

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 March 31, 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:

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

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

Indicate by check mark whether the registrant has submitted 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 May 10, 2023 a total of 41,663,868 shares of the Registrant's common stock, par value \$0.0001, ("*Common Stock*") were issued and outstanding.

WRAP TECHNOLOGIES, INC.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	March 31, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 9,503	\$ 5,330
Short-term investments	6,500	13,949
Accounts receivable and contract assets, net	1,151	2,830
Inventories, net	5,626	3,975
Prepaid expenses and other current assets	858	775
Total current assets	23,638	26,859
Property and equipment, net	655	758
Operating lease right-of-use asset, net	259	285
Intangible assets, net	2,618	2,569
Other assets	70	100
Total assets	\$ 27,240	\$ 30,571
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,376	\$ 1,419
Accrued liabilities	1,736	1,463
Customer deposits	1	-
Deferred revenue- short term	169	166
Operating lease liability - short term	111	108
Total current liabilities	3,393	3,156
Long-term liabilities:		
Deferred revenue- long term	122	167
Operating lease liability - long term	164	193
Total long-term liabilities	286	360
Total liabilities	3,679	3,516
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Preferred stock - 5,000,000 authorized; par value \$0.0001 per share; none issued and outstanding	-	-
Common stock - 150,000,000 authorized; par value \$0.0001 per share; 41,270,300 and 41,175,993 shares issued and outstanding at March 31, 2023 and December 31, 2022, respectively	4	4
Additional paid-in capital	94,961	94,333
Accumulated deficit	(71,404)	(67,376)
Accumulated other comprehensive loss	-	94
Total stockholders' equity	23,561	27,055
Total liabilities and stockholders' equity	\$ 27,240	\$ 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 March 31,	
	2023	2022
Revenues:		
Product sales	\$ 616	\$ 1,462
Other revenue	95	137
Total revenues	711	1,599
Cost of revenues	359	932
Gross profit	352	667
Operating expenses:		
Selling, general and administrative	3,540	4,606
Research and development	1,072	1,495
Total operating expenses	4,612	6,101
Loss from operations	(4,260)	(5,434)
Other income (expense):		
Interest income	236	2
Other	(4)	-
	232	2
Net loss	\$ (4,028)	\$ (5,432)
Net loss per basic and diluted common share	\$ (0.10)	\$ (0.13)
Weighted average common shares used to compute net loss per basic and diluted common share	41,415,808	40,907,266
Comprehensive loss:		
Net loss	\$ (4,028)	\$ (5,432)
Net unrealized gain (loss) on short-term investments	-	(23)
Comprehensive loss	\$ (4,028)	\$ (5,455)

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)

	Common Stock		Additional	Accumulated	Accumulated	Total
	Shares	Amount	Paid-In	Deficit	Other	Stockholders'
			Capital		Comprehensive	Equity
					Income	
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	-	-	628	-	-	628
Common shares issued upon vesting of restricted stock units	94,057	-	-	-	-	-
Settlement – US Treasury bills	-	-	-	-	(94)	(94)
Net loss for the period	-	-	-	(4,028)	-	(4,028)
Balance at March 31, 2023	<u>41,270,300</u>	<u>\$ 4</u>	<u>\$ 94,961</u>	<u>\$ (71,404)</u>	<u>\$ -</u>	<u>\$ 23,561</u>
Balance at January 1, 2022	40,851,945	\$ 4	\$ 91,025	\$ (49,759)	\$ (6)	\$ 41,264
Common shares issued upon exercise of stock options	50,000	-	75	-	-	75
Share-based compensation expense	-	-	1,029	-	-	1,029
Common shares issued upon vesting of restricted stock units	49,252	-	-	-	-	-
Net unrealized gain (loss) on short-term investments	-	-	-	-	(23)	(23)
Net loss for the period	-	-	-	(5,432)	-	(5,432)
Balance at March 31, 2022	<u>40,951,197</u>	<u>\$ 4</u>	<u>\$ 92,129</u>	<u>\$ (55,191)</u>	<u>\$ (29)</u>	<u>\$ 36,913</u>

See accompanying notes to unaudited condensed consolidated interim financial statements.

Wrap Technologies, Inc.

Condensed Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	Three Months Ended March 31,	
	2023	2022
Cash Flows From Operating Activities:		
Net loss	\$ (4,028)	\$ (5,432)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	200	183
Share-based compensation	628	1,209
Warranty provision	(33)	12
Non-cash lease expense	26	24
Provision for doubtful accounts	(8)	18
Changes in assets and liabilities:		
Accounts receivable	1,687	(398)
Inventories	(1,652)	(304)
Prepaid expenses and other current assets	(83)	133
Accounts payable	(42)	(51)
Operating lease liability	(26)	(21)
Customer deposits	1	(43)
Accrued liabilities and other	306	37
Warranty settlement	(1)	(54)
Deferred revenue	(42)	17
Net cash used in operating activities	<u>(3,067)</u>	<u>(4,850)</u>
Cash Flows From Investing Activities:		
Purchase of short-term investments	(2,645)	(4,996)
Proceeds from maturities of short-term investments	10,000	10,000
Capital expenditures for property and equipment	(15)	(81)
Investment in patents and trademarks	(131)	(69)
Investment in long-term deposits	-	(2)
Proceeds from long-term deposits	31	-
Net cash provided by investing activities	<u>7,240</u>	<u>4,852</u>
Cash Flows From Financing Activities:		
Proceeds from exercise of stock options	-	75
Net cash provided by financing activities	<u>-</u>	<u>75</u>
Net decrease in cash and cash equivalents	4,173	77
Cash and cash equivalents, beginning of period	5,330	4,937
Cash and cash equivalents, end of period	<u>\$ 9,503</u>	<u>\$ 5,014</u>
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Change in unrealized gain on short-term investments	\$ (94)	\$ (23)
Right-of-use asset and liability recorded during period	\$ -	\$ 335

See accompanying notes to unaudited condensed consolidated interim financial statements.

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Business Description

Wrap Technologies, Inc., a Delaware corporation (the “*Company*”, “*we*”, “*us*”, and “*our*”), is a publicly traded company with our Common Stock, par value \$0.0001 per share (“*Common Stock*”), listed on the Nasdaq Capital Market (“*Nasdaq*”) under the trading symbol “WRAP”. The Company is a developer and supplier of public safety products and training services for law enforcement and security personnel. The Company’s primary product is the BolaWrap® remote restraint device. The principal markets for the Company’s proprietary products and services are in North and South America, Europe, 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 one wholly-owned subsidiary, Wrap Reality, Inc. formed in December 2020 that sells a virtual reality (“*VR*”) training system primarily targeting law enforcement agencies. The consolidated financial statements include the accounts of this subsidiary after elimination of intercompany transactions and accounts.

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.

Loss per Share

Basic loss per common share is computed by dividing net loss for the period by the weighted-average number of shares of Common Stock outstanding during the period. Diluted net loss per Common Share reflects the potential dilution of securities that could share in the earnings of an entity. The Company’s losses for the periods presented cause the inclusion of potential Common Stock instruments outstanding to be antidilutive. Stock options and restricted stock units exercisable or issuable for a total of 5,127,830 and 5,350,111 shares of Common Stock were outstanding at March 31, 2023, and 2022, respectively. These securities are not included in the computation of diluted net loss per common share for the periods presented as their inclusion would be antidilutive due to losses incurred by the Company.

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.

2. REVENUE AND PRODUCT COSTS

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

The timing of revenue recognition may differ from the timing of invoicing to customers. The Company generally has an unconditional right to consideration when customers are invoiced, and a receivable is recorded. A contract asset is recognized when revenue is recognized prior to invoicing, or a contract liability (deferred revenue) when revenue will be recognized subsequent to invoicing. The Company 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 three months ended March 31, 2023.

