us and such increase or decrease will apply only to the holder providing such notice.

Except as required by law (including without limitation, the Delaware General Corporation Law (the "DGCL")), the holders of the Series A Preferred Stock are entitled to vote with holders of the Common Stock on an as-converted basis, with the number of votes to which each holder of Series A Preferred Stock is entitled to be calculated assuming a conversion price of \$1.414 per share, which was the Minimum Price (as defined in Rule 5635 of the Rule of the Nasdaq Stock Market) applicable immediately before the execution and delivery of the Series A Purchase Agreement, subject to certain beneficial ownership limitations as set forth in the Series A Certificate of Designations. To the extent that under the DGCL the vote of the holders of shares of Series A Preferred Stock, voting separately as a class or series, as applicable, is required to authorize a given action of the Company, the affirmative vote or consent of a majority of the outstanding shares of Series A Preferred Stock, voting together in the aggregate and not in separate series unless required under the DGCL, represented at a duly held meeting at which a quorum is present or by written consent of such majority (except as otherwise may be required under the DGCL) shall constitute the approval of such action by both the class or the series, as applicable.

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

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

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

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

On October 14, 2024, the Company entered into an Amendment Agreement (the “October 2024 Series A Amendment”) with the Required Holders (as defined in the Certificate of Designations). Pursuant to the October 2024 Series A Amendment, the Required Holders agreed to amend the Certificate of Designations (the “October 2024 Certificate of Amendment”). Pursuant to the October 2024 Certificate of Amendment, (i) the Series A Preferred Stock will be entitled to voting rights as described therein, (ii) certain holders of the Preferred Stock will not be subject to certain beneficial ownership limitations as described in the Certificate of Designations, and (iii) stockholder approval will not be required in connection with the payment of dividends in the form of Common Stock to a holder of the Series A Preferred Stock who serves as a director, officer or employee of the Company. The October 2024 Certificate of Amendment was filed with the Secretary of State of the State of Delaware on October 14, 2024.

At the time of issuance, \$2,036 of the net proceeds less transaction cost of the Series A Purchase Agreement was allocated to the 10,000 shares of Series A Preferred Stock initially issued. During the three months ended December 31, 2023, 102 shares of the Series A Preferred Stock were converted into 76,440 shares of Common Stock and during the six months ended June 30, 2024 an additional 1,691 shares of Series A Preferred Stock were converted into 1,391,183 shares of Common Stock. As of June 30, 2024, the Company has authorized and declared \$700 in dividends during the year of which \$500 was accrued in accounts payable as of June 30, 2024.

11. 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. As of June 30, 2024, there were 849,534 shares of Common Stock remaining available for grant under the Plan.

Stock Options

The following table summarizes stock option activity for the six months ended June 30, 2024:

	Options on Common Shares	Weighted Average		Aggregate Intrinsic Value
		Exercise Price	Remaining Contractual Term	
Outstanding January 1, 2024	4,657,635	\$ 2.52	8.75	\$ 3,979
Granted	735,000	\$ 2.90	-	-
Exercised	(232,081)	\$ 2.53	-	-
Forfeited, cancelled, expired	(1,359,495)	\$ 3.01	-	-
Outstanding June 30, 2024	3,801,059	\$ 2.43	8.13	\$ 1,195-
Exercisable June 30, 2024	1,019,9810	\$ 4.09	4.81	\$ 20

As of June 30, 2024, there were 2,510,893 service-based stock options outstanding, and 1,290,166 performance-based stock options outstanding which were granted in October 2023 to the Company's current Chief Executive Officer subject to future market capitalization targets.

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

	For the Six Months Ended June 30,	
	2024	2023
Expected stock price volatility	76%	49%
Risk-free interest rate	3.97%	3.64%
Expected dividend yield	0%	0%
Expected life of options	6.00	6.66
Weighted-average fair value of options granted	\$ 2.90	\$ 0.55

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

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

Stock option expense was (\$33) and \$434 for the three and six months ended June 30, 2024, respectively, and \$255 and \$567 for the three and six months ended June 30, 2023, respectively.

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 vest. The following table summarizes RSU activity for the six months ended June 30, 2024:

	Service-Based RSU's	Weighted Average Grant Date Fair Value	Weighted Average Vesting Period (Years)
Unvested at January 1, 2024	810,588	\$ 1.73	2.52
Granted - service based	739,836	\$ 2.77	-
Vested	(159,805)	\$ 2.85	-
Forfeited and cancelled	(237,727)	\$ 2.26	-
Unvested at June 30, 2024	1,152,892	\$ 2.15	5.19

The Company used the Monte Carlo Simulation Model to value at the grant date the aggregate of 632,911 market condition performance RSUs granted in January 2024 to the Company's Chief Executive Officer. The assumptions used in the Monte Carlo Simulation were stock price on the date of grant of \$3.40, a contract term of 10 years, expected volatility of 78% and risk-free interest rate of 4.10%. Vesting is based on sustained market capitalization of \$1 billion, and the derived service period is 4.3 years.

RSU expense was \$275 and \$484 for the three and six months ended June 30, 2024, respectively, and \$966 and \$1,282 for the three and six months ended June 30, 2023, respectively.

Share-Based Compensation Expense

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Selling, general and administrative	\$ 208	\$ 990	\$ 856	\$ 1,552
Research and development	34	231	62	297
Total share-based expense	\$ 242	\$ 1,221	\$ 918	\$ 1,849

As of June 30, 2024, total estimated compensation cost of stock options granted and outstanding but not yet vested was \$2,772 which is expected to be recognized over the weighted average period of 2.33 years.

As of June 30, 2024, total estimated compensation cost of RSUs granted and outstanding but not yet vested was \$2,206, which is expected to be recognized over the weighted average period of 5.19 years.

12. 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 each of the six months ended June 30, 2024 and 2023 was \$0.

13. COMMITMENTS AND CONTINGENCIES

Related Party Technology License Agreement

The Company is obligated to pay royalties and development and patent costs pursuant to the 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 \$20 and \$66 for the three and six months ended June 30, 2024, respectively, and \$40 and \$64 for the three and six months ended June 30, 2023, respectively related to such royalties. The maximum payout has been satisfied as of June 30, 2024.

Purchase Commitments

As of June 30, 2024, the Company was committed for approximately \$941 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 arise in the ordinary course of its business.

Litigation

The Company is subject to litigation and other claims in the ordinary course of business. The Company records a provision for a liability relating to legal matters when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed and adjusted to include the impacts of negotiations, estimated settlements, legal rulings, advice of legal counsel, and other information and events pertaining to a particular matter. As of June 30, 2024, the Company had no provision for liability under existing litigation.

14. RELATED PARTY TRANSACTIONS

Series A Preferred Stock

On June 29, 2023, the Company entered into the Series A Purchase Agreement with certain investors, including Scot Cohen, the Company's Chief Executive Officer, and V4 Global LLC ("V4"). Mr. Cohen has voting and dispositive control with respect to the securities and is deemed to be the beneficial owner of the securities held by V4. Pursuant to the Series A Purchase Agreement, the Company issued Mr. Cohen and V4 an aggregate of 3,000 shares of Series A Preferred Stock and Series A Warrants to purchase up to an aggregate of 2,068,966 shares of Common Stock for aggregate gross proceeds of \$3,000. For the six months ended June 30, 2024, Mr. Cohen earned dividends totaling \$120 on his Series A Preferred Stock.

