

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

FORM 10-K

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

For the fiscal year ended December 31, 2019

Commission File Number: 000-55838

WRAP
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: None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value \$.0001
(Title of class)

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large Accelerated Filer ☐
Non-accelerated filer ☒

Accelerated filer ☐
Smaller reporting company ☒
Emerging growth company ☒

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

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant on June 28, 2019 (the last business day of the registrant's most recently completed second fiscal quarter) was \$79,544,812 based on the closing price as reported on the Nasdaq Capital Market ("Nasdaq"). Shares of the registrant's common stock held by each officer and director and each person known to the registrant to own 10% or more of the outstanding voting power of the registrant have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not a determination for other purposes.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 30,044,241 shares of common stock, par value \$0.0001 per share, as of March 9, 2020.

The registrant incorporates information required by Part III (Items 10, 11, 12, 13, and 14) of this report by reference to portions of the registrant’s definitive proxy statement with respect to its 2020 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year ended December 31, 2019, pursuant to Regulation 14A.

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PART I

FORWARD-LOOKING STATEMENTS

IN ADDITION TO HISTORICAL INFORMATION, THIS ANNUAL REPORT ON FORM 10-K (THE “ANNUAL REPORT”) CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 AND THE COMPANY DESIRES TO TAKE ADVANTAGE OF THE “SAFE HARBOR” PROVISIONS THEREOF. THEREFORE, THE COMPANY IS INCLUDING THIS STATEMENT FOR THE EXPRESS PURPOSE OF AVAILING ITSELF OF THE PROTECTIONS OF SUCH SAFE HARBOR WITH RESPECT TO ALL OF SUCH FORWARD-LOOKING STATEMENTS. THE FORWARD-LOOKING STATEMENTS IN THIS REPORT REFLECT THE COMPANY’S CURRENT VIEWS WITH RESPECT TO FUTURE EVENTS AND FINANCIAL PERFORMANCE. THESE FORWARD-LOOKING STATEMENTS ARE SUBJECT TO CERTAIN RISKS AND UNCERTAINTIES, INCLUDING THOSE DISCUSSED HEREIN, THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM HISTORICAL RESULTS OR THOSE ANTICIPATED. IN THIS REPORT, THE WORDS “ANTICIPATES,” “BELIEVES,” “EXPECTS,” “INTENDS,” “FUTURE” AND SIMILAR EXPRESSIONS IDENTIFY FORWARD-LOOKING STATEMENTS. READERS ARE CAUTIONED TO CONSIDER THE SPECIFIC RISK FACTORS DESCRIBED BELOW AND NOT TO PLACE UNDUE RELIANCE ON THE FORWARD-LOOKING STATEMENTS CONTAINED HEREIN, WHICH SPEAK ONLY AS OF THE DATE HEREOF. THE COMPANY UNDERTAKES NO OBLIGATION TO PUBLICLY REVISE THESE FORWARD-LOOKING STATEMENTS TO REFLECT EVENTS OR CIRCUMSTANCES THAT MAY ARISE AFTER THE DATE HEREOF.

TRADEMARKS, TRADE NAMES AND SERVICE MARKS

BolaWrap and Wrap are registered trademarks in the U.S. and certain other jurisdictions. They, along with our other common law trademarks, service marks or trade names appearing in this Annual Report are the property of Wrap Technologies, Inc. Other trademarks, service marks or trade names appearing in this Annual Report are the property of their owners. We do not intend our use or display of other companies’ trade names or trademarks to imply a relationship with, or endorsement or sponsorship of us by, any other companies. We have omitted the ® and ™ designations, as applicable, for the trademarks used in this Annual Report.

ITEM 1. BUSINESS

Overview

We are a security technology company organized in March 2016, focused on delivering modern policing solutions to customers, primarily consisting of law enforcement and security personnel. We began demonstrations of our first product, the BolaWrap 100 remote restraint device, in November 2017. The immediate addressable domestic market consists of approximately 900,000 full-time sworn law enforcement officers in the U.S. We have demonstrated the product to over 490 law enforcement agencies across the country, often with media in attendance, resulting in hundreds of media reports including television and print that have driven over 1,900 inquiries from domestic and international law enforcement personnel. Over 140 law enforcement agencies and 29 distributors took delivery of the BolaWrap 100 devices during 2018 and 2019. In addition to sales to domestic and international agencies and distributors, we delivered through December 2019 over 550 test and evaluation devices at no cost to strategic agencies for trial, evaluation and feedback. Our product is gaining important worldwide awareness and recognition through media exposure, trade show participations, product demonstrations and word of mouth as a result of positive responses to our product. We believe we are establishing a global brand and the product foundation for business growth. We believe we have strong market opportunities for our restraint product offering within the law enforcement, military and homeland security business sectors domestically and internationally.

The BolaWrap 100 is a hand-held remote restraint device that discharges an eight-foot bola style Kevlar tether to entangle an individual at a range of 10-25 feet. Inspired by law enforcement professionals, the small but powerful BolaWrap 100 assists law enforcement to safely and effectively control encounters. Currently, law enforcement agencies authorize a continuum of force options:

- verbal commands;
- physical control – soft techniques of grabs and holds progressing to hard techniques such as punches and kicks;
- less-lethal weapons – batons, pepper spray, impact munitions and conducted electrical weapons (“CEWs”); and
- lethal force – deadly weapons such as firearms.

The BolaWrap 100 offers law enforcement a new tool, low on the continuum of force, to remotely and temporarily control an individual or impede flight or movement by targeting and wrapping an individual's legs or arms.

The small, light, but rugged BolaWrap 100 is designed for weak hand operation to provide remote restraint while other use of force continuum options remain open. The design offers wide latitude of accuracy to engage and restrain targeted legs or arms of a subject. Quick eject and rapid reload of bola cartridges allows one device to be reused in a single encounter or in multiple encounters.

There are limited effective options for remote engagement, so when verbal commands go unheeded, law enforcement is faced with either hands on engagement or other potentially injurious less-lethal or lethal force. We believe our new tool is essential to meet modern policing requirements with individuals frequently not responding to verbal commands and to assuage public demands for less-lethal policing, especially in encounters with subjects experiencing a mental health crisis. We believe our device minimizes the need to employ other uses of force including combat and less-lethal weapons. Many less-lethal weapons rely on "pain compliance," often escalating encounters with potential for injury.

Primary use cases fall into the three broad categories routinely encountered by law enforcement and security personnel:

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

Our commercialization strategy is to focus on the immediate addressable domestic market of approximately 900,000 full-time sworn officers in over 15,300 federal, state and local law enforcement agencies. The FBI's Criminal Justice Information Services Division reported over 800,000 state and local law enforcement officers in 2018 and the Department of Justice in October 2019 reported that based on 2016 data that there were over 100,000 full-time federal officers primarily providing police protection. We are also exploring other markets, including military and international markets. We have estimated an addressable international market of over 12.1 million police officers in the 100 largest police forces gathered from individual country statistics. According to Statistics MRC, we participate in a segment of the non-lethal products market expected to grow to \$11.85 billion by 2023.

Law enforcement encounters with the mentally ill or those suffering a mental health crisis present a difficult challenge, often generating public controversy and costly consequences. According to the Treatment Advocacy Center: Office of Research & Public Affairs in a 2015 report on The Role of Mental Illness in Fatal Law Enforcement Encounters, one in ten police encounters involve the mentally ill and a minimum of one in four fatal police encounters involve the mentally ill.

We are unable to predict the market acceptance of our new product or the level of future sales. We believe the enhanced version of our product with the green line laser accessory that we introduced in late May 2019, meets customer requirements. We believe we can accelerate orders and shipments during 2020. However, there can be no assurance of the timing or quantity of orders or sales in future periods. See the section entitled "*Risk Factors*" included in this Annual Report for additional information regarding risks and uncertainties associated with our business.

History

We were organized as Wrap Technologies, LLC, a Delaware limited liability company ("we", "us", "our", "Wrap" or the "Company"), on March 2, 2016 by our founders Elwood G. Norris, Scot Cohen and James A. Barnes. Our formation followed several months of research into ensnarement techniques by our Chief Technology Officer and primary inventor, Mr. Norris. Mr. Norris has been granted over 80 U.S. patents, and with Mr. Barnes, founded Genasys Inc. (Nasdaq: GNSS), formerly LRAD Corporation, a company engaged in directed sound technologies including non-lethal acoustic hailing and warning devices sold worldwide for law enforcement, military, government and security markets.

In December 2017, we completed a self-underwritten public offering, raising gross proceeds of approximately \$3.49 million from the sale of 2,328,533 shares of our common stock, par value \$0.0001 per share (“*Common Stock*”), at a public offering price of \$1.50 per share. Three officers of the Company purchased an aggregate of 40,000 shares of Common Stock during the offering for an aggregate of \$60,000.

On October 30, 2018, we obtained gross cash proceeds of \$13.68 million and net cash proceeds of approximately \$12.14 million from the sale of 4,561,074 units (“*Units*”) for \$3.00 per Unit in a private offering. Each Unit consisted of one share of common stock and one detachable two-year warrant to purchase one share of common stock at an exercise price of \$5.00 per share. Members of our management and our existing stockholders purchased over 25% of the securities sold in the private placement, including \$1.0 million invested by our Chief Technology Officer, Elwood G. Norris.

On June 18, 2019, we consummated an offering (the “*June 2019 Follow-On Offering*”) resulted in gross cash proceeds of \$12.5 million, or net cash proceeds of \$11.35 million after deduction of commissions and offering costs. We sold 1,923,076 Units at a public offering price of \$6.50 per Unit. Each Unit consisted of one share of Common Stock and one detachable two-year warrant to purchase one share of Common Stock at an exercise price of \$6.50 per share.

We demonstrated our first prototype BolaWrap device in December 2016, and developed pre-manufacturing demonstration prototypes in April 2017. We assembled first production units in November 2017, and commenced demonstrations and trial deployments with a small number of law enforcement agencies. In October 2018, we demonstrated our new BolaWrap green line laser and in May 2019 began distributing production green line laser equipped BolaWrap 100 devices and associated cartridges. In September 2019, we relocated our corporate headquarters to our new sales, manufacturing, training and product development facility in Tempe, Arizona.

Plan of Operation

Our plan of operation for 2020 includes growing research, production, marketing, sales, training, distribution and service functions. We expect to focus significant efforts on both domestic and international sales, training and production.

Our research and development activities for 2020 will focus on BolaWrap 100 cost reduction activities and developing new models of our restraint device. Our development plans also include developing internally or in partnership with others additional security related products and technologies. We may also evaluate other related products for acquisition or distribution.

We currently have no plans for material acquisition of plant or equipment.

See the section entitled “*Risk Factors*” included in this Annual Report for additional information regarding risks and uncertainties associated with our operations and business.

Industry Background

The market for use of force related products and devices includes law enforcement agencies, correctional facilities, military agencies, private security guard companies and retail consumers. We believe law enforcement officials are the opinion leaders regarding market acceptance of new security products. We therefore focus on the law enforcement agency segment of the market for the BolaWrap 100.

