



2024 Annual Report to Stockholders

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

FORM 10-K

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

For the fiscal year ended December 31, 2024

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

Commission File Number: 001-38750



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)

3480 Main Hwy
Suite 202 Miami, Florida 33133
(Address of principal executive offices) (Zip Code)

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

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

☒ Yes ☐ No

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

Large Accelerated Filer ☐

Non-accelerated filer ☒

Accelerated filer ☐

Smaller reporting company ☒

Emerging growth company ☐

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

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

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

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

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

The aggregate market value of the registrant’s common stock held by non-affiliates of the registrant on June 30, 2024 (the last business day of the registrant’s most recently completed second fiscal quarter) was \$69,444,666 based on the closing price of \$2.00 per share as reported on the Nasdaq Capital Market (“Nasdaq”) on June 28, 2024. Shares of the registrant’s common stock held by each officer and director and each person known to the registrant to own 10% or more of the outstanding voting power of the registrant have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not a determination for other purposes.

As of March 25, 2025, 50,494,701 shares of common stock, par value \$0.0001 per share, were outstanding.

Documents Incorporated by Reference

Portions of the registrant’s Proxy Statement for its 2025 Annual Meeting of Stockholders (the “Proxy Statement”), to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year ended December 31, 2024, are incorporated herein by reference in Part III of this Annual Report on Form 10-K.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

Use of Market and Industry Data

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

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

TRADEMARKS, TRADE NAMES AND SERVICE MARKS

Our trademarks include Wrap, the Wrap logo, BolaWrap®, and Wrap Reality™, Intrinsic, and Evidence on A Cloud, some of which are registered trademarks in the US and certain other jurisdictions. They, along with our other common law trademarks, service marks or trade names appearing in this Annual Report are the property of the Company. Other trademarks, service marks or trade names appearing in this Annual Report are the property of their owners. We do not intend our use or display of other companies’ trade names or trademarks to imply a relationship with, or endorsement of or sponsorship of us by, any other companies. Solely for convenience, we have omitted the ® and ™ designations, as applicable, for the trademarks used in this Annual Report, but such references are not intended to indicate in any way that we will not assert, to the fullest extent under applicable law, our rights to these trademarks and trade names.

PART I

ITEM 1. BUSINESS

Overview

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

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

We focus our efforts on the following products and services:

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

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

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

In addition to the US law enforcement market, we have shipped our restraint products to 62 countries. We have established an active distributor network representing 50 states and one dealer representing the US territory of Puerto Rico. We have distribution agreements with 23 international distributors covering 63 countries. We focus significant sales, training and business development efforts to support our distribution network in addition to our internal sales team.

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

Industry Background

The market for non-lethal and less-lethal products and devices serves law enforcement agencies, correctional facilities, military agencies, private security guard companies, and retail consumers. As thought leaders in new public safety products, we focus on the law enforcement agency segment of the market with our BolaWrap remote restraint solution, Wrap Reality virtual reality system, and our Body-Worn Camera and Digital Evidence Management solutions. Recent trends, such as the rise in mental

health cases, police reform, and reorganization of police departments, have started a growing conversation across the country on the need for de-escalation before applying a pain-compliance policing policy. As this de-escalation movement unfolds, there are thousands of law enforcement, police, and sheriff's offices focusing on training, policies, and the use of more non-lethal restraining solutions. This movement highlights a growing need for new approaches, which we believe will drive demand for our innovative and safe law enforcement solutions.

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

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

Markets

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

Domestic and International Law Enforcement

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

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

Correctional Facilities

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

Private Security Firms and Guard Services

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

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

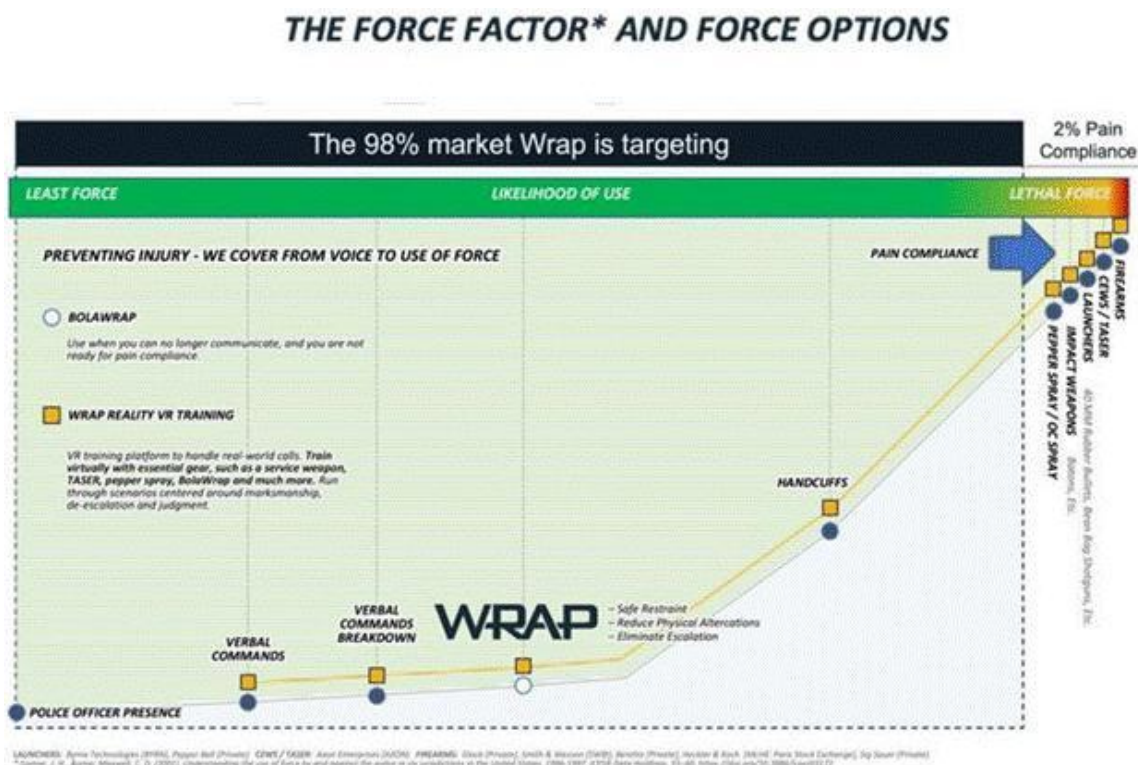
Virtual Reality Training Market

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

Wrap Products and Services

BolaWrap Remote Restraint

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



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

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

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

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

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

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

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

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

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

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

As more agencies incorporate the BolaWrap onto their duty belts and carry it every day on shift we expect to see an increase in the rate of field deployments, which we believe will contribute to even further adoption of the device by law enforcement agencies worldwide. In 2022, following the release of our strategic roadmap in mid-2022 Q3, we focused our customer service team on modifying their approach to become a customer success operation. As part of this strategic change, our team focuses on reaching out to drive agency wide adoption. We made this pivot in part because many agencies in the first few years of BolaWrap only deployed a small number of trial units without the immediate follow-up to grow their deployment to agency-wide. We have trained our sales team to focus on agency-wide deployment to drive the highest level of immediate success with the device and to integrate it into department-wide use of force polices.

BolaWrap 150

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

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

We believe the BolaWrap 150 offers important benefits, including:

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

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

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

Wrap Reality

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

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

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

The diagram illustrates the WRAP Reality Expansion Strategy, showing three distinct paths from a central point on the left to three target markets on the right. Each path is represented by a colored arrow pointing right, with an icon in a circle at the tail and a target market description at the head. The paths are: 1. Blue arrow with a server rack icon, labeled 'WRAP Reality On-Premise', leading to 'Current Platform' and 'Convert Content to Unreal Cloud Platform', which targets 'Large Police Departments & Correctional Institutions'. 2. Green arrow with a cloud upload icon, labeled 'WRAP Reality Cloud', leading to 'Infinitely Scalable' and 'Faster Scenario Development', which targets 'Small-to-Medium Police Departments and Correctional Facilities'. 3. Red arrow with a game controller icon, labeled 'Wrap Reality Commercialization', leading to 'Commercialization', which targets 'General Consumer, Private Security, Handgun Safety & Permitting via VR App Stores'. A dollar sign icon is placed between the platform description and the target market for each path.

Platform/Strategy	Key Features/Steps	Target Market
WRAP Reality On-Premise	Current Platform Convert Content to Unreal Cloud Platform	Large Police Departments & Correctional Institutions
WRAP Reality Cloud	Infinitely Scalable Faster Scenario Development	Small-to-Medium Police Departments and Correctional Facilities
Wrap Reality Commercialization	Commercialization	General Consumer, Private Security, Handgun Safety & Permitting via VR App Stores



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

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

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

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

Selling, Marketing and Training

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

Sales

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

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

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

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

We have distribution agreements with 23 international distributors covering 63 countries. These agreements generally require minimum sales and follow-up performance and allow us to sell direct to customers if performance is not being met. We focus significant sales and business development efforts to support our international distributors.

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

Marketing

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

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

Demonstration, Training and Customer Success

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

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

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

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

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

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

Our Strategy

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

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

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

Manufacturing and Suppliers

Manufacturing

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

Suppliers

We have established strong relationships with our key suppliers, and their timely and reliable delivery is crucial to our ability to meet customer demand. However, we are subject to challenges in our global supply chain, such as component shortages, increased lead times, cost fluctuations, and logistics constraints, which can affect our production schedules and have a negative impact on our financial performance. In late 2022, we started to ensure we have more final product inventory on hand to meet new business needs. To support our continued growth and operational needs, we relocated our manufacturing facility to Virginia, where a larger space will allow us to further enhance our processes and scalability. While we anticipate supply chain challenges to improve in the remainder of 2025, we recognize that future supplier shortages and logistics issues could have a material adverse effect on our operations and financial results.

Backlog

As of December 31, 2024, we had backlog of approximately \$64 thousand that was delivered in the first quarter of 2025. The amount of backlog at any point in time is dependent upon order timing, scheduled delivery dates to our customers and product lead times. Most orders are shipped shortly after order and backlog is typically associated with larger police agency orders. Because of our history of shipping shortly after order, we do not currently believe backlog at any period end is predictive of future order volume or revenues beyond the reported amount. Distributor and customer orders for future deliveries are generally subject to modification, rescheduling or in some instances, cancellation in the normal course of business.

Warranties

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

Competition

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

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

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

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

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

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

Government Regulation

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

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

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

Intellectual Property Rights and Proprietary Information

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

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

As of the date of this Annual Report, we currently have 31 issued US patents related to the BolaWrap technology and five additional US patents pending. In September 2018, we commenced filing our foreign patent applications selectively targeting the members of the European Patent Office (39 countries) and 17 other countries, of which 53 patents have been issued to date. To date we have a total of 84 issued domestic and international patents for our small global company. During 2024 we filed four patent applications, two of which were US filings. We feel the investment in patent protection in the US and abroad strengthens our intellectual property and creates value in Wrap Technologies. The failure to obtain patent protection or the loss of patent protection on our existing and future technologies or the circumvention of our patents by competitors could have a material adverse effect on our ability to compete successfully.

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

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

Research and Development

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

For the fiscal years ended December 31, 2024, and 2023, we spent approximately \$2.3 million and \$3.3 million, respectively, on company-sponsored research and development. This equates to 52% of revenue in 2024 and 53% of revenue in 2023. Future levels of research and development expenditure will vary depending on the timing of further new product development and the availability of funds to carry on new and additional research and development on currently owned technologies or in other areas. During 2025, in addition to continued development and enhancement of our remote restraint products, we expect to incur additional costs improving our training systems including enhancing our Wrap Reality on premise and cloud platforms and related content. As mentioned earlier we believe we are ahead of many in the law enforcement 3D virtual reality training space and have built up significant capability to compete globally in the law enforcement and corrections VR space.

License and Royalties

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

The License Agreement provides for the payment of royalties of 4% of revenue from products employing the licensed device technology up to the earlier to occur of (i) the payment by the Company of an aggregate of \$1.0 million in royalties, or (ii) September 30, 2026. All development and patent costs have been paid by us and patent applications and the technology related to the BolaWrap 100 and the BolaWrap 150 have been completely and solely assigned to the Company, subject to this royalty obligation. As of December 31, 2024, we have incurred the maximum \$1.0 million in royalties with \$81 thousand included in accounts payable at year-end.

Seasonality

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

Financial Information about Customer Concentration and Geographic Areas

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

Employees

As of December 31, 2024, we employ 19 full-time employees in the U.S. In addition, we engage consultants from time to time to provide additional sales, marketing, training and research and development services, and anticipate engaging consultants going forward to supplement our full- and part-time personnel.

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

Available Information

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

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

ITEM 1A. RISK FACTORS

An investment in our Company involves a high degree of risk. In addition to the other information included in this Annual Report, you should carefully consider the following risk factors in evaluating an investment in our Company. You should consider these matters in conjunction with the other information included or incorporated by reference in this Annual Report. If any of the following risks actually occurs, our business, reputation, financial condition, results of operations, revenue, and future prospects could be negatively impacted. In that event, the market price of our Common Stock could decline, and you could lose part or all of your investment.

Risk Factors Relating to Our Business and Industry

We have a history of operating losses, expect additional losses and may not achieve or sustain profitability.

We have a history of operating losses and expect to incur additional losses until we achieve sufficient revenue and resulting margins to offset our operating costs. Our net loss for the years ended December 31, 2024, and 2023 was \$5.9 million and \$30.2 million, respectively. Our decrease in net losses in 2024 was primarily attributable to non-cash other income of approximately \$9.6 million related to the change in value of our warrant liability from December 31, 2023 to December 31, 2024, as compared to a non-cash charge of approximately \$12.0 million in 2023 related to the change in value as of December 31, 2023 of the same warrant liability initially recorded as part of the Series A Preferred Stock (as defined herein) issuance in July 2023. Additionally, as a result of the Company's cost containment efforts in 2024, our operating expenses were reduced by \$3.6 million in 2024 as compared to 2023. Our ability to achieve future profitability is dependent on a variety of factors, many of which are outside of our control. Failure to achieve profitability or sustain profitability, if achieved, may require us to raise additional capital, which could have a material negative impact on the market value of our Common Stock.

We may need additional capital to execute our business plan, and raising additional capital, if possible, by issuing additional equity securities may cause dilution to existing stockholders. In addition, raising additional capital by issuing additional debt instruments may restrict our operations.

Although we believe we have adequate financial resources to fund our operations and capital needs for at least the next twelve months, and that we may be able to generate funds from product sales during that time, existing working capital may not be sufficient to achieve profitable operations due to product introduction costs, operating losses and other factors. Principal factors affecting the availability of internally generated funds include:

- failure of product sales and services to meet planned projections;
- government spending levels impacting sales of our products;
- working capital requirements to support business growth;
- our ability to integrate acquisitions;
- our ability to control spending;
- our ability to collect accounts receivable; and
- acceptance of our products and services in planned markets.

In the event we are required to raise additional capital through the issuance of equity or convertible debt securities, the percentage ownership of our stockholders could be diluted significantly, and such newly issued securities may have rights, preferences or privileges senior to those of our existing stockholders. In addition, the issuance of any equity securities could be at a discount to the market price.

If we incur debt financing, the payment of principal and interest on such indebtedness may limit funds available for our business activities, and we could be subject to covenants that restrict our ability to operate our business and make distributions to our stockholders. These restrictive covenants may include limitations on additional borrowing and specific restrictions on the use of our assets, as well as prohibitions on our ability to create liens, pay dividends, redeem stock or make investments. There is no assurance that any equity or debt financing transaction will be available on acceptable terms, if at all.

As a result of our failure to timely file certain reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months, we are currently ineligible to file a registration statement on Form S-3, which may impair our ability to raise capital on terms favorable to us, in a timely manner or at all.

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

If we are unable to raise capital through a registered offering, we would be required to conduct our equity financing transactions on a private placement basis, which may be subject to pricing, size and other limitations imposed under the Nasdaq rules, or seek other sources of capital. The foregoing limitations on our financing approaches could have a material adverse effect on our results of operations, liquidity, and financial position.

We expect to be dependent on sales of our BolaWrap product line for the foreseeable future, and if this product is not widely accepted, our growth prospects will be diminished.