Consulting Services

Commencing in October 2017, the Company began reimbursing Mr. Elwood Norris, a former officer, current 5% stockholder and consultant of the Company, \$1.5 per month on a month-to-month basis for laboratory facility costs which was terminated in January 2024 and \$7.5 per month on a month-to-month basis for invention consulting services, which was terminated in February 2024 for an aggregate of \$15 and \$23 during each of the three months ended June 30, 2024 and 2023, respectively.

The Company is obligated to pay royalties and development and patent costs pursuant to the License Agreement dated September 30, 2016, with Syzygy, a company owned and controlled by a 5% stockholder of the Company, Mr. Elwood Norris, and a former officer of the Company, Mr. James Barnes. The agreement provides for royalty payments of 4% of revenue from products employing the licensed ensnarement device technology up to an aggregate of \$1,000 in royalties or until September 30, 2026, whichever occurs earlier. During the three months ended June 30, 2024 and 2023, the Company incurred royalties to Syzygy of \$46 and \$24, respectively.

See Notes 1, 7 and 13 for additional information on related party transactions and obligations.

15. MAJOR CUSTOMERS AND RELATED INFORMATION

For the three months ended June 30, 2024, revenue from one distributor accounted for approximately 39% of revenue with no other single customer accounting for more than 10% of total revenue. For the three months ended June 30, 2023, revenue from two distributors accounted for approximately 21% and 20% of revenues, respectively, with no other single customer accounting for more than 10% of total revenue.

For the six months ended June 30, 2024, revenue from two distributors accounted for approximately 33% and 20% of revenue, respectively, with no other single customer accounting for more than 10% of total revenue. For the six months ended June 30, 2023, revenue from three distributors accounted for approximately 15%, 14% and 13% of revenue, respectively, with no other single customer accounting for more than 10% of total revenue.

At June 30, 2024, accounts receivable from one distributor accounted for 39% of net accounts receivable, with no other single customer accounting for more than 10% of the accounts receivable balance. At December 31, 2023, accounts receivable from one distributor accounted for 67% of net accounts receivable, with no other single customer accounting for more than 10% of the accounts receivable balance.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2024	2023	2024	2023
Americas	\$ 1,536	\$ 1,168	\$ 2,999	\$ 1,878
Europe, Middle East and Africa	37	35	43	36
Asia Pacific	-	(1)	7	(1)
Total revenues	<u>\$ 1,573</u>	<u>\$ 1,202</u>	<u>\$ 3,049</u>	<u>\$ 1,913</u>

16. SUBSEQUENT EVENTS

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

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

On October 14, 2024, the Company entered into an Amendment Agreement with the Required Holders (as defined in the Certificate of Designations), pursuant to which, the Required Holders agreed to amend the Certificate of Designations of the Company’s Series A Preferred Stock, as described below, by filing a Certificate of Amendment to the Certificate of Designations (the “October 2024 Certificate of Amendment”).

The October 2024 Certificate of Amendment amends the Certificate of Designations to, among other things, provide that, except as required by applicable law, the holders of the Series A Preferred Stock will be entitled to vote with holders of the Common Stock on an as converted basis, with the number of votes to which each holder of Series A Preferred Stock is entitled to be calculated assuming a conversion price of \$1.414 per share, which was the Minimum Price (as defined in Rule 5635 of the Rule of the Nasdaq Stock Market) applicable immediately before the execution and delivery of the Series A Purchase Agreement, subject to certain beneficial ownership limitations as set forth in the Certificate of Designations. The October 2024 Certificate of Amendment further provides that (i) certain holders of the Series A Preferred Stock will not be subject to certain beneficial ownership limitations as described in the Certificate of Designations, and (ii) stockholder approval will not be required in connection with the payment of dividends in the form of Common Stock to a holder of the Series A Preferred Stock who serves as a director, officer or employee of the Company. The Certificate of Amendment was filed with the Secretary of State, effective as of October 14, 2024.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion in conjunction with the financial statements and other financial information included elsewhere in this Quarterly Report on Form 10-Q (this "Report") and with our audited financial statements and other information presented in our Annual Report on Form 10-K for the year ended December 31, 2023 (the "Annual Report"). This Report may contain or incorporate by reference forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such forward-looking statements are based upon management's assumptions, expectations, projections, intentions and beliefs about future events. Except for historical information, the use of predictive, future-tense or forward-looking words such as "expect," "anticipate," "intend," "plan," "believe," "seek," "estimate," "continue," "may," "will," "could," "would," or the negative or plural of such words 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. Such forward-looking statements are subject to a number of risks, uncertainties, assumptions and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by the forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those discussed below and elsewhere in this Report and in our other filings with the Securities and Exchange Commission ("SEC"), including particularly matters set forth under Part I, Item 1A (Risk Factors) of the Annual Report. Furthermore, such forward-looking statements speak only as of the date of this Report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Overview

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

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

We focus our efforts on the following products and services:

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

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

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

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

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

Business Outlook and Challenges

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

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

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

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

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

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

Management anticipates that our portfolio of products 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, continued need for ongoing training and transparency for police encounters, 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 U.S. However, we acknowledge that it is challenging to predict the exact timeline for closing these deals, or whether they will ultimately materialize.

As part of our efforts to expand our sales and distribution operations, we provide a comprehensive training program for law enforcement officers and trainers in using the BolaWrap. This training equips them with knowledge about the appropriate use and limitations of BolaWrap in tandem with modern policing techniques for de-escalation of encounters. We now focus on also teaching when and why BolaWrap should be used, including the specific area of success, such as after verbal commands break down and before the law enforcement officer is ready to escalate to less lethal pain compliance tools. We believe that law enforcement trainers and officers who have been trained to use our products, or have witnessed demonstrations, are more inclined to support the acquisition and deployment of our products by their respective departments to drive successful outcomes. As of June 30, 2024, over 1,500 agencies have received BolaWrap training with over 5,300 training officers at those agencies certified as BolaWrap instructors and qualified to train the rest of their departments, representing an 12% increase in agencies and a 18% increase in trained officers as compared to June 30, 2023.

Operating expense as of \$7.7 million for the six months ended June 30, 2024 decreased by \$591 thousand, when compared to \$8.3 million for the six months ended June 30, 2023, as a result of the Company's cost containment initiatives enacted beginning during the first half of 2024 as well as a reduction in share-based compensation, offset by increased occupancy expenses related to the new the office space.

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

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

As of June 30, 2024, we had backlog of approximately \$260 thousand which was delivered in the third quarter of 2024. Additionally, as of June 30, 2024, we had deferred revenue of \$585 thousand which consisted of \$122 thousand related to VR, \$358 thousand related to Intrensic, and \$105 thousand related to BolaWrap extended warranties and services. Distributor and customer orders for future deliveries are generally subject to modification, rescheduling or in some instances, cancellation, in the normal course of business.

Since inception, we have generated significant losses from operations and anticipate that we will continue to generate significant losses from operations for the foreseeable future. We believe that we have adequate financial resources to sustain our operations for the twelve months. We recorded net loss of \$268 thousand during the first half of fiscal 2024 as compared to net loss of \$9.0 million during the first half of fiscal 2023, an improvement of approximately \$8.7 million for the comparable period. Net cash used in operations during the six months ended June 30, 2024, was \$6.5 million more than net cash used in operations during the six months ended June 30, 2023. This increase in net cash used in operations during the first six months of 2024 was primarily driven by an increase in accrued liabilities primarily resulting from deposits made in June 2023 in advance of the preferred stock issued in July 2023 accounted for as a

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.