According to the Department of Justice (“Police Use of Nonfatal Force, 2002-2011”, Special Report NCJ 249216, Published November 2015 by the U.S. Department of Justice Office of Justice Programs, Bureau of Justice Statistics), from 2002 to 2011 an annual average of 44 million U.S. residents age 16 or older, approximately 19% of all persons of this age, had at least one face-to-face contact with a police officer. About 1.6% or 715,500 involved threats of or use of force. Additionally, about 1.3 million were handcuffed during their encounter with police. Nearly all local police departments and all federal law enforcement agencies have a use-of-force policy that dictates the level of force its officers may use to respond to various situations. In January 2017, a collaborative effort among 11 significant law enforcement leadership and labor organizations in the United States resulted in the publication of a National Consensus Policy on Use of Force (collaborative publication of 11 contributing law enforcement agencies organized by the International Association of Chiefs of Police and published in January 2017). This policy states, among other information:

- officers shall use only the force that is objectively reasonable to effectively bring an incident under control, while protecting the safety of the officer and others;
- officers shall use force only when no reasonably effective alternative appears to exist and shall use only the level of force which a reasonably prudent officer would use under the same or similar circumstances;
- an officer shall use de-escalation techniques and other alternatives to higher levels of force consistent with his or her training whenever possible and appropriate before resorting to force and to reduce the need for force; and
- when de-escalation techniques are not effective or appropriate, an officer may consider the use of less-lethal force to control a non-compliant or actively resistant individual. An officer is authorized to use agency-approved, less-lethal force techniques and issued equipment:
 - o to protect the officer or others from immediate physical harm;
 - o to restrain or subdue an individual who is actively resisting or evading arrest; or
 - o to bring an unlawful situation safely and effectively under control.

A police officer is trained to use only the minimum force necessary to overcome the threat of injury or violence posed by a suspect. For example, under most policies, an officer may not use lethal force unless a subject poses a threat of significant bodily injury or fatality to the officer or other persons.

Studies have concluded that most police officers never deploy lethal force in the course of their careers. Although the vast majority of law enforcement officers around the world are armed with firearms, only a small percentage will actually ever use them. Officers, however, use less-lethal force on a regular basis. Traditional tactics such as using a control hold, baton, club, or combat to control a suspect may result not only in a risk of injury to the suspect, but also a risk that the officer will be injured. Other force options including chemical spray, impact munitions and CEWs not only risk injury, but are often controversial. Each weapon available to law enforcement has distinct advantages and disadvantages, and we believe law enforcement agencies require different tools for different situations.

We believe a new remote restraining device is necessary to meet modern policing requirements with individuals frequently not responding to verbal commands and public demands for less-lethal policing. This is more apparent in police interactions with the mentally ill. According to a report by The State of Mental Health in America, 2018; Mental Health America an estimated 40 million adults in the U.S. suffer from mental health issues. And, in a 2015 report on The Role of Mental Illness in Fatal Law Enforcement Encounters, the Treatment Advocacy Center: Office of Research & Public Affairs indicated that 7.9 million individuals have severe mental illness that disorders their thinking. Amounting to somewhat fewer than 4 in every 100 adults in America, individuals with severe mental illness generate no less than 1 in 10 calls for police service and occupy at least 1 in 5 prison and jail beds in the U.S. An estimated 1 in 3 individuals transported to hospital emergency rooms in psychiatric crisis are taken there by police.

A tool to restrain individuals at a distance may offer reduced frequency of deployment of other control techniques, including CEWs, especially in encounters with the mentally ill. We believe that the following characteristics for our new restraining product are the most important to law enforcement and security agencies:

- *effectiveness* : remote restraint of individuals while keeping all other use of force options available;
- *range* : variable distance over which the device is effective;
- *safety* : minimal risk of injury or death;
- *ease of use* : simple operation and low maintenance;
- *dependability* : reliability in many environments, product durability;
- *accountability* : tracking to reduce misuse of the weapon; and
- *cost* : low cost per use and possible reduction of insurance and litigation expense.

The BolaWrap 100 Solution

The BolaWrap 100 is designed to perform well with respect to all of the above characteristics. We believe the BolaWrap 100 is a unique new device to remotely restrain subjects safely and without eliminating any other use of force options necessary for the protection of law enforcement and the public. Although no use of force technique or device is 100% effective, in our opinion, unique performance could make the BolaWrap 100 a tool of choice in a range of encounters for law enforcement agencies and other security services.

Effectiveness

Without an effective remote restraint device to assist controlling an encounter, law enforcement often defaults to less-lethal weapons that rely upon a pain response or electrical induced incapacitation for effect. These methods, along with lethal force, may be necessary for the most dangerous and aggressive suspects. However, there are many encounters where remote restraint may be an option in lieu of or before physical contact with an individual to reduce possibility for flight or the possibility for injury to the individual and the officer. In volunteer testing, the BolaWrap 100 has shown to be effective in restraining individuals, hindering the flight ability and crippling the ability to fight, allowing effective further officer action.

Early reports from a very limited number of field deployments by law enforcement agencies during 2019 have been encouraging and we expect additional use data in 2020.

Range

Batons and chemical sprays can only be used from close distances, usually less than five feet. Rubber bullets, beanbag rounds, and similar less-lethal impact weapons must be used at distances greater than 30 feet to minimize suspects' injuries. Combat, come along and wrist locks require intimate contact with suspects. The BolaWrap 100 is designed to engage a suspect at 10 to 25 feet operable by the weak hand, allowing other force options to remain available. The design of the device makes it ineffective at close distances, and it is not recommended for use at less than ten feet.

Safety

The BolaWrap 100 is not intended to be a weapon. It does not rely on pain to gain compliance or electrical induced incapacitation for effectiveness. The wrapping effect is intended to impede flight while not inducing uncontrolled falls or injury. There is no issue of recovery time, as is the case with CEW, impact munitions or chemical devices. We spend significant resources training law enforcement on the safe and effective use of the BolaWrap 100. However, like any use of force, injuries may result from the use of BolaWrap or as a consequence of its use.

Ease of Use

The BolaWrap 100 is small, light and rugged. It is simple to use, activate and deploy. It can be reloaded and deployed again as quickly as a spent cartridge can be removed and a replacement bola cartridge inserted, typically in less than five seconds. Further, the weapon requires no maintenance, and there are no electronic components in the base device. The BolaWrap 100 also does not leave contaminating residues, unlike chemical sprays that may contaminate buildings, vehicles or other closed facilities or officer uniforms. The integrated green line laser aids in the proper aiming of the device and the device vibrates when the safety is disengaged to alert the user that it is in deployment mode.

Dependability

The BolaWrap 100 as a mechanical device is designed to operate effectively under a variety of unfavorable conditions, such as wind and rain, and is rugged and durable.

Accountability

The BolaWrap 100 is designed for professional use and not consumer use. Each device and each bola cartridge is identified with a serial number for recordkeeping purposes.

Cost

The single use, but recyclable, bola cartridge is priced at a per cartridge price to allow use in both training and active deployment. Although we do not believe there is currently a directly competitive remote restraint device, our cartridge prices are competitive with CEWs, impact munitions and most other specialized less-lethal weapons, with the exception of the least expensive chemical sprays. However, the indirect costs of decontaminating buildings, vehicles, and uniforms resulting from the use of chemical sprays can place these sprays at an overall cost disadvantage per use.

In addition, litigation and insurance costs involving use of force for law enforcement agencies can be significant, with settlements in the millions of dollars for many departments. Reducing the frequency of need for other use of force tools and the number of injuries and fatalities caused by law enforcement officers may reduce the number of suits filed against agencies for excessive use of force, wrongful death and injury.

We believe the addition of our remote restraint device may have the benefit of increasing goodwill between law enforcement agencies and their communities. Community relations considerations can be particularly important at a time when almost any interaction with police can be recorded and scrutinized by the media and the public.

Markets

We participate in the global non-lethal market that, according to a June 2017 report by Global Market Outlook, was estimated to be \$6.32 billion in 2016 and is expected to grow to \$11.85 billion in 2023. The following segments are our target markets.

Domestic and International Law Enforcement

Federal, state and local law enforcement agencies in the United States currently represent the primary target market for the BolaWrap 100. According to the FBI's Criminal Justice Information Services Division in 2018 there were over 800,000 local and state full-time law enforcement officers. The U.S. Department of Justice in October 2019 reported that based on 2016 data that there were over 100,000 full-time federal officers primarily providing police protection and that there in 2016 there were over 15,300 general purpose law enforcement agencies in the U.S.

Federal officers include over 37,000 customs and border patrol officers. We believe the BolaWrap 100 can be an effective tool to safely assist in detention of individuals subject to the agency's jurisdiction. The BolaWrap 100 offers an additional tool for frontline agents to de-escalate encounters while effecting agent responsibilities.

Additionally, we have estimated an addressable international market of over 12.1 million police officers in the 100 largest police forces gathered from individual country statistics. We delivered our first foreign order in 2018 and in 2019 signed our first international distributors and in 2019 delivered product to 22 countries.

Corrections

In 2005, the United States Bureau of Justice statistics ("Census of State and Federal Correctional Facilities, 2005," U.S. Department of Justice, Bureau of Justice Statistics, published October 2008) estimated that there were 295,000 correctional officers in over 1,800 federal and state correctional facilities in the United States.

Private Security Firms and Guard Services

According to 2016 Bureau of Labor Statistics estimates ("Occupational Employment Statistics," United States Department of Labor, March 31, 2017, Web. 25 September 2017), there were approximately 1.1 million privately employed security guards in the United States. They represent a broad range of individuals, including those employed by investigation and security services, hospitals, schools, local government, and others. We believe that some security personnel armed with the BolaWrap 100 could be effective to de-escalate some encounters without eliminating other tools available today. Providing guards with the BolaWrap 100 may reduce the potential liability of private security companies and personnel in such encounters.

Although there are use cases in private security, correctional facilities and by certain military policing personnel, we are initially targeting the BolaWrap 100 for law enforcement. We do not currently plan a consumer version of the device.

Selling and Marketing

Law enforcement agencies represent our primary target market. In this market, we expect that the decision to purchase the BolaWrap 100 will normally be made by a group of people including the agency head, his training staff, and use of force and weapons experts. The decision sometimes involves political decision-makers, such as city council members and various committees. Although we expect the decision-making process for a remote restraint device will be less controversial than that for less-lethal products such as CEWs, we still expect the process to take as little as a few weeks or as long as a year or more partially due to budgeting reasons.

We employ demonstrations as a primary sales step with demonstrations scheduled from the over 1,900 law enforcement leads created by our marketing activities in 2018 and 2019. Demonstrations are generally followed by delivery of product for test and evaluation and training with selected agencies. Some of these deliveries are paid sales and some are issued as an incentive, with the goal of larger future sales of devices and cartridges. In each of 2018 and 2019, we demonstrated at more than 60 agencies often with other local agencies in attendance. In 2018, we delivered over 200 devices at no cost to selected law enforcement agencies for evaluation and feedback as a result of these initial inquiries and made model changes as a result. During 2019, we delivered over 300 devices at no cost. We consider training as an integral element of our sales and marketing approach and believe that departments that have trained instructors knowledgeable about our product will be more likely to purchase devices.