	Customer Deposits	Deferred Revenue
Balance at January 1, 2023	\$ -	\$ 333
Additions, net	1	30
Transfer to revenue	-	(72)
Balance at March 31, 2023	\$ 1	\$ 291
Current portion	\$ 1	\$ 169
Long-term portion	\$ -	\$ 122

At March 31, 2023, the Company's deferred revenue of \$291 consisted of \$175 related to VR and \$10 related to training and \$106 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.

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.

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

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 cash equivalent Money Market Funds and short-term investments consisting of U.S. Treasury bill securities and Certificate of Deposits are classified as Level I because they are valued using quoted market prices.

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

	As of March 31, 2023			
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Market Value
Level 1:				
Money Market Funds	\$ 2,764	\$ -	\$ -	\$ 2,764
U.S. Treasury securities in short-term investments	-	-	-	-
Certificate of Deposits	6,500	-	-	6,500
Total Financial Assets	<u>\$ 9,264</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,264</u>

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

Unrealized gains or losses resulting from our short-term investments are recorded in accumulated other comprehensive gain or loss as they are classified as available for sale. During the three months ended March 31, 2023 and 2022, a \$0 and \$(23) was recorded to accumulated other comprehensive gain (loss), respectively.

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

4. INVENTORIES, NET

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

	March 31, 2023	December 31, 2022
Finished goods	\$ 3,717	\$ 2,293
Work in process	-	-
Raw materials	1,909	1,682
Inventories - net	<u>\$ 5,626</u>	<u>\$ 3,975</u>

5. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following:

	March 31, 2023	December 31, 2022
Production and lab equipment	\$ 503	\$ 513
Tooling	451	448
Computer equipment	553	531
Furniture, fixtures and improvements	181	181
	<u>1,688</u>	<u>1,673</u>
Accumulated depreciation	(1,033)	(915)
Property and equipment, net	<u>\$ 655</u>	<u>\$ 758</u>

Depreciation expense was \$118 and \$113 for the three months ended March 31, 2023 and 2022, respectively.

6. INTANGIBLE ASSETS, NET

Intangible assets consisted of the following:

	March 31, 2023	December 31, 2022
Amortizable intangible assets:		
Patents	\$ 701	\$ 575
Trademarks	155	150
Purchased software	1,962	1,962
	<u>2,818</u>	<u>2,687</u>
Accumulated amortization	(544)	(462)
Total amortizable	<u>2,274</u>	<u>2,225</u>
Indefinite life assets (non-amortizable)	344	344
Total intangible assets, net	<u>\$ 2,618</u>	<u>\$ 2,569</u>

Amortization expense was \$82 and \$70 for the three months ended March 31, 2023 and 2022, respectively.

At March 31, 2023, future amortization expense is as follows:

2023 (9 months)	\$ 330
2024	518
2025	513
2026	309
2027	42
Thereafter	562
Total estimated amortization expense	<u>\$ 2,274</u>

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable includes \$24 and \$127 due to related party Syzygy Licensing, LLC (“Syzygy”) as of March 31, 2023 and December 31, 2022, respectively. See Notes 11 for additional information on this related party.

Accrued liabilities consist of the following:

	March 31, 2023	December 31, 2022
Patent and legal costs	\$ 129	\$ 135
Accrued compensation	1,352	1,100
Warranty costs	91	125
Taxes and other	164	103
	<u>\$ 1,736</u>	<u>\$ 1,463</u>

Accrued compensation includes \$1,005 and \$1,022 in employee bonuses and commissions payable at March 31, 2023 and December 31, 2022, respectively.

Changes in our estimated product warranty costs were as follows:

	Three Months Ended March 31,	
	2023	2022
Balance, beginning of period	\$ 125	\$ 96
Warranty settlements	(1)	(54)
Warranty provision	(33)	12
Balance, end of period	<u>\$ 91</u>	<u>\$ 54</u>

8. 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"*).

9. 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 March 31, 2023, there were 2,735,102 shares of Common Stock remaining available for grant under the Plan.

The Company generally recognizes share-based compensation expense on the grant date and over the period of vesting or period that services will be provided. In January 2022 the Company recognized severance acceleration of \$242 of share-based compensation expense resulting from the resignation of the Company's Chief Executive Officer as part of a management transition plan.

Stock Options

The following table summarizes stock option activity for the three months ended March 31, 2023:

	Options on Common Shares	Weighted Average		Aggregate Intrinsic Value
		Exercise Price	Remaining Contractual Term	
Outstanding January 1, 2023	5,491,399	\$ 3.72	5.96	\$ 92
Granted	-	\$ 0		
Exercised	(250)	\$ 1.50		
Forfeited, cancelled, expired	(1,300,287)	\$ 5.33		
Outstanding March 31, 2023	4,190,862	\$ 3.15	7.49	\$ 98
Exercisable March 31, 2023	1,299,771	\$ 3.74	4.11	\$ 96

At March 31, 2023, there were 2,576,632 service-based stock options outstanding, and 1,614,230 performance-based stock options outstanding, which performance-based stock options were granted in April 2022 to the Company's former Chief Executive Officer and President, subject to future market capitalization targets. 1,049,145 of the 4,190,862 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 Three Months Ended March 31,	
	2023	2022
Expected stock price volatility	0%	49%
Risk-free interest rate	0%	1.57%
Expected dividend yield	0%	0%
Expected life of options - years	0	1.39
Weighted-average fair value of options granted	\$ 0	\$ 1.72

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.

Stock option expense was \$313 and \$737 for the three months ended March 31, 2023 and 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 three months ended March 31, 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	124,862	\$ 1.84	
Vested	(106,565)	\$ 2.87	
Forfeited and cancelled	(3,386)	\$ 5.52	
Unvested at March 31, 2023	936,968	\$ 2.56	1.99

RSU expense was \$315 and \$291 for the three months ended March 31, 2023 and 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 March 31,	
	2023	2022
Selling, general and administrative	\$ 562	\$ 894
Research and development	66	135
Total share-based expense	\$ 628	\$ 1,029

As of March 31, 2023, total estimated compensation cost of stock options granted and outstanding but not yet vested was \$3,061 which is expected to be recognized over the weighted average period of 3.23 years. As of March 31, 2023, total estimated compensation cost of RSUs granted and outstanding but not yet vested was \$1,700 which is expected to be recognized over the weighted average period of 1.99 years.

10. DEFINED CONTRIBUTION PLAN

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

11. COMMITMENTS AND CONTINGENCIESRelated 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 \$24 and \$49 for royalties during the three months ended March 31, 2023 and 2022, respectively. Maximum payout still available under this arrangement is \$257.

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, 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 to the Service Provider.

Purchase Commitments

At March 31, 2023, the Company was committed for approximately \$3,493 for future component deliveries that are generally subject to modification or rescheduling in the normal course of business.

Indemnifications and Guarantees

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

Regulatory Agencies

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

Litigation

Shareholder Derivative Litigation

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

12. RELATED PARTY TRANSACTIONS

Commencing in October 2017 the Company began reimbursing Mr. Elwood Norris, a former officer and current stockholder and consultant of the Company, \$1.5 per month on a month-to-month basis for laboratory facility expense, for an aggregate of \$4.5 during the three months ended March 31, 2023, and 2022, respectively. Mr. Norris retired as the Company’s Chief Technology Officer effective June 30, 2021, and commencing July 1, 2021, was engaged as a month-to-month consultant. A greater than 10% stockholder, Mr. Norris was paid a monthly fee of \$7.5 per month for aggregate consulting payments of \$22.5 during each of the three months ended March 31, 2023 and 2022.

See Notes 7 and 11 for additional information on related party transactions and obligations.

13. MAJOR CUSTOMERS AND RELATED INFORMATION

For the three months ended March 31, 2023, revenues from two distributors accounted for approximately 28% and 15% of revenues with no other single customer accounting for more than 10% of total revenues. For the three months ended March 31, 2022, revenues from two distributors accounted for approximately 25% and 14% of revenues with no other single customer accounting for more than 10% of total revenues.

