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

FORM 10-Q

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

For the quarterly period ended September 30, 2023

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

For the transition period from _________ to _________

Commission File Number: 000-55838

Wrap Technologies, Inc.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	98-0551945 (I.R.S. Employer Identification Number)

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

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

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

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

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

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

Large Accelerated Filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☐

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

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

As of November 14, 2023 a total of 44,214,169 shares of the Registrant's common stock, par value $0.0001, ("*Common Stock*") were issued and outstanding.

WRAP TECHNOLOGIES, INC.

INDEX

PART I. FINANCIAL INFORMATION		Page
Item 1.	Financial Statements:	1
	Condensed Consolidated Balance Sheets as of September 30, 2023 (unaudited) and December 31, 2022	1
	Condensed Consolidated Statements of Operations and Comprehensive Loss for the three and nine months ended September 30, 2023 and 2022 (unaudited)	2
	Condensed Consolidated Statements of Stockholders' Equity for the three and nine months ended September 30, 2023 and 2022 (unaudited)	3
	Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2023 and 2022 (unaudited)	5
	Notes to Unaudited Condensed Consolidated Interim Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	18
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	29
Item 4.	Controls and Procedures	29
PART II. OTHER INFORMATION		
Item 1.	Legal Proceedings	30
Item 1A.	Risk Factors	30
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	30
Item 3.	Defaults Upon Senior Securities	30
Item 4.	Mine Safety Disclosures	31
Item 5.	Other Information	31
Item 6.	Exhibits	31
SIGNATURES		32

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,934	$ 5,330
Short-term investments	10,000	13,949
Accounts receivable and contract assets, net	4,321	2,830
Inventories, net	5,816	3,975
Prepaid expense and other current assets	762	775
Total current assets	25,833	26,859
Property and equipment, net	533	758
Operating lease right-of-use asset, net	205	285
Intangible assets, net	3,319	2,569
Goodwill, net	1,611	-
Other assets	166	100
Total assets	$ 31,667	$ 30,571
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,546	$ 1,419
Accrued liabilities	1,128	1,463
Customer deposits	2	-
Deferred revenue- short term	189	166
Operating lease liability - short term	116	108
Warrants – short term	7,834	-
Total current liabilities	10,815	3,156
Long-term liabilities:		
Deferred revenue- long term	176	167
Operating lease liability - long term	105	193
Total long-term liabilities	281	360
Total liabilities	11,096	3,516
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Preferred stock - 5,000,000 authorized; par value $0.0001 per share	-	-
Convertible preferred stock– 10,000 authorized, par value $0.0001 per share; 10,000 and 0 issued and outstanding at September 30, 2023 and December 31, 2022, respectively	2,036	-
Common stock - 150,000,000 authorized; par value $0.0001 per share; 43,289,236 and 41,175,993 shares issued and outstanding at September 30, 2023 and December 31, 2022, respectively	4	4
Additional paid-in capital	97,919	94,333
Accumulated deficit	(79,388)	(67,376)
Accumulated other comprehensive loss	-	94
Total stockholders' equity	20,571	27,055
Total liabilities and stockholders' equity	$ 31,667	$ 30,571

See accompanying notes to unaudited condensed consolidated interim financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenue:				
Product sales	$ 3,248	$ 1,612	$ 4,897	$ 4,042
Other revenue	383	89	647	422
Total revenue	3,631	1,701	5,544	4,464
Cost of revenue	1,454	790	2,347	2,430
Gross profit (loss)	2,177	911	3,197	2,034
Operating expense:				
Selling, general and administrative	4,317	3,586	12,604	11,952
Research and development	610	1,236	2,683	4,210
Total operating expense	4,927	4,822	15,287	16,162
Loss from operations	(2,750)	(3,911)	(12,090)	(14,128)
Other income (expense):				
Interest income	90	34	413	36
Change in fair value of warrant liabilities	(117)	-	(117)	
Other	(6)	12	(25)	10
Total other income (expense)	(33)	46	271	46
Net loss	$ (2,783)	$ (3,865)	$ (11,819)	$ (14,082)
Less: Convertible preferred stock dividends	(193)	-	(193)	-
Net loss attributable to common stockholders	$ (2,976)	$ (3,865)	$ (12,012)	$ (14,082)
Net loss per basic and diluted common share	$ (0.07)	$ (0.09)	$ (0.29)	$ (0.34)
Weighted average common shares used to compute net loss per basic and diluted common share	42,652,481	41,086,285	41,914,512	40,955,234
Comprehensive loss:				
Net loss	$ (2,783)	$ (3,865)	$ (11,819)	$ (14,082)
Net unrealized gain on short-term investments	-	73	-	62
Comprehensive loss	$ (2,783)	$ (3,792)	$ (11,819)	$ (14,020)

See accompanying notes to unaudited condensed consolidated interim financial statements.

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

Three Months Ended September 30, 2023

	Common Stock		Convertible Preferred Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance at July 1, 2023	41,910,687	$ 4		$ -	$ 96,182	$ (76,411)	$ -	$ 19,775
Share-based compensation expense	-	-	-	-	(201)	(1)	-	(202)
Dividends on convertible preferred stock	-	-	-	-	-	(193)	-	(193)
Convertible preferred stock issued, net of offering costs	-		10,000	2,036	-	-	-	2,036
Common shares issued upon vesting of restricted stock units	128,549	-	-	-	-	-	-	-
Issuance of common stock for acquisition	1,250,000	-	-	-	1,938	-	-	1,938
Net loss for the period	-	-	-	-	-	(2,783)	-	(2,783)
Balance at September 30, 2023	43,289,236	$ 4	10,000	$ 2,036	$ 97,919	$ (79,388)	$ -	$ 20,571

Nine Months Ended September 30, 2023

	Common Stock		Convertible Preferred Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance at January 1, 2023	41,175,993	$ 4	-	$ -	$ 94,333	$ (67,376)	$ 94	$ 27,055
Common shares issued upon exercise of stock options	250	-	-	-	-	-	-	-
Share-based compensation expense	-	-	-	-	1,648	-	-	1,648
Dividends on convertible preferred stock	-	-	-	-	-	(193)		(193)
Convertible preferred stock issued, net of offering costs	-	-	10,000	2,036	-	-	-	2,036
Common shares issued upon vesting of restricted stock units	862,993	-	-	-	-	-	-	-
Issuance of common stock for acquisition	1,250,000	-	-	-	1,938	-	-	1,938
Settlement – US Treasury bills	-	-	-	-	-	-	(94)	(94)
Net loss for the period	-	-	-	-	-	(11,819)	-	(11,819)
Balance at September 30, 2023	43,289,236	$ 4	10,000	$ 2,036	$ 97,919	$ (79,388)	$ -	$ 20,571

See accompanying notes to unaudited condensed consolidated interim financial statements.

Three Months Ended September 30, 2022

	Common Stock Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at July 1, 2022	40,992,161	$ 4	$ 92,856	$ (59,976)	$ (17)	$ 32,867
Common shares issued upon exercise of stock options	5,500	-	8	-	-	8
Share-based compensation expense	-	-	872	-	-	872
Common shares issued upon vesting of restricted stock units	127,917	-	-	-	-	-
Net unrealized gain on short-term investments	-	-	-	-	73	73
Net loss for the period	-	-	-	(3,865)	-	(3,865)
Balance at September 30, 2022	41,125,578	$ 4	$ 93,736	$ (63,841)	$ 56	$ 29,955

Nine Months Ended September 30, 2022

	Common Stock Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at January 1, 2022	40,851,945	$ 4	$ 91,025	$ (49,759)	$ (6)	$ 41,264
Common shares issued upon exercise of stock options	55,500	-	83	-	-	83
Share-based compensation expense	-	-	2,628	-	-	2,628
Common shares issued upon vesting of restricted stock units	218,133	-	-	-	-	-
Net unrealized gain on short-term investments	-	-	-	-	62	62
Net loss for the period	-	-	-	(14,082)	-	(14,082)
Balance at September 30, 2022	41,125,578	$ 4	$ 93,736	$ (63,841)	$ 56	$ 29,955

See accompanying notes to unaudited condensed consolidated interim financial statements.

Wrap Technologies, Inc.

Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Nine Months Ended September 30, 2023	2022
Cash Flows From Operating Activities:		
Net loss	$ (11,819)	$ (14,082)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	675	574
Share-based compensation	1,648	2,628
Warranty provision	(8)	55
Change in fair value of warrant liabilities	117	-
Non-cash lease expense	80	75
Provision for doubtful accounts	(48)	61
Changes in assets and liabilities:		
Accounts receivable	(1,353)	1,576
Inventories	(1,780)	(1,396)
Prepaid expense and other current assets	13	268
Accounts payable	(67)	(834)
Operating lease liability	(80)	(65)
Customer deposits	2	(43)
Accrued liabilities and other	(322)	175
Warranty settlement	(8)	(63)
Deferred revenue	32	35
Net cash used in operating activities	(12,918)	(11,036)
Cash Flows From Investing Activities:		
Purchase of short-term investments	(6,145)	(23,119)
Proceeds from maturities of short-term investments	10,000	33,300
Capital expenditures for property and equipment	(133)	(201)
Investment in patents and trademarks	(277)	(133)
Purchase of intangible assets	(60)	-
Net cash paid for acquisition of Intrensic	(551)	-
Cash outlay for deposits	(66)	(3)
Net cash provided by investing activities	2,768	9,844
Cash Flows From Financing Activities:		
Proceeds from exercise of stock options	-	83
Proceeds from issuance of warrants and convertible preferred stock, net of offering costs	9,754	-
Net cash provided by financing activities	9,754	83
Net decrease in cash and cash equivalents	(396)	(1,109)
Cash and cash equivalents, beginning of period	5,330	4,937
Cash and cash equivalents, end of period	$ 4,934	$ 3,828
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Change in unrealized gain on short-term investments	$ (94)	$ 62
Issuance of common stock for acquisition	$ (1,938)	$ -
Net assets acquired from acquisition	$ 147	$ -
Convertible preferred stock issued, net of offering costs	$ (2,036)	$ -
Warrant liabilities	$ (7,834)	$ -
Dividends on convertible preferred stock	$ (193)	$ -
Right-of-use asset and liability recorded during period	$ -	$ 260

See accompanying notes to unaudited condensed consolidated interim financial statements.

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

Organization and Business Description

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

Basis of Presentation

The Company's unaudited interim condensed consolidated financial statements included herein have been prepared in accordance with the instructions to Form 10-Q and Article 8 of Regulation S-X and the rules and regulations of the Securities and Exchange Commission ("*SEC*"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles ("*U.S. GAAP*") have been condensed or omitted pursuant to such rules and regulations. In management's opinion, the accompanying financial statements reflect adjustments necessary to present fairly the financial position, results of operations, and cash flows for those periods indicated, and contain adequate disclosure to make the information presented not misleading. Adjustments included herein are of a normal, recurring nature unless otherwise disclosed in the footnotes. The condensed consolidated financial statements and notes thereto should be read in conjunction with the Company's audited financial statements and notes thereto for the year ended December 31, 2022, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022 (the "*Annual Report*"), as filed with the SEC on March 2, 2023. The accompanying condensed consolidated balance sheet at December 31, 2022 has been derived from the audited consolidated balance sheet at December 31, 2022, contained in the Annual Report. Results of operations for interim periods are not necessarily indicative of the results of operations for a full year.

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

Principles of Consolidation

The Company has two wholly owned subsidiaries, Wrap Reality, Inc. formed in December 2020 that sells a virtual reality ("*VR*") training system primarily targeting law enforcement agencies and Intrensic, 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.

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.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions (e.g., stock-based compensation valuation, allowance for doubtful accounts, valuation of inventory and intangible assets, warranty reserve, accrued expense and recognition and measurement of contingencies) that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and affect the reported amounts of revenue and expense during the reporting period. Actual results could materially differ from those estimates.

Warrants

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

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

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.

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

Loss per Share

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

In computing diluted EPS, we adjust the numerator used in the basic EPS computation, subject to anti-dilution requirements, to add back the dividends (declared or cumulative undeclared) applicable to the Series A Convertible Preferred Stock. Such add-back would also include any adjustments to equity in the period to accrete the Series A Convertible Preferred Stock to its redemption price, or recorded upon a redemption or induced conversion, if any. We adjust the denominator used in the basic EPS computation, subject to anti-dilution requirements, to include the dilution from potential shares resulting from the issuance of the Series A Convertible Preferred Stock, restricted stock units, and stock options. Stock options and restricted stock units exercisable or issuable for a total of 2,668,750 and 6,396,277 shares of Common Stock were outstanding at September 30, 2023, and 2022, respectively. These securities are not included in the computation of diluted net loss per common share for the periods presented as their inclusion would be antidilutive due to losses incurred by the Company.

Recent Issued Accounting Guidance

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

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

Recent Developments

On August 9, 2023, the Company entered into a Membership Interest Purchase Agreement (the "*Purchase Agreement*") with Intrensic, LLC, a Delaware limited liability company ("*Intrensic*"), and certain members of Intrensic, including Kevin Mullins, the Company's Chief Executive Officer (collectively, "*Sellers*"). Under the terms of the Purchase Agreement, the Company agreed to purchase, and Sellers agreed to sell, 100% of the membership interests (the "*Membership Interests*") of Intrensic for the following consideration upon the consummation of the sale of the Membership Interests (the "*Intrensic Closing*"): (i) $553,588 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 (collectively, the "*Purchase Price*") (the "*Intrensic Acquisition*").

Kevin Mullins, a director of the Company and the Company's Chief Executive Officer, owns approximately 9.53% of the Membership Interests, and as such, has a financial interest in the Intrensic Acquisition.

2. REVENUE AND PRODUCT COSTS

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

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

The timing of revenue recognition may differ from the timing of invoicing to customers. The Company generally has an unconditional right to consideration when customers are invoiced, and a receivable is recorded. A contract asset is recognized when revenue is recognized prior to invoicing, or a contract liability (deferred revenue) when revenue will be recognized subsequent to invoicing. The Company recognizes an asset if there are incremental costs of obtaining a contract with a customer such as commissions. These costs are ascribed to or allocated to the underlying performance obligations in the contract. The Company may receive consideration, per terms of a contract, from customers prior to transferring goods to the customer. The Company records customer deposits as a contract liability. Additionally, the Company may receive payments, most typically for service and warranty contracts, at the onset of the contract and before the services have been performed. In such instances, a deferred revenue liability is recorded. The Company recognizes these contract liabilities as revenue after all revenue recognition criteria are met. The table below details the activity in our contract liabilities during the nine months ended September 30, 2023.

	Customer Deposits	Deferred Revenue
Balance at January 1, 2023	$ -	$ 333
Additions, net	2	229
Transfer to revenue	-	(197)
Balance at September 30, 2023	$ 2	$ 365
Current portion	$ 2	$ 189
Long-term portion	$ -	$ 176

At September 30, 2023, the Company's deferred revenue of $365 consisted of $199 related to VR, $6 related to training and $160 related to BolaWrap extended warranties and services. At December 31, 2022, the Company's deferred revenue of $333 consisted of $198 related to VR, $11 related to training and $124 related to BolaWrap extended warranties and services.

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

3. FINANCIAL INSTRUMENTS

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

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

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

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

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

The following table shows the Company's short-term investments by significant investment category as of September 30, 2023, and December 31, 2022.

	As of September 30, 2023			
	Adjusted Cost	**Unrealized Gains**	**Unrealized Losses**	**Market Value**
Level 1:				
Certificate of Deposits	10,000	-	-	10,000
Total Financial Assets	$ 10,000	$ -	$ -	$ 10,000

	As of December 31, 2022			
	Adjusted Cost	**Unrealized Gains**	**Unrealized Losses**	**Market Value**
Level 1:				
U.S. Treasury securities in short-term investments	9,849	100	-	9,949
Certificate of Deposits	4,000	-	-	4,000
Total Financial Assets	$ 13,849	$ 100	$ -	$ 13,949

Unrealized gains or losses resulting from our short-term investments are recorded in accumulated other comprehensive gain or loss as they are classified as available for sale. During the three and nine months ended September 30, 2023, no gain (loss) was recorded to other comprehensive gain (loss). During the three and nine months ended September 30, 2022, a $73 gain and $62 gain was recorded to other comprehensive gain (loss), respectively.

The warrant liabilities are measured at fair value on a recurring basis. The subsequent measurement of the warrant liabilities as of September 30, 2023, is classified as Level 3 due to the use of an observable market quote in a non-active market and the management's assumption of the expected stock price volatility.

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

Level 3:	**September 30, 2023**	**December 31, 2022**
Fair value at inception or the beginning of the period	$ 7,717	-
Change in fair value of warrant liabilities	117	-
Fair value as of September 30, 2023	$ 7,834	-

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

	As of September 30, 2023	As of December 31, 2022
Expected stock price volatility	100%	-%
Risk-free interest rate	4.49%	-%
Dividends yield	0%	-%
Expected life of warrants	4.75	-
Exercise price	$ 1.45	$ -

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.