Initial sales in 2018 and early 2019 were made by our executive and sales employees. In June 2019, we implemented a channel distribution strategy in which we sell our products to existing independent regional police equipment distributors who then sell to local law enforcement agencies. We are focusing our internal sales, sales support and business development resources on building relationships with large agencies and actively supporting distributors. In addition to full-time internal sales, sales support and business development personnel from time to time we utilize part-time consultants with law enforcement or government agency expertise to support our sales and marketing activities.

During 2019, we signed distribution agreements with 11 domestic distributors representing 45 states. These nonexclusive and cancelable agreements provide certain territorial rights to distributors but allow us to sell direct to certain agencies.

During 2019, we also elected to increase staffing to simultaneously pursue the international market and signed distribution agreements with 16 international distributors representing 26 countries. These agreements are generally exclusive, require minimum performance and allow us to sell direct to customers subject to certain compensation. We focus significant sales and business development efforts to support our international distributors.

We actively promote our brands and believe BolaWrap is becoming increasingly known world-wide as the pioneer and leader in remote restraint. We participate in a variety of domestic and international trade shows and conferences, both directly and with our distributors. We expect our marketing efforts will also continue to benefit from significant free media coverage. Other marketing communications may include video e-mails, press releases, and conventional print advertising in law enforcement trade publications. Our website contains marketing information and we are engaged in social media outreach and communications.

We intend to increase the use of our trademarks throughout our product distribution chain and believe growing brand awareness will assist in expanding our business. We believe our reputation as a pioneer in the new category of remote restraint, strong training support and product support provide us competitive advantages.

Training

Most law enforcement and corrections agencies will not purchase new use of force devices until a training program is in place to certify officers in their proper use. Generally, they also must adapt any new tools to their use of force policies and clear use with any relevant committees or review boards. We have developed and offer robust training and class materials that certify law enforcement officers and trainers as BolaWrap Instructors in the use and limitations of the BolaWrap 100.

Recognizing the need to provide robust training and sales support we launched the Wrap “Train the Trainer” program in October 2018. The program is designed such that our Master BolaWrap Instructors train local BolaWrap Instructors at local agencies who then train line officers in accordance with an agency’s policies.

BolaWrap Master Instructors are engaged by us as independent contractors and are required to have previous law enforcement training experience and be effective communicators. Some are still active law enforcement. In order to be certified as a Master Instructor, candidates must complete a two-day Master Instructor school at our Tempe training facility, observe a Train the Trainer course and then be observed teaching a Train the Trainer Course. We currently have 54 Master Instructors, residing in 19 states that have completed the two-day course and more than 40 have been certified as Master Instructors allowing them to conduct Instructor Certification Training. In addition to two Wrap executives, three other Master Instructors have been designated Senior Master Instructors qualified to teach and certify other Master Instructors.

BolaWrap Instructors are sworn law enforcement officers, typically department trainers, defensive tactic instructors or SWAT officers. To be certified as a BolaWrap Instructor, individuals must attend a five-hour BolaWrap Instructor certification course, pass a written exam and show proficiency in deploying and using the BolaWrap. We also assist Instructors on lessons learned and best practices for teaching line officers in the use of BolaWrap. The nature and extent of line officer training is at each agency’s discretion. Instructor certification is effective for two years after which it requires renewal.

We employ a cloud-based software system, the Wrap Learning Management System, to schedule and organize training events, registration and training records. This software also hosts training resources and materials including a 30-minute BolaWrap Familiarization Course that distributors, purchasers and other interested parties are highly encouraged to utilize to educate themselves on BolaWrap use.

We have assembled a team of five experienced and well-known trainers from different regions across the U.S. that form the Wrap Training Academy Advisory Board. The Wrap Training Academy Advisory Board provides guidance that helped create and now helps maintain a high-quality training program for Wrap products.

Since launching our ‘Train the Trainer’ program in October 2018, at least one individual at over 160 U.S. police departments have received formal training and over 520 officers are now certified BolaWrap 100 instructors qualified and certified to train line officers. We encourage training prior to use of the BolaWrap 100 by individual departments but the nature and extent of training, if any, is up to the individual agency.

We believe our professional training and sales support team and systems provide both a competitive advantage and a barrier to new competition. The nature of modern policing requires that equipment and services be supported and that line officers have access to training and procedures to properly perform their duties and minimize the policing risks. We believe we have positioned our training and support teams to respond to agencies of all sizes.

Our Strategy

Our goal is to realize the potential of a new remote restraint device targeting law enforcement and security personnel. We aim to produce a product line starting with the BolaWrap 100 to meet the requirements of these customers. The key elements of our strategy include:

- produce a product line to meet customer requirements as a new tool to aid in the retention of individuals to make encounters more effective and less dangerous to members of law enforcement and the public;
- develop a robust production and supply system to support our customers;
- rapidly expand our training to support proper use of the product; and
- develop relationships with customers requiring large numbers of products, mainly larger city police departments, larger agencies and international police forces.

We also plan to develop products for use by security and related personnel and add other security products to our product portfolio. During 2019, at the request of a customer, we designed a private label 20"x30" rifle rated police shield and arranged for contract production of Wrap Shields to our specifications. In January 2020, our design was independently tested and passed and exceeded the National Institute of Justice 0108.01 Type III (High Powered Rifle) ballistic standard. We expect to deliver product to this customer in the first quarter of 2020 but have not yet developed further plans for this or similar shield products.

During 2019, working with an independent technology company, we configured a virtual reality system and developed training scenarios employing the BolaWrap. We used the system and scenarios during two large trade shows in October and November and in December installed a system in our Tempe training facility being used for demonstrations and training. During 2020, we intend to develop additional scenarios and determine future plans for this technology which we believe may have broader application beyond BolaWrap demonstrations and training.

Manufacturing and Suppliers

Manufacturing

We believe maintaining quality manufacturing capacity is essential to the performance of our products and the growth of our business. Our manufacturing and assembly involves unique processes and materials. We contract with third-party suppliers to produce various parts, components and subassemblies. We established initial startup production in our Las Vegas facility in 2018. In October 2019, we completed a move and started production at our new facility in Tempe, Arizona. This facility, in addition to administrative, sales, training and warehousing space, has sufficient engineering and manufacturing capacity to support current and expected business growth. In our Tempe facility, we complete the final assembly, test and ship our products. We have refined our internal processes to improve how we design, test, and qualify products. We continue to implement rigorous manufacturing and quality processes to track production and field issues. We implement design and component changes periodically to reduce our product costs and improve product reliability and manufacturability.

Suppliers

We minimize inventories and maximize the efficiency of our supply chain by having a number of components and sub-assemblies produced by outside suppliers. We rely on one supplier for laser assembly with some parts sole sourced from other suppliers. We are making efforts to obtain alternative suppliers to reduce such reliance. Our ability to manufacture our products could be adversely affected if we were to lose this sole source supplier and were unable to find an alternative supplier. We believe we have developed strong relationships with a number of our key suppliers. If these suppliers should experience quality problems or part shortages, our production schedules could be significantly delayed or our costs significantly increased.

Backlog

At December 31, 2019, we had \$344,000 of customer deposits on orders and had backlog of approximately \$1.725 million expected to be delivered in 2020. The amount of backlog at any point in time is dependent upon order timing, scheduled delivery dates to our customers and product lead times. Distributor and customer orders for future deliveries are generally subject to modification, rescheduling or in some instances, cancellation in the normal course of business.

Warranties

We expect to warranty our products to be free from defects in materials and workmanship for a period up to one year from the date of purchase. The warranty will be generally a limited warranty, and in some instances impose certain shipping costs on the customer. We expect in most cases it will be more economical and effective to replace the defective device rather than repair.

Competition

Although we are targeting the BolaWrap 100 as a new solution for law enforcement and not as a replacement for other tools currently in use, we will still compete with other use of force products for budgets. Law enforcement agencies may also determine that we are an alternative to other solutions in spite of such positioning.

Other use of force devices, including CEWs sold by Axon Enterprises, Inc. (formerly Taser International, Inc.), and pepper spray, batons, impact weapons sold by companies such as Defense Technology may compete with the BolaWrap 100 indirectly. Many law enforcement and corrections personnel consider such less-lethal weapons to be distinct tools, each best-suited to a particular set of circumstances. Consistent with this tool kit approach, purchasing any given tool does not preclude the purchase of one or several more. In other cases, budgetary considerations and limited space on officers' belts dictate that only a limited number of devices will be purchased and carried. We believe the BolaWrap 100's unique remote restraint use, effectiveness, and low possibility of injury will enable it to compete effectively against other alternatives.

Many of our present and potential future competitors have, or may have, substantially greater resources to devote to compete in the law enforcement market and to further technological and new product developments. Also, these competitors or others may introduce products with features and performance competitive to our product.

Government Regulation

The BolaWrap 100 is classified as a "firearm" by the U.S. Bureau of Alcohol, Tobacco, Firearms and Explosives ("ATF"), and is subject to federal firearms-related regulations. We hold three Federal Firearms Manufacturing Licenses that expire in 2020 through 2022. ATF regulations are enforced by surveillance and inspection. If ATF finds a violation, it can institute a wide range of enforcement actions, ranging from public warnings to more severe sanctions such as fines, penalties, suspension or withdrawal of regulatory approvals, product recalls, seizure of products, operating restrictions or total shutdown of production, and criminal prosecution.

Many states also have regulations restricting the sale and use of certain firearms and may determine their own classification and restrictions irrespective of ATF regulation. In most cases, the law enforcement and corrections market is subject to different ATF and state regulations or exemptions than the private citizen market, and we do not expect additional state restrictions or approvals for sales to law enforcement. Where different regulations exist, we expect that the regulations affecting the private citizen market may also apply to the private security markets, except as the applicable regulations otherwise specifically provide.

The BolaWrap 100 is also considered a crime control product by the U.S. government. Accordingly, the export of our devices is regulated under export administration regulations. As a result, we must obtain export licenses from the Department of Commerce for all shipments to foreign countries. We do not expect the need to obtain these licenses will cause a material delay in any future foreign shipments. Export regulations also prohibit the further shipment of our products from foreign markets in which we hold a valid export license to foreign markets in which we do not hold an export license for our products.

Foreign regulations, which may affect our device, and sale thereof, are numerous and often unclear. We expect to work with an agent, distributor or advisor who is familiar with the applicable import regulations in each of any targeted foreign markets.

Intellectual Property

We intend to protect our intellectual property assets including issued patents, pending patents, trademarks, trade craft and trade secrets such as know-how. In addition, we use confidentiality agreements with employees and some suppliers to ensure the safety of our trade secrets. We currently have seven issued U.S. patents related to the BolaWrap 100, and have six additional U.S. patents pending. In September 2018, we commenced filing our first foreign patent applications targeting the European Union (38 countries) and 17 other countries, all of which are currently pending but two of which have been allowed and expected to issue in 2002. We have reserved rights to file additional foreign patents. We have also been granted trade name protection for “BolaWrap”, and “Wrap” and expect to employ a combination of registered and common law trade names, trademarks and service marks in our business. We expect to rely on a variety of intellectual property protections for our products and technologies, including contractual obligations, and we intend to pursue a policy of vigorously enforcing such rights.

We have an ongoing policy of filing patent applications to seek protection for novel features of our products and technologies. Prior to the filing and granting of patents, our policy is to disclose key features to patent counsel and maintain these features as trade secrets prior to product introduction. Patent applications may not result in issued patents covering all important claims and could be denied in their entirety.