We expect to depend on sales of the BolaWrap product line and related cassettes for the foreseeable future. A lack of demand for this product, or its failure to achieve broader market acceptance, would significantly harm our growth prospects, operating results and financial condition. To execute our business plan successfully, we will need to execute on the following objectives, either on our own or with strategic collaborators:

- Grow our commercialization of the BolaWrap product, and develop additional future products and accessories for commercialization;
- Maintain required regulatory approvals for our products in global market locations;
- Expand, and as required, enforce our intellectual property portfolio for the BolaWrap product and other future products;
- Maintain sales, distribution and marketing capabilities, and/or enter into strategic partnering arrangements to access such capabilities; and
- Grow market acceptance for the BolaWrap product line and/or other future products.

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

We continue to invest substantial funds in further developing and commercializing our Wrap Reality product line which is highly competitive. The commercial launch of the Wrap Reality Virtual Training product is in the early stages in a new marketplace for 3D Virtual Reality training that competes with a legacy 2D virtual training environment. We expect 2D virtual training companies to either try to buy out companies like ours or choose to have to build 3D Virtual reality to compete with us. As one of the only companies with both on premise 3D Virtual Reality and full cloud 3D Virtual Reality we plan to compete on both fronts; however, our ability to commercialize this 3D Virtual Reality product line may be influenced by many factors, including:

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

We face competition from companies with greater financial, technical, sales, marketing and other resources, and, if we are unable to compete effectively with these competitors, our business could be harmed.

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

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

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

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

Our Company may be positively or negatively impacted by continued social unrest, protests against racial inequality, and movements like “Defund the Police.”

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.

We may incur significant and unpredictable warranty costs as our products are produced, sold, and used.

We warrant our products to be free from defects in materials and workmanship for a period of up to one year from the date of purchase. Additional one-year warranties can be purchased by the customer. We may incur substantial and unpredictable warranty costs from post-production product or component failures. Future warranty costs could further adversely affect our financial position, results of operations and business prospects.

We could incur charges for excess or obsolete inventory and incur production costs for improvements or model changes.

While we strive to effectively manage our inventory, rapidly changing technology, and uneven customer demand may result in short product cycles and the value of our inventory may be adversely affected by changes in technology that affect our ability to sell the products in our inventory. If we do not effectively forecast and manage our inventory, we may need to write off inventory as excess or obsolete, which in turn can adversely affect cost of sales and gross profit.

We have experienced, and may in the future experience, improvement and model changes and unusual production costs associated with implementing production for our products. We currently have no reserve for slow moving or obsolete inventory but may incur future charges for obsolete or excess inventory.

Our international operations could be harmed by factors including natural disasters, fluctuations in currency exchange rates, and changes in regulations that govern international transactions.

We sell our products worldwide and have exported to multiple countries. We expect exports to continue to be a significant part of our future business. The risks inherent in international trade may reduce our international sales or impede growth and harm our business and the businesses of our customers and our suppliers. These risks include, among other things:

- Changes in tariff regulations;
- Foreign currency exchange rate fluctuations;
- Establishing and maintaining relationships with local distributors, agents and dealers;
- Lengthy shipping times and accounts receivable payment cycles;
- Import and export control and licensing requirements;
- Compliance with a variety of US laws, ATF regulations, US Department of Commerce regulations and the Foreign Corrupt Practices Act, by us or key subcontractors or agents;
- Compliance with a variety of foreign laws and regulations, including unexpected changes in taxation and regulatory requirements;
- Greater difficulty in safeguarding intellectual property abroad than in the US; and
- Difficulty in staffing and managing geographically diverse operations.

These and other risks may preclude or curtail international sales or increase the relative price of our products compared to those manufactured in other countries, reducing the demand for our products. Failure to comply with US and international governmental laws and regulations applicable to international business, such as the Foreign Corrupt Practices Act or US export control regulations, could have an adverse impact on our business with the US and international governments.

Global economic weakness and uncertainty, geopolitical conflict, war, and civil unrest, could adversely affect our revenues, gross margins and expenses.

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

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

Our business could be adversely impacted by the effects of future pandemics, epidemics or infectious disease outbreaks. The extent to which future pandemics will in the future impact our financial conditions and results of operations, or those of our third-party suppliers, will depend on future developments, which are highly uncertain and cannot be predicted with confidence at this time, including the continued duration of the outbreak in the markets we target.

Substantially all our employees are located in the US. In addition to our employees, we rely on (i) distributors, agents, and third-party logistics providers in connection with product sales and distribution and (ii) raw material and component suppliers in the US, Canada, Europe and Asia. If we, or any of these third-party partners encounter any disruptions to our or their respective operations or facilities, or if we or any of these third-party partners were to shut down for any reason, including by pandemic, fire, natural disaster, such as a hurricane, tornado or severe storm, power outage, systems failure, labor dispute, or other unforeseen disruption, then we or they may be prevented or delayed from effectively operating our or their business, respectively. Any losses or damages we incur could have a material adverse effect on our financial results and our ability to conduct business as expected.

We anticipate that a significant portion of our revenue in the short-term will be generated from international sales, which may adversely affect our ability to timely collect accounts receivable.

During the year ended December 31, 2024, we generated approximately 2% of our revenue from international sales. Due principally to the longer sales cycle, procurement delays and regulatory issues associated with domestic sales versus international sales, we currently anticipate that a significant portion of our sales in the year ending December 31, 2025, will be generated from international orders. In the event we are unable to timely collect account receivables associated with international sales, or timing of such international sales is delayed, our financial condition could be adversely and materially affected.

If we are unable to manage our projected growth, our growth prospects may be limited, and our future profitability may be adversely affected.

We intend to continue to expand our sales and marketing and our manufacturing capability. Rapid expansion may strain our staffing, financial and other resources. If we are unable to manage our growth, our business, operating results, and financial condition could be adversely affected. Our systems, procedures, controls, and management resources may not be adequate to support our future growing operations, and we have started to upgrade them and will continue to do so in 2025. We are working to continually improve our operational, financial, and other internal systems to manage our growth effectively, and any failure to do so may lead to inefficiencies and redundancies, and result in reduced growth prospects and profitability.

We may face personal injury and other liability claims that harm our reputation and adversely affect our sales and financial condition.

Our product is intended to be used in confrontations to de-escalate the situation and reduce the chance for injury to officers and the subjects that they interact with. There is always a chance that use could result in injury to those involved. Our product may cause or be associated with such injuries. A person injured in a confrontation or otherwise in connection with the use of our product may bring legal action against us to recover damages based on theories including personal injury, wrongful death, negligent design, dangerous product, or inadequate warning. We may also be subject to lawsuits involving allegations of misuse of our product. If successful, personal injury, misuse, and other claims could have a material adverse effect on our operating results and financial condition. Although we carry product liability insurance, significant litigation could also result in a diversion of management's attention and resources, negative publicity, and an award of monetary damages in excess of our insurance coverage.

The nature of our business may result in undesirable press coverage or other negative publicity.

Our solutions are used to assist law enforcement and first responders in volatile encounters. Even when our device works as intended, incidents can lead to injury, loss of life and other negative outcomes, and such events are likely to receive negative publicity even if not directly caused by BolaWrap. If our product fails to help de-escalate an encounter, related adverse outcomes may receive negative media attention. At times, body or dash camera images or other images of use of our product may become a matter of public record due to legal or other obligations (for example, because of public-records requests or subpoenas to provide information or to testify in court), and we may receive negative media attention as a result.

We may be subject to criticism and unflattering media coverage regarding the effectiveness of our remote restraint solutions and the cost of our solutions to our customers, or the appropriateness of use on persons in crisis or the mentally ill. Such negative publicity could have an adverse impact on new sales, which would adversely impact our financial results and prospects.

Our future success is dependent on our ability to expand sales, and our inability to grow our sales force or maintain and grow distributors would negatively affect our sales.

Our distribution strategy is to pursue sales through multiple channels with an emphasis on direct sales, as well as independent distributors, domestically and internationally. Our inability to recruit and retain sales personnel and maintain and add police equipment distributors who can successfully sell our products could adversely affect our sales. If we do not competitively price our products, provide high quality big free products and solutions, meet the requirements of any end-users, provide adequate marketing support, or comply with the terms of any distribution arrangements, such distributors may fail to aggressively market our product or may terminate their relationships with us. These developments would likely have a material adverse effect on our sales. Our reliance on the sales of our products by distributors for a large portion of our sales also makes it more difficult to predict our revenue, cash flow and operating results.

We expect to expend significant resources to generate sales due to our lengthy sales cycle, and such efforts may not result in the level of sales or revenue we expect.

Generally, law enforcement agencies consider a wide range of issues before committing to purchase a product, including product benefits, training time and costs, the cost to use our product in addition to, or in place of, other less lethal products, time in market, product reliability and budget constraints. The length of our sales cycle may range from 30 days to a year or more. We may incur substantial selling costs and expend significant effort in connection with the evaluation of our product by potential customers before they place an order if they place an order at all. If these potential customers do not purchase our product, we will have expended significant resources without corresponding revenue.

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

Most of our intended end-user customers are government agencies at all levels. These agencies often do not set their own budgets and therefore have little control over the amount of money they can spend. In addition, these agencies experience political pressure that may dictate the way they spend money. As a result, even if an agency wants to acquire our product, it may be unable to purchase our product due to budgetary or political constraints. Some government agency orders may also be canceled or substantially delayed due to budgetary, political, or other scheduling delays, which frequently occur in connection with the acquisition of products by such agencies.

Our dependence on third-party suppliers for key components of our products makes us vulnerable to price increases, inflation, recession, and supply shortages that could delay shipment of our products and reduce our sales or margins.

We depend on certain domestic and foreign suppliers for the delivery of components used in the assembly of our product. During the year ended December 31, 2024, approximately 70% of our supply chain was from domestic US suppliers. Our reliance on third-party suppliers creates risks related to our potential inability to obtain an adequate supply of components or sub-assemblies and reduced control over pricing and timing of delivery of components and subassemblies. Specifically, we depend on suppliers of sub-assemblies, electronic components, injection molded plastic parts, and other miscellaneous custom parts for our product, some from sole source suppliers. We are still subject to the risk of shortages and long lead times in the supply of these components and the risk that our suppliers discontinue or modify components used in our products. In addition, the lead times associated with certain components are lengthy and preclude rapid changes in quantities or changes for bugs or enhancements. Delays in our suppliers' abilities, especially any sole suppliers, to provide us with necessary materials and components may delay production or may require us to seek alternative supply sources. Any delay in receiving supplies could impair our ability to deliver products to our customers and, accordingly, could have a material adverse effect on our business, results of operations and financial condition.

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

Market and economic conditions may negatively impact our business, financial condition and share price.

Concerns over inflation, geopolitical issues, the U.S. financial markets and a declining real estate market, unstable global credit markets and financial conditions, and volatile oil prices have led to periods of significant economic instability, diminished liquidity and credit availability, declines in consumer confidence and discretionary spending, diminished expectations for the global economy and expectations of slower global economic growth going forward, increased unemployment rates, and increased credit defaults in recent years. Our general business strategy may be adversely affected by any such economic downturns, volatile business environments and continued unstable or unpredictable economic and market conditions. If these conditions continue to deteriorate or do not improve, it may make any necessary debt or equity financing more difficult to complete, more costly, and more dilutive. In addition, there is a risk that one or more of our current and future service providers, manufacturers, suppliers, hospitals and other medical facilities, our third-party payors, and other partners could be negatively affected by difficult economic times, which could adversely affect our ability to attain our operating goals on schedule and on budget or meet our business and financial objectives.

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

In November 2022, we acquired the rights to certain software assets and services to drive the rapid enhancement of our Wrap Reality Cloud platform, in August 2023 we acquired Intrensic which included a Body-Worn Camera and Digital Evidence Management solution and in February 2025, we acquired W1 Global, LLC ("W1 Global"), a professional services and consulting firm led by an executive team of former high-ranking law enforcement and U.S. Intelligence Community professionals. However, our ability to successfully implement our business plan and achieve targeted financial results and other benefits including, among other things, greater market presence and development, and enhancements to our product portfolio and customer base, is dependent on our ability to successfully identify, consummate and integrate acquisitions we may acquire in the future. We may not realize the intended benefits of the acquisition of other businesses in the future as rapidly as, or to the extent, anticipated by our management. There can be no assurance that we will be able to successfully integrate any other acquired businesses, products or technologies without substantial expense, delay or other operational or financial problems. Acquisitions involve several risks, some or all of which could have a material adverse effect on our acquired businesses, products or technologies. Furthermore, there can be no assurance that any acquired business, product, or technology will be profitable or achieve anticipated revenues and income. Our failure to manage our acquisition and integration strategy successfully could have a material adverse effect on our business, results of operations and financial condition. The process of integrating an acquired business involves risks, including but not limited to:

- Demands on management related to changes in the size and possible locations of our businesses and employees;

- Diversion of management’s attention from the management of daily operations;
- Difficulties in the assimilation of different corporate cultures, employees and business practices;
- Retaining the loyalty and business of the employees or customers of acquired businesses;
- Retaining employees that may be vital to the integration of acquired businesses or to the future prospects of the combined businesses;
- Difficulties and unanticipated expense related to the integration of departments, information technology systems, including accounting systems, technologies, books and records, and procedures, and maintaining uniform standards, such as internal accounting controls, procedures, and policies;
- Costs and expense associated with any undisclosed or potential liabilities; and
- The use of more cash or other financial resources on integration and implementation activities than we expect.

Failure to successfully integrate any acquired business in the future may result in reduced levels of revenue, earnings, or operating efficiency than might have been achieved if we had not acquired such businesses.

In addition, the acquisition of any future businesses could result in additional debt and related interest expense, contingent liabilities, and amortization expense related to intangible assets, as well as the issuance of our Common Stock, which could have a material adverse effect on our financial condition, operating results, and cash flow.

Government regulation of our products may adversely affect sales.

Our BolaWrap device is classified as a firearm and the BolaWrap 150 is also classified as an “Any other Weapon” (“AOW”). Both firearms and explosive devices are regulated by the US Bureau of Alcohol, Tobacco, Firearms and Explosives (“ATF”) involving substantial regulatory compliance. ATF regulations are enforced by surveillance and inspection of federal firearms licensees (“FFLs”). If ATF finds a violation, it can institute a wide range of enforcement actions, ranging from warnings to more severe sanctions such as fines, penalties, suspension or withdrawal of regulatory approvals, product recalls, seizure of products, operating restrictions or total shutdown of production, and criminal prosecution. Any such actions could have a material adverse impact on our operations.

The federal firearms laws impose strict controls over the possession and transfers of firearms, which may impact our ability to transfer devices to customers. Because ATF has classified our devices as AOWs, we must register our devices with the ATF at the time of manufacture. Before we may transfer our registered devices to any customer, including a government agency, we must obtain approval from the ATF. The ATF processing time for transfer applications varies significantly, depending on the prospective transferee. Applications to transfer AOWs to U.S., state or local government entities are usually processed in 1-3 weeks, while transfers to private, non-licensed individuals require a longer processing time because of the required background investigation of the transferee. These types of transfers may take 6-8 months or longer.

The federal firearms laws prohibit interstate transfers of firearms to non-licensed persons or entities. Consequently, we are prohibited from transferring our devices directly to a non-government, non-licensed individual or entity in a different state. To accomplish such a transfer, we must first obtain ATF approval to transfer the device to another FFL dealer in the end-user’s state. After that transfer is completed, the FFL dealer must obtain ATF approval to transfer the device to the non-government, non-licensed individual. The ATF may deny any transfer application if such transfer would violate state law or when the transferee is prohibited from possessing a firearm.

Our device may face state restrictions, especially regarding sales to private security agencies. Our product sales may be significantly affected by international, federal, state and local regulations. Failure to comply with regulations could also result in the imposition of fines, penalties and other actions that could adversely impact our financial position, cash flows and operating results.

Our product is also controlled by the US Department of Commerce (“DOC”) for exports directly from the US. Consequently, we need to obtain export licenses from the DOC for the export of our products from the US. Compliance with or future changes in US export regulations could significantly and adversely affect any future international sales.

The shipment of some of our components and our products involve conformity to regulations governing the transport of “dangerous goods.” Failure to comply with shipping regulations could result in the imposition of fines, penalties and other actions that could adversely impact our financial position, cash flows and operating results.

Certain foreign jurisdictions may restrict the importation or sale of our products, limiting our international sales opportunities.