At March 31, 2023, accounts receivable from one distributor accounted for 41% 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 revenues by geographic region. Revenues are attributed to countries based on customer's delivery location:

	For the Three Months Ended March 31,	
	2023	2022
Americas	\$ 710	\$ 1,194
Europe, Middle East and Africa	1	174
Asia Pacific	0	231
Total	<u>\$ 711</u>	<u>\$ 1,599</u>

14. SUBSEQUENT EVENTS

On April 17, 2023, Kevin Mullins was named Chief Executive Officer. In connection with Mr. Mullins' appointment, TJ Kennedy agreed to immediately step down as the Company's Chief Executive Officer and a member of the Board of Directors (the "*Board*"). Additionally, on April 17, 2023 the Company performed a reduction in force that resulted in changes in the composition of the executives of the Company. As part of the reduction in force, Glenn Hickman stepped down as Chief Operating Officer.

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 US and over 12 million police officers in more than 100 countries. Additionally, we are exploring opportunities in other domestic markets, such as military and private security. Our international focus is on countries with the largest police forces. According to 360iResearch, a market research consulting firm, our non-lethal products are part of a global market segment expected to grow to \$16.1 billion by 2027.

We focus our efforts on the following products and services:

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

Wrap Reality – is a law enforcement 3D training system employing immersive computer graphics VR with proprietary software-enabled content. It allows up to two participants to enter a simulated training environment simultaneously, and customized weapons controllers enable trainees to engage in strategic decision making along the force continuum. Wrap Reality has 38 scenarios for law enforcement and corrections and 25 scenarios at this time for societal reentry. Wrap Reality is one of the most robust 3D Virtual Reality solutions on the market for law enforcement and societal reentry today.

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

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

Management Changes

On April 17, 2023, Kevin Mullins was named Chief Executive Officer. In connection with Mr. Mullins' appointment, TJ Kennedy agreed to immediately step down as the Company's Chief Executive Officer and a member of the Board of Directors (the "*Board*"). Additionally, on April 17, 2023 the Company performed a reduction in force that resulted in changes in the composition of the executives of the Company. As part of the reduction in force, Glenn Hickman stepped down as Chief Operating Officer.

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 remote restraint and virtual reality solutions in the law enforcement and security sectors worldwide. These opportunities are driven by the increasing demand for less-lethal policing.

In the law enforcement sector, our BolaWrap product has been successfully deployed in the field, as reported by many agencies. BolaWrap is now in use by almost 1,000 US law enforcement agencies and in 59 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.

Some agencies voluntarily report usage to Wrap but many do not. In the usage reports we have been provided; officers have reported successful outcomes in 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 safe, remote restraint products and training services has a strong and expanding pipeline of market opportunities in the law enforcement, military, corrections, and homeland security sectors both domestically and internationally. With the increasing demand for more humane and safer policing practices, we expect a continued surge in our global business. Currently, we are exploring major international business prospects while simultaneously seeking to establish relationships with large police agencies in the US. However, we acknowledge that it is challenging to predict the exact timeline for closing these deals, or whether they will ultimately materialize.

As part of our efforts to expand our sales and distribution operations, we provide a comprehensive training program for law enforcement officers and trainers in using the BolaWrap. This training equips them with knowledge about the appropriate use and limitations of BolaWrap in tandem with modern policing techniques for de-escalation of encounters. We now focus on also teaching when and why BolaWrap should be used, including the specific area of success (i.e., after verbal commands break down and before the law enforcement officer is ready to escalate to 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 March 31, 2023, over 1,390 agencies have received BolaWrap training with over 4,660 training officers at those agencies certified as BolaWrap instructors and qualified to train the rest of their departments, representing a 31% increase in agencies and a 26% increase in trained officers as compared to March 31, 2022.

Operating expenses for the three months ended March 31, 2023 reduced by \$1.489 million or 24% as compared to the three months ended March 31, 2022. While we made significant strides in reducing quarterly operating expenses in 2022, we believe it is imperative to continue to further reduce operating expenses to align with sales forecasts, while still allowing room for continued growth of revenue. As a result, in April, we implemented several additional cost reduction measures that are expected to lower certain operating expenses and allow the Company to transition to a just-in-time production model that aligns with sales forecasts. Management believes that by taking these measures, the Company will be on an accelerated path to sustained profitability.

These changes are expected to generate a minimum quarterly reduction in operating expenses of \$1.5 million, or \$6 million on an annual basis. However, the Company does anticipate incurring additional one-time operating expenses during the second quarter of 2023 due to severance charges associated with the changes in management.

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

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

Due to the recent changes in leadership, Wrap will be re-evaluating its previously communicated outlook and guidance for fiscal year 2023. The Board recognizes the importance of providing new leadership with sufficient time to conduct an independent assessment of Wrap's existing pipeline, near-term opportunities, and resource requirements.

At March 31, 2023 we had backlog of approximately \$21 thousand expected to be delivered in the second quarter of 2023. Additionally, we had deferred revenue of \$291 thousand expected to be recognized generally over the next five years. Our deferred revenue mostly is from Wrap Reality subscription and other revenue. We expect our deferred revenue to grow in future years due to the SaaS business model on Wrap Reality. Distributor and customer orders for future deliveries are generally subject to modification, rescheduling or in some instances, cancellation, in the normal course of business.

Since inception, we have generated significant losses from operations and anticipate that we will continue to generate significant losses from operations for the foreseeable future. We believe that we have adequate financial resources to sustain our operations for the next year. We reduced our net loss during the three months ended March 31, 2023 by more than \$1.401 million as compared to the three months ended March 31, 2022. Net cash used in operations during the three months ended March 31, 2023 was \$1.783 million less than cash used in operations during the three months ended March 31, 2022. This improvement was a result of our strategic roadmap as well as our cost control measures implemented in Q2, Q3 and Q4 of our last fiscal year, and Q1 of this fiscal year.

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

We believe that our sales during the three months ended March 31, 2023 were impacted by the timing of new orders and associated budgeting from our customer. For the year ended December 31, 2022, our results were significantly adversely affected by the shift to our BolaWrap 150 product and the discontinuation of the BolaWrap 100 production line, along with the limited ability to demonstrate and train customers in 2021 due to the COVID-19 pandemic, particularly internationally.

Supply chain disruptions have also affected our operations and could negatively impact our ability to source materials, manufacture and distribute products. Moreover, financial markets are experiencing significant volatility, which could potentially affect our ability to enter into or modify favorable terms and conditions regarding equity and debt financing activities. Nevertheless, we currently have \$16 million in cash and cash equivalents and short-term investments as of March 31, 2023, which we believe provides sufficient capital to fund our operations for the next twelve months and absorb the potential near-term impacts of the pandemic and other economic uncertainty. However, liquidity constraints and access to capital markets could still negatively affect our liquidity and require changes to our investment strategy.

We acknowledge that the work carried out by our employees and associates is critical and essential, as per various published standards. We have taken several measures to ensure the safety and security of our employees, while also ensuring the availability and functionality of our critical infrastructure. In compliance with the guidelines issued by the Centers for Disease Control and local authorities, we have implemented COVID-19 safety measures in the workplace. Nevertheless, we recognize that events related to the COVID-19 pandemic or other global pandemics could potentially result in lost or delayed revenue for our Company. These events include restrictions on our suppliers' ability to meet delivery requirements and commitments, employees' inability to perform their work due to illness caused by 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 continued social unrest, protests against racial inequality, and movements like "Defund the Police." Such unrest may be further fueled by misleading information or negative publicity about our solutions. We believe our solutions are actually the answer to reducing use of force and driving safer outcomes for officers and the citizens they interact with each day. Although the intensity of these events may have subsided, some may still indirectly or directly influence police agency budgets and the funding available to current and potential customers. In addition, participants in these events may attempt to create the impression that our solutions are contributing to the perceived problems, potentially harming our business and operations, including our revenues, earnings, and cash flows from operations.