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

The failure to obtain patent protection or the loss of patent protection on our existing and future technologies or the circumvention of our patents by competitors could have a material adverse effect on our ability to compete successfully.

Our policy is to enter into nondisclosure agreements with each employee and consultant or third party to whom any of our proprietary information is disclosed. These agreements prohibit the disclosure of confidential information to others, both during and subsequent to employment or the duration of the working relationship. These agreements may not prevent disclosure of confidential information or provide adequate remedies for any breach.

Research and Development

Our research and development initiatives are led by our internal personnel and make use of specialized consultants when necessary. These initiatives include basic research, mechanical engineering design and testing. Future development projects will focus on new versions of the BolaWrap technology and new security technologies.

For the fiscal years ended December 31, 2019 and 2018, we spent approximately \$2.2 million and \$0.7 million, respectively, on company-sponsored research and development. Future levels of research and development expenditures will vary depending on the timing of further new product development and the availability of funds to carry on additional research and development on currently owned technologies or in other areas.

Related Party License and Royalties

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

The agreement provides for the payment of royalties of 4% of revenue from products employing the licensed device technology up to the earlier to occur of (i) the payment by the Company of an aggregate of \$1.0 million in royalties, or (ii) September 30, 2026. All development and patent costs have been paid by us and patent applications and the technology related to the BolaWrap 100 have been assigned to the Company, subject to the royalty obligation.

Seasonality

We do not expect to experience any significant seasonality trends. However, seasonality trends may occur in the future.

Executive Officers and Employees

We currently have five executive officers. We have 19 other employees, with 10 engaged in sales, marketing, sales support and training, four in production, three in research and development and two in administration. We employ consultants from time to time to provide additional sales, marketing, training and research and development services.

We believe we offer competitive compensation and other benefits and that our employee relations are good.

Available Information

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

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

ITEM 1A. RISK FACTORS

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

Risk Factors Relating to Our Business

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

We have a history of operating losses and expect to incur additional losses until we achieve sufficient revenue and resulting margins to offset our operating costs. Our net loss for the years ended December 31, 2019 and 2018 was \$8,325,488 and \$3,336,435, respectively. Our ability to achieve future profitability is dependent on a variety of factors, many of which are outside of our control. Failure to achieve profitability or sustain profitability, if achieved, may require us to raise additional financing, which could have a material negative impact on the market value of our Common Stock.

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

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

- failure of product sales to meet planned projections;
- working capital requirements to support business growth;
- our ability to control spending; and
- acceptance of our product in planned markets.

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

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

We only recently commenced revenue operations and have limited experience serving law enforcement and commercializing products like the BolaWrap 100, our first product, which makes it difficult to assess our future viability.

Although we are commercializing our first product, the BolaWrap 100, we have generated minimal revenue to date, and we have not yet demonstrated an ability to overcome many of the fundamental risks and uncertainties frequently encountered by companies in new and rapidly evolving fields of technology. To execute our business plan successfully, we will need to accomplish the following fundamental objectives, either on our own or with strategic collaborators:

- successfully commercialize the BolaWrap 100, and develop additional future products for commercialization;
- develop, obtain and maintain required regulatory approvals for commercialization of products we produce;
- establish an intellectual property portfolio for the BolaWrap 100 and other future products;
- establish and maintain sales, distribution and marketing capabilities, and/or enter into strategic partnering arrangements to access such capabilities;
- gain market acceptance for the BolaWrap 100 and/or other future products; and
- obtain adequate capital resources and manage our spending as costs and expenses increase due to research, production, development, regulatory approval and commercialization of the BolaWrap 100 and/or other future products.

We may incur significant and unpredictable warranty costs as our products are introduced and produced.

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

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

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

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

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

A substantial number of law enforcement agencies may not purchase our remote restraint product. In addition, if our product is not widely accepted by the law enforcement market, we may not be able to expand sales of our product into other markets. Law enforcement agencies may be influenced by claims or perceptions that our product is not effective or may be used in an abusive manner. Sales of our product to these agencies may be delayed or limited by such claims or perceptions.

We will be dependent on sales of the BolaWrap 100 for the foreseeable future, and if this product is not widely accepted, our growth prospects will be diminished.

We expect to depend on sales of the BolaWrap 100 and related cartridges for the foreseeable future. A lack of demand for this product, or its failure to achieve broad market acceptance, would significantly harm our growth prospects, operating results and financial condition.

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

We expect to sell our products worldwide and have commenced export activities for multiple countries. We expect exports to become a significant part of our future business. The risks inherent in international trade may reduce our international sales and harm our business and the businesses of our customers and our suppliers. These risks include, among other things:

- changes in tariff regulations;
- political instability, war, terrorism and other political risks;
- foreign currency exchange rate fluctuations;
- establishing and maintaining relationships with local distributors, agents and dealers;
- lengthy shipping times and accounts receivable payment cycles;
- import and export control and licensing requirements;
- compliance with a variety of U.S. laws, including the Foreign Corrupt Practices Act, by us or key subcontractors;
- compliance with a variety of foreign laws and regulations, including unexpected changes in taxation and regulatory requirements;
- greater difficulty in safeguarding intellectual property abroad than in the U.S.; and
- difficulty in staffing and managing geographically diverse operations.

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

Business interruptions, including any interruptions resulting from COVID-19, could significantly disrupt our operations and could have a material adverse impact on us.

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

The coronavirus (COVID-19) that was reported to have surfaced in Wuhan, China in December 2019 and that has now spread to other countries could adversely impact our operations or those of our third-party partners. Additionally, the continued spread of the virus could negatively impact the manufacture, supply, distribution and sale of our products and our financial results. The extent to which the coronavirus impacts our operations or those of our third-party partners will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the outbreak, new information that may emerge concerning the severity of the coronavirus and the actions to contain the coronavirus or treat its impact, among others. Any losses or damages we incur could have a material adverse effect on our financial results and our ability to conduct business as expected.

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

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

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

Our product is intended to be used in confrontations that could result in injury to those involved, whether or not involving our product. Our product may cause or be associated with such injuries. A person injured in a confrontation or otherwise in connection with the use of our product may bring legal action against us to recover damages on the basis of theories including personal injury, wrongful death, negligent design, dangerous product or inadequate warning. We may also be subject to lawsuits involving allegations of misuse of our product. If successful, personal injury, misuse and other claims could have a material adverse effect on our operating results and financial condition. Although we carry product liability insurance, significant litigation could also result in a diversion of management's attention and resources, negative publicity and an award of monetary damages in excess of our insurance coverage.

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

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

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

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

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

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

Government regulation of our products may adversely affect sales.

Our device is classified as a firearm regulated by the Bureau of Alcohol, Tobacco and Firearms involving substantial regulatory compliance. ATF regulations are enforced by surveillance and inspection. If ATF finds a violation, it can institute a wide range of enforcement actions, ranging from public warnings to more severe sanctions such as fines, penalties, suspension or withdrawal of regulatory approvals, product recalls, seizure of products, operating restrictions or total shutdown of production, and criminal prosecution. Any such actions could have a material adverse impact on our operations.

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

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

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

Our products, including the BolaWrap 100, have limited issued patents or other intellectual property protection. If we are unable to protect our intellectual property, we may lose a competitive advantage or incur substantial litigation costs to protect our rights.

Our future success depends in part upon our proprietary technology. We currently own seven issued U.S. patents related to the BolaWrap 100 and have seven U.S. patents pending. We have filed foreign patent applications in the European Union (up to 38 countries) and 17 other countries, and reserved our rights to file additional foreign patents. Our protective measures taken thus far, including our issued patents, pending patents, issued and pending trademarks and trade secret laws, may prove inadequate to protect our proprietary rights. There can be no assurance we will be granted any patent rights from pending patents. The scope of any possible patent rights may not prevent others from developing and selling competing products. The validity and breadth of claims covered in any possible patents involve complex legal and factual questions, and the resolution of such claims may be highly uncertain, lengthy, and expensive. In addition, any patents, if granted, may be held invalid upon challenge, or others may claim rights in or ownership of our patents.

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

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

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

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

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

We have limited experience developing law enforcement products. Our lack of experience and competition in the law enforcement market could reduce our sales and prevent us from achieving profitability.

The law enforcement market is highly competitive and our management team has limited experience developing law enforcement products. We face competition from numerous larger, better capitalized, more experienced and more widely known companies that make restraint devices, less-lethal weapons and other law enforcement products. Increased competition could result in greater pricing pressure, lower gross margins and reduced sales, and prevent us from achieving profitability.

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

We currently expect that the BolaWrap 100 will be the primary source of our revenue in the foreseeable future. We expect our revenue, if any, to vary significantly due to a number of factors. Many of these factors are beyond our control. Any one or more of these factors, including those listed below, could cause us to fail to achieve our revenue expectations. These factors include, among others:

- our ability to develop and supply product to customers;
- market acceptance of, and changes in demand for, our products;
- gains or losses of significant customers, distributors or strategic relationships;
- unpredictable volume and timing of customer orders;
- the availability, pricing and timeliness of delivery of components for our products;
- fluctuations in the availability of manufacturing capacity or manufacturing yields and related manufacturing costs;
- timing of new technological advances, product announcements or introductions by us and by our competitors;
- unpredictable warranty costs associated with our products;
- budgetary cycles and order delays by customers or production delays by us or our suppliers;
- regulatory changes affecting the marketability of our products;
- general economic conditions that could affect the timing of customer orders and capital spending and result in order cancellations or rescheduling; and
- general political conditions in this country and in various other parts of the world that could affect spending for the products that we intend to offer.

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

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

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

- the timing and extent of our research and development efforts;
- investments and costs of maintaining or protecting our intellectual property;
- the extent of marketing and sales efforts to promote our products and technologies; and
- the timing of personnel and consultant hiring.

Our dependence on third-party suppliers for key components of our product could delay shipment of our products and reduce our sales.

We depend on certain domestic and foreign suppliers for the delivery of components used in the assembly of our product. Our reliance on third-party suppliers creates risks related to our potential inability to obtain an adequate supply of components or sub-assemblies and reduced control over pricing and timing of delivery of components and subassemblies. Specifically, we will depend on suppliers of sub-assemblies, machined parts, injection molded plastic parts, and other miscellaneous custom parts for our product. We do not have any long-term supply agreements with any suppliers. Any interruption of supply for any material components of our products could significantly delay the shipment of our products and have a material adverse effect on our revenue, profitability and financial condition.

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

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

Loss of key management and other personnel could impact our business.

Our business is substantially dependent on our officers and other key personnel. The loss of an officer or any key personnel could materially adversely affect our business, financial condition, results of operations and cash flows. In addition, competition for skilled and non-skilled employees among companies like ours is intense, and the future loss of skilled or non-skilled employees or an inability to attract, retain and motivate additional skilled and non-skilled employees required for the operation and expansion of our business could hinder our ability to conduct research activities successfully, develop new products, attract customers and meet customer shipments.

Inadequate internal controls and accounting practices could lead to errors, which could negatively impact our business, financial condition, results of operations and cash flows.