Our products, including the BolaWrap 100 and BolaWrap 150, are protected by limited patent and other intellectual property protection. If we are unable to protect our intellectual property, we may lose a competitive advantage or incur substantial litigation costs to protect our rights.

Our future success depends in part upon our proprietary technology. We currently have 31 issued US patents related to the BolaWrap technology and five additional US patents pending. We have filed foreign patent applications in the European Union (up to 39 countries) and 17 other countries and reserved our rights to file additional foreign patents. Our protective measures taken thus far, including our issued patents, pending patents, issued and pending trademarks and trade secret laws, may prove inadequate to protect our proprietary rights. To date we have a total of 84 issued domestic and international patents. During 2024, we filed four patent applications, two of which were US filings. We feel the significant investment in patent protection in the US and abroad creates a significant amount of IP and value in Wrap Technologies. However, there can be no assurance we will be granted any patent rights from pending patents. The scope of any possible patent rights may not prevent others from developing and selling competing products. The validity and breadth of claims covered in any possible patents involve complex legal and factual questions, and the resolution of such claims may be highly uncertain, lengthy, and expensive. In addition, any patents, if granted, may be held invalid upon challenge, or others may claim rights in or ownership of our patents.

Our competitive position may be seriously damaged if our products are found to infringe on the intellectual property rights of others.

Other companies and our competitors may currently own or obtain patents or other proprietary rights that might prevent, limit or interfere with our ability to make, use or sell our products. Any intellectual property infringement claims made against us, with or without merit, could be costly and time-consuming to defend and divert our management's attention from our business. In the event of a successful claim of infringement against us and if we are unable to license the allegedly infringed technology, our business and operating results could be adversely affected. Any litigation or claims, whether or not valid, could result in substantial costs and diversion of our resources. An adverse result from intellectual property litigation could force us to do one or more of the following:

- Cease selling, incorporating, or using products or services that incorporate the challenged intellectual property;
- Obtain a license from the holder of the infringed intellectual property right, which license may not be available on reasonable terms, if at all; and
- Redesign products or services that incorporate the disputed technology.

If we are forced to take any of the foregoing actions, we could face substantial costs and shipment delays and our business could be materially harmed. Although we carry general liability insurance, our insurance may not cover potential claims of this type or be adequate to indemnify us for all liability that may be imposed.

In addition, it is possible that others may seek indemnity from us if our products are found or alleged to infringe the intellectual property rights of others. Any such claim for indemnity could result in substantial expense to us that could harm our operating results.

Competition in the law enforcement market could reduce our sales, make our products obsolete or inferior and prevent us from achieving profitability.

The law enforcement market is highly competitive, and adoption of new policing tools and innovative training solutions may take time. Law enforcement adherence to currently used products may also slow adaptation to new policing tools. We face competition from numerous larger, better capitalized, more experienced and more widely known companies that make less-lethal weapons and other law enforcement products. One or more of our competitors may have developed or may succeed in developing technologies and products that are more effective than any of ours, rendering our technology and products obsolete or noncompetitive. Increased competition could result in reduced sales, greater pricing pressure, lower gross margins, and prevent us from achieving profitability.

Foreign currency fluctuations may reduce our competitiveness and sales in international markets.

The relative change in currency values creates fluctuations in product pricing for future potential international customers. These changes in international end-user costs may result in lost orders and reduce the competitiveness of our products in certain international markets. These changes may also negatively affect the financial condition of some international customers and reduce or eliminate their future orders of our products.

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

We are dependent on our ability to retain and motivate our high-quality personnel, especially managers, sales and skilled engineering and manufacturing personnel. Competition for such personnel is intense, and we may not be able to attract, assimilate or retain other highly qualified managerial, sales and technical personnel in the future. The inability to attract and retain the necessary managerial, sales and technical personnel could cause our business, operating results or financial condition to suffer.

A failure in or breach of our or our operational or security systems or infrastructure, or those of third parties with which we do business, including as a result of cyberattacks, could disrupt our businesses, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and cause losses.

Information security risks have significantly increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct operations, and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties, including foreign state actors. Our operations and certain of our products rely on the secure processing, transmission and storage of confidential, proprietary and other information in our computer systems and networks. We rely on our digital technologies, computer and email systems, software, and networks to conduct our operations. Our technologies, systems, networks are likely to be the target of, cyberattacks, computer viruses, malicious code, phishing attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of our or our customers' confidential, proprietary and other information, or otherwise disrupt our or our customers' or other third parties' business operations.

We may suffer material losses relating to cyberattacks or other information security breaches. Our risk and exposure to these matters remain heightened because of, among other things, the evolving nature of these threats, the continued uncertain global economic environment, threats of cyberterrorism, and system and customer account conversions. As a result, cybersecurity and the continued development and enhancement of our controls, processes and practices designed to protect our systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority for us. As cyber threats continue to evolve, we may be required to expend significant additional financial, technical and operational resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities.

In addition, we also face the risk of operational failure, termination or capacity constraints of any of the third parties with which we do business or that facilitate our and our subsidiaries' business activities. Any such failure, termination or constraint could adversely affect our and our subsidiaries' ability to provide our services and products, service the customers, manage the exposure to risk or expand our businesses and could have an adverse impact on our liquidity, financial condition and results of operations.

Disruptions or failures in the physical infrastructure or operating systems that support our business, or cyberattacks could result in the loss of business opportunities, significant disruptions to our operations and business, misappropriation of our confidential information and/or that of our customers, or damage to our computers or systems and those of our customers and/or counterparties, and could result in violations of applicable privacy laws and other laws, litigation exposure, regulatory fines, penalties or intervention, loss of confidence in our security measures, reputational damage, reimbursement or other compensatory costs, and additional compliance costs.

The regulatory framework for artificial intelligence ("AI") technologies is rapidly evolving as many federal, state and foreign government bodies and agencies have introduced or are currently considering additional laws and regulations. In addition, existing laws and regulations may be interpreted in ways that would affect the use of AI in our business. As a result, implementation standards and enforcement practices are likely to remain uncertain for the foreseeable future, and we cannot yet determine the impact future laws, regulations, standards, or market perception of their requirements may have on our business and may not always be able to anticipate how to respond to these laws or regulations.

We incorporate AI solutions into our Body Worn Camera and Digital Evidence Management solutions, services, and features, and these applications are important in our operations. The regulatory framework for AI technologies is rapidly evolving as many federal, state and foreign government bodies and agencies have introduced or are currently considering additional laws and regulations. In addition, existing laws and regulations may be interpreted in ways that would affect the use of AI in our business. As a result, implementation standards and enforcement practices are likely to remain uncertain for the foreseeable future, and we cannot yet determine the impact future laws, regulations, standards, or market perception of their requirements may have on our business and may not always be able to anticipate how to respond to these laws or regulations.

Certain existing legal regimes (e.g., relating to data privacy) regulate certain aspects of AI technologies, and new laws regulating AI technologies recently entered into force in the United States and Europe. In the United States, former Biden administration issued a broad Executive Order on the Safe, Secure and Trustworthy Development and Use of Artificial Intelligence (the “2023 AI Order”), which sets out principles intended to guide AI design and deployment for the public and private sectors and signals the increase in governmental involvement and regulation over AI technologies. This executive order was revoked by President Trump on January 23, 2025. Subsequently, on January 23, 2025, the President issued Executive Order on Removing Barriers to American Leadership in Artificial Intelligence, which directed relevant agencies to develop an action plan to assure global dominance by the United States in artificial intelligence, and to examine any actions taken in connection with the 2023 AI Order, which are incongruent with Trump’s order.

In addition, agencies such as the Department of Commerce and the FTC have issued proposed rules governing the use and development of AI technologies. Legislation related to AI technologies has also been introduced at the federal level and is advancing at the state level. Such additional regulations may impact our ability to develop, use, and commercialize AI technologies offered by our service providers and within our products and services in the future.

On May 21, 2024, the European Union legislators approved the EU Artificial Intelligence Act (the “EU AI Act”), which establishes a comprehensive, risk-based governance framework for artificial intelligence in the EU market. The EU AI Act entered into force on August 2, 2024, and the majority of the substantive requirements will apply from August 2, 2026. The EU AI Act, and developing interpretation and application of the GDPR in respect of automated decision making, together with developing guidance and/or decisions in this area, may affect our use of AI technologies and our ability to provide, improve or commercialize our business, require additional compliance measures and changes to our operations and processes, result in increased compliance costs and potential increases in civil claims against us, and could adversely affect our business, operations and financial condition.

It is possible that further new laws and regulations will be adopted in the United States and in other non-U.S. jurisdictions, or that existing laws and regulations, including competition and antitrust laws, may be interpreted in ways that would limit our ability to use AI technologies for our business, or require us to change the way we use AI technologies in a manner that negatively affects the performance of our business and the way in which we use AI technologies. We may need to expend resources to adjust our system in certain jurisdictions if the laws, regulations, or decisions are not consistent across jurisdictions. Further, the cost to comply with such laws, regulations or decisions and/or guidance interpreting existing laws, could be significant and would increase our operating expenses (such as by imposing additional reporting obligations regarding our use of AI technologies). Such an increase in operating expenses, as well as any actual or perceived failure to comply with such laws and regulations, could materially and adversely affect our business, financial condition, results of operations, and prospects.

Further, a number of aspects of intellectual property protection in the field of AI are currently under development and there is uncertainty and ongoing litigation in different jurisdictions as to the degree and extent of protection warranted for AI and relevant system input and outputs. If we fail to obtain protection for our intellectual property rights within our AI technologies, or later have our intellectual property rights invalidated or otherwise diminished, our competitors may be able to take advantage of our research and development efforts to develop competing products that could adversely affect our business, reputation and financial condition. Further, given the long history of development of AI technologies, other parties may have (or in the future may obtain) patents or other proprietary rights that would prevent, limit or interfere with our ability to make, use or sell our own AI technologies.

Risk Factors Relating to Our Financial Statements and Operating Results

We cannot predict our future operating results. Our quarterly and annual results will likely be subject to fluctuations caused by many factors, any of which could result in our failure to achieve our expectations.

We currently expect that the BolaWrap product will be the primary source of our revenue in 2025. We expect our revenue to vary significantly due to several factors. Many of these factors are beyond our control. Any one or more of these factors, including those listed below, could cause us to fail to achieve our revenue expectations. These factors include, among others:

- Our ability to develop, manufacture, ship and supply product to customers;
- Market acceptance of, and changes in demand for, our products;
- Gains or losses of significant customers, distributors, or strategic relationships;

- Unpredictable volume and timing of customer orders;
- The availability, pricing, and timeliness of delivery of components in our supply chain for our products;
- Fluctuations in the availability of manufacturing capacity or manufacturing yields and related manufacturing costs;
- Timing of new technological advances, product announcements or introductions by us and by our competitors;
- Unpredictable warranty costs associated with our products;
- Budgetary cycles and order delays by customers or production delays by us or our suppliers;
- Regulatory changes affecting the marketability of our products;
- Logistics challenges of obtaining supplies and components and shipping products resulting from the pandemic;
- General economic conditions that could affect the timing of customer orders and capital spending and result in order cancellations or rescheduling;
- General political conditions in this country and in various other parts of the world that could affect spending for the products that we intend to offer; and
- Seasonality of purchasing timeframes and procurement delays impact sales.

Some or all of these factors could adversely affect demand for our products and, therefore, adversely affect our future operating results. As a result of these and other factors, we believe that period-to-period comparisons of our operating results may not be meaningful in the near term, and accordingly you should not rely upon our performance in a particular period as indicative of our performance in any future period.

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

If we incur additional expenses in a quarter in which we do not experience increased revenue, our results of operations will be adversely affected, and we may incur larger losses than anticipated for that quarter. Factors that could cause our expense to fluctuate from period to period include:

- The timing and extent of our research and development efforts;
- Investments and costs of maintaining or protecting our intellectual property;
- Marketing and sales efforts to promote our products and technologies;
- The timing of personnel and consultant hiring; and
- Supply chain and inventory cost variations.

Most of our operating expenses are relatively fixed in the short term. We may be unable to rapidly adjust spending to compensate for any unexpected sales shortfalls, which could harm our quarterly operating results and our stock price. We do not have the ability to predict future operating results with any certainty.

Risk Factors Related to Our Series A Preferred Stock

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

The Certificate of Designations (the “Certificate of Designations”) for our Series A Convertible Preferred Stock (“Series A Preferred Stock”) provides for the payment of dividends to the holder of our Series A Preferred Stock in cash or shares of Common Stock, or a combination thereof, at the Company’s option. If the Company elects to pay any dividends in shares of Common Stock, the Conversion Price (as defined herein) used to calculate the number of shares issuable will equal to the lower of (i) the then applicable Conversion Price and (ii) 85% of the arithmetic average of the three (3) lowest closing prices of the Common Stock during the twenty (20) consecutive trading day period ending on the trading day immediately preceding the dividend payment date, subject to a floor price. The Certificate of Designations also contains “full ratchet” anti-dilution provisions applicable to the conversion prices used in voluntary conversions of Series A Preferred Stock by the holders thereof and by the Company in paying any dividends in shares of Common Stock, which provisions require the lowering of the

applicable conversion price, as then in effect, to the purchase price of equity or equity-linked securities issued in subsequent offerings. If in the future, while any of our Series A Preferred Stock is outstanding, we issue securities at an effective Common Stock purchase price that is less than the applicable conversion price of our Series A Preferred Stock, as then in effect, we will be required, subject to certain limitations and adjustments as provided in the Certificate of Designations for the Preferred Stock, to further reduce the relevant conversion price, which will result in a greater number of shares of Common Stock being issuable upon conversion of the Preferred Stock or upon the payment of dividends to the holders of the Preferred Stock in shares of Common Stock, which in turn will have a greater dilutive effect on our stockholders. The potential for such additional issuances may depress the price of our Common Stock regardless of our business performance. We may find it more difficult to raise additional equity capital while any of our Preferred Stock is outstanding.

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

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

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

Risk Factors Relating to Our Common Stock

We may be unable to raise capital by offering shares of our common stock because we do not currently have enough authorized shares available for such a transaction.

Under our Amended and Restated Certificate of Incorporation, as amended (the "Charter") we currently have only 48,762 authorized and unissued shares of common stock that would be available for offering in a capital-raising transaction. This number of shares would not be sufficient for raising a significant amount of capital by means of an offering of shares. In order to increase the number of authorized shares of common stock, our Charter would need to be amended, which may only be done by the vote of our stockholders. Calling a meeting of our stockholders involves a significant amount of time and expense and, in any event, should such a meeting be called for the purpose of increasing the number of authorized shares of common stock, there can be no assurance that our stockholders would vote in favor of such a proposal. The fact that we do not currently have enough authorized shares available for a capital-raising transaction may make us dependent on alternative means of raising capital in order to continue our operations, and there can be no assurance that such alternative means may be available to us on acceptable terms or at all.

Our stock price is volatile and may continue to be volatile or may decline regardless of our operating performance, resulting in substantial losses for investors.

The market price of our Common Stock has fluctuated significantly to date and in the future may fluctuate significantly in response to numerous factors, many of which are beyond our control, including the factors listed below and other factors described in this "Risk Factors" section:

- Actual or anticipated fluctuations in our operating results;
- Failure of securities analysts to initiate or maintain coverage of our Company, changes in financial estimates by any securities analysts who follow our Company, or our failure to meet these estimates or the expectations of investors;
- Rating changes by any securities analysts who follow our Company;

- Changes in the availability of federal funding to support local law enforcement efforts, or local budgets;
- International budget changes or changeover in government leadership;
- Announcements by us of significant technical innovations, acquisitions, strategic partnerships, joint ventures or capital commitments;
- Changes in operating performance and stock market valuations of other security product companies generally;
- Price and volume fluctuations in the overall stock market, including as a result of trends in the economy as a whole;
- Announcements of merger or acquisition transactions;
- Changes in our board of directors or management and key personnel;
- Sales of large blocks of our Common Stock, including sales by our founders, executive officers, directors and significant stockholders;
- Lawsuits threatened or filed against us;
- Short sales, hedging and other derivative transactions involving our capital stock;
- General economic conditions in the US and abroad; and
- Other events or factors, including those resulting from war, incidents of terrorism or responses to these events.