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

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the 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 revenues. We evaluate the adequacy of this reserve each reporting period.

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

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

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

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

Results of Operations

Three Months Ended March 31, 2023 Compared to Three Months Ended March 31, 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 March 31,		Change	
	2023	2022	\$	%
Revenues:				
Product sales	\$ 616	\$ 1,462	\$ (846)	(58)%
Other revenue	95	137	(42)	(31)%
Total revenues	711	1,599	(888)	(56)%
Cost of revenues	359	932	(573)	(61)%
Gross profit	352	667	(315)	(47)%
Operating expenses:				
Selling, general and administrative	3,540	4,606	(1,066)	(23)%
Research and development	1,072	1,495	(423)	(28)%
Total operating expenses	4,612	6,101	(1,489)	(24)%
Loss from operations	\$ (4,260)	\$ (5,434)	\$ 1,174	(22)%

Revenue

We reported net revenue of \$711 thousand for the three months ended March 31, 2023, as compared to \$1.6 million for the quarter ended March 31, 2022, a 56% decrease over the prior year. International revenues decreased from \$405 thousand for the three months ended March 31, 2022 to \$1 thousand for the three months ended March 31, 2023. We believe that our sales during the three months ended March 31, 2023 were impacted by the timing of new orders and associated budgeting from our customer. We also incurred discounts of \$22 thousand during the three months ended March 31, 2023, as a result of promotional programs designed to encourage customers to upgrade to the BolaWrap 150. Gross sales were \$733 million for the three months ended March 31, 2023, before such discounts. The discounts compares to normal business discounts of \$388 thousand in the comparable quarter of the prior year. We expect a decline to minimal discounts in 2023 as we have phased out our promotional upgrade offer.

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

We incurred product promotional costs of \$54 thousand during the three months ended March 31, 2023, related primarily to BolaWrap 150 demonstration products and the cost of training products and accessories delivered to law enforcement agencies that were expensed as marketing costs. We are responding to increased demand for training as a result of expanded product and brand awareness and increased successful field use by agencies but due to awareness expect reductions in product promotional costs from the prior year.

We had \$291 thousand of deferred revenue at March 31, 2023, of which \$175 thousand related to VR, \$10 thousand was related to training and \$106 thousand related to BolaWrap extended warranties and services. As we potentially secure increased bookings for Wrap Reality, as well as BolaWrap extended warranties, we expect our deferred revenue to grow in future quarters.

At March 31, 2023, we had backlog of \$21 thousand expected to be delivered in the second 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 three months ended March 31, 2023 was \$352 thousand, or a gross margin of 50%. Our gross profit for the three months ended March 31, 2022, was \$667 thousand resulting in a gross margin of 42%. The Fiscal 2022 gross profit represented an 87% increase over prior year as a result of rolling out the BolaWrap 150 product, selling price adjustments implemented in September of 2022, and a reduction of promotional pricing, offset by some supply chain issues and inventory adjustments.

As our revenue history is limited, historical margins may not accurately reflect future margins. However, we expect higher margins with the production of the BolaWrap 150 compared to previous production due to design changes and improved pricing. Our margins are also subject to variations based on the sales channels and product mix through which our products are sold. At present, our cassettes have lower margins than BolaWrap devices. As we scale cassette production, we will look to reduce our costs and drive higher cassette margins. Cassettes were a total of 17% of our overall revenue in the three months ended March 31, 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 expenses may affect our gross margins.

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

Selling, General and Administrative Expense

Selling, general and administrative (“SG&A”) expense of \$3.5 million for the three months ended March 31, 2023 decreased significantly, by \$1.1 million, when compared to \$4.6 million for the three months ended March 31, 2022, due to cost containment efforts.

Share-based compensation costs allocated to SG&A decreased to \$562 thousand compared to \$891 million for the comparable prior quarter. This \$329 thousand decrease resulted primarily from changes in management, one-time costs in the prior year period, and changes in the stock price.

Salaries and burden costs of \$1.4 million for the three months ended March 31, 2023 was a decrease of \$122 thousand, or a 8% decrease, due to reduced headcount and one-time recruiting expenses. During three months ended March 31, 2023, as compared to same period during the prior year, we reduced professional fees by \$149 thousand, and reduced consulting and contract services fees by \$153 thousand. We expect expenditures for SG&A expenses in 2023 to remain in line with 2022 despite expected revenue growth.

Advertising and promotion costs were \$163 thousand for during the three months ended March 31, 2023, or a decrease of \$164 thousand as compared to \$327 thousand during the three months ended March 31, 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 \$423 thousand for the three months ended March 31, 2023 when compared to the three months ended March 31, 2022. We incurred a \$71 thousand period over period decrease in share-based compensation expense allocated to research and development expense as a result of cost containment efforts and changes in personnel. Outside consulting costs decreased by \$107 thousand and prototype related costs decreased by \$168 thousand for the three months ended March 31, 2023, primarily due to reduced costs related to finalizing the BolaWrap 150 product.

Operating Loss

Loss from operations of \$4.3 million during the three months ended March 31, 2023 was a reduction of \$1.2 million compared to loss from operations of \$5.4 million during the three months ended March 31, 2022, reflecting increased margin and the focus on reducing operating costs.

Liquidity and Capital Resources

Overview

We have experienced net losses and negative cash flows from operations since our inception. As of March 31, 2023, we had cash and cash equivalents of \$9.5 million, short-term investments of \$6.5 million, positive working capital of \$20.2 million and had sustained cumulative losses attributable to stockholders of \$71.4 million. We believe that our cash on hand and short-term investments will sustain our operations for at least the next twelve months.

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

Capital Requirements

Due in part to the volatility caused by COVID-19, we do not have a high degree of confidence in our estimates for our future liquidity requirements or future capital needs, which will depend on, among other things, capital required to 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. We believe we have sufficient capital to sustain our operations for the next twelve months. Although the Company has adequate capital to sustain its operations during the next twelve months, management will continue to evaluate attractive sources of additional capital.

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

- The impact and effects of the global outbreak of the COVID-19 pandemic, and other potential 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.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Cash Flow

Operating Activities

During the three months ended March 31, 2023, net cash used in operating activities was \$3.07 million. The net loss of \$4.03 million was decreased by non-cash expense of \$813 thousand consisting primarily of share-based compensation expense of \$628 thousand. Other major component changes using operating cash included an increase of \$1.65 million in inventories and a net reduction in accounts payable and accrued liabilities of \$264 thousand. An increase in accounts receivable of \$1.69 million reduced the cash used in operating activities.

During the three months ended March 31, 2022, net cash used in operating activities was \$4.85 million. The net loss of \$5.43 million was decreased by non-cash expense of \$1.16 million consisting primarily of share-based compensation expense of \$1.03 million. Other major component changes using operating cash included an increase of \$399 thousand in accounts receivable and an increase in inventories of \$304 thousand.

Investing Activities

During the three months ended March 31, 2023, we used \$2.6 million of cash to purchase short-term investments and we had proceeds from maturities of short-term investments of \$10 million. During the three months ended March 31, 2022, we used \$4.85 million of cash to purchase short-term investments and we had proceeds from maturities of short-term investments of \$10 million.

We used \$15 thousand and \$81 thousand of cash for the purchase of property and equipment during the three months ended March 31, 2023 and 2022, respectively. We invested \$131 thousand and \$69 thousand in patents during the three months ended March 31, 2023 and 2022, respectively. We had proceeds from long-term deposits of \$31 thousand and \$0 during the three months ended March 31, 2023 and 2022, respectively.

Financing Activities

During the three months ended March 31, 2023 and 2022, we received \$0 and \$75 thousand in proceeds from the exercise of previously issued stock options.