We will need to improve internal controls and management oversight systems. Our small size and limited personnel and consulting resources make doing so more challenging than for more established entities. We may not be able to prevent or detect misstatements in our reported financial statements due to limited segregation of duties, system errors, the potential for human error, unauthorized actions of employees or contractors, inadequacy of controls, temporary lapses in controls due to shortfalls in transition planning and oversight resource contracts and other factors. In addition, due to their inherent limitations, such controls may not prevent or detect misstatements in our reported financial results as required under SEC rules, which could increase our operating costs or impair our ability to operate our business. Controls may also become inadequate due to changes in circumstances. It will be necessary to replace, upgrade or modify our internal information systems from time to time. If we are unable to implement these changes in a timely and cost-effective manner, our ability to capture and process financial transactions and support our customers as required may be materially adversely impacted, which could harm our business, financial condition, results of operations and cash flows.

Risk Factors Relating to Our Common Stock

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

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

- actual or anticipated fluctuations in our operating results;
- failure of securities analysts to initiate or maintain coverage of our Company, changes in financial estimates by any securities analysts who follow our Company, or our failure to meet these estimates or the expectations of investors;
- rating changes by any securities analysts who follow our Company;
- changes in the availability of federal funding to support local law enforcement efforts, or local budgets;
- announcements by us of significant technical innovations, acquisitions, strategic partnerships, joint ventures or capital commitments;
- changes in operating performance and stock market valuations of other security product companies generally;
- price and volume fluctuations in the overall stock market, including as a result of trends in the economy as a whole;
- changes in our board of directors or management;
- sales of large blocks of our Common Stock, including sales by our executive officers, directors and significant stockholders;
- lawsuits threatened or filed against us;
- short sales, hedging and other derivative transactions involving our capital stock;
- general economic conditions in the United States and abroad; and
- other events or factors, including those resulting from war, incidents of terrorism or responses to these events.

In addition, stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many security and technology companies. Stock prices of many security and technology companies have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies. In the past, stockholders have instituted securities action litigation against certain companies following periods of market volatility. If we were to become involved in securities litigation, it could subject us to substantial costs, divert resources and the attention of management from our business and adversely affect our business, operating results, financial condition and cash flows.

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

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

Our common stock could be delisted from the Nasdaq Stock Market.

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

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

Management owned approximately 53% of our Common Stock at December 31, 2019. As a result, our management, acting individually or as a group, has the potential ability to exert influence on the outcome of issues requiring approval by our stockholders. This concentration of ownership may have effects such as delaying or preventing a change in control of the Company that may be favored by other stockholders or preventing transactions in which stockholders might otherwise recover a premium for their shares over current market prices.

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

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

Sales of shares of Common Stock issuable upon the exercise of any future options or warrants may lower the price of our Common Stock.

At December 31, 2019, we had warrants, options and restricted stock units outstanding on 9,857,457 shares of our Common Stock. The issuance of shares of Common Stock issuable upon the exercise of options or warrants or issuance from restricted stock units could cause substantial dilution to existing holders of our Common Stock, and the sale of those shares in the market could cause the market price of our Common Stock to decline. The potential dilution from the issuance of these shares could negatively affect the terms on which we are able to obtain equity financing.

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

We are authorized to issue up to 5,000,000 shares of preferred stock in one or more series. Our Board of Directors may determine the terms of future preferred stock offerings without further action by our stockholders. If we issue preferred stock, it could affect your rights or reduce the value of your Common Stock. In particular, specific rights granted to future holders of preferred stock could be used to restrict our ability to merge with or sell our assets to a third party. Preferred stock terms may include voting rights, preferences as to dividends and liquidation, conversion and redemption rights and sinking fund provisions.

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

As a public company, we are incurring significant levels of legal, accounting, insurance, exchange listing fees and other expenses that we did not incur as a private company. We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the “*Exchange Act*”), the Sarbanes-Oxley Act of 2002 (the “*Sarbanes-Oxley Act*”), the Dodd-Frank Act, the listing requirements of the Nasdaq Capital Market and other applicable securities rules and regulations. Compliance with these rules and regulations increases our legal and financial compliance costs, makes some activities more difficult, time-consuming or costly and increases demand on our systems and resources as compared to when we operated as a private company. The Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and operating results. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management’s attention may be diverted from other business concerns, which could adversely affect our business and operating results. We may need to hire more corporate employees in the future or engage outside consultants to comply with these requirements, which would increase our costs and expenses.

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

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

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

We have never declared dividends on our Common Stock, and currently do not anticipate that we will do so in the foreseeable future. The declaration and amount of future dividends, if any, will be determined by our Board of Directors and will depend on our financial condition, earnings, capital requirements, financial covenants, regulatory constraints, industry practice and other factors our Board of Directors deems relevant.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We lease approximately 1,987 square feet of office, assembly and warehousing space located at 4620 Arville Street, Suite E, Las Vegas, Nevada 89103, pursuant to a three-year lease expiring December 2019 at a current monthly rate of \$1,588. In January 2019, we extended this lease for an additional twelve months commencing January 2020 and ending December 2020 at a rate of \$2,100 per month for the extension period. In February 2019, we entered into a two-year lease for 1906 square feet of office, assembly and warehousing space located at 20331 Lake Forest Drive, Suite C-11, Lake Forest, California 92630 at a monthly rate of \$2,723. In June 2019, we entered into a 38-month lease for 11,256 of office, training, assembly and warehouse space in Tempe, Arizona at a monthly rate of \$7,654. We expect that these properties will be sufficient to meet our needs for at least the next 12 months.

Beginning in October 2017, we commenced reimbursing officer Mr. Elwood Norris \$1,500 per month on a month to month basis for laboratory facility costs. In November 2018, we commenced paying \$5,000 on a month to month basis for a 50% share of 1,000 square feet at 55 Fifth Ave, Suite 1702, New York, NY 10003. We from time to time we may rent executive space on a month to month basis for remotely located employees.

ITEM 3. LEGAL PROCEEDINGS

We may at times, be involved in litigation in the ordinary course of business. We will also, from time to time, when appropriate in management's estimation, record adequate reserves in our financial statements for pending litigation.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

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

Holders

At March 9, 2020 there were 30,044,241 shares of Common Stock outstanding and approximately 41 stockholders of record.

Equity Compensation Plan Information

Our 2017 Stock Incentive Plan (the “2017 Plan”) was adopted by our Board of Directors on March 31, 2017, and approved by a majority of our stockholders on March 31, 2017. The 2017 Plan reserves for issuance 2.0 million shares of our Common Stock for issuance as one of four types of equity incentive awards: (i) stock options, (ii) shares of Common Stock, (iii) restricted stock awards, and (iv) restricted stock units. The 2017 Plan permits the qualification of awards under the plan as “performance-based compensation” within the meaning of Section 162(m) of the Internal Revenue Code.

On March 16, 2019, the Board of the Company approved and on May 23, 2019, the stockholders ratified, an increase in the Plan authorizing an additional 2,100,000 shares of Common Stock for a total of 4,100,000 shares.

The following table sets forth information as of December 31, 2019, with respect to compensation plans (including individual compensation arrangements) under which our equity securities are authorized for issuance, aggregated as follows:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options and rights (b)	Number of securities remaining available for future issuance under equity compensation plan (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	3,136,837	\$ 3.34	924,413
Equity compensation plans not approved by security holders	100,000	\$ 3.00	-
Total	3,236,837	\$ 3.33	924,413

Recent Sales of Unregistered Securities

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

Transfer Agent

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

Issuer Purchases of Equity Securities

Not applicable.

ITEM 6. SELECTED FINANCIAL DATA

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

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

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

Overview

We are a security technology company organized in March 2016 focused on delivering modern policing solutions to customers, primarily consisting of law enforcement and security personnel. We began demonstrations of our first product, the BolaWrap 100 remote restraint device, in November 2017. We made various improvements throughout 2018 as a result of feedback from early users of our devices. In late May 2019, we began shipping an updated version of our BolaWrap 100 remote restraint device featuring a green line laser to strategic police departments and international distributors.

The immediate addressable domestic market consists of approximately 900,000 full-time sworn law enforcement officers at over 15,300 federal, state and local law enforcement agencies. We are also exploring other domestic markets, including military and private security. Our international focus is on countries with the largest police forces. The 100 largest international police agencies are estimated to have over 12.1 million law enforcement personnel. According to Statistics MRC, we participate in a segment of the non-lethal products global market expected to grow to \$11.85 billion by 2023.

Business Outlook and Challenges

Our remote restraint solution continues to gain worldwide awareness and recognition through media exposure, trade shows, product demonstrations and word of mouth as a result of positive responses from agencies and early adoption and deployment success. We believe we have a recognized global brand, technology and an initial product foundation with the BolaWrap 100 and that we are poised for sales growth in 2020. We believe we have strong market opportunities within the immediate addressable domestic market of approximately 900,000 full-time sworn law enforcement officers in over 15,300 federal, state and local law enforcement agencies. And we believe we are establishing the foundation through strong distributor relationships to pursue the international market. Our product offering also has application and we intend to explore other markets, including military and border patrol.

We intend to expand our business in 2020 domestically and internationally through both direct and distributor sales. We are pursuing large business opportunities internationally and also pursuing business with large domestic police agencies. It is difficult to anticipate how long it will take to close these opportunities, or if they will ultimately come to fruition.

Our products and accessories have varying gross margins, and therefore product sales mix materially affects gross profit. In addition, the margins differ based on the channel of trade through which the products are sold. Production volume levels significantly impact overhead allocations. We implement product updates and changes, including raw material and component changes that may impact product costs. We do not believe that historical gross profit margins should be relied upon as an indicator of future gross profit margins.

We currently have approximately 10 full-time sales, business development, training and marketing personnel. In addition, we utilize various part-time sales consultants with experience and knowledge in various law enforcement areas to assist with specific markets we are pursuing. We exhibit at domestic and international trade shows and hold many demonstration and training events for customers and distributors.

Since inception in March 2016, we have generated significant losses from operations and anticipate that we will continue to generate significant losses from operations for the foreseeable future. Although we believe that we have adequate financial resources to sustain our operations for the next year, no assurances can be given, and we may need additional capital for future operations and to market and further develop our products and introduce new products.

We face significant challenges in operating and growing our business. We expect that we will need to continue to innovate new applications for our security technology, develop new and improved products and technologies to meet diverse customer requirements and identify and develop new markets for our products.

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 costs. 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 at a later time 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, operating lease liabilities, warranty liabilities, impairments and valuation of intangible assets.

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 training. Our customers do not have the right to return product unless the product is found to be defective.

Stock 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 during 2019 and 2018 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 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 consist of patents and trademarks that are amortized over their estimated useful lives. 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 Expenses. 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 ASC 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. There were no significant changes or modification of our critical accounting policies and estimates involving management valuation adjustments affecting our results for the year ended December 31, 2019.

Recent Accounting Pronouncements

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

Segment and Related Information

The Company has one operating segment with one business activity, providing restraint solutions. The Company's chief operating decision maker is its Chief Executive Officer, who manages operations for purposes of allocating resources. Refer to Note 13, Major Customers and Related Information, in our financial statements for further discussion.

Operating Expense

Our operating expense includes (i) selling, general and administrative expense, and (ii) research and development 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 expenses. 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. However, in the near term, we expect our research and development expense to increase in absolute dollars as we increase new product development activities.