Supply chain disruptions also affected our operations and could negatively impact our ability to source materials, manufacture and distribute products in the future. Moreover, financial markets continue to experience significant volatility, which could potentially affect our ability to enter into or modify favorable terms and conditions regarding equity and debt financing activities. Nevertheless, we had \$4.6 million in cash and cash equivalents and short-term investments as of June 30, 2024. We therefore believe we have sufficient capital to fund our operations for the next twelve months. However, we may require additional working capital and liquidity constraints and access to capital markets could still negatively affect our liquidity and may require changes to our plan of operations.

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

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

Nasdaq Listing Requirements

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

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

The Company previously submitted a plan to Nasdaq to regain compliance with respect to the delinquent 2023 Form 10-K and Q1 Form 10-Q (the "Plan"), and Nasdaq granted an exception until August 30, 2024, to file the delinquent 2023 Form 10-K and Q1 Form 10-Q. On August 28, 2024, the 2023 Form 10-K was filed with the SEC and on September 25, 2024, the Q1 Form 10-Q was filed with the SEC. Nasdaq granted the Company an additional exception of up to a maximum of 180 calendar days from the filing due date of the 2023 Form 10-K to file the Delinquent Filings, or until October 14, 2024, to regain compliance.

Critical Accounting Policies and Estimates

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

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

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

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

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

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

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

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

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

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

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

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

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

Historically, our assumptions, judgments and estimates relative to our critical accounting policies have not differed materially from actual results. Other than the warrants and business combination described above, 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 June 30, 2024. Our accounting policies are more fully described in Note 1. Organization and Summary of Significant Accounting Policies in the notes to our audited consolidated financial statements included in the Annual Report.

Segment and Related Information

The Company operates as a single segment. The Company's chief operating decision maker is Scot Cohen, the Company's Executive Chairman and Chief Executive Officer, who manages operations for purposes of allocating resources. Refer to Note 15. Major Customers and Related Information, in our financial statements for further discussion.

Operating Expense

Our operating expense includes (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 reduce from the first quarter of 2024 as a result of the changes from ongoing cost containment efforts. We may 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

Three Months Ended June 30, 2024, Compared to Three Months Ended June 30, 2023 (Unaudited)

The following table sets forth for the periods indicated certain items of our condensed consolidated statement of operations. The financial information and the discussion below should be read in conjunction with the financial statements and notes contained in this Quarterly Report on Form 10-Q.

	Three Months Ended June 30,		Change	
	2024	2023	\$	%
	(in thousands, except percentage change)			
Revenues:				
Product sales	\$ 1,251	\$ 1,034	\$ 217	21%
Other revenue	322	168	154	92%
Total revenues	1,573	1,202	371	31%
Cost of revenue	589	534	55	10%
Gross profit	984	668	316	47%
Operating expenses:				
Selling, general and administrative	3,475	4,745	(1,270)	(27)%
Research and development	679	1,002	(323)	(32)%
Total operating expenses	4,154	5,747	(1,593)	(28)%
Loss from operations	\$ (3,170)	\$ (5,079)	\$ 1,909	(38)%

Revenue

We reported net revenue of \$1.6 million for the three months ended June 30, 2024, as compared to \$1.2 million for the three months ended June 30, 2023, a 31% increase over the prior year. The increase in 2024 is a result of added revenues of \$197 thousand from the Company's acquisition of Intrinsic in August 2023 as well as approximately \$69 thousand increase in Wrap Reality sales.

We incurred product promotional costs of \$94 thousand during the three months ended June 30, 2024, representing a 58% increase compared to the three months ended June 30, 2023, related primarily to BolaWrap 150 demonstration products and the cost of training products and accessories delivered to law enforcement agencies that were expensed as marketing costs. We are responding to increased demand for training as a result of expanded product and brand awareness and increased successful field use by agencies.

Gross Profit

Our gross profit for the three months ended June 30, 2024, was \$984 thousand, or a gross margin of 63%. Our gross profit for the three months ended June 30, 2023, was \$668 thousand, or a gross margin of 56%. The increase in gross profit represented a 47% increase compared to the three months ended June 30, 2023, as a result of higher volume of the Bola Wrap 150 product with higher margins as compared to previous production due to design changes and improved pricing as well as the added high-margin revenue from the Company's Intrensic acquisition in August 2023.

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 as well as our higher margin revenue from the Intrensic product offerings. 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 were a total of 11% of our overall revenue in the three months ended June 30, 2024, 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 expense 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 have seen these supply chain obstacles ease in 2024, 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 of \$3.5 million for the three months ended June 30, 2024, was reduced by \$1.2 million when compared to \$4.7 million for the three months ended June 30, 2023. The decrease in SG&A expense was primarily the result of the Company's cost containment initiatives enacted beginning during the first half of 2024 as well as a reduction in share-based compensation, offset by increased occupancy expenses related to the new office space.

Share-based compensation costs allocated to SG&A decreased to \$208 thousand for the three months ended June 30, 2024, compared to \$990 thousand for the three months ended June 30, 2023.

Salaries and burden costs of \$1.0 million for the three months ended June 30, 2024, were approximately \$546 thousand lower than the three months ended June 30, 2023. This reduction reflects an approximate 32% reduction in the Company's workforce including a reduction of certain C-Level positions. During the three months ended June 30, 2024, as compared to the three months ended June 30, 2023, we increased professional and consulting fees by \$46 thousand reflecting the added variable resource needs as a result of the reduction in the Company's full-time headcount. We expect expenditures for SG&A expenses in 2024 to continue to decline in the second half of 2024, as a result of the Company's cost cutting initiatives.

Advertising and promotion costs were \$207 thousand for the three months ended June 30, 2024, or a decrease of \$74 thousand as compared to \$281 thousand during the three months ended June 30, 2023. The changes in advertising costs were primarily related to a \$118 thousand decrease in trade show costs offset by slight increases in digital marketing campaigns.

Research and Development Expense

Research and development expense decreased by \$323 thousand for the three months ended June 30, 2024, when compared to the three months ended June 30, 2023. We incurred a \$60 thousand period over period decrease in compensation expense as well as a \$197 thousand period over period decrease in share-based compensation expense allocated to research and development expense as a result of reduction of personnel. Outside consulting costs increased by \$27 thousand for the three months ended June 30, 2024, when compared to the three months ended June 30, 2023, primarily due to the Company's move to a more variable cost model.

Operating Loss

Loss from operations of \$3.2 million during the three months ended June 30, 2024, was a reduction of \$1.9 million compared to loss from operations of \$5.1 million during the three months ended June 30, 2023, primarily reflecting the reduced operating costs and increased gross margins from new products.

Six Months Ended June 30, 2024, Compared to Six Months Ended June 30, 2023

The following table sets forth for the periods indicated certain items of our condensed consolidated statement of operations. The financial information and the discussion below should be read in conjunction with the financial statements and notes contained in this Report.