Contractual Obligations and Commitments

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

Pursuant to the Professional Services and Technology Acquisition Agreement (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 \$91 thousand for nine months in 2023, \$126 thousand in 2024 and \$75 thousand in 2025.

At March 31, 2023, we were committed for approximately \$3.493 million for future component deliveries and contract services that are generally subject to modification or rescheduling in the normal course of business.

Effects of Inflation

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

Recent Accounting Pronouncements

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

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 March 31, 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 March 31, 2023, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Our process for evaluating controls and procedures is continuous and encompasses constant improvement of the design and effectiveness of established controls and procedures and the remediation of any deficiencies, which may be identified during this process.

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

Shareholder Derivative Litigation

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

Other Legal Information

We may become subject to other legal proceedings, as well as demands and claims that arise in the normal course of our business, including claims of alleged infringement of third-party patents and other intellectual property rights, breach of contract, employment law violations, and other matters and matters involving requests for information from us or our customers under federal or state law. Such claims, even if not meritorious, could result in the expenditure of significant financial and management resources. We make a provision for 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 March 31, 2023, we had no provision for liability under existing litigation.

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

Item 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 March 31, 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 10.1	Severance Agreement and Release of Claims, dated May 8, 2023, by and between Wrap Technologies, Inc. and Glenn Hickman.
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

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

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

May 10, 2023

SEVERANCE AGREEMENT AND GENERAL RELEASE OF CLAIMS

THIS SEVERANCE AGREEMENT AND GENERAL RELEASE OF CLAIMS (this “**Agreement**”) is made and entered into between Glenn Hickman (“**Executive**”) and Wrap Technologies, Inc. a Delaware corporation (“**Wrap**” or the “**Company**”) and Insperity PEO Services L.P. (Insperity). Wrap and Executive are each referred to herein individually as a “**Party**” and collectively as the “**Parties**.” The terms of this Agreement are set forth below:

1. **Separation from Employment.** Executive’s employment with Wrap ended as of April 17, 2023 (the “**Separation Date**”). Executive acknowledges and agrees that, as of the Separation Date, Executive had no employment relationship with Wrap or any other Releasee (as defined below). Executive acknowledges and agrees that, as of the Separation Date, Executive resigned as an officer of the Company and each affiliate of the Company for which Executive served as an officer, and Executive no longer held any offices or other positions with the Company or any of its affiliates.

2. **2022 Bonus; Satisfaction of Payment and Leave Obligations; Executive’s Representations.**

(a) On or before May 31, 2023, the Company shall: (i) make a payment to Executive equal to \$22,500, less applicable taxes, deductions and withholdings required by law less applicable taxes and withholdings; and (ii) issue to Executive, 16,605 shares of Common Stock (as defined below) granted as a “Stock Award” pursuant to the Plan (as defined below) on the Separation Date (collectively, the payment of cash and issuance of stock referenced in the immediately preceding clauses (i) and (ii) are referred to as the “**2022 Bonus Award**”). Any applicable deductions and withholdings required with respect to the Common Stock to be issued pursuant to Section 2(a)(i) will be deducted from the cash amount payable with respect to the 2022 Bonus Award. Executive acknowledges and agrees that Executive’s receipt of the 2022 Bonus Award shall fully and finally satisfy any obligations that Wrap or any other Releasee may have to Executive with respect to the payment or award of any bonus for services performed by Executive prior to the Separation Date.

(b) Executive acknowledges that, other than the 2022 Bonus Award and (if still unpaid as of the date that he signs this Agreement) his base salary for the pay period in which the Separation Date occurred, the Company has (i) paid him all amounts owed to him (including, without limitation, his salary, any earned bonus or commissions, and any other accrued wages), and (ii) provided him all leaves (paid and unpaid) and benefits to which he is and has been entitled. Executive further acknowledges and represents that he has not brought, does not intend to bring, and will not bring a claim for any such wage or benefit. Executive represents that he is not currently aware of any facts or circumstances constituting sexual harassment, sexual abuse, or retaliation for reporting sexual harassment or abuse, by Wrap or any other Releasee, or a violation by Wrap or any other Releasee of the Fair Labor Standards Act, as amended, the Arizona statutes related to minimum wage, overtime, commissions, leave, or wage statements, as amended, the Families First Coronavirus Response Act, as amended, or other federal, state or local laws relating to the employment relationship or governing employment practices. Executive further represents that he has not suffered any on-the-job injury for which he has not already filed a claim.

3. Separation Benefits.

(a) **Severance Pay.** Provided that Executive (x) executes this Agreement on or after the Separation Date and returns a copy of this Agreement that has been executed by Executive to the Company so that it is received by Chris DeAlmeida at cdealmeida@wrap.com no later than May 4, 2023; and (y) complies with the terms and conditions set forth in this Agreement, then the Company shall pay Executive a total severance payment of \$112,500, less applicable taxes, deductions and withholdings required by law (the “**Severance Payment**”), which Severance Payment shall be divided into substantially equal installments and paid on the Company’s regular payroll dates for executive employees over the six-month period following the Separation Date; provided, however, the first installment of the Severance Payment shall be paid on the Company’s first payroll date for executive employees that comes after the date that this Agreement (the “**First Payment Date**”), executed by Executive, has been returned by Executive to the Company and shall include (without interest) the number of installments of the Severance Payment that would have been paid between the Separation Date and the First Payment Date had such payments been paid on the Company’s regular payroll dates for executive employees, and the remainder of the installments of the Severance Payment will be paid on the Company’s regular payroll dates for executive employees within the three-month period following the Separation Date. Executive acknowledges that he was not entitled to the severance payment but for his entry into this Agreement and satisfaction of the terms herein. Executive further acknowledges and agrees that the payments made pursuant to this Agreement shall not be construed or interpreted as an admission of any liability on the part of Wrap or any other Releasee. Wrap specifically disclaims liability to or wrongful treatment of Executive on the part of Wrap or any other Releasee.

(b) For a period of three (3) months (the “Reimbursement Period”) commencing on the Resignation Date that Executive elects to continue coverage for the Executive and Executive’s eligible dependents, if any, under the Company’s group health plans pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985 (“COBRA”), the Company will reimburse Executive for the portion of the amount Executive pays to effect and continue such coverage that otherwise would have been paid by the Company had Executive remained an employee of the Company during the Reimbursement Period. The COBRA reimbursements will be made by the Company’s normal expense reimbursement policy. Executive acknowledges and agrees that the election of the continuation coverage pursuant to COBRA and providing any premiums due to the Company with respect to such continuation coverage will remain Executive’s sole responsibility.

4. Release of Liability for Claims.

(a) For good and valuable consideration, including the consideration set forth in Section 3 (and any portion thereof), Executive forever releases, discharges and acquits Wrap and each Wrap affiliate, and each of the foregoing entities' respective and current and former shareholders, members, directors, officers, employees, managers, accountants, agents, attorneys, representatives, parent companies, subsidiaries, divisions, members, partners, predecessors, successors, equityholders, Insperity PEO Services, L.P. ("**Insperity**"), all entities who are or may be considered joint employers, assigns, trusts, and affiliates, and the Company's and its affiliates' benefit plans (and the fiduciaries and trustees of such plans) (each a "**Releasee**" and, collectively, the "**Releasees**") from liability for, and Executive hereby waives, any and all claims, demands, damages, suits, or causes of action of any kind related to or arising from Executive's ownership of any interest in the Company, Executive's employment or engagement with any Releasee, the termination of such employment or engagement, and any other acts or omissions related to any matter occurring on or prior to the date that Executive executes this Agreement, any other form of dispute for adjudication in any forum, whether known or unknown, relating in any way to Executive's employment with Wrap or the termination thereof or any event or transaction that occurred before this Agreement is signed, including, without limitation, (i) claims or any alleged violation through such time of (A) any federal, state or local anti-discrimination or anti-retaliation law, regulation or ordinance, including, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, 42 U.S.C.A. Section 1981 and Section 1983, the Americans with Disabilities Act, and the Equal Pay Act (B) the Arizona Civil Rights Act, the Arizona Equal Pay Act, the Arizona Employment Protection Act, the Arizona Occupational Health and Safety Act, and the Arizona Medical Marijuana Act, (C) the Employee Retirement Income Security Act ("**ERISA**"), (D) the Sarbanes-Oxley Act of 2002 and the Dodd-Frank Wall Street Reform and Consumer Protection Act, (E) the Occupational Safety and Health Act; (F) the Worker Adjustment and Retraining Notification Act, (G) the federal Family and Medical Leave Act ("**FMLA**"), all as amended,