In addition, stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many security and technology companies. Stock prices of many security and technology companies have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies. Stock prices of nanocap securities and small cap securities have fluctuated even more than medium and large cap companies in recent years.

We have been, and in the future may be, subject to securities litigation, which has and may be expensive and has and could divert management attention.

Our share price is volatile, and in the past companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation.

Lawsuits of this nature divert financial and management resources that would otherwise be used to benefit our operations and defending such lawsuits may result in substantial costs. Any lawsuit to which we or our directors or officers are a party, with or without merit, may result in an unfavorable judgment. We also may decide to settle lawsuits on unfavorable terms. Any such negative outcome could result in payments of substantial damages or fines, damage to our reputation or adverse changes to our offerings or business practices. Any of these results could adversely affect our business.

In addition, we may be the target of securities-related litigation in the future. Such litigation may divert our management's attention and resources, result in substantial costs, and have an adverse effect on our business, results of operations and financial condition. We maintain director and officer insurance that we regard as reasonably adequate to protect us from potential claims; however, we cannot assure you that it will. Further, if we are subject to future litigation, the costs of insurance may increase, and the availability of coverage may decrease. As a result, we may not be able to maintain our current levels of insurance at a reasonable cost, or at all, which might make it more difficult to attract qualified candidates to serve as executive officers or directors of the Company.

Our officers and directors are among our largest stockholders and may have certain personal interests that may affect the Company.

Management and certain directors owned more than 10% of our Common Stock as of December 31, 2024. As a result, our management and certain directors, acting individually or as a group, has the potential ability to exert influence on the outcome of issues requiring approval by our stockholders.

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

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

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

Nasdaq's continued listing standards for our Common Stock require, among other things, that we maintain a closing bid price for our Common Stock of at least \$1.00, we maintain (A) stockholders' equity of \$2.5 million; (B) market value of listed securities of \$35 million; or (C) net income from continuing operations of \$500,000 in the most recently completed fiscal year or in two of the last three most recently completed fiscal years, and timely file all required reports with the SEC or risk delisting, which would have a material adverse effect on our business. A delisting of our Common Stock from Nasdaq could materially reduce the liquidity of our Common Stock and result in a corresponding material reduction in the price of our Common Stock. In addition, delisting could harm our ability to raise capital through alternative financing sources on terms acceptable to us, or at all, and may result in the potential loss of confidence by investors, suppliers, customers and employees and fewer business development opportunities.

There is no assurance that we will maintain compliance with such minimum listing requirements. If our Common Stock were delisted from Nasdaq, trading of our Common Stock would most likely take place on an over-the-counter market established for unlisted securities, such as the OTCQB or the Pink Market maintained by OTC Markets Group Inc. An investor would likely find it less convenient to sell, or to obtain accurate quotations in seeking to buy, our Common Stock on an over-the-counter market, and many investors would likely not buy or sell our Common Stock due to difficulty in accessing over-the-counter markets, policies preventing them from trading in securities not listed on a national exchange or other reasons. In addition, as a delisted security, our Common Stock would be subject to SEC rules as a "penny stock," which impose additional disclosure requirements on broker-dealers. The regulations relating to penny stocks, coupled with the typically higher cost per trade to the investor of penny stocks due to factors such as broker commissions generally representing a higher percentage of the price of a penny stock than of a higher-priced stock, would further limit the ability of investors to trade in our common stock. In addition, delisting could harm our ability to raise capital through alternative financing sources on terms acceptable to us, or at all, and may result in the potential loss of confidence by investors, suppliers, customers and employees and fewer business development opportunities. For these reasons and others, delisting would adversely affect the liquidity, trading volume and price of our Common Stock, causing the value of an investment in us to decrease and having an adverse effect on our business, financial condition and results of operations, including our ability to attract and retain qualified employees and to raise capital.

We may issue additional shares of Common Stock in the future. The issuance of additional shares of Common Stock may reduce the value of your Common Stock.

We may issue additional shares of Common Stock without further action by our stockholders. Moreover, the economic and voting interests of each stockholder will be diluted as a result of any such issuances. Although the number of shares of Common Stock that stockholders presently own will not decrease, such shares will represent a smaller percentage of the total shares that will be outstanding after the issuance of additional shares. The issuance of additional shares of Common Stock may cause the market price of our Common Stock to decline.

Sales of shares of Common Stock issuable upon the exercise of any future options or warrants and vesting of restricted stock units may lower the price of our Common Stock.

As of December 31, 2024, we had outstanding options and unvested stock units of 4.9 million shares of our Common Stock. The issuance of shares of Common Stock issuable upon the exercise of options or issuance from restricted stock units or the exercise of warrants that may be outstanding in the future could cause substantial dilution to existing holders of our Common Stock, and the sale of those shares in the market could cause the market price of our Common Stock to decline. The potential dilution from the issuance of these shares could negatively affect the terms on which we are able to obtain equity financing.

We may issue preferred stock in the future, and the terms of the preferred stock may reduce the value of your Common Stock.

We are authorized to issue up to 5.0 million shares of preferred stock in one or more series, in which 10,000 shares have been designated as Series A Preferred Stock. Our Board of Directors may determine the terms of future preferred stock offerings without further action by our stockholders. If we issue additional shares of preferred stock, it could affect your rights or reduce the value of your Common Stock. In particular, specific rights granted to future holders of preferred stock could be used to restrict our ability to merge with or sell our assets to a third party. Preferred stock terms may include voting rights, preferences as to dividends and liquidation, conversion and redemption rights and sinking fund provisions.

We incur substantial costs as a result of being a public company.

As a public company, we incur significant levels of legal, accounting, insurance, exchange listing fees and other expenses that we did not incur as a private company. We are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act, the Dodd-Frank Act, the listing requirements of the Nasdaq Capital Market and other applicable securities rules and regulations. Compliance with these rules and regulations increases our legal and financial compliance costs, makes some activities more difficult, time-consuming or costly and increases demand on our systems and resources as compared to when we operated as a private company. The Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and operating results. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management's attention may be diverted from other business concerns, which could adversely affect our business and operating results. We may need to hire more corporate employees in the future or engage outside consultants to comply with these requirements, which would increase our costs and expenses.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time-consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expense and a diversion of management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to their application and practice, regulatory authorities may initiate legal proceedings against us and our business may be adversely affected.

As a result of disclosure of information in this report and in the filings that we are required to make as a public company, our business, operating results, and financial condition have become more visible, which has resulted in, and may in the future result in threatened or actual litigation, increased competition due to this insight, including by key competitors and other third parties. If any such claims are successful, our business, operating results and financial condition could be adversely affected, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and adversely affect our business, operating results and financial condition.

The payment of dividends will be at the discretion of our Board of Directors.

We have never declared dividends on our Common Stock, and currently do not anticipate that we will do so in the foreseeable future. The declaration and amount of future dividends, if any, will be determined by our Board of Directors and will depend on our financial condition, earnings, capital requirements, financial covenants, regulatory constraints, industry practice and other factors our Board of Directors deems relevant. In addition, so long as any shares of Series A Preferred Stock are outstanding, as they are at this time, we are not able to declare or pay any cash dividend or distribution on any of our capital stock (other than as required by the Certificate of Designations) without the prior written consent of the Required Holders (as defined in the Certificate of Designations).

General Risk Factors

Our disclosure controls and procedures may not prevent or detect all acts of fraud.

Our disclosure controls and procedures are designed to reasonably assure that information required to be disclosed in reports filed or submitted under the Securities Exchange Act is accumulated and communicated to management and is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Our management expects that our disclosure controls and procedures and internal controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within our company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be

circumvented by the individual acts of some persons, by collusion of two or more people, or by an unauthorized override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and we cannot assure that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Failure to maintain an effective system of internal control over financial reporting could harm stockholder and business confidence in our financial reporting, our ability to obtain financing and other aspects of our business.

Maintaining an effective system of internal control over financial reporting is necessary for us to provide reliable financial reports. Section 404 of the Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley Act”) and the related rules and regulations promulgated by the SEC require us to include in our Annual Report on Form 10-K a report by management regarding the effectiveness of our internal control over financial reporting. The report includes, among other things, an assessment of the effectiveness of our internal control over financial reporting as of the end of the respective fiscal year, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management. While our management has concluded that our internal control over financial reporting was effective as of December 31, 2024, it is possible that material weaknesses will be identified in the future. In addition, components of our internal control over financial reporting may require improvement from time to time. If management is unable to assert that our internal control over financial reporting is effective in any future period, investors may lose confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on the Company’s stock price.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 1C. CYBERSECURITY

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

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

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

ITEM 2. PROPERTIES

In November 2023, we commenced a lease in an office building located at 3480 Main Highway, Coconut Grove, Florida, which currently serves as our Company's headquarters. The lease of 4,487 square feet for an initial term of 89 months, including five months of rent abatement in the first two years of the lease. The aggregate monthly payments will restart in 2024 for \$39,635 per month, increasing 3% each year through the lease term, plus other certain costs and charges as specified in the lease agreement.

Our current assembly, and warehouse facilities are located at 1817 West 4th Street, Tempe, Arizona. The lease of 11,256 square feet commenced in June 2019 and was for an initial lease term through July 2022. In January 2022 we renewed this lease for three years with aggregate monthly payments of \$9,905 commencing August 2022, increasing 4% annually through the term ending July 31, 2025. In 2025, our assembly, and warehouse facilities will be moved to our new facility in Norton, VA (see below).

Beginning in October 2017, we commenced reimbursing former officer, stockholder and consultant, Mr. Elwood Norris, \$1,500 per month on a month-to-month basis for laboratory facility costs. The Company terminated this agreement in February 2024.

On January 3, 2025, we signed a lease that will commence in October 2025, or upon the completion of the premises, whichever happens later, for a manufacturing facility located at Pad 1A of the technology park at the intersection of US 23 and US 58 Alternate in Norton, Virginia. The lease of the 20,000 square foot facility has an initial term of five years with the option to renew for an additional two-years, subject to adjustments based on the Consumer Price Index. Monthly lease payments will be \$10,000, calculated at \$6 per gross square foot per year. Following two years of occupancy from the start of the lease, we may terminate the lease without penalty by providing sixty-days written notice.

ITEM 3. LEGAL PROCEEDINGS

We may become subject to other legal proceedings, as well as demands and claims that arise in the normal course of our business, including claims of alleged infringement of third-party patents and other intellectual property rights, breach of contract, employment law violations, and other matters and matters involving requests for information from us or our customers under federal or state law. Such claims, even if not meritorious, could result in the expenditure of significant financial and management resources. We make a provision for liability relating to legal matters when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed and adjusted to include the impacts of negotiations, estimated settlements, legal rulings, advice of legal counsel, and other information and events pertaining to a particular matter. On December 31, 2024, we had no provision for liability under existing litigation.

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Market Information

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

Holders

As of March 25, 2025, there were 50,494,701 shares of Common Stock outstanding and approximately 39 stockholders of record.

Dividends

We have never declared or paid any cash dividends on our Common Stock. The decision to pay dividends is at the discretion of our board of directors and depends upon our financial condition, results of operations, capital requirements, and other factors that our board of directors deems relevant. In addition, so long as any shares of Series A Preferred Stock are outstanding, as they are at this time, we are not able to declare or pay any cash dividend or distribution on any of our capital stock (other than as required by the Certificate of Designations) without the prior written consent of the Required Holders (as defined in the Certificate of Designations).

Recent Sales of Unregistered Securities

No unregistered securities were issued during the fiscal year ended December 31, 2024, that were not previously reported in a Quarterly Report on Form 10-Q or Current Report on Form 8-K.

Repurchases

Not applicable.

ITEM 6. [RESERVED]

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

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

Overview

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

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

We focus our efforts on the following products and services:

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

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

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

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

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

Recent Developments

Since December 31, 2024, the Company accomplished the following:

- Implemented measures to improve operational efficiency and streamline costs;
- Announced the full deployment of BolaWrap by a prominent Midwest police department’s Crisis Intervention Team (CIT) and a pilot program at a major West Coast agency; and
- Appointed Jared Novick as President and Chief Operating Officer, effective March 10 2025, to drive operational efficiency and expand its public safety solutions.

W1 Global, LLC Acquisition

On February 18, 2025, the Company and W1 Global, LLC, a Delaware limited liability company (“W1 Global”), entered into an Asset Purchase Agreement, dated as of February 18, 2025 (the “W1 Purchase Agreement”), pursuant which, subject to the terms and conditions set forth therein, the Company agreed to acquire substantially all the assets of W1, including, among others, all of W1’s right, title and interest in and to W1’s properties, business, and assets of W1 used in, held for use in or relating to the business of advisory and investigative professional services, as more specifically set forth in the W1 Purchase Agreement (collectively, the “Acquired Assets”), which excludes the Excluded Assets (as defined in the W1 Purchase Agreement), and assume certain Assumed Liabilities (as defined in the W1 Purchase Agreement), upon the terms and subject to the conditions set forth in the W1 Purchase Agreement (the “Acquisition”), for a nominal purchase price equal to \$100.00. This acquisition is expected to advance the Company’s capabilities and integrate into Company’s Managed Safety and Response (MSR) Connected Ecosystem, expanding its reach and service offerings.

February 2025 Private Placement

On February 24, 2025, the Company entered into a securities purchase agreement (the “PIPE Purchase Agreement”) with certain accredited investors (collectively, the “PIPE Purchasers”) for the issuance and sale in a private placement (the “Private Placement”) of an aggregate of 3,216,666 shares (the “Common Shares”) of Common Stock and accompanying warrants (“PIPE Warrants”) to purchase up to 3,216,666 shares of Common Stock, with an exercise price of \$1.80 per share. The purchase price for one Common Share and accompanying PIPE Warrant was \$1.80. The estimated gross proceeds to the Company were \$5.8 million, before estimated offering expenses payable by the Company. The closing of the Private Placement occurred on February 28, 2025 and March 7, 2025.

Business Outlook and Challenges

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

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

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

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

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

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

As part of our efforts to expand our sales and distribution operations, we provide a comprehensive training program for law enforcement officers and trainers in using the BolaWrap. This training equips them with knowledge about the appropriate use and limitations of BolaWrap in tandem with modern policing techniques for de-escalation of encounters. We now focus on also teaching when and why BolaWrap should be used, including the specific area of success, such as after verbal commands break down and before the law enforcement officer is ready to escalate to less lethal pain compliance tools. We believe that law enforcement trainers and officers who have been trained to use our products, or have witnessed demonstrations, are more inclined to support the acquisition and deployment of our products by their respective departments to drive successful outcomes. As of December 31, 2024, over 1,540 agencies have received BolaWrap training with over 5,450 training officers at those agencies certified as BolaWrap instructors and qualified to train the rest of their departments, representing a 1% increase in agencies and a 1% increase in trained officers as compared to December 31, 2023.

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



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

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Since inception, we have generated significant losses from operations and anticipate that we will continue to generate significant losses from operations for the foreseeable future. We believe that we have adequate financial resources to sustain our operations for the twelve months. For the year ended December 31, 2024, our net loss from operations decreased by approximately \$3.2 million compared to the year ended December 31, 2023. Net cash used in operations during the year ended December 31, 2024, was approximately \$8.6 million less than cash used in operations during the year ended December 31, 2023. This decrease in cash used in operations reflects a lower net operating loss in 2024 along with a decrease in accounts receivable during the period compared to the year ended December 31, 2023.

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.

Although customers were generally satisfied with the BolaWrap 100, many distributors were concerned with the Company's ability to continue to expand with the BolaWrap 100. This device was completely discontinued in 2022 and product delays kept the BolaWrap 150 from being fully delivered to customers until late early 2022. This gap in having a product to sell as well as the unhappiness in phasing out the first-generation product while it was still having success in the field, created significant work throughout 2022 to get the BolaWrap 150 approved by departments as well as by import and federal authorities for international countries. We also had a much slower than expected trade in the timeframe of BolaWrap 100 to BolaWrap 150 due to the customer affinity for our first to market device.

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

Supply chain disruptions also affected our operations and could negatively impact our ability to source materials, manufacture and distribute products in the future. Moreover, financial markets continue to experience significant volatility, which could potentially affect our ability to enter into or modify favorable terms and conditions regarding equity and debt financing activities. Nevertheless, we had \$3.6 million in cash and cash equivalents and short-term investments as of December 31, 2024, which together with our February 2025 \$5.8 million equity infusion, believe provides sufficient capital to fund our operations in the short-term and absorb the potential near-term impacts of economic uncertainty. However, we may require additional working capital and liquidity constraints and access to capital markets could still negatively affect our liquidity and require changes to our plan of operations.