4. INVENTORIES

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

	September 30, 2023	December 31, 2022
Finished goods	$ 2,921	$ 2,293
Work in process	-	-
Raw materials	2,895	1,682
Inventories - net	$ 5,816	$ 3,975

5. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following:

	September 30, 2023	December 31, 2022
Production and lab equipment	$ 536	$ 513
Tooling	505	448
Computer equipment	587	531
Furniture, fixtures and improvements	190	181
	1,818	1,673
Accumulated depreciation	(1,285)	(915)
Property and equipment, net	$ 533	$ 758

Depreciation expense was $122 and $358 for the three and nine months ended September 30, 2023, respectively, and $121 and $359 for the three and nine months ended September 30, 2022, respectively.

6. INTANGIBLE ASSETS AND GOODWILL

Intangible Assets, net

Intangible assets, net consisted of the following:

	September 30, 2023	December 31, 2022
Amortizable intangible assets:		
Patents	$ 841	$ 575
Trademarks	241	150
Purchased software and technology	2,452	1,962
Customer Relationships	160	-
	3,694	2,687
Accumulated amortization	(778)	(462)
Total amortizable	2,916	2,225
Indefinite life assets (non-amortizable)	403	344
Total intangible assets, net	$ 3,319	$ 2,569

Amortization expense was $150 and $317 for the three and nine months ended September 30, 2023, respectively, and $72 and $215 for the three and nine months ended September 30, 2022, respectively.

At September 30, 2023, future amortization expense is as follows:

2023 (3 months)	$ 164
2024	655
2025	650
2026	427
2027	180
Thereafter	840
Total estimated amortization expense	$ 2,916

Goodwill

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

Balance at January 1, 2023	$ -
Acquired goodwill	1,611
Balance at September 30, 2023	$ 1,611

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable includes $122 and $127 due to related party Syzygy Licensing, LLC ("*Syzygy*") as of September 30, 2023, and December 31, 2022, respectively. See Note 11 for additional information on this related party.

Accrued liabilities consist of the following:

	September 30, 2023	December 31, 2022
Patent and legal costs	$ 61	$ 135
Accrued compensation	786	1,100
Warranty costs	109	125
Taxes and other	172	103
Total	$ 1,128	$ 1,463

Accrued compensation includes $139 and $1,022 in employee bonuses and commissions payable at September 30, 2023 and December 31, 2022, respectively.

Changes in our estimated product warranty costs were as follows:

	Nine Months Ended September 30,	
	2023	2022
Balance, beginning of period	$ 125	$ 96
Warranty settlements	(8)	(63)
Release of warranty provision	(8)	55
Balance, end of period	$ 109	$ 88

8. WARRANTS

On June 29, 2023, the Company entered into a securities purchase agreement (the "Purchase Agreement") with certain directors of the Company and certain accredited and institutional investors (collectively, the "Investors"), pursuant to which it agreed to sell to the Investors in a private placement (the "Offering"): (i) warrants to acquire up to an aggregate of 6,896,553 shares of Common Stock (the "Warrants") and (ii) Series A Convertible Preferred Stock (Note 9). The warrants are exercisable six months after issuance at an exercise price of $1.45 per share, subject to adjustment, and expire five years from the date of issuance. The closing of the Offering occurred on July 3, 2023. The aggregate gross proceeds from the Offering were $10,000. $7,717 of $10,000 was allocated to the Warrants.

9. 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*").

On July 3, 2023, the Company filed a Certificate of Designations (the "*Series A COD*") with the State of Delaware, designating 10,000 shares of its Preferred Stock as Series A Convertible Preferred Stock, $0.0001 per share (the "*Series A Preferred*"). Shares of Series A Preferred are convertible into Common Stock (the "*Conversion Shares*") at an initial conversion price of $1.45 (the "*Conversion Price*"), subject to customary adjustments and price-based as defined in the Series A COD. Holders of Series A Preferred Shares are entitled to dividends of 8% per annum, payable quarterly, subject to adjustment upon the occurrence of certain events in accordance with the terms of the Series A COD. The holders of Series A Preferred have no voting rights on account of the Preferred Shares, other than with respect to certain matters affecting the rights of the Preferred Shares.

On June 29, 2023, the Company entered into a securities purchase agreement (the "Purchase Agreement") with certain directors of the Company and certain accredited and institutional investors (collectively, the "Investors"), pursuant to which it agreed to sell to the Investors in a private placement (the "Offering"): (i) the Warrants Note 8 and (ii) 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, initially convertible into up to 6,896,553 shares of the Company's common stock, par value $0.0001 per share at a conversion price of $1.45 per share, subject to customary adjustments and price-based as defined in the Series A Certificate of Designations (the "Convertible Preferred Stocks"). The customary adjustments include: (i) additional amounts related to declared and unpaid Dividends and any other unpaid amounts due and payable and (ii) make-whole amounts related to the accrual of any additional dividends that would have accrued up to the date of conversion including the one-year anniversary from the date of conversion. Each preferred stock has a stated value of $1,000 per share, and holders thereof are entitled to cumulative dividends of 8% per annum on the stated value, payable quarterly in arrears, subject to adjustment upon the occurrence of certain events in accordance with the terms of the Convertible Preferred Stocks. The holders of Convertible Preferred Stocks have no voting rights on account of the Convertible Preferred Stocks, other than with respect to certain matters affecting the rights of the Convertible Preferred Stocks. $2,036 of the aggregate gross proceeds was allocated to the Convertible Preferred Stocks. In September 2023, the Company authorized and declared $193 dividend which was an accrued in accounts payable as of September 30, 2023.

10. SHARE-BASED COMPENSATION

On March 31, 2017*,* the Company adopted, and the stockholders approved, the 2017 Stock Incentive Plan (the "*Plan*") authorizing 2,000,000 shares of Common Stock for issuance as awards to employees, directors or consultants. In May 2019*,* the stockholders ratified an increase in the Plan authorizing an additional 2,100,000 shares of Common Stock; in June 2020 ratified an additional 1,900,000 shares of Common Stock; in June 2021 ratified an additional 1,500,000 shares of Common Stock; and in June 2022 ratified an additional 1,500,000 shares of Common Stock; for a total of 9,000,000 shares subject to the Plan. At September 30, 2023, there were 4,438,539 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 $178 of share-based compensation expense resulting from the resignation of the Company's 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. In January 2022 the Company recognized severance acceleration of $242 of share-based compensation expense resulting from the resignation of the Company's Chief Executive Officer as part of a management transition plan.

Stock Options

The following table summarizes stock option activity for the nine months ended September 30, 2023:

	Options on Common Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding January 1, 2023	5,491,399	$ 3.72	5.96	$ 92
Granted	60,000	$ 1.34		
Exercised	(250)	$ 1.50		
Forfeited, cancelled, expired	(3,329,476)	$ 5.54		
Outstanding September 30, 2023	2,221,673	$ 3.56	7.65	$ 10
Exercisable September 30, 2023	1,033,504	$ 4.37	7.02	$ -

At September 30, 2023, there were 1,529,275 service-based stock options outstanding, and 692,398 performance-based stock options outstanding, which performance-based stock options were granted in April 2022 to the Company's former Chief Executive Officer and President, subject to future market capitalization targets. 1,207,698 of the 2,221,673 stock options granted included in the table above were granted in April 2022 outside the Plan as an employment inducement grant but are subject to the terms and conditions of the Plan.

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

	For the Nine Months Ended September 30, 2023	For the Nine Months Ended September 30, 2022
Expected stock price volatility	49%	49%
Risk-free interest rate	3.64%	1.17%
Expected dividend yield	0%	0%
Expected life of options	6.66	3.46
Weighted-average fair value of options granted	$ 0.55	$ 1.25

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 1,614,230 market condition performance options granted in April 2022 to the Company's former Chief Executive Officer and President. The assumptions used in the Monte Carlo Simulation were stock price on date of grant of $2.89, contract term of 10 years, expected volatility of 49% and risk-free interest rate of 2.9%. Vesting is based on sustained market capitalization of $250 million, $500 million and $1 billion and resulted in implied service periods ranging from approximately 4 to 7 years. At September 30, 2023, 921,832 of the 1,614,230 market condition performance options granted in April 2022 were cancelled.

Stock option expense was $(169) and $399 for the three and nine months ended September 30, 2023, respectively, and $308 and $1,448 for the three and nine months ended September 30, 2022, respectively.