	Six Months Ended June 30,		Change	
	2024	2023	\$	%
	(in thousands, except for percentage change)			
Revenue:				
Product sales	\$ 2,578	\$ 1,650	\$ 928	56%
Other revenue	471	263	208	79%
Total revenue	3,049	1,913	1,136	59%
Cost of revenue	1,229	893	336	38%
Gross profit	1,820	1,020	800	78%
Operating expense:				
Selling, general and administrative	7,695	8,286	(591)	(7)%
Research and development	1,434	2,073	(639)	(31)%
Total operating expense	9,129	10,359	(1,230)	(12)%
Loss from operations	\$ (7,309)	\$ (9,339)	\$ 2,030	(22)%

Revenue

We reported net revenue of \$3.0 million for the six months ended June 30, 2024, as compared to \$1.9 million for the six months ended June 30, 2023, a 59% increase. The increase in 2024 is primarily a result of increased sales of BolaWrap devices, cartridges and accessories of \$532 thousand, added revenues of \$287 thousand from the Company's acquisition of Intrensic in August 2023, as well as approximately \$151 thousand increase in Wrap Reality. We incurred discounts of \$18 thousand during the six months ended June 30, 2024, compared to \$64 thousand for the six months ended June 30, 2023. We expect a decline to minimal discounts throughout 2024 as we have phased out our promotional upgrade offer.

We incurred product promotional costs of \$155 thousand during the six months ended June 30, 2024, related primarily to BolaWrap 150 demonstration products and the cost of training products and accessories delivered to law enforcement agencies that were expensed as marketing costs. We are responding to increased demand for training as a result of expanded product and brand awareness and increased successful field use by agencies but, due to increased awareness, expect reductions in product promotional costs throughout 2024.

We had \$585 thousand of deferred revenue on June 30, 2024, of which \$122 thousand is related to VR, \$358 thousand is related to Intrensic, and \$105 thousand is 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.

On June 30, 2024, we had backlog of \$260 thousand expected to be delivered in the third quarter of 2024. Distributor and customer orders for future deliveries are generally subject to modification, rescheduling or, in some instances, cancellation in the normal course of business.

Gross Profit

Our gross profit for the six months ended June 30, 2024, was \$1.8 million, or a gross margin of 60%. Our gross profit for the six months ended June 30, 2023, was \$1.0 million, or a gross margin of 53%. The increase in gross profit represented a 78% increase over prior year as a result of higher volume of the Bola Wrap 150 product with higher margins as compared to previous production due to design changes and improved as well as the added high-margin revenue from the Company's Intinsic acquisition in August 2023.

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 were a total of 13% of our overall revenue for the six months ended June 30, 2024, 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 expense may affect our gross margins.

Selling, General and Administrative Expense

Selling, general and administrative ("SG&A") expense of \$7.7 million for the six months ended June 30, 2024 decreased by \$591 thousand, when compared to \$8.3 million for the six months ended June 30, 2023, as a result of the Company's cost containment initiatives enacted beginning during the first half of 2024 as well as a reduction in share-based compensation, offset by increased occupancy expenses related to the new the office space.

Share-based compensation costs allocated to SG&A decreased to \$856 thousand for the six months ended June 30, 2024, compared to \$1.6 million for the six months ended June 30, 2023. This \$696 thousand decrease resulted primarily due to changes in management, one-time costs in the prior year period, and changes in the Company's stock price.

Salaries and burden costs of \$1.0 million for the six months ended June 30, 2024, was a \$534 thousand decrease compared to the six months ended June 30, 2023. During six months ended June 30, 2024, as compared to the six months ended June 30, 2023, we increased our occupancy costs by \$336 thousand, professional fees by \$115 thousand and our digital marketing costs by \$117 thousand. We expect expenditures for SG&A expense in 2024 to be lower than 2023 as a result of the Company's cost containment initiatives enacted in the first half of 2024.

Advertising and promotion costs were \$470 thousand for the six months ended June 30, 2024, or an increase of \$25 thousand as compared to \$445 thousand during the six months ended June 30, 2023. The increase in advertising costs was related to increases in video and testimonial costs offset by reductions trade shows and other cost containment efforts.

Research and Development Expense

Research and development expense decreased by \$639 thousand for the six months ended June 30, 2024, when compared to the six months ended June 30, 2023. We incurred a \$156 thousand period over period decrease in compensation expense allocated to research and development expense as a result of personnel changes along with a \$230 thousand period over period decrease in share-based compensation expense allocated to research and development expense as a result of personnel changes. Outside consulting costs decreased by \$93 thousand and material costs were lower by \$68 thousand for the six months ended June 30, 2024, as compared to the six months ended June 30, 2023.

Operating Loss

Loss from operations of \$7.3 million during the six months ended June 30, 2024, represents a reduction of \$2.0 million compared to loss from operations of \$9.3 million during the six months ended June 30, 2023, reflecting increased margin and the focus on reducing operating costs.

Liquidity and Capital Resources

Overview

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

We have experienced net losses and negative cash flows from operations since our inception. As of June 30, 2024, we had cash and cash equivalents of \$4.6 million, negative working capital of \$1.1 million primarily reflecting the \$12.8 million value of the Series A Warrants recorded in connection with the issuance of the Series A Preferred Stock in July 2023, and had sustained cumulative losses attributable to stockholders of \$99.0 million. Our working capital net of the warrants-short term at June 30, 2024 was \$5.8 million lower compared to December 31, 2023, as a result of operating losses of \$7.3 million for the period. Our working capital as of June 30, 2024, was negatively affected by the continued operating losses during the prior twelve months. We believe we have sufficient capital to fund our operations for the next twelve months. However, liquidity constraints and access to capital markets could still negatively affect our liquidity and may require changes to our investment strategy.

Capital Requirements

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

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

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

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

- Volatility in the capital markets; and
- Market price and trading volume of our Common Stock.

2023 Offering

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

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

Series A Preferred Stock

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

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

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

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

The Series A Preferred Stock cannot be converted to Common Stock if the holder, other than Scot Cohen, V4 Global LLC or their transferees, and its affiliates would beneficially own more than 4.99%, or 9.99% at the election of the holder, of the outstanding Common Stock. However, any holder may increase or decrease such percentage to any other percentage not in excess of 9.99% upon notice to us, provided that any increase in this limitation will not be effective until 61 days after such notice from the holder to us and such increase or decrease will apply only to the holder providing such notice.

Except as required by law (including without limitation, the Delaware General Corporation Law (the “DGCL”), the holders of the Series A Preferred Stock are entitled to vote with holders of the Common Stock on an as-converted basis, with the number of votes to which each holder of Series A Preferred Stock is entitled to be calculated assuming a conversion price of \$1.414 per share, which was the Minimum Price (as defined in Rule 5635 of the Rule of the Nasdaq Stock Market) applicable immediately before the execution and delivery of the Series A Purchase Agreement, subject to certain beneficial ownership limitations as set forth in the Series A Certificate of Designations. To the extent that under the DGCL the vote of the holders of shares of Series A Preferred Stock, voting separately as a class or series, as applicable, is required to authorize a given action of the Company, the affirmative vote or consent of a majority of the outstanding shares of Series A Preferred Stock, voting together in the aggregate and not in separate series unless required under the DGCL, represented at a duly held meeting at which a quorum is presented or by written consent of such majority (except as otherwise may be required under the DGCL) shall constitute the approval of such action by both the class or the series, as applicable.

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

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

On October 14, 2024, the Company entered into an Amendment Agreement (the "October 2024 Series A Amendment") with the Required Holders (as defined in the Certificate of Designations). Pursuant to the October 2024 Series A Amendment, the Required Holders agreed to amend the Certificate of Designations (the "October 2024 Certificate of Amendment"). Pursuant to the October 2024 Certificate of Amendment, (i) the Series A Preferred Stock will be entitled to voting rights as described therein, (ii) certain holders of the Preferred Stock will not be subject to certain beneficial ownership limitations as described in the Certificate of Designations, and (iii) stockholder approval will not be required in connection with the payment of dividends in the form of Common Stock to a holder of the Series A Preferred Stock who serves as a director, officer or employee of the Company. The October 2024 Certificate of Amendment was filed with the Secretary of State of the State of Delaware on October 14, 2024. There is no established public trading market for the Series A Preferred Stock and we do not intend to list the Series A Preferred Stock on any national securities exchange or nationally recognized trading system.