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

Critical Accounting Policies and Estimates

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

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

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

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

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

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

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

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

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

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

Historically, our assumptions, judgments and estimates relative to our critical accounting policies have not differed materially from actual results. Other than the planned production change requiring a new estimate of exit expense, there were no significant changes or modification of our critical accounting policies and estimates involving management valuation adjustments affecting our results for the period ended December 31, 2024.

Recent Accounting Pronouncements

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

Segment and Related Information

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

Operating Expense

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

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

Results of Operations

Year Ended December 31, 2024 Compared to year ended December 31, 2023

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

	Year Ended December 31,		Change	
	2024	2023	\$	%
<i>(in thousands)</i>				
Revenues:				
Product sales	\$ 3,590	\$ 5,337	\$ (1,747)	(33)%
Other revenue	917	796	121	15%
Total revenues	<u>4,507</u>	<u>6,133</u>	<u>(1,626)</u>	<u>(27)%</u>
Cost of revenues:				
Products and services	2,042	3,227	(1,185)	(37)%
Gross profit	<u>2,465</u>	<u>2,906</u>	<u>(441)</u>	<u>(15)%</u>
Operating expenses:				
Selling, general and administrative	15,688	18,361	(2,673)	(15)%
Research and development	2,344	3,267	(923)	(28)%
Total operating expenses	<u>18,032</u>	<u>21,628</u>	<u>(3,596)</u>	<u>(17)%</u>
Loss from operations	<u>\$ (15,567)</u>	<u>\$ (18,722)</u>	<u>\$ 3,155</u>	<u>17%</u>

Revenue

We reported revenue of approximately \$4.5 million for the year ended December 31, 2024, as compared to revenue of approximately \$6.1 million for the year ended December 31, 2023, an approximate 27% decrease. International revenues decreased from approximately \$2.3 million for the year ended December 31, 2023, to approximately \$84 thousand for the year ended December 31, 2024. The decrease in international revenue was driven by the prior year having certain large orders and continued stronger demand for our products in the EMEA region during 2023. We incurred discounts of approximately \$55 thousand during the year ended December 31, 2024, compared to approximately \$169 thousand during the year ended December 31, 2023, primarily as a result of promotional programs designed to encourage domestic customers to upgrade to the BolaWrap 150. We expect a decline to even lower discounts throughout 2025 as we have phased out our promotional upgrade offers.

International revenue generally consists of larger orders with the end user being large, centralized government agencies. These orders continue to be lumpy and difficult to predict as to both timing and amount. We anticipate a revenue increase in 2025 compared to 2024 for two key reasons: (i) from an international perspective, there is growing demand for less-lethal alternatives like BolaWrap, especially in regions where lethal force is often prohibited, and (ii) from a domestic perspective, despite a saturated market for less-lethal use-of-force solutions, BolaWrap stands out as what we believe to be the only pain-free compliance tool.

We incurred product promotional costs of approximately \$92 thousand for the year ended December 31, 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 awareness expect reductions in product promotional costs from 2023. A total of approximately \$249 thousand of such product promotional costs were incurred during the year ended December 31, 2023.

As of December 31, 2024, the Company's deferred revenue of \$505 thousand consisted of \$76 thousand related to BolaWrap extended warranties and services, \$352 thousand related to Intrinsic extended warranties and services, \$73 thousand related to VR and \$4 thousand related to training.

As of December 31, 2024, we had backlog of approximately \$64 thousand, which was delivered in the first quarter of 2025. Distributor and customer orders for future deliveries are generally subject to modification, rescheduling or in some instance's cancellation in the normal course of business.

Gross Profit

Our gross profit for the year ended December 31, 2024, was approximately \$2.5 million, or a gross margin of 55%. Our gross profit for year ended December 31, 2023, was approximately \$2.9 million, or a gross margin of 47%. For the year ended December 31, 2024, gross profit represented a 15% decrease compared to December 31, 2023, as a result of lower sales offset by continued cost containment efforts on production reflected in the higher gross margin percentage in 2024.

As our revenue history is limited, historical margins may not accurately reflect future margins. However, we expect higher margins with the production of the BolaWrap 150 compared to previous production due to design changes and improved pricing. Our margins are also subject to variations based on the sales channels and product mix through which our products are sold. At present, our cassettes have lower margins than the BolaWrap devices. As we scale cassette production, we will look to reduce our costs and drive higher cassette margins. Cassettes were a total of 12.1% of our overall revenue in the year ended December 31, 2024, and may grow as a recurring revenue base as more BolaWrap devices are used in the field and as the use of BolaWrap increases due to the need of officers to de-escalate to prevent injuries and the use of higher levels of force.

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

Selling, General and Administrative Expense

Selling, general and administrative ("SG&A") expense decreased by approximately \$2.7 million during the year ended December 31, 2024, compared to the year ended December 31, 2023, primarily as a result of the Company's cost containment initiatives enacted in the first half of 2024.

Advertising and promotion costs were approximately \$0.7 million during the year December 31, 2024, or a decrease of approximately \$0.5 million as compared to approximately \$1.2 million during the year December 31, 2023. The decrease in advertising costs was related to reductions in consultants and other cost containment efforts.

Share-based compensation costs allocated to SG&A was \$2.3 million for the year ended December 31, 2024, an increase of approximately \$0.7 million, compared to approximately \$1.7 million for the year ended December 31, 2023. The increase resulted primarily due to the full-year impact of stock-based grants in late 2023 along with the increased value of non-cash awards granted in 2024 reflecting changes in the Company's stock price.

Salaries and burden costs were \$3.8 million for the year ended December 31, 2024, an approximately \$2.2 million or 37% decrease compared to approximately \$6.0 million for year ended December 31, 2023. During 2023, we recorded approximately \$1.0 million of severance cost related to management restructuring efforts that were included in salaries and burden. During the year ended December 31, 2024, compared to December 31, 2023, we decreased professional and consulting fees by approximately \$0.9 million. We expect expenditures for SG&A expense for the existing business lines in 2025 to be slightly lower than 2024, as a result of restructuring actions taken in 2024.

In December 2024, the Company determined that the assessment of the Intrensic Membership Interests (as defined herein) fair value indicated that its carrying value exceeded its fair value by \$1.6 million and therefore the Company recorded a \$1.6 million impairment charge related to the goodwill initially recorded from the acquisition. In December 2023, it was determined that the intangible related to development of proprietary software by Lumeto, Inc. would not have future economic value and was written down; the Company recognized an impairment loss of \$700 thousand as a result.

Research and Development Expense

Research and development expense was approximately \$2.3 million for the year ended December 31, 2024, a decrease of approximately \$0.9 million, compared to \$3.2 million for year ended December 31, 2023. In 2024, we incurred a \$152 thousand period over period decrease in share-based compensation expense allocated to research and development expense as a result of personnel changes made from the Company's cost containment initiatives. Outside consulting costs decreased by \$133 thousand and prototype related costs decreased by \$199 thousand for the year ended December 31, 2024, primarily due to reduced costs related to the Company's cost containment initiatives.

Operating Loss

Loss from operations during the year December 31, 2024, was approximately \$15.6 million, a decrease of approximately \$3.2 million compared to approximately \$18.7 million during the year December 31, 2023, primarily reflecting a decrease of \$3.6 million in operating expenses resulting from the Company's cost containment initiatives during 2024.

Liquidity and Capital Resources

Overview

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

We have experienced net losses and negative cash flows from operations since our inception. As of December 31, 2024, we had cash and cash equivalents of approximately \$3.6 million, negative working capital of approximately \$2.7 million primarily reflecting the approximate \$10.1 million value of the Series A Warrants (as defined herein) recorded in connection with the issuance of the Series A Preferred Stock in July 2023, and had sustained cumulative losses attributable to stockholders of approximately \$105.1 million. Our working capital net of the Warrants-short term at December 31, 2024 was approximately \$7.4 million, a decrease of approximately \$10.0 million compared to December 31, 2023, as a result of the operating losses offset by a decrease in the warrant liability included in short term liabilities totaling \$9.6 million in 2024. As a result, we had approximately \$3.6 million in cash and cash equivalents as of December 31, 2024. Additionally, in February 2025, the Company issued common stock in a private placement of an aggregate of 3,216,666 Common Shares and accompanying PIPE Warrants to purchase up to 3,216,666 shares of Common Stock, with an exercise price of \$1.80 per share. The purchase price for one Common Share and accompanying PIPE Warrant was \$1.80. The estimated gross proceeds to the Company were approximately \$5.8 million. Management therefore believes the Company has sufficient capital to fund its operations for the next twelve months. However, liquidity constraints and access to capital markets could still negatively affect our liquidity and require changes to our investment strategy.

Capital Requirements

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

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

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

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

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

2023 Offering

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

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

Series A Preferred Stock

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

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

On August 19, 2024, the Company entered into an Amendment Agreement (the "August 2024 Amendment") with the Required Holders (as defined in the Certificate of Designations). Pursuant to the August 2024 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 August 2024 Amendment to amend (i) the Certificate of Designations, as described below, by filing a Certificate of Amendment to the Certificate of Designations (the "August 2024 Certificate of Amendment") and (ii) the Series A Purchase Agreement to amend the definition of "Excluded Securities." The August 2024 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 October 2024 Certificate of Amendment was filed with the Secretary of State of the State of Delaware, effective as of October 14, 2024. The holders of the Series A Preferred Stock have no voting rights, other than with respect to certain matters affecting the rights of the Series A Preferred Stock.

On November 25, 2024, the Company entered into an Amendment and Agreement with the Series A Investors (the "November 2024 Amendment Agreement"), pursuant to which, (i) the Series A Investors agreed to amend the Certificate of Designations, as described below, by filing a Certificate of Amendment to the Certificate of Designations with the Secretary of State (the "November 2024 Certificate of Amendment"), and (ii) the Series A Investors and the Company agreed that all payment amounts that have accrued and are unpaid as of November 25, 2024, pursuant to the Certificate of Designations and the August 2024 Amendment will be satisfied by delivery of shares of Common Stock on or prior to November 25, 2024, with each Series A Investor entitled to receive the number of shares of Common Stock specified below such Series A Investor's name on its

respective signature page thereto. The November 2024 Certificate of Amendment amends the Certificate of Designations to provide that upon the occurrence of a Triggering Event (as defined in the Certificate of Designations), the Series A Preferred Stock will accrue dividends compounded monthly at the rate of 20% per annum. The Certificate of Amendment became effective with the Secretary of State on December 6, 2024.

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

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

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

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

Warrants

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

Nasdaq Stockholder Approval

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

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Cash Flow

Operating Activities

During year ended December 31, 2024, net cash used in operating activities was approximately \$8.1 million. The net loss of approximately \$5.9 million was increased by non-cash other income of approximately \$9.6 million related to the change in fair value of warrant liabilities and was decreased by share-based compensation expense of approximately \$2.4 million and an impairment charge related to goodwill of \$1.6 million. Other major component changes impacting operating cash included a decrease of approximately \$2.4million in accounts receivable and a decrease in customer deposits of \$1.0 million.

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

Investing Activities

During the year ended December 31, 2024, net cash provided by investing activities totaled approximately \$7.3 million. We used \$156 thousand of cash for the purchase of property and equipment and invested approximately \$13 thousand in patents and trademarks. During the year ended December 31, 2024, we had proceeds from maturities of short-term investments of approximately \$7.5 million.

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

Financing Activities

During the year ended December 31, 2024, we received approximately \$588 thousand in proceeds from the exercise of previously issued stock options and paid out approximately \$120 thousand in Series A Preferred Stock dividends.

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

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. As of December 31, 2024 the Company has incurred the maximum amount of royalties under the terms of the agreement.

In January 2022, the Company extended its facility lease in Tempe, AZ for three years through July 2025 and is committed to aggregate lease payments on the facility lease of \$75 thousand in 2025.

In September 2023, the Company entered into a lease agreement for the lease of office space in Coconut Grove, Florida, in a multi-year term concluding in 2031, which includes aggregate remaining lease payments totaling \$3.3 million for 2025 through 2031.

As of December 31, 2024, the Company was committed to approximately \$0.6 million for future component deliveries and contract services that are generally subject to modification or rescheduling in the normal course of business.

On January 3, 2025, we signed a lease that will commence in October 2025, or upon the completion of the premises, whichever happens later, for a manufacturing facility located at Pad 1A of the technology park at the intersection of US 23 and US 58 Alternate in Norton, Virginia. The lease of the 20,000 square foot facility has an initial term of five years with the option to renew for an additional two years, subject to adjustments based on the Consumer Price Index. Monthly lease payments will be \$10,000, calculated at \$6 per gross square foot per year. Following two years of occupancy from the start of the lease, we may terminate the lease without penalty by providing sixty-days' written notice.

Effects of Inflation

In 2023 and 2024 we experienced increased costs in labor and materials due to inflation. We believe in 2025 that low unemployment and higher salaries will create higher payroll costs and increased operating expense in the business. We have seen increases in costs from multiple suppliers for materials as well as labor.

Recent Accounting Pronouncements

There have been no recent accounting pronouncements or changes in accounting pronouncements during the year ended December 31, 2024, or subsequently thereto, that we believe are of potential significance to our financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

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

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

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

Our management, with the participation of our Executive Chairman and Chief Executive Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2024, and, based on this evaluation, our Executive Chairman and Chief Executive Officer concluded that our disclosure controls and procedures were effective as of December 31, 2024.

Management's Report on Internal Control Over Financial Reporting

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

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

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. With our participation, an evaluation of the effectiveness of our internal control over financial reporting was conducted as of December 31, 2024, based on the framework and criteria established in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and SEC guidance on conducting such assessments. Based on this evaluation, our Executive Chairman and Chief Executive Officer concluded that our internal control over financial reporting was effective as of December 31, 2024.

This Annual Report on Form 10-K does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, which permits us to provide only management's report in this Annual Report on Form 10-K.

Changes in Internal Controls

There have been no changes in our internal control over financial reporting during the year ended December 31, 2024 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Our process for evaluating controls and procedures is continuous and encompasses constant improvement of the design and effectiveness of established controls and procedures and the remediation of any deficiencies, which may be identified during this process.

ITEM 9B. OTHER INFORMATION

None.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required in response to this Item 10 will be set forth in our definitive proxy statement on Schedule 14A for the 2025 annual meeting of stockholders, which shall be filed with the Securities and Exchange Commission no later than 120 days following the Company's fiscal year end December 31, 2024 (the "Proxy Statement").

We have an insider trading policy that prohibits our directors, executive officers and all employees of the Company from the purchasing or selling our securities while being aware of material, non-public information about the Company as well as disclosing such information to others who may trade in securities of the Company. Our insider trading policy also prohibits our directors, executive officers, employees and their respective family members from engaging in hedging activities or other short-term or speculative transactions in the Company's securities such as short sales, options trading, holding the Company's securities in a margin account or pledging the Company's securities as collateral for a loan, without the advance approval of our Chief Financial Officer. A copy of the insider trading policy is included to this Annual Report on Form 10-K. While the Company is not subject to the insider trading policy, the Company does not trade in its securities when it is in possession of material nonpublic information other than pursuant to previously adopted Rule 10b5-1 trading plans, if any.

ITEM 11. EXECUTIVE COMPENSATION

The information required in response to this Item 11 will be set forth in our Proxy Statement and is incorporated herein by reference.

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

The information required in response to this Item 12 will be set forth in our Proxy Statement and is incorporated herein by reference.

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

The information required in response to this Item 13 will be set forth in our Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required in response to this Item 14 will be set forth in our Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

(1) Index to Financial Statements

Report of Independent Registered Public Accounting Firm (PCAOB ID: 7000).....	F-2
Balance Sheets as of December 31, 2024 and 2023	F-3
Statements of Operations and Comprehensive Loss for the Years Ended December 31, 2024 and 2023	F-4
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Notes to Financial Statements.....	F-7

(2) Financial Statement Schedules

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

(3) Index to Exhibits

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

(a)(2) Consolidated Financial Statement Schedules:

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

ITEM 16. FORM 10-K SUMMARY

None.