Restricted Stock Units

The Plan provides for the grant of restricted stock units ("*RSUs*"). RSUs are settled in shares of the Company's Common Stock as the RSUs become vested. The following table summarizes RSU activity for the nine months ended September 30, 2023:

	Service-Based RSU's		Weighted Average Grant Date Fair Value	Weighted Average Vesting Period (Years)
Unvested at January 1, 2023	922,057	$	2.88	2.11
Granted - service based	686,394	$	1.33	
Vested	(862,993)	$	2.87	
Forfeited and cancelled	(298,381)	$	2.47	
Unvested at September 30, 2023	447,077	$	2.00	1.74

RSU expense was $(33) and $1,249 for the three and nine months ended September 30, 2023, respectively, and $564 and $1,180 for the three and nine months ended September 30, 2022, respectively.

Share-Based Compensation Expense

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2023		2022		2023		2022	
Selling, general and administrative	$	(149)	$	700	$	1,404	$	2,180
Research and development		(53)		172		244		448
Total share-based expense	$	(202)	$	872	$	1,648	$	2,628

As of September 30, 2023, total estimated compensation cost of stock options granted and outstanding but not yet vested was $1,168 which is expected to be recognized over the weighted average period of 2.73 years.

As of September 30, 2023, total estimated compensation cost of RSUs granted and outstanding but not yet vested was $757 which is expected to be recognized over the weighted average period of 1.61 years.

11. DEFINED CONTRIBUTION PLAN

The Company has a defined contribution savings plan for all eligible U.S. employees established under the provisions of Section 401(k) of the Internal Revenue Code. This plan was formed on January 1, 2022. Eligible employees may contribute a percentage of their salary subject to certain limitations. The Company's contributions for each of the three and nine months ended September 30, 2023, and year ended December 31, 2022, was $0.

12. COMMITMENTS AND CONTINGENCIES

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 $122 and $185 for royalties during the three and nine months ended September 30, 2023, respectively, and $61 and $147 for royalties during the three and nine months ended September 30, 2022, respectively. The maximum payout still available under this arrangement is $95 as of September 30, 2023.

Service Provider Agreement

Pursuant to the Professional Services and Technology Acquisition Agreement (the "*Agreement*") entered into with Lumeto, Inc. and Spatial Industries Group, Inc. (collectively, "*Service Provider*") on November 22, 2022, as amended on April 2, 2023, the Service Provider provided to the Company certain technology, services, and perpetual licenses for use within the Company's Wrap Reality virtual simulation training platform (the "*Technology, Services, and License*") in consideration for a cash payment of $700 to the Service Provider, which was completed as of June 30, 2023. The Company has no ongoing or future commitments, responsibilities, or obligations related to this matter.

Purchase Commitments

At September 30, 2023, the Company was committed for approximately $1,690 for future component deliveries that are generally subject to modification or rescheduling in the normal course of business.

Indemnifications and Guarantees

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

Regulatory Agencies

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

Litigation

The Company is subject to litigation and other claims in the ordinary course of business. The Company records a provision for a liability relating to legal matters when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed and adjusted to include the impacts of negotiations, estimated settlements, legal rulings, advice of legal counsel, and other information and events pertaining to a particular matter. At September 30, 2023, we had no provision for liability under existing litigation.

13. RELATED PARTY TRANSACTIONS

Commencing in October 2017 the Company began reimbursing Mr. Elwood Norris, a former officer, current 10% stockholder and consultant of the Company, $1.5 per month on a month-to-month basis for laboratory facility expense, for an aggregate of $4.5 and $13.5 during the three and nine months ended September 30, 2023, and 2022, respectively. Mr. Norris retired as the Company's Chief Technology Officer effective September 30, 2021, and commencing July 1, 2021, was engaged as a month-to-month consultant. Mr. Norris was paid a monthly fee of $7.5 per month for aggregate consulting payments of $22.5 and $67.5 during each of the three and nine months ended September 30, 2023, and 2022.

On June 29, 2023, we entered into the Purchase Agreement with certain investors, including Mr. Scot Cohen, the Executive Chairman of the Company, and V4, an entity over which Mr. Cohen exercises control and whose securities are beneficially owned by Mr. Cohen (the "*Affiliated Offering*"), pursuant to which the Company issued to Mr. Cohen and V4 an aggregate of 3,000 Series A Preferred and warrants to purchase up to an aggregate of 2,068,966 shares of Common Stock for aggregate gross proceeds of $3,000,000 (excluding the proceeds the Company may receive from the exercise of the warrants issued in the Affiliated Offering) (the "*Affiliated Proceeds*"). The Certificate of Designation for the Series A Preferred provides that Series A Preferred held by a holder who serves as a director, officer or is an employee of the Company shall only be convertible into shares of Common Stock following receipt of approval of a majority of the Company's stockholders ("*Stockholder Approval*"). Similarly, any warrant issued to one of our directors may not be exercised prior to date that is the later of (x) the date on which the Company received Stockholder Approval and (y) the date that is six months from the date of issuance). Stockholder Approval was attained at a special meeting of stockholders held on September 19, 2023.

On August 9, 2023, the Company entered into the Purchase Agreement with Intrensic and the Sellers, including Kevin Mullins, a director of the Company and its Chief Executive Officer. Under the terms of the Purchase Agreement, the Company agreed to purchase, and Sellers, including Mr. Mullins, agreed to sell, 100% of the Membership Interests of Intrensic for the following consideration: (i) $554 in cash, subject to adjustment based upon the outstanding indebtedness of Intrensic and Intrensic's working capital; and (ii) 1,250,000 shares of Common Stock of the Company. Kevin Mullins owns approximately 9.53% of the Membership Interests, and as such, has a financial interest in the sale of Intrensic to the Company.

See Notes 1, 7 and 12 for additional information on related party transactions and obligations.

14. MAJOR CUSTOMERS AND RELATED INFORMATION

For the three months ended September 30, 2023, revenue from two distributors accounted for approximately 62% and 12% of revenue with no other single customer accounting for more than 10% of total revenue. For the three months ended September 30, 2022, revenue from one distributor accounted for approximately 59% of revenue with no other single customer accounting for more than 10% of total revenue.

For the nine months ended September 30, 2023, revenue from one distributor accounted for approximately 41% of revenue with no other single customer accounting for more than 10% of total revenue. For the nine months ended September 30, 2022, revenue from one distributor accounted for approximately 39% of revenue with no other single customer accounting for more than 10% of total revenue.

At September 30, 2023, accounts receivable from one distributor accounted for 51% of net accounts receivable, with no other single customer accounting for more than 10% of the accounts receivable balance. At December 31, 2022, accounts receivable from one distributor accounted for 70% of net accounts receivable.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
Americas	$ 1,347	$ 1,478	$ 3,225	$ 3,484
Europe, Middle East and Africa	2,284	220	2,320	435
Asia Pacific	-	3	(1)	545
Total revenues	$ 3,631	$ 1,701	$ 5,544	$ 4,464

15. BUSINESS COMBINATION

The Company entered into the Purchase Agreement with Intrensic and the Sellers with an effective date of August 9, 2023 (the ("Closing"). The Closing was consummated on August 16, 2023. Under the terms of the Purchase Agreement, the Company agreed to purchase, and Sellers agreed to sell the Membership Interests for the following consideration at Closing: (i) $554 in cash, subject to adjustment based upon the outstanding indebtedness of Intrensic and Intrensic's working capital as of the 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 Wrap'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 preliminary purchase price is not finalized. The Company is still evaluating the impact of the income tax provision related to the acquisition and assessing the assumed contracts related to deferred revenue.

The table below sets forth the preliminary 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.

Cash and cash equivalents	$ 3
Accounts receivable	90
Inventory	61
Net property, plant and equipment	-
Technology	490
Customer relationships (included in Intangibles)	160
Trademarks and trade names (included in Intangibles)	80
Goodwill	1,611
Total assets	**$** 2,495
Liabilities	3
Equity	2,492
Total liabilities and equity	**$** 2,495
Purchase Price:	
Cash	554
Equity	1,938
Liabilities assumed	3
Total	**$** 2,495

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

16. SUBSEQUENT EVENTS

Appointment of Executive Chairman

On October 12, 2023, the Board of Directors (the "*Board*") appointed Scot Cohen, the Company's current Chairman of the Board, to the position of Executive Chairman, effective October 12, 2023 (the "*Effective Date*"). Mr. Cohen cofounded the Company in March 2016, and has previously served as the Executive Chairman of the Company from July 2017 until June 2021.