The actual level of future 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 costs, and other factors, some of which are outside of our control. We expect our operating costs will increase as we expand product distribution activities and expand our research and development, production, distribution, training, service and administrative functions in the near term. We may also incur substantial noncash share-based compensation costs depending on future option and restricted stock unit grants that are impacted by stock prices and other valuation factors. Historical expenditures are not indicative of future expenditures.

Results of Operations

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

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

	Year Ended December 31,		Change	
	2019	2018	\$	%
Revenues:				
Product sales	\$ 656,071	\$ 18,830	\$ 637,241	
Other revenue	40,719	4,320	36,399	
Total revenues	696,790	23,150	673,640	
Cost of revenues	420,016	18,611	401,405	
Gross profit	276,774	4,539	272,235	
Operating expenses:				
Selling, general and administrative	6,653,465	2,607,397	4,046,068	155%
Research and development	2,236,985	734,776	1,502,209	204%
Total operating expenses	8,890,450	3,342,173	5,548,277	166%
Loss from operations	\$ (8,613,676)	\$ (3,337,634)	\$ (5,276,042)	158%

Revenue

We reported revenue of \$696,790 for the year ended December 31, 2019. We had minimal revenue of \$23,150 for the year ended December 31, 2018 as we only commenced limited and selected agency product sales in late 2018. Our recent marketing and selling efforts have focused on creating demand for our improved generation BolaWrap 100 product with our green line laser introduce. Initial deliveries of the improved product began in late May 2019. We incurred product promotional costs of \$433,172 for the year ended December 31, 2019 related to the cost of demonstration products and accessories delivered to law enforcement agencies that were expensed as marketing costs. A total of \$192,484 of such product marketing costs was incurred during the year ended December 31, 2018.

We had \$2,684 of deferred revenue at December 31, 2019 related to products sold for which the training revenue component had not been completed.

We believe we can accelerate sales in 2020 but sales may be sporadic as we grow our distributor and customer base. The receipt of orders will often be uneven due to the timing of customer's approval or budget cycles and delays for any required permits due to the regulated nature of our products.

At December 31, 2019 we had \$344,000 of customer deposits on orders and had backlog of approximately \$1.725 million expected to be delivered in 2020. Distributor and customer orders for future deliveries are generally subject to modification, rescheduling or in some instances, cancellation in the normal course of business.

Gross Profit

Our cost of revenue for the year ended December 31, 2019 was \$420,016 resulting in a gross margin of 40%. Due to the minimal revenue and the changes being made to our product as we establish volume manufacturing such margin may not be indicative of future margins. In addition, our margins vary based on the sales channels through which our products are sold. We continue to implement product updates and changes, including raw material and component changes that may impact product costs. With such product updates and changes we have limited warranty cost experience and estimated future warranty costs can impact our gross margins. We do not believe that historical gross profit margins should be relied upon as an indicator of future gross profit margins.

In September 2019, we relocated manufacturing operations and production to our new facility in Tempe, Arizona. While this significantly increases our capacity, we expect that larger allocations of overhead and costs associated with start-up and training may have a negative impact on product margins until and if production volume increases in future quarters.

Selling, General and Administrative Expense

Selling, general and administrative expense increased by \$4,046,068 during the year ended December 31, 2019, when compared to the year ended December 31, 2018. During the year ended December 31, 2019, we incurred a \$992,944 increase in non-cash share-based compensation expense allocated to selling, general and administrative expense with \$1,410,095 in the year ended December 31, 2019 compared to \$417,151 in the year ended December 31, 2018. Other increases in the 2019 period included a \$1,154,578 increase in cash compensation costs from an increase in headcount since 2018 and a \$408,802 increase in travel costs. Marketing and promotion costs increased \$645,639 in the 2019 period when compared to the 2018 period, due, primarily to promotional products. Occupancy costs increased \$252,665 due to the addition of facilities in Lake Forest, California and Tempe, Arizona, and public company costs increased \$300,512 due to Nasdaq fees, insurance and related increased public costs incurred in 2019.

In 2020, we expect to expend additional resources on the marketing and selling of our products, training distributors and customers and administratively supporting our operations.

Research and Development Expense

Research and development expense increased \$1,502,209 during the year ended December 31, 2019, when compared to the year ended December 31, 2018. We incurred a \$30,164 period over period increase in non-cash share-based compensation expense allocated to research and development expense. Other increases in costs for the 2019 period, when compared to the 2018 period included a \$696,762 increase in cash compensation costs from an increase in headcount primarily associated with production development. Prototype related costs increased \$423,952 in the 2019 period, primarily related to developing the updated version of the BolaWrap 100 product and effect of model and component changes. Consulting costs during the 2019 period increased \$231,826 related to developing systems for monitoring research and production. Travel costs increased \$91,970 due primarily to setting up the new manufacturing facilities. We expect our research and development costs will increase in 2020 due to increased research personnel added during 2019 and current projects focused on improving our products, developing an improved restraint product and developing additional security products.

Net Loss

Loss from operations during the year ended December 31, 2019 increased by \$5,276,042 when compared to the year ended December 31, 2018, resulting, primarily from increased operating costs due to increased personnel and marketing and selling and supporting activities.

Liquidity and Capital Resources

Overview

We have experienced net losses and negative cash flows from operations since our inception. As of December 31, 2019, we had cash of \$16,983,864 and positive working capital of \$18,598,899, and had sustained cumulative losses attributable to stockholders of \$12,729,824. We believe that our cash on hand will sustain our operations for at least the next twelve months from the date of this Report.

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

Capital Requirements

In December 2017, we completed our self-underwritten IPO, raising gross proceeds of approximately \$3.49 million from the sale of 2,328,533 shares of Common Stock at the public offering price of \$1.50 per share.

In October 2018, we received approximately \$12.14 million in net cash proceeds from the private sale of equity securities to certain accredited investors.

In June 2019, we obtained net cash proceeds of approximately \$11.35 million from the June 2019 Follow-On Offering. During the year ended December 31, 2019 we also obtained \$2.14 million of net proceeds from the exercise of previously issued warrants and stock options.

We cannot currently estimate our future liquidity requirements or future capital needs, which will depend on, among other things, capital required to introduce our products and the staffing and support requirements, as well as the timing and amount of future revenue and product costs. We anticipate that demands for operating and working capital will grow as we are increasing 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 no assurances can be given. Additionally, no assurances can be provided that any future debt or equity capital will be available to us under favorable terms, if at all. Failure to quickly produce and sell products and timely obtain any required additional capital in the future would result in a material adverse effect on the Company.

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:

- decisions regarding staffing, development, production, marketing and other functions;
- the ability to meet sales projections and timing and extent of market acceptance of our products;
- the costs, timing and outcome of planned production and required customer and regulatory compliance of our products;
- the costs of preparing, filing and prosecuting our patent applications and defending any future intellectual property-related claims;
- the costs and timing of additional product development;
- the costs, timing and outcome of future warranty claims or litigation against us associated with any of our products; and
- the timing and costs associated with any new financing.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Cash Flow

Operating Activities.

During the year ended December 31, 2019, net cash used in operating activities was \$8,485,637. The net loss of \$8,325,488 was decreased by non-cash expense of \$1,779,205 consisting primarily of share-based compensation expense of \$1,536,096. Other major component changes using operating cash included a \$1,892,768 increase in inventories, an increase of \$190,951 in accounts receivable, a \$136,084 increase in prepaid expenses and other current assets and a \$96,000 reduction in deferred compensation. An increase of \$286,398 in accounts payable and accrued liabilities and new customer deposits of \$343,724 reduced the cash used in operating activities.

During the year ended December 31, 2018, net cash used in operating activities was \$2,692,136 consisting primarily of the net loss of \$3,336,435 reduced by non-cash share-based compensation of \$512,988.

Investing Activities.

We used \$256,742 and \$14,225 of cash for the purchase of property and equipment during the years ended December 31, 2019 and 2018, respectively. We began capitalizing patent costs during mid-2018 and invested \$114,274 and \$120,070 in patents during the years ended December 31, 2019 and 2018, respectively.

Financing Activities.

We received \$11,351,214 of net proceeds from the June 2019 Follow-On Offering, and, during the year ended December 31, 2019, obtained \$2,141,576 net proceeds from the exercise of previously issued warrants and stock options. During the year ended December 31, 2018 we obtained \$12,140,786 of net proceeds from the private sale of equity securities.

Contractual Obligations and Commitments

We are obligated to pay to Syzygy Licensing, LLC (“Syzygy”) a 4% royalty fee on future product sales up to an aggregate amount of \$1.0 million in royalties or until September 30, 2026, whichever occurs earlier.

In January 2019, we extended our Las Vegas, Nevada corporate and production facility lease through December 31, 2020. In February 2019, we entered into a two-year lease for an office and warehouse space in Lake Forest, California. In June 2019, we entered into a 38-month lease for office, training, assembly and warehouse space in Tempe, Arizona. We are committed to aggregate lease payments on these leases of \$143,574 in 2020, \$101,406 in 2021 and \$57,328 in 2022.

At December 31, 2019, we were committed to approximately \$82,000 of purchase commitments for product components. These purchase commitments are generally subject to modification as to timing, quantities and scheduling and in certain instances may be cancelable without penalty.

Effects of Inflation

We do not believe that inflation has had a material impact on our business, revenue or operating results during the periods presented.

Recent Accounting Pronouncements

Other than our adoption of ASU 2016-02, Leases (Topic 842), there have been no recent accounting pronouncements or changes in accounting pronouncements during the year ended December 31, 2019, or subsequently thereto, that we believe are of potential significance to our financial statements.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There have been no disagreements with our independent registered public accounting firm in regards to accounting and financial disclosure.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

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

ITEM 9A. CONTROLS AND PROCEDURES.

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

Evaluation of Disclosure Controls and Procedures

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

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2019 and, based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective at the reasonable assurance level.

Management's Report on Internal Control Over Financial Reporting

This Annual Report does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of the Company's registered public accounting firm because the Company is an "emerging growth company" under the JOBS Act. An attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting is also not required for smaller reporting companies.

Changes in Internal Controls

There have been no changes in our internal control over financial reporting since September 30, 2019, in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Our process for evaluating controls and procedures is continuous and encompasses constant improvement of the design and effectiveness of established controls and procedures and the remediation of any deficiencies, which may be identified during this process.

ITEM 9B. OTHER INFORMATION

None.

PART III

Certain information required by this Part III is omitted from this report and is incorporated by reference to our Definitive Proxy Statement to be filed with the SEC in connection with the Annual Meeting of Stockholders to be held in 2020 (the “*Proxy Statement*”), which must be filed no later than 120 days after the close of the fiscal year ended December 31, 2019, pursuant to Regulation 14A.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information required by this item will be incorporated by reference from the Company’s definitive proxy statement, to be filed with the SEC on or before April 29, 2020.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this item will be incorporated by reference from the Company’s definitive proxy statement, to be filed with the SEC on or before April 29, 2020.

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

The information required by this item will be incorporated by reference from the Company’s definitive proxy statement, to be filed with the Securities and Exchange Commission on or before April 29, 2020.