Exhibit Number	Description
2.1	Stock Purchase Agreement, dated March 22, 2017, by and between Wrap Technologies, LLC, Petro River Oil Corp., and Megawest Energy Montana Corp (incorporated by reference to Exhibit 2.1 to the Company's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on April 17, 2017).
2.2	Merger Agreement between Wrap Technologies, LLC and Megawest Energy Montana Corp., dated March 30, 2017 (incorporated by reference to Exhibit 2.2 to the Company's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on April 17, 2017).
2.3	Asset Purchase Agreement, dated as of February 18, 2025, by and between Wrap Technologies, Inc. and W1 Global, LLC Plan (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 24, 2025).
3.1	Amended and Restated Certificate of Incorporation of Wrap Technologies, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on April 17, 2017).
3.2	Amended and Restated Bylaws of Wrap Technologies, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 10, 2023).
3.3	Amendment No.1 to the Amended and Restated Bylaws of Wrap Technologies, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 13, 2023).

Exhibit Number	Description
3.4	Certificate of Designations of Series A Convertible Preferred Stock (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 30, 2023).
3.4.1	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).
3.4.2	Certificate of Amendment of Certificate of Designations of Series A Convertible Preferred Stock (incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on October 15, 2024).
3.4.3	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 December 2, 2024).
3.4.4	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 December 9, 2024).
4.1	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1/A filed with the Securities and Exchange Commission on May 30, 2017).
4.2	Form of Investor Warrant, dated October 30, 2018 (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 5, 2018).
4.3	Form of Placement Agent Warrant, dated October 30, 2018 (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 5, 2018).
4.4	Form of Investor Warrant, dated June 18, 2019 (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 18, 2019).
4.5	Form of Offering Agent Warrant, dated June 18, 2019 (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 18, 2019).
4.6	Form of Warrant Agreement (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 2, 2020).
4.7	Form of Placement Agent Warrant (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 30, 2023).
4.8	Description of Securities (incorporated by reference to Exhibit 4.8 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on August 28, 2024).
4.9	Form of Warrant (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 28, 2025)
10.1	Amended and Restated Intellectual Property License Agreement, dated September 30, 2016, by and between Wrap Technologies, LLC and Syzygy Licensing LLC (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on April 17, 2017).
10.2+	Wrap Technologies, Inc. 2017 Equity Compensation Plan (incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on April 17, 2017).
10.2.1+	Amendment No. 1 to the Wrap Technologies, Inc. 2017 Equity Compensation Plan (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on June 24, 2019).
10.2.2+	Amendment No. 2 to the Wrap Technologies, Inc. 2017 Equity Compensation Plan (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on June 17, 2020).
10.2.3+	Amendment No. 3 to the Wrap Technologies, Inc. 2017 Equity Compensation Plan (incorporated by reference to Exhibit 10.1 to the Registration Statement on Form S-8 filed with the Securities and Exchange Commission on November 5, 2021).
10.2.4+	Fifth Amendment to the Wrap Technologies, Inc. 2017 Equity Compensation Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 26, 2024).
10.3+	Form of At-Will Employment, Confidential Information, Non-Compete/ Non-Solicitation, Invention Assignment, and Arbitration Agreement between the Key Employees and the Company dated December 14, 2020 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on September 14, 2020).

Exhibit Number	Description
10.4	Cooperation Agreement by and between the Company and Elwood G. Norris and certain of his affiliates dated March 4, 2021 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 9, 2021).
10.5	Consulting Agreement between the Company and LWV Consulting, LLC, dated January 24, 2022 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 26, 2022).
10.6	Consulting Agreement between the Company and LRHIRSH, LLC, dated January 24, 2022 (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 26, 2022).
10.7+	Employment Agreement between Wrap Technologies, Inc. and TJ Kennedy, dated April 13, 2022 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 19, 2022).
10.8+	Employment Agreement between Wrap Technologies, Inc. and Kevin Mullins, dated April 13, 2022. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 19, 2022).
10.8.1+	First Amendment to Employment Agreement, by and between Kevin Mullins and Wrap Technologies, Inc. dated January 14, 2024 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 19, 2024).
10.9+	Letter Agreement by and between Wrap Technologies, Inc. and Chris DeAlmeida, executed July 20, 2022 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 25, 2022).
10.10	Professional Services and Technology Acquisition Agreement, dated November 22, 2022, by and between Wrap Technologies, Inc., Lumeto, Inc. and Spatial Industries Group, Inc (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 29, 2022).
10.11	Separation Agreement between the Company and Mr. Kennedy (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 19, 2023).
10.12	Severance Agreement and Release of Claims, dated May 8, 2023, by and between Wrap Technologies, Inc. and Glenn Hickman (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 10, 2023).
10.13	Form of Securities Purchase Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 30, 2023).
10.14	Engagement Letter, dated June 29, 2023 by and between Wrap Technologies, Inc. and Katalyst Securities LLC (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 30, 2023).
10.15**	Membership Interest Purchase Agreement, dated August 9, 2023, by and among Wrap Technologies, Inc., Buford Ortale, and the sellers signatory thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 21, 2023).
10.16+	Employment Agreement by and between Scot Cohen and Wrap Technologies, Inc. dated October 12, 2023 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 16, 2023).
10.16.1+	First Amendment to Employment Agreement, by and between Scot Cohen and Wrap Technologies, Inc. dated January 14, 2024 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 19, 2024).
10.17+	Employment Agreement, by and between the Company and Jared Novick, effective as of December 26, 2023 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 26, 2023).
10.18	Separation Agreement and Mutual Release of Claims, dated January 5, 2024, by and between Wrap Technologies, Inc. and Chris DeAlmeida (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 5, 2024).
10.19	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).

Exhibit Number	Description
10.20	Form of Amendment, dated October 14, 2024, by and between Wrap Technologies, Inc. and the investors party thereto (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on October 15, 2024).
10.21	Form of Amendment and Agreement, dated November 25, 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 December 2, 2024).
10.22	Form of Amendment and Agreement, dated November 25, 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 December 9, 2024).
10.23	Securities Purchase Agreement, dated February 24, 2025, by and among the Company and the investors signatory thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 28, 2025).
10.24	Registration Rights Agreement, dated February 24, 2025, by and among the Company and the investors signatory thereto (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 28, 2025).
14.1	Code of Ethics of the Registrant Applicable to Directors, Officers and Employees (incorporated by reference to Exhibit 14.1 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 4, 2021).
19.1*	Wrap Technologies, Inc. Insider Trading Policy.
21.1	Subsidiaries of Wrap Technologies, Inc (incorporated by reference to Exhibit 21.1 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 4, 2021).
23.1*	Consent of Independent Registered Public Accounting Firm - HTL International, LLC.
31.1*	Certification pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
32.1***	Section 1350 Certification - Principal Executive Officer and Principal Financial Officer.
97.1	Wrap Technologies, Inc. Compensation Recovery Policy (incorporated by reference to Exhibit 97.1 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on August 28, 2024).

Extensible Business Reporting Language (XBRL) Exhibits*

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

+ Management contract or compensatory plan or arrangement.

* Filed concurrently herewith.

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

*** Furnished herewith.

Item 16. Form 10-K Summary.

None.

WRAP TECHNOLOGIES, INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Wrap Technologies Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Wrap Technologies Inc. (the “Company”) as of December 31, 2024 and 2023, and the related consolidated statements of operations and comprehensive loss, stockholders’ equity, and cash flows for each of the two years in the period ended December 31, 2024, including the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2024 and 2023, and the consolidated results of its operations and its consolidated cash flows for each of the two years in the period ended December 31, 2024, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

/s/ HTL International, LLC

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

Houston, TX

March 31, 2025

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

	<u>December 31, 2024</u>	<u>December 31, 2023</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,610	\$ 3,955
Short-term investments	-	7,500
Accounts receivable and contract assets, net	513	3,025
Inventories, net	6,170	5,794
Prepaid expense and other current assets	178	953
Total current assets	<u>10,471</u>	<u>21,227</u>
Property and equipment, net	146	509
Operating lease right-of-use assets, net	1,964	2,256
Intangible assets, net	2,354	2,648
Goodwill	-	1,610
Other assets	186	251
Total assets	<u>\$ 15,121</u>	<u>\$ 28,501</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 609	\$ 1,110
Accrued liabilities	1,403	692
Customer deposits	27	1,002
Deferred revenues - short term	466	407
Operating lease liabilities - short term	567	616
Warrant liabilities	10,131	19,703
Total current liabilities	<u>13,203</u>	<u>23,530</u>
Long-term liabilities:		
Deferred revenues - long term	39	137
Operating lease liabilities- long term	1,629	1,671
Total long-term liabilities	<u>1,668</u>	<u>1,808</u>
Total liabilities	<u>\$ 14,871</u>	<u>\$ 25,338</u>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock - 5,000,000 authorized; par value \$0.0001 per share	-	-
Common stock - 150,000,000 authorized; par value \$0.0001 per share; 47,101,631 and 43,855,503 shares issued and outstanding at December 31, 2024 and 2023, respectively	5	4
Convertible preferred stock - 10,000 authorized, par value \$0.0001 per share; 8,207 and 9,898 issued and outstanding at December 31, 2024 and 2023, respectively	-	-
Additional paid-in capital	105,326	101,147
Accumulated deficit	(105,081)	(97,988)
Accumulated other comprehensive income	-	-
Total stockholders' equity	<u>250</u>	<u>3,163</u>
Total liabilities and stockholders' equity	<u>\$ 15,121</u>	<u>\$ 28,501</u>

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,	
	2024	2023
Revenues:		
Product sales.....	\$ 3,590	\$ 5,337
Other revenues.....	917	796
Total revenues	4,507	6,133
Cost of revenues	2,042	3,227
Gross profit	2,465	2,906
Operating expenses:		
Selling, general and administrative	15,688	18,361
Research and development	2,344	3,267
Total operating expenses	18,032	21,628
Loss from operations	(15,567)	(18,722)
Other income (expense):		
Interest income	156	375
Change in fair value of warranty liabilities	9,572	(11,986)
Other	(36)	113
Total other income (expense), net	9,692	(11,498)
Net loss	\$ (5,875)	\$ (30,220)
Less: convertible preferred stock dividends	(1,218)	(392)
Net loss attributable to common stockholders	\$ (7,093)	\$ (30,612)
Net loss per basic and diluted common share.....	\$ (0.16)	\$ (0.72)
Weighted average common shares used to compute net loss per basic and diluted common share	45,621,214	42,324,190
Comprehensive loss:		
Net loss.....	\$ (7,093)	\$ (30,612)
Comprehensive loss.....	\$ (7,093)	\$ (30,612)

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

	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 January 1, 2023	<u>41,175,993</u>	<u>\$ 4</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 94,333</u>	<u>\$ (67,376)</u>	<u>\$ 94</u>	<u>\$ 27,055</u>
Common shares issued upon exercise of stock options	123,056	-	-	-	\$ 208	-	-	\$ 208
Share-based compensation expense	-	-	-	-	2,400	-	-	2,400
Dividends on convertible preferred stock ..	173,654	-	-	-	232	(392)	-	(160)
Convertible preferred stock issued, net of offering costs.....	-	-	10,000	-	2,036	-	-	2,036
Common shares issued upon convertible preferred stock exercising conversion rights	76,440	-	(102)	-	-	-	-	-
Common shares issued upon vesting of restricted stock units	1,056,360	-	-	-	-	-	-	-
Issuance of common stock for acquisition..	1,250,000	-	-	-	1,938	-	-	1,938
Settlement – US Treasury bills	-	-	-	-	-	-	(94)	(94)
Net loss for the period.....	-	-	-	-	-	(30,220)	-	(30,220)
Balance at December 31, 2023	<u>43,855,503</u>	<u>\$ 4</u>	<u>9,898</u>	<u>\$ -</u>	<u>\$ 101,147</u>	<u>\$ (97,988)</u>	<u>\$ -</u>	<u>\$ 3,163</u>
Common shares issued upon exercise of stock options	232,081	-	-	-	\$ 588	-	-	\$ 588
Share-based compensation expense	-	-	-	-	2,433	-	-	2,433
Dividends on convertible preferred stock ..	1,125,300	-	-	-	1,158	(1,218)	-	(60)
Common shares issued upon convertible preferred stock exercising conversion rights	1,391,183	-	(1,691)	-	-	-	-	-
Common shares issued upon vesting of restricted stock units	497,564	1	-	-	-	-	-	1
Net loss for the period.....	-	-	-	-	-	(5,875)	-	(5,875)
Balance at December 31, 2024	<u>47,101,631</u>	<u>\$ 5</u>	<u>8,207</u>	<u>\$ -</u>	<u>\$ 105,326</u>	<u>\$ (105,081)</u>	<u>\$ -</u>	<u>\$ 250</u>

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,	
	2024	2023
Cash Flows From Operating Activities:		
Net loss.....	\$ (5,875)	\$ (30,220)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	827	823
Impairment of goodwill and intangibles.....	1,631	700
Share-based compensation	2,433	1,985
Warranty provision.....	90	116
Change in fair value of warrant liabilities	(9,572)	11,986
Non-cash lease expense.....	292	177
Provision for doubtful accounts.....	(156)	180
Write off of accounts receivable.....	222	413
Inventory obsolescence reserve	15	465
Changes in assets and liabilities:		
Accounts receivable	2,446	(696)
Inventories	(391)	(2,224)
Prepaid expenses and other current assets	775	(179)
Accounts payable	(441)	(617)
Operating lease liabilities	(91)	(160)
Customer deposits	(975)	1,002
Accrued liabilities and other.....	700	(344)
Warranty settlement	(79)	(169)
Deferred revenues.....	(39)	210
Other non-current assets	63	(151)
Net cash used in operating activities	<u>(8,125)</u>	<u>(16,703)</u>
Cash Flows From Investing Activities:		
Purchases of short-term investments	-	(10,000)
Proceeds from maturities of short-term investments	7,500	16,355
Capital expenditures for property and equipment	(12)	(230)
Investment in patents and trademarks	(156)	(393)
Net cash paid for acquisition of Intrensic	(20)	(554)
Net cash provided by investing activities	<u>7,312</u>	<u>5,178</u>
Cash Flows From Financing Activities:		
Proceeds from exercise of stock options	588	208
Proceeds from issuance of warrants and convertible preferred stock.....	-	10,000
Dividends settled in cash.....	(120)	(58)
Net cash provided by financing activities.....	<u>468</u>	<u>10,150</u>
Net decrease in cash and cash equivalents	(345)	(1,375)
Cash and cash equivalents, beginning of period	3,955	5,330
Cash and cash equivalents, end of period.....	<u>\$ 3,610</u>	<u>\$ 3,955</u>
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Change in unrealized gain on short-term investments.....	\$ -	\$ (94)
Right-of-use asset and liability recorded during period	\$ -	\$ 2,109
Issuance of common stock for acquisition	\$ -	\$ 1,938
Net assets acquired from acquisition	\$ -	\$ 2,491
Dividends on convertible preferred stock.....	\$ (1,098)	\$ (334)
Dividends settled with common stock.....	\$ 1,158	\$ 232

See accompanying notes to consolidated financial statements.

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Business Description

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

Principles of Consolidation

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

Basis of Presentation and Use of Estimates

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

Concentrations of Risk

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

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

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

Cash and Cash Equivalents

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

Short-Term Investments

The Company’s short-term investments consist of certificates of deposits and US Treasury bills with original maturities beyond three months at the date of purchase and one year or less from the balance sheet date. As of December 31, 2023, all of the Company’s short-term investments were classified as available-for-sale and are carried at estimated fair value with any unrealized gains and losses, unrelated to credit loss factors, included in other comprehensive income in our consolidated statements of stockholders’ equity. As of December 31, 2024, the Company had no short-term investments.

Share-Based Compensation

The Company follows the fair value recognition provisions issued by the FASB in ASC Topic 718, Stock Compensation (“ASC 718”) and has adopted Accounting Standards Update (“ASU”) 2018-07 for share-based transactions with non-employees. Share-based compensation expense recognized during 2024 and 2023 includes stock option and restricted stock unit compensation expense. The grant date fair value of stock options is determined using the Black-Scholes option-pricing model. The grant date is the date at which an employer and employee or non-employee reach a mutual understanding of the key terms and conditions of a share-based payment award and approved by the Company’s Board of Directors. The Black-Scholes option-pricing model requires inputs including the market price of the Company’s Common Stock on the date of grant, the term that the stock options are expected to be outstanding, the implied stock volatilities of several publicly traded peers over the expected term of stock options, risk-free interest rate and expected dividend. Each of these inputs is subjective and generally requires significant judgment to determine. The grant date fair value of restricted stock units is based upon the market price of the Company’s Common Stock on the date of the grant. The Company determines the amount of share-based compensation expense based on awards that the Company ultimately expects to vest and account for forfeitures as they occur. The fair value of share-based compensation is amortized to compensation expense over the vesting term.