In connection with Mr. Cohen's appointment as Executive Chairman, the Company and Mr. Cohen entered into an agreement on October 12, 2023 (the "*Agreement*"). Pursuant to the Agreement, unless earlier terminated pursuant to the terms therein, Mr. Cohen will serve as the Company's Executive Chairman for an initial term of two years from the effective date of his appointment. As compensation for Mr. Cohen's services to the Company, the Agreement entitles Mr. Cohen to an annualized base salary of $200,000 (the "*Base Salary*") and eligibility to participate in customary benefits offered to other executives of the Company.

The Agreement further provides for:

- A grant of that number of restricted shares ("*RSAs*") of the Company's Common Stock equal to $675,000 divided by $1.40, representing the closing price of Common Stock as reported on the Nasdaq Capital Market on October 12, 2023 (the "*Closing Price*") for the date of grant (the "*Grant Date*"), which RSAs are subject to certain vesting conditions based on the achievement of certain targets based on total market capitalization of the Company.

- A nonqualified option to purchase up to that number of shares of Common Stock with a Grant Date fair value equal to $675,000 divided by the Closing Price (the "*Option*"), an exercise price equal to the Closing Price, and a term of 10 years, which Option vests based on Mr. Cohen's continued employment with the Company and the achievement of certain budgeted revenue targets established by the Board; and

- A nonqualified option to purchase up to 2.25% of the number of shares of the Company's Common Stock that are issued and outstanding (determined on a fully-diluted basis, including, without limitation, any shares issuable upon the conversion or exercise of any outstanding warrants or preferred stock) as of the Effective Date (the "*Performance Option*"), at an exercise price equal to the Closing Price, and a term of 10 years, which Performance Option vests, subject to Mr. Cohen's continued employment with the Company through each vesting date, in accordance with the same vesting conditions as provided for in the RSAs.

The foregoing description of the Agreement does not purport to be complete and is qualified in its entirety by the full text of the Agreement, a copy of which is filed as Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 16, 2023.

Resignations of Michael Parris and Wayne Walker

Effective October 11, 2023 (the "*Mr. Parris Resignation Date*"), and October 12, 2023 (the "*Mr. Walker Resignation Date*"), Michael Parris and Wayne Walker, respectively, resigned from their positions as members of the Board. Neither director's decision to resign was the result of any dispute or disagreements with the Company on any matter relating to the Company's operations, policies or practices.

Appointment of Rajiv Srinivasan and Timothy Szymanski

On October 12, 2023, Rajiv Srinivasan and Timothy Szymanski were appointed to serve as members of the Board to fill the vacancies created as a result of the resignations of Messrs. Parris and Walker, until the Company's next annual meeting of stockholders or until their respective successors are duly elected and qualified.

Miami Office Lease

The Company has entered into an 89-month lease for 4,487 square feet of office space in Miami, Florida, starting from November 1, 2023. This leasing arrangement aims to enhance the Company's footprint on the East Coast and in international markets.

In accordance with the Subsequent Events Topic of the FASB ASC 855, we have evaluated subsequent events through the filing date and determined that no additional subsequent events occurred that were reasonably expected to impact the consolidated condensed financial statements presented herein.

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

You should read the following discussion in conjunction with the financial statements and other financial information included elsewhere in this Quarterly Report on Form 10-Q (this "*Report*"*) and with our audited financial statements and other information presented in our Annual Report on Form 10-K for the year ended December 31, 2022 (the* "*Annual Report*"*). The following discussion may contain forward-looking statements that reflect our plans, estimates and beliefs. Words such as* "*expect,*" "*anticipate,*" "*intend,*" "*plan,*" "*believe,*" "*seek,*" "*estimate,*" "*continue,*" "*may,*" "*will,*" "*could,*" "*would,*" *or the negative or plural of such words and similar expressions or variations of such words are intended to identify forward-looking statements but are not the only means of identifying forward-looking statements. Such forward-looking statements are subject to a number of risks, uncertainties, assumptions and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by the forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those discussed below and elsewhere in this Report and in our other filings with the Securities and Exchange Commission (*"*SEC*"*), including particularly matters set forth under Part I, Item 1A (Risk Factors) of the Annual Report. Furthermore, such forward-looking statements speak only as of the date of this Report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements. For purposes of Management's Discussion and Analysis within this Report, all monetary amounts are stated in thousands except for par values and per share amounts, unless otherwise stated.*

Overview

We are a global public safety technology and services company that delivers safe and effective policing solutions to law enforcement and security personnel worldwide. We are leading the movement for safer outcomes by equipping law enforcement with safe, non-pain compliance tools and immersive training for the modern world. We began sales of our first public safety product, the BolaWrap 100 remote restraint device, in late 2018. In late 2020 we added a new solution to our public safety technologies, which is our virtual reality ("*VR*") training platform – Wrap Reality. Wrap Reality is now sold to law enforcement agencies for simulation training as well as corrections departments for the societal reentry scenarios. In Q1 2022 we delivered a new generation product, the BolaWrap 150. The BolaWrap 150 is electronically deployed and is more robust, smaller, lighter and simpler to deploy than the BolaWrap 100 that has been phased out.

Our target market for our solutions includes approximately 900,000 full-time sworn law enforcement officers in over 18,000 federal, state, and local law enforcement agencies in the 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 – is 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 – is a law enforcement 3D training system employing immersive computer graphics VR with proprietary software-enabled content. It allows up to two participants to enter a simulated training environment simultaneously, and customized weapons controllers enable trainees to engage in strategic decision making along the force continuum. Wrap Reality has 43 scenarios for law enforcement and corrections and 25 scenarios at this time for societal reentry. Wrap Reality is one of the most robust 3D Virtual Reality solutions on the market for law enforcement and societal reentry today.

Wrap Intrensic – is 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 Intrensic X2 camera hardware and storage and data management capability, along with awareness of front-line operations, provides customers with a solution to meet the challenges. Wrap Intrensic 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 49 international distributors covering 54 countries. We focus significant sales, training and business development efforts to support our distribution network in addition to our internal sales team.

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

Business Outlook and Challenges

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

In addition, we are focused on aggressive marketing and public relations efforts. We are confident in the potential market opportunities for our solutions in remote restraint, virtual reality solutions and digital evidence management in the law enforcement and security sectors worldwide. These opportunities are driven by the increasing demand for less-lethal policing, continued training, and transparency driven by community demands and local laws.

In the law enforcement sector, our BolaWrap product has been successfully deployed in the field, as reported by agencies worldwide. BolaWrap is now in use by almost 1,000 US law enforcement agencies and in 62 countries. Due to its safe remote restraint capabilities, many agencies do not deem its usage a categorical reportable use of force and rather place it underneath early use of force such as handcuffs. We train law enforcement agencies deploy BolaWrap when verbal commands breakdown but long before there is justifiable escalation to pain inducing tools such as: pepper spray, pepper ball, batons, bean bags, tasers or Conducted Electrical Weapons (CEW's) or firearms.

Agencies voluntarily report usage to Wrap. In the usage reports we have been provided; officers have reported successful outcomes in 83% of the use cases. This percentage is higher than what is often seen with less lethal tools. From the information we have been provided, the most common BolaWrap use case is for individuals with behavioral health issues, and the second most common BolaWrap use case is during domestic violence calls. Twenty-six percent of the reported persons who are wrapped with the BolaWrap are thought to be under the influence of alcohol or drugs.

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

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

As part of our efforts to expand our sales and distribution operations, we provide a comprehensive training program for law enforcement officers and trainers in using the BolaWrap. This training equips them with knowledge about the appropriate use and limitations of BolaWrap in tandem with modern policing techniques for de-escalation of encounters. We now focus on also teaching when and why BolaWrap should be used, including the specific area of success (i.e., after verbal commands break down and before the law enforcement officer is ready to escalate to pain compliance tools). Management believes that law enforcement trainers and officers who have been trained to use our products, or have witnessed demonstrations, are more inclined to support the acquisition and deployment of our products by their respective departments to drive successful outcomes. As of September 30, 2023, over 1,480 agencies have received BolaWrap training with over 5,200 training officers at those agencies certified as BolaWrap instructors and qualified to train the rest of their departments, representing a 14% increase in agencies and a 14% increase in trained officers as compared to September 30, 2022.

Operating expense for the third quarter of fiscal 2023 increased $0.1 million, or 2%, to $4.9 million from $4.8 million in the prior year period. The increase in operating expense was the result of one-time items associated with the Company's finance offering and legal expenses associated with the acquisition of Intrensic.