Warrants

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

Nasdaq Stockholder Approval

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

Off-Balance Sheet Arrangements

The Company has not entered into any off-balance sheet financial guarantees or other off-balance sheet commitments to guarantee the payment obligations of any third parties. The Company has not entered into any derivative contracts that are indexed to the Company's shares and classified as stockholder's equity or that are not reflected in the Company's financial statements included in this Quarterly Report on Form 10-Q. Furthermore, the Company does not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. The Company does not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or product development services with us.

Cash Flows

Cash Flows from Operating Activities

During the six months ended June 30, 2024, net cash used in operating activities was \$7.2 million. The net loss of \$268 thousand was decreased by non-cash income of \$6.9 million related to the change in fair value of warrants and increased by non-cash expense of \$1.4 million consisting primarily of share-based compensation expense of \$918 thousand and depreciation and amortization of \$451 thousand. Other major component changes using operating cash included an increase of \$707 thousand in inventories and a decrease in customer deposits of \$1.0 million.

During the six months ended June 30, 2023, net cash used in operating activities was \$776 thousand. The net loss of \$9.0 million was decreased by non-cash expense of \$2.3 million consisting primarily of share-based compensation expense of \$1.9 million. Other major component changes using operating cash included an increase of \$2.6 million in inventories and a net increase in accounts payable and accrued liabilities of \$7.7 million. A decrease in accounts receivable of \$884 thousand reduced the cash used in operating activities.

Cash Flows from Investing Activities

During the six months ended June 30, 2024, we had proceeds from maturities of short-term investments of \$5.0 million. During the six months ended June 30, 2024, we used \$13 thousand of cash for the purchase of property and equipment and invested \$97 thousand in patents.

During the six months ended June 30, 2023, we used \$2.7 million of cash to purchase short-term investments and we had proceeds from maturities of short-term investments of \$10 million. During the six months ended June 30, 2023, we used \$66 thousand of cash for the purchase of property and equipment and invested \$176 thousand in patents.

Cash Flows from Financing Activities

During the six months ended June 30, 2024, we received \$588 thousand in proceeds from the exercise of previously issued stock options and paid \$120 thousand in cash dividends on the Company's Series A Preferred Stock. During the six months ended June 30, 2023, we received \$0 in proceeds from the exercise of previously issued stock options.

Contractual Obligations and Commitments

Pursuant to that certain exclusive Amended and Restated Intellectual Property License Agreement dated September 30, 2016, by and between the Company and Syzygy Licensing, LLC (“Syzygy”), we are obligated to pay to Syzygy a 4% royalty fee on future product sales up to an aggregate amount of \$1.0 million in royalty payments or until September 30, 2026, whichever occurs earlier. We recorded \$66 thousand for royalties during the six months ended June 30, 2024. The maximum payout has been satisfied as of June 30, 2024.

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

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

On August 9, 2023, the Company entered into a Membership Interest Purchase Agreement (the “Intinsic Purchase Agreement”) with certain members of Intinsic, including Kevin Mullins, the Company’s former Chief Executive Officer (collectively, “Sellers”) and Buford Ortale, as the Seller’s representative. Under the terms of the Intinsic Purchase Agreement, the Company agreed to purchase, and Sellers agreed to sell, 100% of the membership interests (the “Membership Interests”) of Intinsic for the following consideration upon the consummation of the sale of the Membership Interests (the “Intinsic Closing”): (i) \$554 thousand in cash, subject to adjustment based upon the outstanding indebtedness of Intinsic and Intinsic’s working capital as of the Intinsic Closing; and (ii) 1,250,000 shares of Common Stock of the Company (the “Intinsic Acquisition”). The Intinsic Acquisition closed on August 16, 2023, in accordance with the terms of the Intinsic Purchase Agreement.

As of June 30, 2024, we were committed for approximately \$941 thousand for future component deliveries and contract services that are generally subject to modification or rescheduling in the normal course of business.

Effects of Inflation

During the three months ended June 30, 2024, and the year ended December 31, 2023, we had experienced increased costs in labor and materials due to inflation. We believe throughout 2024 that low unemployment and higher salaries will create higher payroll costs and increased operating expense in the business. We have seen increases in costs from multiple suppliers for materials as well as labor.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information required under this item.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our Executive Chairman and Chief Executive Officer, of the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the period covered by this report. Based upon that evaluation, our Executive Chairman and Chief Executive Officer concluded that, as of the end of the period covered in this Quarterly Report on Form 10-Q, our disclosure controls and procedures were effective to ensure that information required to be disclosed in reports filed by us under the Exchange Act is recorded, processed, summarized and reported within the required time periods and is accumulated and communicated to our management, including our Executive Chairman and Chief Executive Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during our fiscal quarter ended June 30, 2024, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may become involved in legal proceedings or be subject to claims arising in the ordinary course of business.

The information set forth in Note 13 Commitments and Contingencies of the Notes to Consolidated Financial Statements of this Quarterly Report on Form 10-Q is incorporated by reference herein.

Item 1A. Risk Factors

Management is not aware of any material changes to the risk factors discussed in Part 1, Item 1A, of the Company's Annual Report on Form 10-K for the year ended December 31, 2023. In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors discussed in Part 1, Item 1A, of the Company's Annual Report on Form 10-K for the year ended December 31, 2023, and subsequent reports filed pursuant to the Exchange Act which could materially and adversely affect the Company's business, financial condition, results of operations, and stock price. The risks described in the Company's Annual Report on Form 10-K and subsequent reports filed pursuant to the Exchange Act are not the only risks facing the Company. Additional risks and uncertainties not presently known to management, or that management presently believes not to be material, may also result in material and adverse effects on our business, financial condition, and results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

There were no unregistered sales of the Company's equity securities during the three months ended June 30, 2024, other than those previously reported in a Current Report on Form 8-K.

Item 3. Defaults Upon Senior Securities

There has been no default in the payment of principal, interest, sinking or purchase fund installment, or any other material default, with respect to any indebtedness of the Company.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

Certificate of Amendment to Certificate of Designations

On October 14, 2024, the Company entered into an Amendment Agreement with the Required Holders (as defined in the Certificate of Designations), pursuant to which, the Required Holders agreed to amend the Certificate of Designations of the Company's Series A Preferred Stock, as described below, by filing a Certificate of Amendment to the Certificate of Designations (the "October 2024 Certificate of Amendment").

The October 2024 Certificate of Amendment amends the Certificate of Designations to, among other things, provide that, except as required by applicable law, the holders of the Series A Preferred Stock will be entitled to vote with holders of the Common Stock on an as converted basis, with the number of votes to which each holder of Series A Preferred Stock is entitled to be calculated assuming a conversion price of \$1.414 per share, which was the Minimum Price (as defined in Rule 5635 of the Rule of the Nasdaq Stock Market) applicable immediately before the execution and delivery of the Series A Purchase Agreement, subject to certain beneficial ownership limitations as set forth in the Certificate of Designations. The October 2024 Certificate of Amendment further provides that (i) certain holders of the Series A Preferred Stock will not be subject to certain beneficial ownership limitations as described in the Certificate of Designations, and (ii) stockholder approval will not be required in connection with the payment of dividends in the form of Common Stock to a holder of the Series A Preferred Stock who serves as a director, officer or employee of the Company. The Certificate of Amendment was filed with the Secretary of State, effective as of October 14, 2024.