Loss per Share

Basic loss per share (EPS) is computed by dividing net loss, less any dividends, accretion or decrction, redemption or induced conversion, if any, on the Company’s Series A Convertible Preferred Stock (“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. The Company adjusts 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 4,932,386 and 5,468,223 shares of Common Stock were outstanding at December 31, 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.

Accounts Receivable and Allowance for Credit Losses

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

At December 31, 2024 and 2023, the Company had an allowance for credit losses related to accounts receivable of \$230 and \$386, respectively. If a major customer's creditworthiness deteriorates, or actual defaults exceed our historical experience, such estimates could change and impact our future reported financial results.

Inventories

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

As of December 31, 2024 and 2023, the Company had \$480 and \$465, respectively, in reserves for obsolescence.

Property, Equipment and Depreciation

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

Business Combinations

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

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

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

Goodwill

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

Definite-lived Intangible Assets

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

Intangible Assets

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

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

Impairment of Long-Lived Assets

Long-lived assets and identifiable intangibles held for use are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of undiscounted expected future cash flows is less than the carrying amount of the asset or if changes in facts and circumstances indicate, an impairment loss is recognized and measured using the asset's fair value. In December 2024, the Company determined that the assessment of the Intrensic unit's fair value indicated that its carrying value exceeded its fair value by \$1,631 and therefore the Company recorded a \$1,631 impairment charge related to the goodwill initially recorded from the acquisition. In December 2023, it was determined that the intangible related to development of proprietary software by Lumeto, Inc. would not have future economic value and was written down; the Company recognized an impairment loss of \$700.

Warrants

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

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

Convertible Preferred Stocks

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

Advertising and Promotion Costs

Advertising costs are charged to expense as incurred and were \$575 and \$925 for the years ended December 31, 2024 and 2023, respectively. The Company also incurred product promotion costs for demonstration products delivered to prospective customers of \$129 and \$225 for the years ended December 31, 2024, and 2023, respectively. Advertising and promotion costs are included in selling, general and administrative expenses in the accompanying statements of operations.

Demonstration and Training Costs

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

Research and Development Costs

Research and development costs are expensed as incurred.

Contract Manufacturers

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

Leases

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

Revenue Recognition

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

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

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

Shipping and Handling Costs

Shipping and handling costs are included in cost of revenues. Shipping and handling costs invoiced to customers are included in revenue. Actual shipping and handling costs were \$125 and \$200 for the years ended December 31, 2024 and 2023, respectively. Actual revenues from shipping and handling were \$73 and \$37 for the years ended December 31, 2024 and 2023, respectively.

Warranty Reserves

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

The Company establishes a warranty reserve based on anticipated warranty claims at the time product revenues are recognized. Factors affecting warranty reserve levels include the number of units sold, anticipated cost of warranty repairs and anticipated rates of warranty claims. The Company evaluates the adequacy of the provision for warranty costs each reporting period. The warranty reserve was \$83 and \$72 at December 31, 2024 and 2023. Actual warranty costs could differ from estimates.

Segment Information

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

Income Taxes

No income tax expense was recorded for the periods ended December 31, 2024 and 2023, due to losses incurred. Deferred tax assets and liabilities are determined based on temporary differences between the bases of certain assets and liabilities for income tax and financial reporting purposes.

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

Recently Issued Accounting Guidance

On December 14, 2023, the FASB issued a final standard on improvements to income tax disclosures. The standard requires disaggregated information about a reporting entity's effective tax rate reconciliation as well as information on income taxes paid. The standard is intended to benefit investors by providing more detailed income tax disclosures that would be useful in making capital allocation decisions. ASU 2023-09, Improvements to Income Tax Disclosures, applies to all entities subject to income taxes. For public business entities (PBEs), the new requirements will be effective for annual periods beginning after December 15, 2024. The guidance will be applied on a prospective basis with the option to apply the standard retrospectively. The Company does not plan to early adopt this standard.

On March 21, 2024, the FASB issued ASU 2024-01 to clarify the scope application of profits interest and similar awards by adding illustrative guidance in ASC 718, Compensation - Stock Compensation. For PBEs, the amendments in this Update are effective for annual periods beginning after December 15, 2024, and interim periods within those annual periods. The Company does not plan to early adopt this standard.

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

2. REVENUES AND PRODUCT COSTS

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

The table below details the activity in our contract liabilities during the year ended December 31, 2024.

	Customer Deposits	Deferred Revenue
Balance at January 1, 2024.....	\$ 1,002	\$ 544
Additions, net	89	856
Transfer to revenue.....	(1,064)	(895)
Balance at December 31, 2024.....	<u>\$ 27</u>	<u>\$ 505</u>
Current portion	<u>\$ 27</u>	<u>\$ 466</u>
Long-term portion	<u>\$ -</u>	<u>\$ 39</u>

As of December 31, 2024, the Company’s deferred revenues of \$505 consisted of \$76 related to BolaWrap extended warranties and services, \$352 related to Intinsic extended warranties and services, \$73 related to VR and \$4 related to training.

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

The Company recognizes an asset if there are incremental costs of obtaining a contract with a customer such as commissions. These costs are ascribed to or allocated to the underlying performance obligations in the contract and amortized consistent with the recognition timing of the revenue for any such underlying performance obligations. The Company had no such assets as of December 31, 2024 and 2023. The Company will apply the practical expedient to expense any sales commissions related to performance obligations with an amortization of one year or less when incurred within selling, general and administrative expense.

3. ASSET ACQUISITIONS

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

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

On August 9, 2023, the Company entered into a Membership Interest Purchase Agreement (the “Intinsic Purchase Agreement”) by and among the Company, certain members of Intinsic, including Kevin Mullins, the Company’s former Chief Executive Officer (collectively, “Sellers”) and Buford Ortale, as the Sellers’ representative. Under the terms of the Intinsic Purchase Agreement, the Company agreed to purchase, and Sellers agreed to sell, 100% of the membership interests (the “Membership Interests”) of Intinsic for the following consideration upon the consummation of the sale of the Membership Interests (the “Intinsic Closing”): (i) \$553,588 in cash, subject to adjustment based upon the outstanding indebtedness of Intinsic and Intinsic’s working capital as of the Intinsic Closing; and (ii) 1,250,000 shares of Common Stock of the Company the “Intinsic Acquisition”). The Intinsic Acquisition closed on August 16, 2023, in accordance with the terms of the Intinsic Purchase Agreement. (See Footnote 19).

4. FINANCIAL INSTRUMENTS

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

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

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

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

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

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

As of December 31, 2024				
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Market Value
Level 1:				
Money Market Funds	\$ 2,945	\$ -	\$ -	\$ 2,945
Total Financial Assets	<u>\$ 2,945</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,945</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>

Warrant liabilities are measured at fair value on a recurring basis. The subsequent measurement of the warrant liabilities as of December 31, 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:

	December 31, 2024	December 31, 2023
Level 3:		
Fair value at inception for December 31, 2023 or the beginning of the period for		
December 31, 2024	\$ (19,703)	\$ (7,717)
Change in fair value of warrant liabilities	9,572	(11,986)
Fair value at end of year	<u>\$ (10,131)</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 computing the fair value of the Company's warrants:

	As of December 31, 2024	As of December 31, 2023
Expected stock price volatility	88%	143%
Risk-free interest rate	4.25%	3.85%
Dividends yield	0%	0%
Expected life of warrants (years)	3.50	4.50
Exercise price	<u>\$ 1.45</u>	<u>\$ 1.45</u>

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

5. INVENTORIES

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

	December 31,	
	2024	2023
Finished goods.....	\$ 4,387	\$ 3,521
Raw materials.....	2,263	2,738
Reserve for Obsolescence	(480)	(465)
Inventories – net.....	<u>\$ 6,170</u>	<u>\$ 5,794</u>

6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	December 31,	
	2024	2023
Production and lab equipment.....	\$ 432	\$ 542
Tooling	570	562
Computer equipment	229	615
Furniture, fixtures and improvements	120	196
	<u>1,351</u>	<u>1,915</u>
Accumulated depreciation	(1,205)	(1,406)
Property and equipment, net.....	<u>\$ 146</u>	<u>\$ 509</u>

Depreciation expense was \$377 and \$479 for the years ended December 31, 2024 and 2023, respectively.

7. INTANGIBLE ASSETS AND GOODWILL

Intangible Assets

Intangible assets consisted of the following:

	December 31,	
	2024	2023
Amortizable intangible assets:		
Patents	\$ 1,013	\$ 873
Trademarks.....	264	248
Purchased software and technology	1,752	1,752
Customer Relationship	160	160
	<u>3,189</u>	<u>3,033</u>
Accumulated amortization	(1,256)	(806)
Total amortizable.....	1,933	2,227
Indefinite life assets (non-amortizable)	421	421
Total intangible assets, net	<u>\$ 2,354</u>	<u>\$ 2,648</u>

Amortization expenses were \$450 and \$345 for the years ended December 31, 2024 and 2023, respectively.

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

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

At December 31, 2024, annual amortization of intangible assets, based upon the Company's existing intangible assets and current useful lives, is estimated to be the following:

2025.....	\$	453
2026.....		366
2027.....		216
2028.....		216
2029.....		184
Thereafter		498
Total estimated amortization expense	\$	<u>1,933</u>

Goodwill

The Company recorded an initial goodwill of \$1,610 related to the purchase of Intrensic in August 2023.

During 2024, the Company recorded an increase of \$21 to goodwill as result of additional liabilities assumed related to the August 2023 Intrensic Acquisition.

In December 2024, the Company assessed the fair value of its Intrensic unit and determined that its carrying value exceeded its fair value by \$1,631 and therefore the Company recorded a \$1,631 impairment charge related to the goodwill initially recorded from the 2023 acquisition.

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

Balance at January 1, 2024.....	\$	1,610
Additional liabilities recorded post-acquisition		21
Impairment charge		(1,631)
Balance at December 31, 2024.....	\$	<u>-</u>

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

Accrued liabilities include \$81 and \$14 due to Syzygy pursuant to the License Agreement as of December 31, 2024 and 2023, respectively.

Accrued liabilities consist of the following:

	December 31,	
	2024	2023
Patent and legal costs	\$ 60	\$ 21
Accrued compensation	121	325
Warranty costs.....	83	72
Royalty	81	14
Contract settlement.....	300	-
Accrued purchases.....	584	212
Taxes and other	174	48
	<u>\$ 1,403</u>	<u>\$ 692</u>

Changes in our estimated product warranty costs were as follows:

	Year Ended December 31,	
	2024	2023
Balance, beginning of period.....	\$ 72	\$ 125
Warranty settlements.....	(79)	(169)
Warranty provision.....	90	116
Balance, end of period.....	<u>\$ 83</u>	<u>\$ 72</u>

9. LEASES

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

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

Amortization of ROU operating lease assets was \$292 and \$138 for the years ended December 31, 2024 and 2023, respectively.

Operating lease expense for capitalized operating leases included in operating activities was \$644 and \$177 for the years ended December 31, 2024 and 2023, respectively. Operating lease obligations recorded on the balance sheet at December 31, 2024 are:

Operating lease liability- short term.....	\$	567
Operating lease liability - long term.....		1,629
Total Operating Lease Liability.....	\$	<u>2,196</u>

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

2025.....	\$	567
2026.....		507
2027.....		522
2028.....		538
2029.....		554
Thereafter		<u>717</u>
Total future minimum lease payments.....		3,405
Less imputed interest		<u>(1,209)</u>
Total	\$	<u>2,196</u>

The weighted average remaining lease term is 6.06 years, and the weighted average discount rate is 14.7%.

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 \$109 and \$8 variable lease expenses during the year December 31, 2024 and 2023, respectively.

The Company had \$16 and \$92 short-term lease expense during the year December 31, 2024, and 2023 respectively. The Company does not have any finance leases.

10. WARRANTS

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

Each Series A Warrant has an exercise price of \$1.45, became exercisable after the date that was six months from the date of issuance and will expire 5 years following the date of issuance. The exercise price is subject to customary adjustments for stock dividends, stock splits, reclassifications and the like, and subject to price-based adjustment, on a “full ratchet” basis, in the event of any issuances of Common Stock, or securities convertible, exercisable or exchangeable for Common Stock, at a price below the then-applicable exercise price (subject to certain exceptions). The closing of the Offering occurred on July 3, 2023. The aggregate gross proceeds from the Offering were \$10,000, of which \$7,717 was allocated to the Warrants. The Company expects to use the net proceeds from the Offering for general corporate purposes (see Note 4).

11. DEBT

The Company’s debt at December 31, 2024 and 2023 included operating lease liabilities (see Note 9).

12. STOCKHOLDERS’ EQUITY

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

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

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

On August 19, 2024, the Company entered into an Amendment Agreement (the “August 2024 Amendment”) with the Required Holders (as defined in the Certificate of Designations). Pursuant to the August 2024 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 August 2024 Amendment to amend (i) the Certificate of Designations, as described below, by filing a Certificate of Amendment to the Certificate of Designations (the “August 2024 Certificate of Amendment”) and (ii) the Series A Purchase Agreement to amend the definition of “Excluded Securities.” The August 2024 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 (as described below), and (ii) the Company’s right to redeem, all or a portion, of the Series A Preferred Stock outstanding pursuant to an optional redemption (as described below), in each case, pursuant to the terms of the Certificate of Designations.

Pursuant to the August 2024 Certificate of Amendment, 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.

Pursuant to the August 2024 Certificate of Amendment, 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 Exchange Act on a timely basis for a continuous period of one year and provided further that certain equity conditions described in the Certificate of Designations are satisfied, the Company has the right to redeem in cash all or some of the shares of the Series A Preferred Stock outstanding at such time at a redemption price equal to the product of (x) 125% multiplied by (y) the sum of (A) the stated value of the Series A Preferred Stock plus (B) all declared and unpaid Dividends on such Preferred Stock and any other unpaid amounts then due and payable hereunder with respect to such Series A Preferred Stock, plus (C) the make-whole amount, plus (D) any accrued and unpaid late charges with respect to such stated value and amounts payable pursuant to clause (B) as of such date of determination

On 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 October 2024 Certificate of Amendment was filed with the Secretary of State of the State of Delaware, effective as of October 14, 2024. The holders of the Series A Preferred Stock have no voting rights, other than with respect to certain matters affecting the rights of the Series A Preferred Stock.

On November 25, 2024, the Company entered into an Amendment and Agreement with the Series A Investors (the "November 2024 Amendment Agreement"), pursuant to which, (i) the Series A Investors agreed to amend the Certificate of Designations, as described below, by filing a Certificate of Amendment to the Certificate of Designations with the Secretary of State (the "November 2024 Certificate of Amendment"), and (ii) the Series A Investors and the Company agreed that all payment amounts that have accrued and are unpaid as of November 25, 2024, pursuant to the Certificate of Designations and the August 2024 Amendment will be satisfied by delivery of shares of Common Stock on or prior to November 25, 2024, with each Series A Investor entitled to receive the number of shares of Common Stock specified below such Series A Investor's name on its respective signature page thereto. The November 2024 Certificate of Amendment amends the Certificate of Designations to provide that upon the occurrence of a Triggering Event (as defined in the Certificate of Designations), the Series A Preferred Stock will accrue dividends compounded monthly at the rate of 20% per annum. The Certificate of Amendment became effective with the Secretary of State on December 6, 2024.

\$2,036 of the net proceeds less transaction cost of the Series A Purchase Agreement was allocated to the Series A Preferred Stock. For the year ended December 31, 2024, authorized and declared dividends totaling \$1,218 of which \$60 was paid in cash \$1,158 was paid in shares of the Company's Common Stock. As of December 31, 2024, a total of 1,793 shares of Series A Preferred Stock were converted into approximately 1,468,000 shares of Common Stock. For the year ended December 31, 2023, authorized and declared dividends totaling \$392, of which \$58 was paid in cash, \$232 was paid in shares of the Company's Common Stock and the balance of \$102 was accrued in payables as of December 31, 2023. As of December 31, 2023, 102 shares of Series A Preferred Stock were converted into approximately 77,000 shares of Common Stock.