Management is confident that implementing the strategic changes it made in April are leading to substantial sales growth and put us on a path towards sustainable profitability. Although geopolitical tensions and macroeconomic challenges have affected our quarterly results in the past and may in the future, we believe our firm is uniquely positioned to provide lifesaving technologies, training, and digital evidence management that enable law enforcement officers. If departments follow our Use of Force Guarantee requirements, we are confident enough to offer that in 12 months we would buy their BolaWrap devices back if they do not reduce their reportable use of force by 10%. With an increasing addressable market, Wrap offers a unique value proposition. Our improved pricing strategy, coupled with reduced operating expense and our growing sales outlook, is expected to help reduce losses and improve cash flow in the future.

Looking ahead to the coming years, we plan to increase the number of product demonstrations and training sessions, both domestically and in the international markets. Our new focus on the when and why BolaWrap is used is already showing improved results. This is a departure of the hardware product only approach of the past. Our sales of the BolaWrap 150, Wrap Reality and Wrap Intrensic are expected to continue to rise, aided by our ongoing cost savings and cost control measures, which should lead to an overall reduction in cash burn.

At September 30, 2023, we had backlog of approximately $48 thousand expected to be delivered in the fourth quarter of 2023. Additionally, we had deferred revenue of $365 thousand expected to be recognized generally over the next five years. Our deferred revenue mostly is from Wrap Reality subscription and other revenue. Distributor and customer orders for future deliveries are generally subject to modification, rescheduling or in some instances, cancellation, in the normal course of business.

Since inception, we have generated significant losses from operations and anticipate that we will continue to generate significant losses from operations for the foreseeable future. We believe that we have adequate financial resources to sustain our operations for the next year. We reduced our net loss during the third quarter of fiscal 2023 by more than $1.1 million as compared to the third quarter of fiscal 2022. Net cash used in operations during the nine months ended September 30, 2023, was $2.1 million more than cash used in operations during the nine months ended September 30, 2022. This increase in net cash used during the first nine months of 2023 as primarily driven by changes in Account Receivable and Inventory.

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

Supply chain disruptions have affected our operations in the past and could negatively impact our ability to source materials, manufacture and distribute products in the future. Moreover, financial markets have continued to experience significant volatility, challenging the Company's ability to access the capital markets to provide additional working capital to fund the Company's growth. Despite these conditions, and following an analysis of our future capital needs, the Company consummated an offering of Series A Convertible Preferred Stock and Warrants ("*Offering*"), which Offering closed on July 5, 2023, resulting in gross proceeds to the Company of approximately $10.0 million of which $7.4 million was received on June 29, 2023. The $7.4 million received was recorded to cash with an offset to warranty liability. As a result, we had $14.9 million in cash and cash equivalents and short-term investments as of September 30, 2023. We therefore believe we have sufficient capital to fund our operations for the next twelve months. However, liquidity constraints and access to capital markets could still negatively affect our liquidity and require changes to our investment strategy.

Future global pandemics could potentially result in lost or delayed revenue for our Company, as occurred in the years ended December 31, 2021, and 2022 due to the global COVID-19 pandemic. These potential future events could include restrictions on our suppliers' ability to meet delivery requirements and commitments, employees' inability to perform their work due to illness caused by a pandemic or local, state, or federal mandates requiring employees to stay home. Delays in carriers' ability to deliver our products to customers, unforeseen deviations from customers or foreign governments restricting the ability to conduct business, and customers' inability to pay us on a timely basis, if at all, could also limit our revenue.

Our Company may be positively or negatively impacted by social unrest, riots, protests against racial inequality, and movements like "Defund the Police." Such unrest may be further fueled by misleading information or negative publicity about our solutions. We believe our solutions are actually the answer to reducing use of force and driving safer outcomes for officers and the citizens they interact with each day. We recently introduced our Protest Riot Pack aimed at equipping officers with an easy to grab no-harm solution for dealing with civil unrest. 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 revenue, earnings, and cash flows from operations.

Changes in our management and other critical personnel have the potential to 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 expense, 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 United States ("*U.S. GAAP*") requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expense, and related disclosure of contingent assets and liabilities. We evaluate our estimates, on an on-going basis, including those estimates related to recognition and measurement of contingencies and accrued expense. We base our estimates on historical experience and on various other assumptions we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

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

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

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

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

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

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

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

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

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

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

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

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

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

Historically, our assumptions, judgments and estimates relative to our critical accounting policies have not differed materially from actual results. Other than the warrants and business combination described above, there were no significant changes or modification of our critical accounting policies and estimates involving management valuation adjustments affecting our results for the period ended September 30, 2023. Our accounting policies are more fully described in Note 1. Organization and Summary of Significant Accounting in the notes to our audited consolidated financial statements included in the Annual Report.

Recent Accounting Pronouncements

New pronouncements issued for future implementation are discussed in Note 1. Organization and Summary of Significant Accounting Policies of our financial statements.

Segment and Related Information

The Company operates as a single segment. The Company's chief operating decision maker is its Chief Executive Officer, who manages operations for purposes of allocating resources. Refer to Note 13. Major Customers and Related Information, in our financial statements for further discussion.

Operating Expense

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

We expect our operating costs will reduce from the first three fiscal quarters of 2023 as a result of the changes implemented in April 2023, and ongoing cost containment efforts. We may incur additional non-cash share-based compensation costs depending on future option and restricted stock unit grants that are impacted by stock prices and other valuation factors. Historical expenditures are not indicative of future expenditures.

Results of Operations

Three Months Ended September 30, 2023 Compared to Three Months Ended September 30, 2022

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

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Change $	Change %
	(in thousands, except percentage change)			
Revenues:				
Product sales	$ 3,248	$ 1,612	$ 1,636	101%
Other revenue	383	89	294	330%
Total revenues	3,631	1,701	1,930	113%
Cost of revenue	1,454	790	664	84%
Gross profit	2,177	911	1,266	139%
Operating expenses:				
Selling, general and administrative	4,317	3,586	731	20%
Research and development	610	1,236	(626)	(51)%
Total operating expenses	4,927	4,822	105	2%
Loss from operations	$ (2,750)	$ (3,911)	$ 1,161	(30)%

Revenue

We reported net revenue of $3.6 million for the three months ended September 30, 2023, as compared to $1.7 million for the quarter ended September 30, 2022, a 113% increase over the prior year. International revenue increased from $223 thousand for the three months ended September 30, 2022 to $2.3 million for the three months ended September 30, 2023. The increase in international revenue was driven by certain large orders and continued strong demand for our products in the EMEA region. We also incurred discounts of $68 thousand during the three months ended September 30, 2023, as a result of promotional programs designed to encourage customers to upgrade to the BolaWrap 150. Gross sales were $3.7 million for the three months ended September 30, 2023, before such discounts. The discounts compare to normal business discounts of $240 thousand in the comparable quarter of the prior year. We expect a decline to minimal discounts in 2024 as we have phased out our promotional upgrade offer.

International revenue generally consists of larger orders with the end user being large, centralized government agencies. These orders continue to be lumpy and difficult to predict as to both timing and amount. We believe that revenue during the fiscal year 2023 will increase overall compared to the revenue recorded during 2022 due to growth of domestic sales and anticipated international orders from a robust pipeline, although no assurances can be given. We believe based on pipeline that these larger international deals are more likely to book and ship in the final quarter of 2023.

We incurred product promotional costs of $61 thousand during the three months ended September 30, 2023, related primarily to BolaWrap 150 demonstration products and the cost of training products and accessories delivered to law enforcement agencies that were expensed as marketing costs. We are responding to increased demand for training as a result of expanded product and brand awareness and increased successful field use by agencies but due to awareness expect reductions in product promotional costs from the prior year.

Gross Profit

Our gross profit for the three months ended September 30, 2023, was $2.2 million, or a gross margin of 60%. Our gross profit for the three months ended September 30, 2022, was $0.9 million, or a gross margin of 54%. The increase in gross profit represented a 139% increase over prior year as a result of cost efficiencies with the BolaWrap 150 production, selling price adjustments implemented in September of 2022, and a reduction of promotional pricing.

As our revenue history is limited, historical margins may not accurately reflect future margins. However, we expect higher margins with the production of the BolaWrap 150 compared to previous production due to design changes and improved pricing. Our margins are also subject to variations based on the sales channels and product mix through which our products are sold. At present, our cassettes have lower margins than BolaWrap devices. As we scale cassette production, we will look to reduce our costs and drive higher cassette margins. Cassettes were a total of 21% of our overall revenue in the three months ended September 30, 2023, and will continue to grow as a recurring revenue base as more BolaWrap devices are in the field and the usage of BolaWrap increases due to the need of officers to de-escalate earlier to prevent injuries and use of higher levels of force.

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

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

Selling, General and Administrative Expense

Selling, general and administrative (“*SG&A*”) expense of $4.3 million for the three months ended September 30, 2023 increased by $0.7 million, when compared to $3.6 million for the three months ended September 30, 2022. The increase in selling general and administrative expense was the result of one-time items associated with the Company’s financing and the acquisition of Intrensic.