2024 Annual Meeting of Stockholders

On October 7, 2024, the Board of Directors of the Company determined that the Company's 2024 Annual Meeting of Stockholders (the "2024 Annual Meeting") will be held on Monday, December 23, 2024, and that the record date for the determination of stockholders of the Company entitled to receive notice of and to vote at the 2024 Annual Meeting shall be the close of business on November 5, 2024. The time and location of the 2024 Annual Meeting will be as set forth in the Company's definitive proxy statement for the 2024 Annual Meeting to be filed with the Securities and Exchange Commission.

Due to the fact that the date of the 2024 Annual Meeting has been changed by more than 30 days from the anniversary date of the 2023 Annual Meeting of Stockholders, the Company is providing the due date for submission of any qualified stockholder proposal or qualified stockholder nominations.

Stockholders of the Company who wish to have a proposal considered for inclusion in the Company's proxy materials for the 2024 Annual Meeting pursuant to Rule 14a-8 under the Exchange Act must ensure that such proposal is received by the Company's Chief Executive Officer, Scot Cohen, at 1817 W 4th Street, Tempe, Arizona 85281, on or before the close of business on October 21, 2024 which the Company has determined to be a reasonable time before it expects to begin in print and send its proxy materials in accordance with Rule 14a-5(f) and Rule 14a-8(e) under the Exchange Act. Any such proposal must also meet the requirements set forth in the rules and regulations of the Securities and Exchange Commission in order to be eligible for inclusion in the proxy materials for the 2024 Annual Meeting.

In addition, in accordance with the requirements contained in the Company's amended and restated Bylaws ("Bylaws"), stockholders of the Company who wish to bring business before the 2024 Annual Meeting outside of Rule 14a-8 of the Exchange Act or to nominate a person for election as a director must ensure that written notice of such proposal (including all information specified in the Company's Bylaws) is received by the Company's Chief Executive Officer at the address specified above no later than the close of business on October 21, 2024. Any such proposal must meet the requirements set forth in the Company's Bylaws in order to be brought before the 2024 Annual Meeting.

In addition, to comply with the universal proxy rules, stockholders who intend to solicit proxies in support of director nominees other than our nominees must provide notice that sets forth the information required by Rule 14a-19 under the Exchange Act by October 21, 2024.

Item 6. Exhibits

Exhibit Number	Description
3.1	Certificate of Amendment of Certificate of Designations of Series A Convertible Preferred Stock (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 23, 2024).
3.2*	Certificate of Amendment of Certificate of Designations of Series A Convertible Preferred Stock.
10.1	Separation Agreement and Mutual Release of Claims, dated January 5, 2024, by and between Wrap Technologies, Inc. and Chris DeAlmeida (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on January 5, 2024).
10.2	Form of Amendment, dated August 19, 2024, by and between Wrap Technologies, Inc. and the investors party thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 23, 2024).
10.3*	Form of Amendment, dated October 14, 2024, by and between Wrap Technologies, Inc. and the investors party thereto.
31*	Rule 13a-14(a)/15d-14(a) Certification - Principal Executive Officer and Principal Financial Officer.
32**	Section 1350 Certification - Principal Executive Officer and Principal Financial Officer.
	<u>Extensible Business Reporting Language (XBRL) Exhibits*</u>
101.INS	Inline XBRL Instance 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

** Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Wrap Technologies, Inc.

October 15, 2024

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

**CERTIFICATE OF AMENDMENT OF
CERTIFICATE OF DESIGNATIONS OF
SERIES A CONVERTIBLE PREFERRED STOCK OF
WRAP TECHNOLOGIES, INC.**

PURSUANT TO SECTION 242 OF THE
DELAWARE GENERAL CORPORATION LAW

This Certificate of Amendment to the Certificate of Designations of Series A Convertible Preferred Stock (the "**Amendment**") is dated as of October 14, 2024.

WHEREAS, the board of directors (the "**Board**") of Wrap Technologies, Inc., a Delaware corporation (the "**Company**"), pursuant to the authority granted to it by the Company's Certificate of Incorporation (the "**Certificate of Incorporation**") and Section 151(g) of the Delaware General Corporation Law (the "**DGCL**"), has previously fixed the rights, preferences, restrictions and other matters relating to a series of the Company's preferred stock, consisting of 10,000 authorized shares of preferred stock, classified as Series A Convertible Preferred Stock (the "**Preferred Stock**") and the Certificate of Designations of the Preferred Stock (as amended, the "**Certificate of Designations**") was initially filed with the Secretary of State of the State of Delaware on July 3, 2023 evidencing such terms;

WHEREAS, pursuant to Section 30(b) of the Certificate of Designations, the Certificate of Designations or any provision thereof may be amended by obtaining the affirmative vote at a meeting duly called for such purpose, or written consent without a meeting in accordance with the DGCL, of at least a majority of the outstanding Preferred Stock (provided, that such holders include Iroquois Master Fund Ltd.) (the "**Required Holders**"), voting separately as a single class, and with such stockholder approval, if any, as may then be required pursuant to the DGCL and the Certificate of Incorporation;

WHEREAS, the Required Holders pursuant to the Certificate of Designations have consented, in accordance with the DGCL, on October 14, 2024, to this Amendment on the terms set forth herein; and

WHEREAS, the Board has duly adopted resolutions proposing to adopt this Amendment and declaring this Amendment to be advisable and in the best interest of the Company and its stockholders.

NOW, THEREFORE, this Amendment has been duly adopted in accordance with Section 242 of the DGCL and has been executed by a duly authorized officer of the Company as of the date first set forth above to amend the terms of the Certificate of Designations as follows:

1. Section 3(b) of the Certificate of Designations is hereby amended and restated to read as follows:

(b) **Dividend Shares and Cash Dividends.** Dividends shall be payable on each Dividend Date, to the record holders of the Preferred Shares on the applicable Dividend Date, in cash (“**Cash Dividends**”); provided, however, that the Company may, at its option following notice to each Holder, pay Dividends on any Dividend Date in shares of Common Stock (“**Dividend Shares**”) so long as there has been no Equity Conditions Failure or, so long as there has been no Equity Conditions Failure, in a combination of Cash Dividends and Dividend Shares. The Company shall deliver a written notice (each, a “**Dividend Election Notice**”) to each Holder on or prior to the twenty-third (23rd) Trading Day prior to the applicable Dividend Date (the “**Dividend Notice Due Date**”) (the date such notice is delivered to all of the Holders, the “**Dividend Notice Date**”) which notice (1) either (A) confirms that Dividends to be paid on such Dividend Date shall be paid entirely in Dividend Shares or (B) elects to pay Dividends as Cash Dividends or a combination of Cash Dividends and Dividend Shares and specifies the amount of Dividends that shall be paid as Cash Dividends and the amount of Dividends, if any, that shall be paid in Dividend Shares, (2) unless the Company has elected to pay Dividends solely as Cash Dividends, certifies that there has been no Equity Conditions Failure as of such Dividend Notice Date and (3) states the number of issued and outstanding shares of Common Stock as of such Dividend Notice Date. If there is an Equity Conditions Failure as of the Dividend Notice Date, then unless the Company has elected to pay such Dividends as Cash Dividends, the Dividend Election Notice shall indicate that unless such Holder waives the Equity Conditions Failure, the Dividends shall be paid as Cash Dividends. If the Company confirmed the payment of the applicable Dividends in Dividend Shares, in whole or in part, and if there was no Equity Conditions Failure as of the applicable Dividend Notice Date but an Equity Conditions Failure occurred between the applicable Dividend Notice Date and any time prior to the applicable Dividend Date (an “**Interim Dividend Period**”), the Company shall provide the Holders a subsequent notice to that effect indicating that unless such Holder waives the Equity Conditions Failure, the Dividends shall be paid as Cash Dividends. If there occurs an Equity Conditions Failure (which is not waived in writing by a Holder) during such Interim Dividend Period, then at the option of such Holder, such Holder may require the Company to pay the amount of Dividends (including any portion of the Pre-Dividend Shares (as defined below)) payable on the applicable Dividend Date as a Cash Dividend. If any portion of Dividends for a particular Dividend Date shall be paid in Dividend Shares, then (I) on or prior to the twenty-first (21st) Trading Day prior to the applicable Dividend Date (the “**Dividend Pre-Payment Date**”), the Company shall issue to each Holder, in accordance with Section 3(c), a number of shares of Common Stock equal to (x) the amount of Dividends payable on the applicable Dividend Date in Dividend Shares divided by (y) the applicable Initial Dividend Conversion Price (the “**Pre-Dividend Shares**”) and (II) on the applicable Dividend Date, the Company shall deliver a notice setting forth the calculation of the Dividend Balance Shares (and the calculation of the component parts of such calculation) and issue to each Holder, in accordance with Section 3(c), a number of shares of Common Stock equal to any Dividend Balance Shares. All Pre-Dividend Shares and Dividend Shares shall be fully paid and nonassessable shares of Common Stock (rounded up to the nearest whole share). For purposes hereof, “**Initial Dividend Conversion Price**” means, with respect to any Dividend Pre-Payment Date or other applicable date of determination, that price which shall be the lowest of (i) the then applicable Conversion Price and (ii) 85% of the arithmetic average of the three (3) lowest Closing Sale Prices of the Common Stock during the twenty (20) consecutive Trading Day period ending on the Trading Day immediately preceding the applicable Dividend Pre-Payment Date or other applicable date of determination, provided that such price shall not be lower than the Floor Price. All such determinations to be appropriately adjusted for any stock split, stock dividend, stock combination, reclassification or other similar transaction during such period. Holders that are directors or officers of the Company may only receive Cash Dividends.

2. Section 4(d)(i) of the Certificate of Designations is hereby amended and restated to read as follows (emphasis added):

(i) **Beneficial Ownership.** The Company shall not effect the conversion of any of the Preferred Shares held by a Holder (other than Scot Cohen and V4 Global LLC) and such Holder shall not have the right to convert any of the Preferred Shares held by such Holder pursuant to the terms and conditions of this Certificate of Designations and any such conversion shall be null and void and treated as if never made, to the extent that after giving effect to such conversion, such Holder together with the other Attribution Parties collectively would beneficially own in excess of 4.99% (the "**Maximum Percentage**") of the shares of Common Stock outstanding immediately after giving effect to such conversion. For purposes of the foregoing sentence, the aggregate number of shares of Common Stock beneficially owned by such Holder and the other Attribution Parties shall include the number of shares of Common Stock held by such Holder and all other Attribution Parties plus the number of shares of Common Stock issuable upon conversion of the Preferred Shares with respect to which the determination of such sentence is being made, but shall exclude shares of Common Stock which would be issuable upon (A) conversion of the remaining, nonconverted Preferred Shares beneficially owned by such Holder or any of the other Attribution Parties and (B) exercise or conversion of the unexercised or nonconverted portion of any other securities of the Company (including, without limitation, any convertible notes, convertible preferred stock or warrants, including the Preferred Shares and the Warrants) beneficially owned by such Holder or any other Attribution Party subject to a limitation on conversion or exercise analogous to the limitation contained in this Section 4(d)(i). For purposes of this Section 4(d)(i), beneficial ownership shall be calculated in accordance with Section 13(d) of the 1934 Act. In addition, a determination as to any group status as contemplated above shall be determined in accordance with Section 13(d) of the 1934 Act and the rules and regulations promulgated thereunder. For purposes of determining the number of outstanding shares of Common Stock a Holder may acquire upon the conversion of such Preferred Shares without exceeding the Maximum Percentage, such Holder may rely on the number of outstanding shares of Common Stock as reflected in (x) the Company's most recent Annual Report on Form 10-K, Quarterly Report on Form 10-Q, Current Report on Form 8-K or other public filing with the SEC, as the case may be, (y) a more recent public announcement by the Company or (z) any other written notice by the Company or the Transfer Agent, if any, setting forth the number of shares of Common Stock outstanding (the "**Reported Outstanding Share Number**"). If the Company receives a Conversion Notice from a Holder at a time when the actual number of outstanding shares of Common Stock is less than the Reported Outstanding Share Number, the Company shall notify such Holder in writing of the number of shares of Common Stock then outstanding and, to the extent that such Conversion Notice would otherwise cause such Holder's beneficial ownership, as determined pursuant to this Section 4(d)(i), to exceed the Maximum Percentage, such Holder must notify the Company of a reduced number of shares of Common Stock to be purchased pursuant to such Conversion Notice. For any reason at any time, upon the written or oral request of any Holder, the Company shall within one (1) Business Day confirm orally and in writing or by electronic mail to such Holder the number of shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to the conversion or exercise of securities of the Company, including such Preferred Shares, by such Holder and any other Attribution Party since the date as of which the Reported Outstanding Share Number was reported. In the event that the issuance of shares of Common Stock to a Holder upon conversion of such Preferred Shares results in such Holder and the other Attribution Parties being deemed to beneficially own, in the aggregate, more than the Maximum Percentage of the number of outstanding shares of Common Stock (as determined under Section 13(d) of the 1934 Act), the number of shares so issued by which such Holder's and the other Attribution Parties' aggregate beneficial ownership exceeds the Maximum Percentage (the "**Excess Shares**") shall be deemed null and void and shall be cancelled ab initio, and such Holder shall not have the power to vote or to transfer the Excess Shares. Upon delivery of a written notice to the Company, any Holder may from time to time increase (with such increase not effective until the sixty-first (61st) day after delivery of such notice) or decrease the Maximum Percentage of such Holder to any other percentage not in excess of 9.99% as specified in such notice; provided that (i) any such increase in the Maximum Percentage will not be effective until the sixty-first (61st) day after such notice is delivered to the Company and (ii) any such increase or decrease will apply only to such Holder and the other Attribution Parties and not to any other Holder that is not an Attribution Party of such Holder. For purposes of clarity, the shares of Common Stock issuable to a Holder pursuant to the terms of this Certificate of Designations in excess of the Maximum Percentage shall not be deemed to be beneficially owned by such Holder for any purpose including for purposes of Section 13(d) or Rule 16a-1(a)(1) of the 1934 Act. No prior inability to convert such Preferred Shares pursuant to this paragraph shall have any effect on the applicability of the provisions of this paragraph with respect to any subsequent determination of convertibility. The provisions of this paragraph shall be construed and implemented in a manner otherwise than in strict conformity with the terms of this Section 4(d)(i) to the extent necessary to correct this paragraph (or any portion of this paragraph) which may be defective or inconsistent with the intended beneficial ownership limitation contained in this Section 4(d)(i) or to make changes or supplements necessary or desirable to properly give effect to such limitation. The limitation contained in this paragraph may not be waived and shall apply to a successor holder of such Preferred Shares. For the avoidance of doubt, this Section 4(d)(i) shall not apply to Scot Cohen, V4 Global LLC or their transferees