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

The information required by this item will be incorporated by reference from the Company’s definitive proxy statement, to be filed with the SEC on or before April 29, 2020.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required by this item will be incorporated by reference from the Company’s definitive proxy statement, to be filed with the SEC on or before April 29, 2020.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

(1) Index to Financial Statements

Report of Independent Registered Public Accounting Firm

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Balance Sheets as of December 31, 2019 and 2018

F-3

Statements of Operations for the Years Ended December 31, 2019 and 2018

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Statements of Stockholders' Equity for the Years Ended December 31, 2019 and 2018

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Statements of Cash Flows for the Years Ended December 31, 2019 and 2018

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Notes to Financial Statements

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(2) Financial Statement Schedules

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

(3) Index to Exhibits

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

<u>Exhibit Number</u>	<u>Description</u>
<u>2.1</u>	Stock Purchase Agreement, dated March 22, 2017, by and between Wrap Technologies, LLC, Petro River Oil Corp., and Megawest Energy Montana Corp. Incorporated by reference to Exhibit 2.1 to the Registration Statement on Form S-1, filed on April 17, 2017.
<u>2.2</u>	Merger Agreement between Wrap Technologies, LLC and Megawest Energy Montana Corp., dated March 30, 2017. Incorporated by reference to Exhibit 2.2 to the Registration Statement on Form S-1, filed on April 17, 2017.
<u>3.1</u>	Amended and Restated Certificate of Incorporation of the Registrant. Incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-1, filed on April 17, 2017.
<u>3.2</u>	Bylaws of the Registrant. Incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-1, filed on April 17, 2017.
<u>4.1</u>	Form of Common Stock Certificate. Incorporated by reference to Exhibit 4.1 to Amendment No. 1 to the Registration Statement on Form S-1, filed on May 30, 2017.
<u>4.2</u>	Form of Investor Warrant, dated October 30, 2018. Incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K, filed on November 5, 2018.
<u>4.3</u>	Form of Placement Agent Warrant, dated October 30, 2018. Incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K, filed on November 5, 2018.
<u>4.4</u>	Form of Investor Warrant, dated June 18, 2019. Incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K, filed on June 18, 2019.
<u>4.5</u>	Form of Offering Agent Warrant, dated June 18, 2019. Incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K, filed on June 18, 2019.
<u>10.1</u>	Amended and Restated Intellectual Property License Agreement, dated September 30, 2016, by and between Wrap Technologies, LLC and Syzygy Licensing LLC. Incorporated by reference to Exhibit 10.1 to the Registration Statement on Form S-1, filed on April 17, 2017.
<u>10.2+</u>	2017 Equity Compensation Plan. Incorporated by reference to Exhibit 10.2 to the Registration Statement on Form S-1, filed on April 17, 2017.
<u>10.3</u>	Form of Placement Agent Agreement, dated October 30, 2018. Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed on November 5, 2018.
<u>10.4</u>	Form of Registration Rights Agreement, dated October 30, 2018. Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K, filed on November 5, 2018.
<u>10.5</u>	Supplemental Engagement Letter by and between Wrap Technologies, Inc. and Katalyst Securities LLC, dated June 7, 2019. Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed on June 13, 2019.
<u>10.6</u>	Engagement Letter by and between Wrap Technologies, Inc., Dinosaur Financial Group, LLC and Katalyst Securities LLC, dated June 12, 2019. Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K, filed on June 18, 2019.
<u>10.7</u>	Amended 2017 Equity Compensation Plan. Incorporated by reference to Exhibit 10.1 to the Registration Statement on Form S-8, filed on June 24, 2019.
<u>10.8</u>	Industrial Real Estate Lease, dated May 10, 2019, by and between Wrap Technologies, Inc. and JM Sky Harbor Properties LLC. Incorporated by reference from Exhibit 10.1 to the Current Report on Form 8-K, filed on June 6, 2019.
<u>14.1</u>	Code of Ethics of the Registrant Applicable to Directors, Officers and Employees.*
<u>23.1</u>	Consent of Independent Registered Public Accounting Firm - Rosenberg Rich Baker Berman, P.A. *
<u>31.1</u>	Certification of David Norris pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 *
<u>31.2</u>	Certification of James A. Barnes pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 *
<u>32.1</u>	Certifications pursuant to 18 U.S.C. Section 1350. This certification is being furnished solely to accompany this Annual Report on Form 10-K and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company.*
Extensible Business Reporting Language (XBRL) Exhibits*	
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.
101.LAB	XBRL Taxonomy Extension Labels Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.

* Filed herewith.

+ Management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Las Vegas, State of Nevada, on the 10th day of March, 2020.

Wrap Technologies, Inc.

By: /s/ DAVID NORRIS
Chief Executive Officer

Date: March 10, 2020

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

<u>Name</u>	<u>Position</u>	<u>Date</u>
<u>/s/ DAVID NORRIS</u> David Norris	Chief Executive Officer and Director (Principal Executive Officer)	March 10, 2020
<u>/s/ JAMES A. BARNES</u> James A. Barnes	Chief Financial Officer, Secretary and Treasurer (Principal Accounting Officer)	March 10, 2020
<u>/s/ SCOT COHEN</u> Scot Cohen	Executive Chair of Board	March 10, 2020
<u>/s/PATRICK KINSELLA</u> Patrick Kinsella	Director	March 10, 2020
<u>/s/MICHAEL PARRIS</u> Michael Parris	Director	March 10, 2020
<u>/s/WAYNE R. WALKER</u> Wayne R. Walker	Director	March 10, 2020

WRAP TECHNOLOGIES, INC.

INDEX TO FINANCIAL STATEMENTS

Audited Financial Statements:	Page
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<u>Statements of Stockholders' Equity for Years Ended December 31, 2019 and 2018</u>	F-5
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Wrap Technologies, Inc.

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Wrap Technologies, Inc (the Company) as of December 31, 2019 and 2018, and the related statements of operations, stockholders' equity, and cash flows for each of the years in the two years ended December 2019, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the two years ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

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

We have served as the Company's auditor since 2016.

Somerset, New Jersey
March 10, 2020

Wrap Technologies, Inc.
Balance Sheets

	December 31,	
	2019	2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 16,983,864	\$ 12,358,896
Accounts receivable	195,347	4,396
Inventories, net	2,244,541	158,267
Prepaid expenses and other current assets	250,947	114,863
Total current assets	19,674,699	12,636,422
Property and equipment, net	242,876	30,373
Operating lease right-of-use asset, net	260,931	-
Intangible assets, net	230,283	118,715
Other assets, net	12,681	1,512
Total assets	\$ 20,421,470	\$ 12,787,022
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 406,967	\$ 232,915
Accrued liabilities	194,294	68,453
Customer deposits	343,724	-
Deferred revenue	2,684	-
Operating lease liability- short term	128,131	-
Deferred and accrued officer compensation	-	96,000
Total current liabilities	1,075,800	397,368
Operating Lease Liability - Long Term	150,018	-
Total liabilities	1,225,818	397,368
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; 29,829,916 and 27,364,607 shares issued and outstanding each period, respectively	2,983	2,736
Additional paid-in capital	31,922,493	16,791,254
Accumulated deficit	(12,729,824)	(4,404,336)
Total stockholders' equity	19,195,652	12,389,654
Total liabilities and stockholders' equity	\$ 20,421,470	\$ 12,787,022

See accompanying notes to financial statements.

Wrap Technologies, Inc.
Statements of Operations

	Year Ended December 31,	
	2019	2018
Revenues:		
Product sales	\$ 656,071	\$ 18,830
Other revenue	40,719	4,320
Total revenues	696,790	23,150
Cost of revenues	420,016	18,611
Gross profit	276,774	4,539
Operating expenses:		
Selling, general and administrative	6,653,465	2,607,397
Research and development	2,236,985	734,776
Total operating expenses	8,890,450	3,342,173
Loss from operations	(8,613,676)	(3,337,634)
Other income (expense):		
Interest income	291,494	2,912
Interest expense	-	(1,304)
Other	(3,306)	(409)
	288,188	1,199
Net loss	\$ (8,325,488)	\$ (3,336,435)
Net loss per basic and diluted common share	\$ (0.29)	\$ (0.14)
Weighted average common shares used to compute net loss per basic and diluted common share	28,652,625	23,578,291

See accompanying notes to financial statements.

Wrap Technologies, Inc.
Statements of Stockholders' Equity

	Common Stock		Additional	Accumulated	Total
	Shares	Amount	Paid-In	Deficit	Stockholders'
			Capital		Equity
Balance at December 31, 2017	22,803,533	\$ 2,280	\$ 4,137,936	\$ (1,067,901)	\$ 3,072,315
Sale of common stock and warrants at \$3.00 per share and placement agent warrants in private offering, net of issuance costs	4,561,074	456	12,140,330		12,140,786
Share-based compensation expense			512,988		512,988
Net loss for the period	-	-	-	(3,336,435)	(3,336,435)
Balance at December 31, 2018	27,364,607	\$ 2,736	\$ 16,791,254	\$ (4,404,336)	\$ 12,389,654
Sale of common stock and warrants at \$6.50 per share and placement agent warrants in public offering, net of issuance costs	1,923,076	192	11,351,022		11,351,214
Common shares issued upon exercise of warrants at \$3.00 per share	127,649	13	382,934		382,947
Common shares issued upon exercise of warrants at \$5.00 per share, net of issuance costs	345,834	35	1,700,469		1,700,504
Common shares issued upon exercise of stock options	38,750	4	58,121		58,125
Share-based compensation expense			1,536,096		1,536,096
Common shares issued for services	30,000	3	102,597		102,600
Net loss for the period	-	-	-	(8,325,488)	(8,325,488)
Balance at December 31, 2019	<u>29,829,916</u>	<u>\$ 2,983</u>	<u>\$ 31,922,493</u>	<u>\$ (12,729,824)</u>	<u>\$ 19,195,652</u>

See accompanying notes to financial statements.

Wrap Technologies, Inc.
Statements of Cash Flows
(unaudited)

	Year Ended December 31,	
	2019	2018
Cash Flows From Operating Activities:		
Net loss	\$ (8,325,488)	\$ (3,336,435)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	46,945	21,875
Warranty provision	13,495	-
Inventory write-off	(193,506)	-
Non-cash lease expense	80,069	-
Share-based compensation	1,536,096	512,988
Common shares issued for services	102,600	-
Changes in assets and liabilities:		
Accounts receivable	(190,951)	(4,396)
Inventories	(1,892,768)	(27,075)
Prepaid expenses and other current assets	(136,084)	(63,982)
Accounts payable	174,052	196,750
Operating lease liability	(62,851)	-
Customer deposits	343,724	-
Accrued liabilities and other	112,346	8,139
Deferred compensation	(96,000)	-
Deferred revenue	2,684	-
Net cash used in operating activities	<u>(8,485,637)</u>	<u>(2,692,136)</u>
Cash Flows From Investing Activities:		
Capital expenditures for property and equipment	(256,742)	(14,225)
Investment in patents and trademarks	(114,274)	(120,070)
Long-term deposits	(11,169)	-
Net cash used in investing activities	<u>(382,185)</u>	<u>(134,295)</u>
Cash Flows From Financing Activities:		
Sale of common stock and warrants	12,499,994	13,683,222
Offering costs paid on sale of stock and warrants	(1,148,780)	(1,542,436)
Proceeds from exercise of warrants	2,112,117	-
Offering costs paid on exercise of warrants	(28,666)	-
Proceeds from exercise of stock options	58,125	-
Payment of notes payable	-	(39,435)
Net cash provided by financing activities	<u>13,492,790</u>	<u>12,101,351</u>
Net increase in cash and cash equivalents	4,624,968	9,274,920
Cash and cash equivalents, beginning of period	12,358,896	3,083,976
Cash and cash equivalents, end of period	<u>\$ 16,983,864</u>	<u>\$ 12,358,896</u>
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Interest paid	\$ -	\$ 1,304
Prepaid insurance financed with note payable	\$ -	\$ 39,435
Right-of-use assets and liabilities recorded during period	\$ 341,000	\$ -
Issuance costs relating to warrants issued to offering selling agent	\$ 205,894	\$ 664,427

See accompanying notes to financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Business Description

Wrap Technologies, Inc., a Delaware corporation (the “*Company*”), is a publicly traded company listed on the Nasdaq Capital Market (“*Nasdaq*”) under the trading symbol “WRTC”. The Company is a developer of security products designed for use by law enforcement and security personnel. The Company’s first product is the BolaWrap® 100 remote restraint device that discharges an eight-foot bola style Kevlar® tether to entangle a subject at a range of 10-25 feet. The principal markets for the Company’s proprietary products are in North and South America, Europe, Middle East and Asia.