Share-based compensation costs allocated to SG&A decreased to $(149) thousand compared to $700 thousand for the comparable prior quarter. This $849 thousand decrease resulted primarily from changes in management and one-time cost offsets associated with the management changes in April 2023.

Salaries and burden costs of $1.6 million for the three months ended September 30, 2023, was a decrease of $0.6 million, or a 25% decrease, due to change in headcount. During the three months ended September 30, 2023, as compared to same period during the prior year, we increased professional fees by $940 thousand, and increased consulting and contract services fees by $214 thousand. We expect expenditures for SG&A expense to be relatively in line with the third quarter of 2023 despite anticipated increases in Revenue.

Advertising and promotion costs were $224 thousand for the three months ended September 30, 2023, or a decrease of $32 thousand as compared to $256 thousand during the three months ended September 30, 2022. The changes in advertising costs were related to reductions in consultants and other cost containment efforts. However, the company expects advertising costs will increase in the future due to increased investment in strategic targeting and marketing campaigns as well as building brand awareness.

Research and Development Expense

Research and development expense decreased by $626 thousand for the three months ended September 30, 2023, when compared to the three months ended September 30, 2022. We incurred a $225 thousand period over period decrease in share-based compensation expense allocated to research and development expense as a result of personnel changes made in April 2023. Outside consulting costs decreased by $90 thousand and prototype related costs decreased by $120 thousand primarily due to reduced costs related to finalizing the BolaWrap 150 product and continued cost containment efforts.

Operating Loss

Loss from operations of $2.8 million during the three months ended September 30, 2023, was a reduction of $1.1 million compared to loss from operations of $3.9 million during the three months ended September 30, 2022, reflecting increased margin and the focus on reducing operating costs.

Nine Months Ended September 30, 2023, Compared to Nine Months Ended September 30, 2022

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

	Nine Months Ended September 30,		Change	
	2023	**2022**	**$**	**%**
Revenue:				
Product sales	$ 4,897	$ 4,042	$ 855	21%
Other revenue	647	422	225	53%
Total revenue	5,544	4,464	1,080	24%
Cost of revenue	2,347	2,430	(83)	(3)%
Gross profit	3,197	2,034	1,163	57%
Operating expense:				
Selling, general and administrative	12,604	11,952	652	5%
Research and development	2,683	4,210	(1,527)	(36)%
Total operating expense	15,287	16,162	(875)	(5)%
Loss from operations	$ (12,090)	$ (14,128)	$ 2,039	(14)%

Revenue

We reported net revenue of $5.5 million for the nine months ended September 30, 2023, as compared to $4.5 million for the nine months ended September 30, 2022, a 24% increase over the prior year. International revenue increased from $1.0 million for the nine months ended September 30, 2022 to $2.3 million for the nine months ended September 30, 2023. We incurred discounts of $132 thousand during the nine months ended September 30, 2023, as a result of promotional programs designed to encourage customers to upgrade to the BolaWrap 150. Gross sales were $5.7 million for the nine months ended September 30, 2023, before such discounts. The discounts compare to normal business discounts of $790 thousand in the comparable nine-month period of the prior year. We expect a decline to minimal discounts in 2023 as we have phased out our promotional upgrade offer.

International revenue generally consists of larger orders with the end user being large, centralized government agencies. These orders continue to be lumpy and difficult to predict as to both timing and amount. We believe that revenue during the fiscal year 2023 will increase overall compared to the revenue recorded during 2022 due to growth of domestic sales and anticipated international orders from a robust pipeline, although no assurances can be given. We believe based on pipeline that these larger international deals are more likely to book and ship in the latter half of 2023.

We incurred product promotional costs of $156 thousand during the nine months ended September 30, 2023, related primarily to BolaWrap 150 demonstration products and the cost of training products and accessories delivered to law enforcement agencies that were expensed as marketing costs. We are responding to increased demand for training as a result of expanded product and brand awareness and increased successful field use by agencies but due to awareness expect reductions in product promotional costs from the prior year.

We had $365 thousand of deferred revenue on September 30, 2023, of which $199 thousand related to VR, $6 thousand was related to training and $160 thousand related to BolaWrap extended warranties and services. As we potentially secure increased bookings for Wrap Reality, as well as BolaWrap extended warranties, we expect our deferred revenue to grow in future quarters.

On September 30, 2023, we had backlog of $48 thousand expected to be delivered in the fourth quarter of 2023. Distributor and customer orders for future deliveries are generally subject to modification, rescheduling or in some instance's cancellation in the normal course of business.

Gross Profit

Our gross profit for the nine months ended September 30, 2023, was $3.2 million, or a gross margin of 58%. Our gross profit for the nine months ended September 30, 2022, was $2.0 million, or a gross margin of 46%. The increase in gross profit represented a 57% increase over prior year as a result of increased sales and continue cost containment efforts on production.

As our revenue history is limited, historical margins may not accurately reflect future margins. However, we expect higher margins with the production of the BolaWrap 150 compared to previous production due to design changes and improved pricing. Our margins are also subject to variations based on the sales channels and product mix through which our products are sold. At present, our cassettes have lower margins than BolaWrap devices. As we scale cassette production, we will look to reduce our costs and drive higher cassette margins. Cassettes were a total of 20% of our overall revenue in the nine months ended September 30, 2023, and will continue to grow as a recurring revenue base as more BolaWrap devices are in the field and the usage of BolaWrap increases due to the need of officers to de-escalate earlier to prevent injuries and use of higher levels of force.

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

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

Selling, General and Administrative Expense

Selling, general and administrative *(*"*SG&A*") expense of $12.6 million for the nine months ended September 30, 2023 increased by $0.6 million, when compared to $12.0 million for the nine months ended September 30, 2022, due to cost one-time costs associated with severance, the Intrensic acquisition, and the Company's financing.

Share-based compensation costs allocated to SG&A decreased to $1.4 million compared to $2.2 million for the comparable prior-year period. This $0.8 million decrease resulted primarily due to changes in management, one-time costs in the prior year period, and changes in the stock price.

Salaries and burden costs of $4.6 million for the nine months ended September 30, 2023, was a $2.2 million decrease compared to the prior year nine months ended September 30, 2022. During nine months ended September 30, 2023, as compared to same period during the prior year, we increased professional fees by $1.1 million, and increased consulting and contract services fees by $243 thousand. We expect expenditures for SG&A expense in 2023 to be slightly lower than 2022 despite expected revenue growth.

Advertising and promotion costs were $669 thousand for the nine months ended September 30, 2023, or a decrease of $246 thousand as compared to $915 thousand during the nine months ended September 30, 2022. The changes in advertising costs were related to reductions in consultants and other cost containment efforts.

Research and Development Expense

Research and development expense decreased by $1.5 million for the nine months ended September 30, 2023 when compared to the nine months ended September 30, 2022. We incurred a $204 thousand period over period decrease in share-based compensation expense allocated to research and development expense as a result of personnel changes made in April 2023. Outside consulting costs decreased by $342 thousand and prototype related costs decreased by $443 thousand for the nine months ended September 30, 2023, primarily due to reduced costs related to finalizing the BolaWrap 150 product.

Operating Loss

Loss from operations of $12.1 million during the nine months ended September 30, 2023 was a reduction of $2.0 million compared to loss from operations of $14.1 million during the nine months ended September 30, 2022, reflecting increased margin and the focus on reducing operating costs.

Liquidity and Capital Resources

Overview

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

We have experienced net losses and negative cash flows from operations since our inception. As of September 30, 2023, we had cash and cash equivalents of $4.9 million, short-term investments of $10.0 million, positive working capital of $15.0 million and had sustained cumulative losses attributable to stockholders of $79.4 million. Our working capital at September 30, 2023 was positively affected by an increase in inventories of approximately $1.8 million, which consisted of increases of inventory of the BolaWrap 150 in anticipation of future orders, and the receipt of $10.0 million from the Offering on June 29, 2023 that formally closed on July 5, 2023. The Offering was consummated following an analysis of our future capital needs, resulting in the issuance of Series A Convertible Preferred Stock and Warrants. The Offering generated gross proceeds to the Company of approximately $10.0 million. As a result, we had $14.9 million in cash and cash equivalents and short-term investments as of September 30, 2023. We therefore believe we have sufficient capital to fund our operations for the next twelve months. However, liquidity constraints and access to capital markets could still negatively affect our liquidity and require changes to our investment strategy.