3. Section 12(a) of the Certificate of Designations is hereby amended and restated to read as follows:

(a) Voting Rights. Except as otherwise provided herein or as required by applicable law and subject to the provisions of Section 4(d) hereof, Holders of Preferred Shares shall be entitled to vote with holders of the Common Stock on all matters that such holders of Common Stock are entitled to vote upon, in the same manner and with the same effect as the holders of Common Stock, voting together with the holders of Common Stock as a single class. Subject to the provisions of Section 4(d) hereof, each Preferred Share shall entitle the Holder thereof to cast that number of votes per Preferred Share equal to the Stated Value of such Preferred Share divided by Nasdaq Minimum Price (as defined in Nasdaq Listing Rule 5635(d)) immediately preceding the Subscription Date (or \$1.414 per share, as of the date of this Certificate of Designations, and subject to adjustments for any stock splits, stock dividends, stock combinations, recapitalizations or other similar transactions following the date hereof). For purposes of clarity, this Nasdaq Minimum Price shall apply only for purposes of this Section 12 of the Certificate of Designations and not apply to any other section of the Certificate of Designations or any Transaction Document. Notwithstanding the foregoing, to the extent that under the DGCL the vote of the holders of the Preferred Shares, voting separately as a class or series, as applicable, is required to authorize a given action of the Company, the affirmative vote or consent of the Required Holders of the shares of the Preferred Shares, voting together in the aggregate and not in separate series unless required under the DGCL, represented at a duly held meeting at which a quorum is present or by written consent of the Required Holders (except as otherwise may be required under the DGCL), voting together in the aggregate and not in separate series unless required under the DGCL, shall constitute the approval of such action by both the class or the series, as applicable. For the avoidance of doubt, for purposes of determining the presence of a quorum at any meeting of the stockholders of the Company at which the Preferred Shares are entitled to vote, the number of Preferred Shares and votes represented by such shares shall be counted on an as converted to Common Stock basis, subject to any limitations on conversion set forth herein. Holders of the Preferred Shares shall be entitled to written notice of all stockholder meetings or written consents (and copies of proxy materials and other information sent to stockholders) with respect to which they would be entitled to vote, which notice would be provided pursuant to the Bylaws and the DGCL.

[Signature Page Follows]

IN WITNESS WHEREOF, the Company has caused this Amendment to be signed by its duly authorized officer this 14th day of October, 2024.

WRAP TECHNOLOGIES, INC.

By: /s/ Scot Cohen
Name: Scot Cohen
Title: Chief Executive Officer

AMENDMENT AGREEMENT

This Amendment Agreement (this "Agreement"), dated as of October 7, 2024, is by and among Wrap Technologies, Inc., a Delaware corporation (the "Company"), and each investor listed on the signature page attached hereto (collectively, the "Investors").

WITNESSETH

WHEREAS, the Company and the Investors are party to that certain Securities Purchase Agreement, dated as of June 29, 2023 (the "Purchase Agreement"), pursuant to which the Company issued to the Investors shares of the Company's Series A Convertible Preferred Stock, par value \$0.0001 per share (the "Preferred Stock"), the terms of which are set forth in the Certificate of Designations (as amended, the "Certificate of Designations"), and warrants (the "Warrant," and, together with the Purchase Agreement and the Certificate of Designations, the "Transaction Documents") to purchase shares of the Company's common stock, par value \$0.0001 per share;

WHEREAS, pursuant to Section 30(b) of the Certificate of Designations, the Certificate of Designations or any provision thereof may be amended by written consent without a meeting in accordance with the DGCL, of the Required Holders (as defined in the Certificate of Designations), voting separately as a single class, provided, that such holders include Iroquois Master Fund Ltd.;

WHEREAS, the undersigned constitute the Required Holders pursuant to the Certificate of Designations; and

WHEREAS, the Company and the Investors desire to amend certain provisions of the Certificate of Designations.

NOW, THEREFORE, in consideration of the premises and mutual covenants and obligations hereinafter set forth, the parties hereto, intending legally to be bound, hereby agree as follows:

1. Definitions. Capitalized terms used herein but not otherwise defined herein shall have the respective meanings given such terms in the Certificate of Designations.
 2. Amendment to the Certificate of Designations. The parties hereto hereby agree to amend the rights of the Preferred Stock as set forth in the Amendment to the Certificate of Designations attached as Exhibit A hereto (the "Amendment"). Upon the effectiveness of this Agreement, the Company shall promptly file the Amendment and provide a copy thereof to each Investor promptly after such filing.
 3. Counterparts: Facsimile Execution. This Agreement may be executed in one or more counterparts (including by electronic mail, in PDF or by DocuSign or similar electronic signature), all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties. Counterparts may be delivered via facsimile, electronic mail (including any electronic signature covered by the U.S. federal ESIGN Act of 2000, Uniform Electronic Transactions Act, the Electronic Signatures and Records Act or other applicable law, e.g., www.docusign.com) or other transmission method and any counterpart so delivered shall be deemed to have been duly and validly delivered and be valid and effective for all purposes.
 4. Governing Law. THIS AGREEMENT SHALL BE SUBJECT TO THE PROVISIONS REGARDING GOVERNING LAW SET FORTH IN SECTION 9(A) OF THE PURCHASE AGREEMENT, AND SUCH PROVISIONS ARE INCORPORATED HEREIN BY THIS REFERENCE, *MUTATIS MUTANDIS*.
 5. Terms and Conditions of the Transaction Documents. Except as modified and amended herein, all of the terms and conditions of the Transaction Documents shall remain in full force and effect.
-

IN WITNESS WHEREOF, the undersigned has executed and delivered this Agreement as of the date first above written.

Company:

WRAP TECHNOLOGIES, INC.

By: _____
Name: Scot Cohen
Title: Chief Executive Officer

[Company Signature Page to Agreement and Amendment]

IN WITNESS WHEREOF, the undersigned has executed and delivered this Agreement as of the date first above written.

Investors:

By: _____
Name of signatory:
Title:

[Investor Signature Page to Agreement and Amendment]

Exhibit A

**Form Amendment to the Certificate of Designations
of Series A Convertible Preferred Stock**

CERTIFICATION PURSUANT TO SARBANES-OXLEY ACT OF 2002

I, Scot Cohen, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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. I am 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. 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: October 15, 2024

/s/ SCOT COHEN

Scot Cohen

Chief Executive Officer

(Principal Executive Officer and Interim Principal Financial Officer and Principal Accounting Officer)

**CERTIFICATION PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned hereby certifies, in accordance with 18 U.S.C. 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 Quarterly Report of the Company on Form 10-Q for the period ended June 30, 2024, fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended, 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: October 15, 2024

/s/ Scot Cohen

Scot Cohen

Chief Executive Officer

(Principal Executive Officer and Interim Principal Financial Officer and Principal Accounting Officer)

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. Section 1350, 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, whether made before or after the date hereof, regardless of any general incorporation language in such filing. A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.