The Company's failure to timely file its Annual Report on Form 10-K for the year ended December 31, 2023, its Quarterly Report on Form 10-Q for the quarter ended March 31, 2024 and its Quarterly Report on Form 10-Q for the quarter ended June 30, 2024, each constituted a Triggering Event (the "Filing Triggering Events") and equity conditions failures pursuant to the terms of the Certificate of Designations. As a result, the dividend rate of the Series A Preferred Stock was automatically increased to 20% per annum beginning on April 16, 2024, or the filing deadline of the Form 10-K for the year ended December 31, 2023, and continued until such date as the Filing Triggering Event was cured on October 15, 2024 with the filing of the Form 10-Q for the quarter ended June 30, 2024.

13. SHARE-BASED COMPENSATION

On March 31, 2017, the Company adopted, and the stockholders approved, the 2017 Stock Incentive Plan (the “Plan”) authorizing 2,000,000 shares of Common Stock for issuance as awards to employees, directors or consultants. In May 2019, the stockholders authorized an increase in the Plan authorizing an additional 2,100,000 shares of Common Stock, in June 2020 authorized an additional 1,900,000 shares of Common Stock, in June 2021 authorized an additional 1,500,000 shares of Common Stock, in June 2022 authorized an additional 1,500,000 shares of Common Stock, in December 2024 authorized an additional 7,500,000 shares of Common Stock for a total of 16,500,000 shares subject to the Plan. At December 31, 2024, there were 7,585,545 shares of Common Stock remaining available for grant under the Plan.

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

Stock Options

The following table summarizes stock option activity for the year ended December 31, 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	1,613,000	\$ 2.17		
Exercised	(232,081)	\$ 2.53		
Forfeited, cancelled, expired	(2,094,270)	\$ 3.00		
Outstanding December 31, 2024	3,944,284	\$ 2.12	8.30	\$ 1,486
Exercisable December 31, 2024	1,467,081	\$ 2.89	7.99	\$ 398

At December 31, 2024, there were 2,654,118 service-based stock options outstanding, and 1,290,166 performance-based stock options outstanding, 1,290,166 were granted in October 2023 to the Company’s Chief Executive Officer, the vesting of which is subject to future market capitalization targets.

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

	For the Year Ended December 31,	
	2024	2023
Expected stock price volatility	76%	76%
Risk-free interest rate	3.82%	4.21%
Forfeiture rate	0%	0%
Expected dividend yield	0%	0%
Expected life of options – years	6.00	6.00
Weighted-average fair value of options granted.....	\$ 1.44	\$ 1.33

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

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

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

Stock option expense was \$1,132 and \$967 for the years ended December 31, 2024 and 2023, respectively.

The following table summarizes information about stock options outstanding at December 31, 2024:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$1.00 – \$2.00	2,870,309	9.08	\$ 1.43	710,257	\$ 1.39
\$2.01 – \$3.00	459,000	8.95	\$ 2.47	291,849	\$ 2.45
\$3.01 – \$4.00	150,000	9.08	\$ 3.88	-	\$ -
\$4.01 – \$5.00	91,475	6.09	\$ 4.38	91,475	\$ 4.38
\$5.01 – \$6.58	373,500	6.02	\$ 5.71	373,500	\$ 5.71

Restricted Stock Units

The Plan provides for the grant of restricted stock units ("RSUs"). RSUs are settled in shares of the Company's Common Stock as the RSUs become vested. The following table summarizes RSU activity for the years ended December 31, 2024 and 2023:

	Service-Based RSU's	Weighted Average Grant Date Fair Value	Weighted Average Vesting Period (Years)
Unvested at January 1, 2023.....	922,332	\$ 2.88	2.11
Granted - service based	1,289,784	\$ 1.41	
Vested.....	(1,056,360)	\$ 1.83	
Forfeited and cancelled	(345,168)	\$ 2.70	
Unvested at December 31, 2023.....	810,588	\$ 1.73	2.52
Granted - service based	881,004	\$ 2.60	
Vested.....	(465,763)	\$ 2.03	
Forfeited and cancelled	(237,727)	\$ 2.26	
Unvested at December 31, 2024.....	988,102	\$ 2.25	3.67

482,143 of the RSUs granted included in the table above were granted in October 2023 are performance based RSUs, and 632,911 are performance based RSUs that were granted in January 2024, both subject to vesting terms based on future market capitalization.

RSU expense was \$1,301 and \$1,018 for the years ended December 31, 2024 and 2023, respectively.

Share-Based Compensation Expense

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

	For the Year Ended December 31,	
	2024	2023
Selling, general and administrative	\$ 2,296	\$ 1,696
Research and development	137	289
Total share-based expense.....	\$ 2,433	\$ 1,985

As of December 31, 2024, total estimated compensation cost of stock options granted and outstanding but not yet vested was \$2,304 which is expected to be recognized over the weighted average period of 2.27 years.

As of December 31, 2024, total estimated compensation cost of RSUs granted and outstanding but not yet vested was \$1,630 which is expected to be recognized over the weighted average period of 3.03 years.

14. DEFINED CONTRIBUTION PLAN

The Company has a defined contribution savings plan for all eligible U.S. employees established under the provisions of Section 401(k) of the Internal Revenue Code. This plan was formed on January 1, 2022. Eligible employees may contribute a percentage of their salary subject to certain limitations. The Company's contributions for the years ended December 31, 2024 and 2023, was \$0 and \$0, respectively.

15. COMMITMENTS AND CONTINGENCIES

Facility Lease

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

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

Related Party Technology License Agreement

The Company is obligated to pay royalties and development and patent costs pursuant to an exclusive Amended and Restated Intellectual Property License Agreement dated as of September 30, 2016, with Syzygy, a company owned and controlled by stockholder/consultant Mr. Elwood Norris and stockholder/consultant Mr. James Barnes. The agreement provides for royalty payments of 4% of revenue from products employing the licensed ensnarement device technology up to an aggregate of \$1,000 in royalties or until September 30, 2026, whichever occurs earlier. The Company recorded \$66 and \$199 for royalties incurred during the years ended December 31, 2024 and 2023, respectively. The maximum payout was satisfied as of June 30, 2024.

Purchase Commitments

At December 31, 2024, the Company was committed for approximately \$585 for future component deliveries that are generally subject to modification or rescheduling in the normal course of business

Indemnifications and Guarantees

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

Regulatory Agencies

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

Litigation

The Company is subject to litigation and other claims in the ordinary course of business. The Company records a provision for a liability relating to legal matters when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed and adjusted to include the impacts of negotiations, estimated settlements, legal rulings, advice of legal counsel, and other information and events pertaining to a particular matter. At December 31, 2024, we had no provision for liability under existing litigation.

16. RELATED PARTY TRANSACTIONS

Series A Preferred Stock

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

Consulting Services

Commencing in October 2017, the Company began reimbursing Mr. Elwood Norris, a former officer, current 5% stockholder and consultant of the Company, \$1.5 per month on a month-to-month basis for laboratory facility costs and \$7.5 per month on a month-to-month basis for invention consulting services, for an aggregate of \$17 and \$108 for the years ended December 31, 2024 and 2023, respectively. The Company terminated the contract in February 2024.

The Company is obligated to pay royalties and development and patent costs pursuant to an exclusive Amended and Restated Intellectual Property License Agreement dated September 30, 2016, with Syzygy Licensing, LLC ("Syzygy"), a company owned and controlled by a 5% stockholder of the Company, Mr. Elwood Norris, and a former officer of the Company, Mr. James Barnes. The agreement provides for royalty payments of 4% of revenue from products employing the licensed ensnarement device technology up to an aggregate of \$1,000 in royalties or until September 30, 2026, whichever occurs earlier. During the years ended December 31, 2024 and 2023, the Company incurred royalties to Syzygy of \$66 and \$199, respectively.

Intinsic Acquisition

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

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

17. INCOME TAXES

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

The provision/(benefit) for Income Taxes for the years ended December 31, 2024 and 2023, consists of the following:

	Year Ended December 31,	
	2024	2023
Current Tax Expense/(Benefit)	\$ -	\$ -
Deferred Tax Expense/(Benefit).....	(2,712)	(4,333)
Change in Valuation Allowance.....	2,712	4,333
Income Tax Provision/(Benefit)	<u>\$ -</u>	<u>\$ -</u>

The Company's effective income tax rate is different from the federal statutory tax rate in 2024 predominantly due to the valuation allowance, permanent differences, and state taxes. A reconciliation of the statutory U.S. Federal Tax Rate to the Company's Effective Tax Rate is as follows:

	Year Ended December 31,	
	2024	2023
U.S. Statutory Federal Income Tax Rate	\$ (1,234)	\$ (6,355)
State Income Taxes, net of Federal Income tax Benefit.....	(67)	(421)
Permanent differences and other.....	(1,411)	2,433
Valuation Allowance	2,712	4,333
Income Tax Provision/(Benefit)	<u>\$ -</u>	<u>\$ -</u>

Deferred income taxes represent the tax effect of transactions that are reported in different periods for financial and tax reporting purposes. The combined temporary differences and carryforwards of each tax paying component of the Company that give rise to a significant portion of the deferred income tax benefits and liabilities are as follows as of December 31, 2024 and 2023:

	Year Ended December 31,	
	2024	2023
Deferred income tax assets:		
Net operating loss carryforwards.....	\$ 18,832	\$ 17,002
Sec. 174 capitalization.....	1,931	1,494
Research and development credits.....	81	81
Stock Based Compensation	1,708	1,447
Accruals and Other	925	994
Total deferred tax assets (gross).....	23,477	21,018
Less valuation allowance	(23,015)	(20,302)
Net deferred tax assets	462	716
Deferred income tax liabilities:		
Depreciation and other	(462)	(716)
Net deferred tax liabilities.....	<u>\$ (462)</u>	<u>\$ (716)</u>
Net deferred income taxes	<u>\$ -</u>	<u>\$ -</u>

As of December 31, 2024, the Company had available federal net operating loss carryforwards of approximately \$703 which begin to expire in 2037, and approximately \$82.6 million which will never expire. The Company has available state net operating loss carryforwards of approximately \$32.9 million as of December 31, 2024, which begin to expire in 2037. As of December 31, 2024, the Company has federal research and development tax credits of approximately \$81.

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

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

It is the Company's policy to recognize interest and/or penalties related to income tax matters in income tax expense. As of December 31, 2024 and 2023, the Company has accrued no interest and no penalties related to uncertain tax positions. The Company does not have any federal, or state and local income tax returns currently under examination.

18. MAJOR CUSTOMERS AND RELATED INFORMATION

Major Customers

For the year ended December 31, 2024, revenues from two distributors accounted for approximately 23% and 14%, respectively, of revenues with no other single customer accounting for more than 10% of total revenues. Accounts receivable from two distributors accounted for approximately 11% and 10%, respectively, of net accounts receivable and contract assets at December 31, 2024.

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

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

	For the Year Ended December 31,	
	2024	2023
Americas	\$ 4,423	\$ 3,773
Europe, Middle East and Africa	76	2,302
Asia Pacific	8	58
Total revenues	<u>\$ 4,507</u>	<u>\$ 6,133</u>

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

19. BUSINESS COMBINATION

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

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

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

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

Cash and cash equivalents.....	\$	3
Accounts receivable		91
Inventory		61
Technology (included in Intangibles).....		490
Customer relationships (included in Intangibles).....		160
Trademarks and trade names (included in Intangibles).....		80
Goodwill.....		1,631
Total assets.....	\$	2,516
Liabilities		24
Equity		2,492
Total liabilities and equity	\$	2,516

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

See Note 7 – Intangible Assets and Goodwill for December 2024 goodwill impairment charge.

20. SUBSEQUENT EVENTS

On January 3, 2025, the Company entered into a lease that will commence in October 2025, or upon the completion of the premises, whichever happens later, for a manufacturing facility located at Pad 1A of the technology park at the intersection of US 23 and US 58 Alternate in Norton, Virginia. The lease of the 20,000 square foot facility has an initial term of five years with the option to renew for an additional two-years, subject to adjustments based on the Consumer Price Index. Monthly lease payments will be \$10,000, calculated at \$6 per gross square foot per year. Following two years of occupancy from the start of the lease, we may terminate the lease without penalty by providing sixty-days written notice.

On February 18, 2025, the Company and W1 Global, LLC, a Delaware limited liability company (“Seller”), entered into an Asset Purchase Agreement, dated as of February 18, 2025 (the “W1 Purchase Agreement”), pursuant which, subject to the terms and conditions set forth therein, the Company agreed to acquire substantially all the assets of the Seller, including, among others, all of the Seller’s right, title and interest in and to the Seller’s properties, business, and assets of Seller used in, held for use in or relating to the business of advisory and investigative professional services, as more specifically set forth in the W1 Purchase Agreement (collectively, the “Acquired Assets”), which excludes the Excluded Assets (as defined in the W1 Purchase Agreement), and assume certain Assumed Liabilities (as defined in the W1 Purchase Agreement), upon the terms and subject to the conditions set forth in the W1 Purchase Agreement (the “Acquisition”), for a nominal purchase price equal to \$100.00. The closing of the Acquisition occurred on February 18, 2025 (the “Closing”). In connection with Closing, the Company and the Seller entered into certain ancillary agreements, including, (i) a bill of sale for all of the Acquired Assets that are tangible personal property, (ii) an assignment of all of the Acquired Assets that are intangible personal property, (iii) employment agreements for certain employees of the Seller, and (iv) a consulting agreement.

On February 24, 2025, the Company entered into a securities purchase agreement (the “PIPE Purchase Agreement”) with certain accredited investors (collectively, the “PIPE Purchasers”) for the issuance and sale in a private placement (the “Private Placement”) of an aggregate of 3,216,666 shares (the “Common Shares”) of Common Stock and accompanying warrants (“PIPE Warrants”) to purchase up to 3,216,666 shares of Common Stock, with an exercise price of \$1.80 per share. The purchase price for one Common Share and accompanying PIPE Warrant was \$1.80. The estimated gross proceeds to the Company were \$5.8 million, before estimated offering expenses payable by the Company.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Miami, State of Florida, on the

WRAP TECHNOLOGIES, INC

Date: March 31, 2025

By: /s/ Scot Cohen

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

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

<u>Name</u>	<u>Position</u>	<u>Date</u>
<u>/s/ Scot Cohen</u> Scot Cohen	Chief Executive Officer and Director (Principal Executive Officer and Interim Principal Financial Officer and Principal Accounting Officer)	March 31, 2025
<u>/s/ Bruce Bernstein</u> Bruce Bernstein	Director	March 31, 2025
<u>/s/ Marc Savas</u> Marc Savas	Director	March 31, 2025
<u>/s/ Rajiv Srinivasan</u> Rajiv Srinivasan	Director	March 31, 2025
<u>/s/ Timothy Szymanski</u> Timothy Szymanski	Director	March 31, 2025

CORPORATE INFORMATION

DIRECTORS AND EXECUTIVE OFFICERS

Scot Cohen

Chief Executive Officer and Executive Chairman of the Board

Jared Novick

Chief Operating Officer

Bruce Bernstein

Director

Marc Savas

Director

Rajiv Srinivasan

Director

Vice Admiral Tim Szymanski

Director

John D. Shulman

Director

CORPORATE HEADQUARTERS

3480 Main Hwy, Suite 202

Miami, Florida 33133 Telephone: (800) 583-2652

STOCK LISTING

NASDAQ Capital Market: WRAP

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

HTL International, LLC

Houston, Texas

TRANSFER AGENT AND REGISTRAR

Colonial Stock Transfer

7840 S 700 E

Sandy, UT 84070

Telephone: (801) 355-5740

ANNUAL GENERAL MEETING OF SHAREHOLDERS

The 2025 Annual Meeting of Stockholders will be held at 10:00 a.m. Eastern Time on December 12, 2025, only via live webcast over the Internet at www.virtualshareholdermeeting.com/WRAP2025.

Stockholders of record on October 15, 2025 are entitled to notice of and to vote at the Annual Meeting.

COMPANY WEBSITE

<https://wrap.com/>