(H) any federal, state or local wage and hour law; (I) any other local, state or federal law, regulation or ordinance; or (J) any public policy, contract, tort, or common law claim, including any claim for defamation, emotional distress, fraud or misrepresentation of any kind, promissory estoppel, breach of any implied duty of good faith and fair dealing, breach of implied or express contract, breach of fiduciary duty or wrongful discharge; (ii) any allegation for costs, fees, or other expenses including attorneys' fees incurred in or with respect to a Released Claim; (iii) any claim for breach of the RSU Award Agreements, Option Agreement, Plan, or any other agreement (including that certain offer letter from the Company dated March 11, 2021), incentive compensation plan or equity-based plan with any Releasee; (iv) any claim, whether direct or derivative, arising from, or relating to, Executive's status as a holder of any shares or interests in any Releasee; and (v) any claim for compensation or benefits of any kind not expressly set forth in this Agreement (collectively, the "**Released Claims**"). Executive is not waiving rights or claims that may arise after the date of this Agreement or which otherwise cannot be waived. This Agreement is not intended to indicate that any such claims exist or that, if they do exist, they are meritorious. Rather, Executive is simply agreeing that, in exchange for any consideration received by Executive pursuant to Section 3, any and all potential claims of this nature that Executive may have against the Released Parties, regardless of whether they actually exist, are expressly settled, compromised and waived. **THIS RELEASE INCLUDES MATTERS ATTRIBUTABLE TO THE SOLE OR PARTIAL NEGLIGENCE (WHETHER GROSS OR SIMPLE) OR OTHER FAULT, INCLUDING STRICT LIABILITY, OF ANY OF THE RELEASED PARTIES. EMPLOYEE FULLY UNDERSTANDS THAT THIS IS A GENERAL WAIVER AND RELEASE OF ALL CLAIMS.**

(b) For the avoidance of doubt, nothing in this Agreement releases Executive's rights to receive payments or benefits pursuant to Section 3 of this Agreement. Further, in no event shall the Released Claims include (i) any claim that arises after the date that Executive signs this Agreement; (ii) rights to indemnification or expense advancement from the Company pursuant to the Company bylaws or similar governing documents, and rights under directors' and officers' insurance policies maintained by the Company; or (iii) any claim to vested benefits under an employee benefit plan that is subject to ERISA and that cannot be released pursuant to ERISA. Further notwithstanding this release of liability, nothing in this Agreement prevents Executive from filing any non-legally waivable claim (including a challenge to the validity of this Agreement) with the Equal Employment Opportunity Commission ("EEOC") or comparable state or local agency or participating in (or cooperating with) any investigation or proceeding conducted by the EEOC or comparable state or local agency or cooperating in any such investigation or proceeding; however, Executive understands and agrees that Executive is waiving any and all rights to recover any monetary or personal relief from a Releasee as a result of such EEOC or comparable state or local agency or proceeding or subsequent legal actions. Further, nothing in this Agreement prohibits or restricts Executive from filing a charge or complaint with, or cooperating in any investigation with, or making disclosures to, the Securities and Exchange Commission, the Financial Industry Regulatory Authority, or any other securities regulatory agency or authority (each, a "Government Agency"), and nothing herein will require Executive to inform any Released Party that he has made such a charge, complaint or disclosure or that he is engaging in such cooperation. This Agreement does not limit Executive's right to receive an award for information provided to a Government Agency. Further, this Agreement does not release Executive's right to seek unemployment insurance or workers' compensation benefits.

(c) Nothing in this Agreement is intended to forfeit Executive's ownership of (or waive Executive's future rights with respect to) any shares of Common Stock, \$0.0001 par value per share, of the Company ("Common Stock") issuable pursuant to the vested restricted stock units or options to purchase Common Stock described below, which restricted stock units and options to purchase Common Stock shall continue to be governed by the terms (including such terms with respect to vesting upon Executive's separation from employment and potential exercise or settlement) set forth in: (x) that certain Restricted Stock Unit Award Agreement between the Parties dated as of March 23, 2021 and that certain Restricted Stock Unit Award Agreement between the Parties dated as of March 2, 2022 (collectively, the "RSU Award Agreements"); (y) that certain Non-Statutory Stock Option Agreement between the Parties dated March 23, 2021 (the "Option Agreement") and (z) the Wrap Technologies, Inc. 2017 Equity Compensation Plan (the "Plan"), as applicable.

5. **Confidentiality; Non-Competition; Non-Solicitation; Non-Disparagement.**

(a) In signing this Agreement, Executive promises and affirms that Executive shall hold in the strictest confidence and take all reasonable precautions to prevent any unauthorized use or disclosure of Company Confidential Information (as defined below). Executive will not (i) use Company Confidential Information for any purpose whatsoever other than for the benefit of the Company, or (ii) disclose Company Confidential Information to any third party without the prior written authorization of a named Officer of the Company. Prior to disclosure, when compelled by applicable law, Executive will provide prior written notice to the CEO, CFO and General Counsel of the Company (as applicable). Executive agrees that Executive obtains no title to any Company Confidential Information, and that the Company retains all Company Confidential Information as the sole property of the Company. Nothing in this Agreement prevents Executive from engaging in protected activity, as described in Sections 4(b) or 5(d) herein.

(b) As used herein, “**Company Confidential Information**” means all information (including any and all combinations of individual items of information) that the Company has or will develop, acquire, create, compile, discover or own, that has value in or to the Company's business which is not generally known and which the Company wishes to maintain as confidential. Company Confidential Information includes both information disclosed by the Company to Executive, and information developed or learned by Executive during the course of his employment with the Company. Company Confidential Information also includes all information of which the unauthorized disclosure could be detrimental to the interests of the Company, whether or not such information is identified as Company Confidential Information. By example, and without limitation, Company Confidential Information is any and all non-public information that relates to the actual or anticipated business and/or products, research or development of the Company, or to the Company's technical data, trade secrets, or know-how, including, but not limited to, research, product plans, or other information regarding the Company's products or services and markets therefor, internal customer lists, software, developments, inventions, discoveries, ideas, processes, formulas, technology, designs, drawings, engineering, hardware configuration information, marketing, finances, and other business information disclosed by the Company either directly or indirectly in writing, orally or by drawings or inspection of premises, parts, equipment, or other Company property. Notwithstanding the foregoing, Company Confidential Information shall not include any such information which Executive can establish (i) was publicly known or made generally available prior to the time of disclosure by the Company to Executive; or (ii) becomes publicly known or made generally available after disclosure by the Company to Executive through no wrongful action or omission by Executive.

(c) Executive represents and warrants that Executive has returned all property (including all electronically stored information) belonging to the Company or any of its affiliates to the Company, and Executive further represents and warrants that Executive has not kept, and will not keep, any copies, nor made or retained any abstracts or notes of any Company Confidential Information. Executive recognizes that Wrap has received from third parties confidential or proprietary information subject to a duty on Wrap's part to maintain the confidentiality of such information and to use it only for certain limited purposes. Executive agrees to hold all such confidential or proprietary information in the strictest confidence and not to disclose it to any person, firm or corporation or use it.