Capital Requirements

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

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

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

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

- Volatility in the capital markets; and

- Market price and trading volume of our Common Stock.

On June 29, 2023, the Company entered into a Securities Purchase Agreement with a founder and director of the Company and certain accredited and institutional investors (collectively, the "*Investors*"), pursuant to which it agreed to sell to the Investors in a registered direct offering (the "*Offering*") (i) an aggregate of 10,000 shares of the Company's newly-designated Series A Convertible Preferred Stock, with a par value $0.0001 per share, and a stated value of $1,000 per share ("*Series A Preferred*"), initially convertible into up to 6,896,553 shares of the Company's Common Stock, at a conversion price of $1.45 per share, and (ii) warrants to acquire up to an aggregate of 6,896,553 shares of Common Stock ("*Warrants*"). The Series A Preferred provide for the payment to holders thereof of cumulative dividends of 8% per annum, payable quarterly in arrears. The Warrants are exercisable six months after issuance at an exercise price of $1.45 per share, subject to adjustment, and expire five years from the date of issuance. The $1.45 per share conversion price of the Series A Preferred and exercise price of the Warrant represent the closing share price of the Company's Common Stock on June 29, 2023. The Offering closed on July 5, 2023 (the "*Closing*"), resulting in aggregate gross proceeds from the Offering of approximately $10.0 million.

The Company received approximately $10.0 million in gross proceeds from the Offering. After payment of placement agent fees and costs of the Offering, the net proceeds from the Offering were approximately $9.0 million. Proceeds from the Offering are being used to scale the Company's sales team, support marketing efforts, and fuel the evolution and diversification of the Company's product offerings.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Cash Flow

Operating Activities

During the nine months ended September 30, 2023, net cash used in operating activities was $12.9 million. The net loss of $11.8 million was decreased by non-cash expense of $2.5 million consisting primarily of share-based compensation expense of $1.6 million. Other major component changes using operating cash included an increase of $1.8 million in inventories and an increase in accounts receivable of $1.4 million.

During the nine months ended September 30, 2022, net cash used in operating activities was $11.0 million. The net loss of $14.1 million was decreased by non-cash expense of $3.4 million consisting primarily of share-based compensation expense of $2.6 million. Other major component changes using operating cash included an increase of $1.4 million in inventories and a net reduction in accounts payable and accrued liabilities of $659 thousand. A decrease in accounts receivable of $1.6 million reduced the cash used in operating activities.

Investing Activities

During the nine months ended September 30, 2023, we used $6.1 million of cash to purchase short-term investments and we had proceeds from maturities of short-term investments of $10.0 million. During the nine months ended September 30, 2023, we used $60 thousand of cash for the purchase of intangible assets, $551 thousand of cash for the purchase of Intrensic, $133 thousand of cash for the purchase of property and equipment and invested $277 thousand in patents.

During the nine months ended September 30, 2022, we used $23.1 million of cash to purchase short-term investments and we had proceeds from maturities of short-term investments of $33.3 million. During the nine months ended September 30, 2022, we used $201 thousand of cash for the purchase of property and equipment and invested $133 thousand in patents.

Financing Activities

During the nine months ended September 30, 2023 we received $9.8 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 September 30, 2023. We did not receive any gross proceeds for the issuance of securities for the nine months ended September 20, 2022.

During the nine months ended September 30, 2022, we received $83 thousand in proceeds from the exercise of previously issued stock options. We did not receive any proceeds from the exercise of previously issued stock options for the nine months ended September 31, 2023.

Contractual Obligations and Commitments

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

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

In January 2022 we extended our facility lease for three years through July 2025 and we are committed to aggregate lease payments on the lease of $31 thousand for three months in 2023, $126 thousand in 2024 and $75 thousand in 2025.

At September 30, 2023, we were committed for approximately $1.7 million for future component deliveries and contract services that are generally subject to modification or rescheduling in the normal course of business.

On August 9, 2023, the Company entered into a Membership Interest Purchase Agreement (the "*Purchase Agreement*") with Intrensic, LLC, a Delaware limited liability company ("*Intrensic*"), and certain members of Intrensic, including Kevin Mullins, a director of the Company and its Chief Executive Officer (collectively, "*Sellers*"). Under the terms of the Purchase Agreement, the Company agreed to purchase, and Sellers agreed to sell, 100% of the membership interests (the "*Membership Interests*") of Intrensic for the following consideration upon the consummation of the sale of the Membership Interests: (i) $553,588 in cash, subject to adjustment based upon the outstanding indebtedness of Intrensic and Intrensic's working capital as of the closing; and (ii) 1,250,000 shares of Common Stock of the Company.

Effects of Inflation

During the nine months ended September 30, 2023 and year ended December 31, 2022, we had experienced increased costs in labor and materials due to inflation. We believe in 2023 that low unemployment and higher salaries will create higher payroll costs and increased operating expense in the business. We have seen increases in costs from multiple suppliers for materials as well as labor.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Not applicable.

Item 4. Controls and Procedures.

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

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and our principal financial officer, as of September 30, 2023, we conducted an evaluation of our disclosure controls and procedures as such term is defined under Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "*Exchange Act*"). Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during our fiscal quarter ended September 30, 2023, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Our process for evaluating controls and procedures is continuous and encompasses constant improvement of the design and effectiveness of established controls and procedures and the remediation of any deficiencies, which may be identified during this process.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future period are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We may become subject to 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 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 September 30, 2023, we had no provision for liability under existing litigation.

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

Item 1A. Risk Factors

Management is not aware of any material changes to the risk factors discussed in Part 1, Item 1A, of the Annual Report on Form 10-K for the year ended December 31, 2022. In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors discussed in Part 1, Item 1A, of the Annual Report on Form 10-K for the year ended December 31, 2022, and subsequent reports filed pursuant to the Exchange Act which could materially and adversely affect the Company's business, financial condition, results of operations, and stock price. The risks described in the Annual Report on Form 10-K and subsequent reports filed pursuant to the Exchange Act are not the only risks facing the Company. Additional risks and uncertainties not presently known to management, or that management presently believes not to be material, may also result in material and adverse effects on our business, financial condition, and results of operations.

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

No unregistered securities were issued during the three months ended September 30, 2023, that were not previously reported.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit 3.1	Form 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 SEC on June 30, 2023.
Exhibit 4.1	Form of Warrant, incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the SEC on June 30, 2023.
Exhibit 10.1	Form of Purchase Agreement, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on June 30, 2023.
Exhibit 10.2	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 SEC on June 30, 2023.
Exhibit 10.3	Membership Interest Purchase Agreement, dated August 9, 2023, by and between Wrap Technologies, Inc., Intren Holdings Partners, LLC, Kevin Mullins, Marc Upton, Tre Mullins, Terry Nichols, Charles DeVita, Nick DeVita, David Stading, Peter Cavicchia, Timothy McAfee, Andon McAfee, Andon Dragomanov, John R. Sette, Matthew J. Dugas, and Ronald Hurley, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on August 22, 2023.**
Exhibit 31.1	Certification of Kevin Mullins, Principal Executive Officer, pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities and Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
Exhibit 31.2	Certification of Chris DeAlmeida, Principal Accounting Officer, pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities and Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
Exhibit 32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by Kevin Mullins, Principal Executive Officer, and Chris DeAlmeida, Principal Accounting Officer.*
	Extensible Business Reporting Language (XBRL) Exhibits*
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL Document and include in Exhibit 101)

* Filed concurrently herewith

** 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.

SIGNATURES

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

WRAP TECHNOLOGIES, INC.

By: /s/ CHRIS DEALMEIDA

November 14, 2023

Chris DeAlmeida
Chief Financial Officer and Treasurer
(Principal Accounting Officer)

Exhibit 31.1

CERTIFICATION

I, Kevin Mullins, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 14, 2023

/s/ KEVIN MULLINS
Kevin Mullins
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Chris DeAlmeida, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 14, 2023

/s/ CHRIS DEALMEIDA
Chris DeAlmeida
Chief Financial Officer and Treasurer
(Principal Accounting Officer)

Exhibit 32.1

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

Each of the undersigned hereby certifies, in accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in his or her capacity as an officer of Wrap Technologies, Inc. (the "*Company*"), that, to his or her knowledge, the Quarterly Report of the Company on Form 10-Q for the period ended September 30, 2023, fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date: November 14, 2023

/s/ KEVIN MULLINS
Kevin Mullins
Chief Executive Officer
(Principal Executive Officer)

Date: November 14, 2023

/s/ CHRIS DEALMEIDA
Chris DeAlmeida
Chief Financial Officer and Treasurer
(Principal Accounting Officer)

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. Section 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing. A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.