(d) Executive shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney, provided that it is disclosed solely for the purpose of reporting or investigating a suspected violation of law, or is made in a complaint or other document filed in a lawsuit or other proceeding filed under seal so that it is not disclosed to the public. If Executive brings suit against Wrap for retaliation based on the reporting of a suspected violation of law, Executive may disclose a trade secret to Executive's attorney and use the trade secret information in the court proceeding, so long as any document containing the trade secret is filed under seal and Executive does not disclose the trade secret except pursuant to court order.

(e) Executive agrees that, for a period of twelve (12) months following the Separation Date, unless an adjudicator finds the twelve (12) month period to exceed a reasonable length under the applicable circumstances, then for a period of six (6) months immediately following the Separation Date (such applicable 12- or six- month period, the “**Restricted Period**”), Executive shall not, without the prior written consent of the Company, actively compete against the Company in areas that were explored, experienced or envisioned during the Executive's employment with the Company pertaining to remote restraining devices, virtual policing / teaching technology, shield equipment and other related topics. This includes that Executive shall not compete through maintaining an employment, contractual, or other business relationship, either directly or indirectly, to provide services or products competitive to those in which the Company was engaged, or planned to engage, as of the Separation Date. This restriction covers Executive's activities in every part of the Territory. For purposes of this Agreement, “**Territory**” shall mean:

(i) all states of the United States of America in which the Company provided goods or services, had customers, or otherwise conducted business at any time during the two-year period prior to the Separation Date; and (ii) any other countries in which the Company maintains non-trivial operations or facilities, provided goods or services, had customers, or otherwise conducted business at any time during the two-year period prior to the Separation Date. Notwithstanding the foregoing, this restriction does not prohibit Executive from owning securities of corporations listed on a national securities exchange or regularly traded by national securities dealers.

(f) Executive agrees that, during the Restricted Period, Executive shall not contact, or cause to be contacted with any Customer for the purposes of conducting business that is competitive to that of the Company or for the purpose of disadvantaging the Company's business in any way. For purposes of this Agreement, "**Customer**" shall mean all persons or entities that have used or inquired of the Company's services at any time during the two-year period preceding the Separation Date. Executive also agrees that, during the Restricted Period, Executive will not deliberately directly or indirectly recruit or solicit any employee of the Company to leave their employment with the Company, nor will Executive contact any supplier, vendor or contractor who conducted business with the Company at any time during the two-year period preceding the Separation Date, to terminate or adversely modify any business relationship with the Company or not to proceed with, or enter into, any business relationship with the Company, nor shall Executive otherwise interfere with any business relationship between the Company and any such franchisee, joint venture, supplier, vendor or contractor.

(g) Executive agrees that he will at no time willfully make any defamatory or derogatory statements about or otherwise disparage, impugn or damage the reputation or integrity of Wrap or any of its affiliates, to any person or entity. The foregoing shall not prohibits statements made in response to valid compulsory legal process or as otherwise required by law, or permitted pursuant to Section 4(b) above.

(h) Executive acknowledges that Executive's fulfillment of the obligations contained in this Agreement, including, but not limited to, Executive's obligation neither to disclose nor to use Company Confidential Information other than for the Company's exclusive benefit and Executive's obligations not to compete and not to solicit contained above, is necessary to protect Company Confidential Information and, consequently, to preserve the value and goodwill of the Company. Executive also acknowledges the duration, geographic and scope limitations of Executive's obligations under the covenants above are fair and reasonable in all respects, and are narrowly tailored to protect the Company's legitimate business interests, especially in light of the Company's nationwide and international business dealings and its need to protect Company Confidential Information and the scope and nature of the Company's business, and that Executive shall not be precluded from gainful employment if Executive is obligated not to compete with the Company or solicit its customers, employees, or others during the period and within the Territory as described above.

(i) The covenants contained in this Section 5 above will be construed as a series of separate covenants. If an adjudicator finds the duration, geography or scope of any of the restrictions set forth in Section 5 above, to be unreasonable under the applicable circumstances, then the adjudicator may remove such restriction in favor of an alternative restriction written into the applicable subsection. If an adjudicator finds any alternative restriction to be unreasonable under the circumstances, or no alternative restriction is written, then Executive and the Company expressly agree that unreasonable restriction may be removed by the adjudicator, and if appropriate, modified to one that the adjudicator believes is reasonable in light of the circumstances and consideration paid herein. In the event that the adjudicator does not exercise the power granted to it in the prior sentences that allow for modification of the time limits and/or Territory, the Company and Executive agree to replace such invalid or unenforceable term or provision with a valid and enforceable term or provision that will achieve, to the extent possible, the economic, business and other purposes of such invalid or unenforceable term.

6. Intellectual Property.

(a) As between the Company and Executive, Executive agrees that all right, title, and interest in and to any and all copyrightable material, notes, records, drawings, designs, logos, inventions, improvements, developments, discoveries, ideas and trade secrets conceived, discovered, authored, invented, developed or reduced to practice by Executive, solely or in collaboration with others, during the period of time that Executive was in the employ of the Company and within the course of Executive's employment, or with the use of Company's equipment, supplies, facilities, or Company Confidential Information, and any copyrights, patents, trade secrets, mask work rights or other intellectual property rights relating to the foregoing, except as provided in Section 6(b) below (collectively, "**Inventions**"), are the sole property of the Company. Executive also agrees to promptly make full written disclosure to the Company of any Inventions, and Executive hereby irrevocably assigns fully to the Company all of Executive's right, title and interest in and to all Inventions. Executive further acknowledges that all original works of authorship that have been made by Executive (solely or jointly with others) within the scope of and during the period of his employment with the Company and that are protectable by copyright are "works made for hire," as that term is defined in the United States Copyright Act. Executive understands and agrees that the decision whether or not to commercialize or market any Inventions is within the Company's sole discretion and for the Company's sole benefit, and that no royalty or other consideration will be due to Executive as a result of the Company's efforts to commercialize or market any such Inventions.

(b) The provisions of this Agreement requiring assignment of Inventions to the Company do not apply to any Invention that Executive has independently developed entirely on Executive's own time without using the Company's equipment, supplies, facilities, trade secret information or Confidential Information ("**Other Invention**"), except that "Other Invention" does not include, and the provisions of this Agreement requiring assignment of Inventions to the Company do apply to, Inventions that either (i) relate or related at the time of conception or reduction to practice of such Other Invention to the Company's business, or actual or demonstrably anticipated research or development of the Company or (ii) result or resulted from any work that Executive performed for the Company. Executive will advise the Company promptly in writing of any Invention that the Employee believes constitutes an Other Invention. Executive agrees that the Employee shall not incorporate, or permit to be incorporated, any Other Invention without the Company's prior written consent. Notwithstanding the foregoing sentence, if, in the course of the Executive's employment with the Company, Executive incorporates or incorporated into a Company product, process or service an Other Invention owned by Executive or in which Executive has an interest, Executive hereby grants to the Company a nonexclusive, royalty- free, perpetual, irrevocable, transferable worldwide license (with the right to grant and authorize sublicenses) to make, have made, use, import, offer for sale, sell, reproduce, distribute, modify, adapt, prepare derivative works of, display, perform, and otherwise exploit such incorporated or utilized Other Inventions, without restriction, including, without limitation, as part of or in connection with such Invention, and to practice any method related thereto.

(c) Executive will inform the Company, in writing, before incorporating any inventions, discoveries, ideas, original works of authorship, developments, improvements, trade secrets and other proprietary information or intellectual property rights owned by Executive or in which Executive had an interest prior to the Executive employment with the Company ("**Prior Inventions**") into any Invention or otherwise utilizing any Prior Invention in the course of Executive's employment with the Company; and the Company is hereby granted a nonexclusive, royalty-free, perpetual, irrevocable, transferable worldwide license (with the right to grant and authorize sublicenses) to make, have made, use, import, offer for sale, sell, reproduce, distribute, modify, adapt, prepare derivative works of, display, perform, and otherwise exploit such incorporated or utilized Prior Inventions, without restriction, including, without limitation, as part of or in connection with such Invention, and to practice any method related thereto. Executive will not incorporate any inventions, discoveries, ideas, original works of authorship, developments, improvements, trade secrets and other proprietary information or intellectual property rights owned by any third party into any Invention without the Company's prior written permission. Executive represents and warrants that there are no Prior Inventions.

(d) Any assignment to the Company of Inventions includes all rights of attribution, paternity, integrity, modification, disclosure and withdrawal, and any other rights throughout the world that may be known as or referred to as "moral rights," "artist's rights," "droit moral," or the like (collectively, "**Moral Rights**"). To the extent that Moral Rights cannot be assigned under applicable law, Executive hereby waives and agrees not to enforce any and all Moral Rights, including, without limitation, any limitation on subsequent modification, to the extent permitted under applicable law.

(e) Executive agrees to keep and maintain adequate, current, accurate, and authentic written records of all Inventions made by Executive (solely or jointly with others) during his employment with the Company. The records will be in the form of notes, sketches, drawings, electronic files, reports, or any other format that may be specified by the Company. As between the Company and Executive, the records are and will be available to and remain the sole property of the Company at all times.

(f) Executive agrees to assist the Company, or its designee, at the Company's expense, in every proper way to secure the Company's rights in the Inventions in any and all countries, including the disclosure to the Company of all pertinent information and data with respect thereto, the execution of all applications, specifications, oaths, assignments, and all other instruments that the Company shall deem proper or necessary in order to apply for, register, obtain, maintain, defend, and enforce such rights, and in order to deliver, assign and convey to the Company, its successors, assigns, and nominees the sole and exclusive rights, title, and interest in and to all Inventions, and testifying in a suit or other proceeding relating to such Inventions. Executive further agrees that his obligations under this Section 6(f) will continue following the Separation Date.

(g) Executive agrees that, if the Company is unable because of the Executive's unavailability, mental or physical incapacity, or for any other reason to secure Executive's signature with respect to any Inventions, including, without limitation, for the purpose of applying for or pursuing any application for any United States or foreign patents or mask work or copyright registrations covering the Inventions assigned to the Company herein, then Executive hereby irrevocably designates and appoints the Company and its duly authorized officers and agents as Executive's agent and attorney-in-fact, to act for and on my behalf to execute and file any papers and oaths, and to do all other lawfully permitted acts with respect to such Inventions to further the prosecution and issuance of patents, copyright and mask work registrations with the same legal force and effect as if executed by Executive. This power of attorney shall be deemed coupled with an interest, and shall be irrevocable.

7. **Reference Requests.** Executive agrees that all requests for reference shall be directed to Kevin Mullins or such other individual as the Company may designate. Wrap agrees that in response to a reference request directed to Kevin Mullins while Mr. Mullins is an officer of the Company, he will respond with Executive's title and dates of employment.

8. **No Re-Hire Obligation.** Executive agrees that the Releasees have no obligation, contractual or otherwise, to rehire, reinstate, re-employ, or recall him in the future, or to consider any employment application submitted by him. Executive acknowledges and agrees that a refusal by the Releasees to hire him in the future as an employee or independent contractor, whether on a full-time, part-time or temporary basis, shall not be deemed retaliatory.

9. **Entire Agreement and Amendment.** Executive affirms that the only consideration for signing this Agreement are the terms stated herein, that no other promises or agreements of any kind have been made to or with him by any person or entity whatsoever to cause him to sign this Agreement. Executive has accepted the terms of this Agreement because he believes it to be fair and reasonable and for no other reason. This Agreement sets forth the entire agreement of the parties, and supersedes any and all prior agreements or understandings between the parties, pertaining to the subject matter of this Agreement; provided, however, this Agreement is in addition to and complements (and does not supersede or replace) any other obligation that Executive has to Wrap or any of its affiliates with respect to confidentiality or no-disclosure, return of property, no-competition, non-solicitation or non-disparagement (whether such obligations arise by contract, statute, common law or otherwise), which obligations shall remain in full force and effect. Any modifications or changes to this Agreement must be made in writing and signed by all Parties.

10. **Beneficiaries and Assignment.** This Agreement is binding upon and inures to the benefit of Executive, Wrap and the other Releasees, and their respective, heirs, personal and legal representatives, successors and assigns. Each Releasee that is not a signatory hereto is an intended third-party beneficiary of Executive's representations, covenants, and release of claims hereunder. This Agreement may not be assigned by Executive. Executive acknowledges that the payments and consideration referenced in Section 2 and 3 herein are due solely from the Company, and Insperity has no obligation to pay or provide the consideration described in Section 2 and 3 herein, even though payment may be processed through Insperity.

11. **Counterparts.** This Agreement may be executed in counterparts, and execution in such manner shall in no way affect or alter the validity of this Agreement or the rights and responsibilities of the parties thereto. PDF signatures shall be treated as originals for all purposes.

12. **Construction.** In the event of a dispute regarding the meaning of any language contained in this Agreement, the Parties agree that the same shall be accorded a reasonable construction and shall not be construed more strongly against one Party than the other by virtue of that Party having drafted this Agreement or any portion thereof. The words “hereof,” “herein” and “hereunder” and other compounds of the word “here” shall refer to the entire Agreement and not to any particular provision hereof. The use herein of the word “including” following any general statement, term or matter shall not be construed to limit such statement, term or matter to the specific items or matters set forth immediately following such word or to similar items or matters, whether or not non-limiting language (such as “without limitation”, “but not limited to”, or words of similar import) is used with reference thereto, but rather shall be deemed to refer to all other items or matters that could reasonably fall within the broadest possible scope of such general statement, term or matter. The word “or” as used herein is not exclusive and is deemed to have the meaning “and/or.” Unless the context requires otherwise, all references herein to a law, agreement, instrument or other document shall be deemed to refer to such law, agreement, instrument or other document as amended, supplemented, modified and restated from time to time to the extent permitted by the provisions thereof.

13. **Choice of Law; Dispute Resolution.** This Agreement shall be governed by and interpreted according to the law of the State of Arizona, without regard to or application of choice- of-law rules or principles. The Parties to this Agreement agree that any action arising out of this Agreement may only be brought in the state or federal courts, as applicable, in Maricopa County, Arizona and consent to the jurisdiction of such courts. If any provision of this Agreement is held to be invalid, illegal, void or unenforceable, the invalid, illegal, void or unenforceable term shall be deemed not to be a part of this Agreement, and the validity of the remaining terms of this Agreement shall not be affected thereby and shall continue in full force and effect. **The Parties agree to waive their right to a trial by jury in any action related to or arising out of this Agreement or Executive’s employment with Wrap.**

14. **Time to Consider Agreement.** Should Executive fail to execute and return this Agreement within 10 days of the date he was presented with this Agreement, the severance offer is revoked and the terms herein are null and void.

THE UNDERSIGNED FURTHER STATE THAT EACH HAS CAREFULLY READ THE FOREGOING AGREEMENT, KNOWS THE CONTENTS THEREOF, FREELY, KNOWINGLY, AND VOLUNTARILY ASSENTS TO ALL THE TERMS AND CONDITIONS THEREOF, AND SIGNS THE SAME AS HIS OR ITS OWN FREE ACT.

/s/ Glenn Hickman
Glenn Hickman

May 8, 2023
Date

Wrap Technologies, Inc.

By: /s/ Chris DeAlmeida
Chris DeAlmeida
Title: Chief Financial Officer

May 8, 2023
Date

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 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: May 10, 2023

/s/ KEVIN MULLINS

Kevin Mullins

Chief Executive Officer

(Principal Executive Officer)

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 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: May 10, 2023

/s/ CHRIS DEALMEIDA

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

**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 March 31, 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: May 10, 2023

/s/ KEVIN MULLINS

Kevin Mullins
Chief Executive Officer
(Principal Executive Officer)

Date: May 10, 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.