Basis of Presentation and Use of Estimates

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

Public and Private Offerings

In December 2017, the Company completed a self-underwritten public offering raising gross proceeds of approximately \$3.49 million from the sale of 2,328,533 shares of Common Stock at \$1.50 per share. Three officers of the Company purchased 40,000 shares of the offering for \$60,000.

On October 30, 2018 the Company obtained gross cash proceeds of \$13.68 million and net cash proceeds of approximately \$12.14 million from the sale of 4,561,074 units (“*Units*”) for \$3.00 per Unit in a private offering. Each Unit consisted of one share of common stock and one detachable two-year warrant to purchase one share of common stock at an exercise price of \$5.00 per share.

On June 18, 2019, the Company consummated a June 2019 Follow-On Offering, pursuant to which a total of 1,923,076 Units were offered and sold at a public offering price of \$6.50 per Unit. Each Unit sold consisted of one share of Common Stock and one detachable two-year warrant to purchase one share of Common Stock at an exercise price of \$6.50 per share. The offering resulted in the Company’s receipt of gross cash proceeds of \$12.5 million, or net cash proceeds of \$11.35 million after deduction of commissions and offering costs.

Concentrations of Risk

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

Concentrations of Accounts Receivable and Revenue – The Company has recently commenced sales activities with a limited number of customers. The Company may experience concentrations in both accounts receivable and revenue due to the timing of sales and collections of related payments.

Concentration of Suppliers – The Company relies on a limited number of component suppliers and contract suppliers. In particular, a single supplier is currently the sole manufacturer of the Company’s laser assembly with some parts sole sourced from other suppliers. If supplier shortages occur, or quality problems arise, then production schedules could be significantly delayed or costs significantly increased, which could in turn have a material adverse effect on the Company’s financial condition, results of operation and cash flows.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Stock Based Compensation

The Company follows 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 has adopted Accounting Standards Update ("ASU") 2018-07 for share-based transactions with non-employees. Share-based compensation expense recognized during 2019 and 2018 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. The fair value of share-based compensation is amortized to compensation expense over the vesting term.

Loss per Share

Basic loss per common share is computed by dividing net loss for the period by the weighted-average number of shares of common stock outstanding during the period. Diluted net loss per common share reflects the potential dilution of securities that could share in the earnings of an entity. The Company's losses for the periods presented cause the inclusion of potential common stock instruments outstanding to be antidilutive. Stock options, restricted stock units and warrants exercisable or issuable for a total of 9,857,457 and 7,084,681 shares of Common Stock were outstanding at December 31, 2019 and 2018, 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.

Fair Value of Financial Instruments

The carrying amounts of cash, accounts receivable, accounts payable and accrued liabilities approximate fair values due to the short nature of these instruments.

Accounts Receivable and Allowance for Doubtful Accounts

The Company's policy is to evaluate the collectability of accounts receivable based on an assessment of the collectability of specific customer accounts and then record an allowance for doubtful accounts to reduce the receivables to an amount that management reasonably estimates will be collected. There was no allowance for doubtful accounts recorded at December 31, 2019 or 2018. Accounts that are deemed uncollectible will be written off against the allowance for doubtful accounts. If a major customer's creditworthiness deteriorates, or actual defaults exceed our historical experience, such estimates could change and impact our future reported financial results.

Inventories

Inventories are valued at the lower of cost or net realizable value. Prior to October 1, 2019 substantially all of the Company's inventory was determined by the weighted average cost method which approximated the first in first out (FIFO) cost method. Effective October 1, 2019, with the change to a new computerized inventory system, the Company commenced identifying FIFO layers. The Company believes this transition change to FIFO will improve financial reporting by better reflecting the current value of inventory on the balance sheet, more closely aligning the flow of physical inventory with the accounting for the inventory and providing better matching of revenues and expenses. As the Company has only recently started selling products, and had limited purchase and sales activity, the weighted average method approximated FIFO and this change to FIFO had no material effect on the prior balance sheet, statement of operations or cash flows. Accordingly, no retrospective changes have been recorded.

Inventory is comprised of raw materials, assemblies and finished products intended for sale to customers. The Company evaluates the need for reserves for excess and obsolete inventories determined primarily based upon estimates of future demand for the Company's products. At December 31, 2019 or 2018 the Company had no reserve for obsolescence.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Contract Manufacturers

The Company employs contract manufacturers for production of certain components and sub-assemblies. The Company may provide parts and components to such parties from time to time, but recognizes no revenue or markup on such transactions. During 2019 and 2018, the Company performed assembly of products in-house using components and sub-assemblies from a variety of contract manufacturers and suppliers.

Property, Equipment and Depreciation

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

Intangible Assets

Intangible assets consisted of capitalized legal fees and filing costs related to obtaining patents and trademarks. Upon the Company's first patent approval in July 2018 the Company commenced capitalizing patent and trademark costs. When a patent or trademark is issued the cost is amortized using the straight-line method over the estimated remaining lives which is 20 years from the initial filing. Trademarks are amortized on a straight-line basis over ten years, the estimated useful life of the assets.

Impairment of Long-Lived Assets

Long-lived assets and identifiable intangibles held for use are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of undiscounted expected future cash flows is less than the carrying amount of the asset or if changes in facts and circumstances indicate, an impairment loss is recognized and measured using the asset's fair value. The Company did not recognize any impairment loss during the periods ended December 31, 2018 and 2019.

Classification and Valuation of Warrants

The Company accounts for warrants as either equity or liabilities based upon the characteristics and provisions of each particular instrument. Warrants valued and classified as equity are recorded as additional paid-in capital based on the issue date fair value and no further adjustment to valuation is made. As of December 31, 2019, the Company has no warrants or other derivative financial instruments that require separate accounting as liabilities and periodic revaluation. However, in accordance with ASC 480 changes in director and officer ownership or other factors in future periods could require reclassification of outstanding warrants as a liability with changes in value thereafter reflected in the statement of operations.

Advertising and Promotion Costs

The Company expenses advertising costs in the period in which they are incurred. The Company incurred advertising costs of \$165,119 and \$27,218 for the years ended December 31, 2019 and 2018, respectively. The Company incurred product promotion costs for demonstration products delivered to prospective customers of \$433,172 and \$192,484 for the years ended December 31, 2019 and 2018, respectively. Advertising and promotion costs are included in selling, general and administrative expenses in the accompanying statements of operations.

Research and Development Costs

Research and development costs consist primarily of contract development costs and experimental work materials and certain startup costs. Research and development costs with no alternative use are expensed as incurred.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Leases

At the commencement date of a lease, the Company recognizes a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. The lease liability is measured at the present value of lease payments over the lease term. As its leases typically do not provide an implicit rate and due to lack of borrowing history or ability, the Company uses as its incremental borrowing rate a low-grade debt rate published by the Federal Reserve Bank. The right-of-use ("ROU") asset is measured at cost, which includes the initial measurement of the lease liability and initial direct costs incurred by the Company and excludes lease incentives. Lease liabilities are recorded as a current liability for the portion due within one year with the balance as a long-term liability. ROU assets are recorded as other asset, net.

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers ("ASU 2014-09") and ASC Subtopic 340-40, Other Assets and Deferred Costs - Contracts with Customers ("ASC 340-40"), (collectively, "Topic 606"). On January 1, 2018, the Company adopted Topic 606 and, as it had no prior revenue or contracts with customers, there was no transition required nor any impact on prior results. ASU 2014-09 requires entities to recognize revenue through the application of a five-step model, which includes identification of the contract, identification of the performance obligations, determination of the transaction price, allocation of the transaction price to the performance obligations and recognition of revenue as the entity satisfies the performance obligations. See Note 2 for additional information.

Shipping and Handling Costs

Shipping and handling costs are included in cost of revenues. Shipping and handling costs invoiced to customers are included in revenue. Actual shipping and handling costs were \$22,177 and \$1,570 for the years ended December 31, 2019 and 2018, respectively. Actual revenues from shipping and handling were \$21,414 and \$670 for the years ended December 31, 2019 and 2018, respectively.

Warranty Reserves

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

The Company establishes a warranty reserve based on anticipated warranty claims at the time product revenues are recognized. Factors affecting warranty reserve levels include the number of units sold, anticipated cost of warranty repairs and anticipated rates of warranty claims. The Company evaluates the adequacy of the provision for warranty costs each reporting period. The warranty reserve was \$13,923 and \$428 at December 31, 2019 and 2018. Actual warranty costs could differ from estimates.

Segment Information

The Company has one operating segment with one business activity, providing restraint solutions. The Company's chief operating decision maker is its Chief Executive Officer, who manages operations for purposes of allocating resources.

Income Taxes

Until its conversion to a corporation on March 31, 2017, the Company was treated as a partnership for federal and state income tax purposes and did not incur income taxes. Instead, its losses were included in the income tax returns of the member partners. No income tax expense was recorded for the periods ended December 31, 2019 and 2018 due to losses incurred.

Deferred tax assets and liabilities are determined based on temporary differences between the bases of certain assets and liabilities for income tax and financial reporting purposes.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Income Taxes (Cont'd)

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

Subsequent Events

Management has evaluated events subsequent to December 31, 2019 through the date the accompanying financial statements were filed with the Securities and Exchange Commission and noted that there have been no events or transactions which would affect the Company's financial statements for the year ended December 31, 2019.

Recent Issued Accounting Guidance

Recently Adopted Accounting Pronouncement:

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which is intended to increase transparency and comparability among organizations by requiring the recognition of right-of-use ("ROU") assets and lease liabilities on the balance sheet. In July 2018, the FASB issued additional guidance which provided an additional transition method for adopting the updated guidance. Under the additional transition method, entities may elect to recognize a cumulative-effect adjustment to the opening balance of retained earnings in the year of adoption. The Company adopted this standard on January 1, 2019 using this modified retrospective approach. The adoption of the standard resulted in the recognition of a ROU asset and lease liability of approximately \$12,900 for one operating lease as of January 1, 2019, with no impact to retained earnings.

Effective the First Quarter of 2020:

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement ("Topic 820"): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. The ASU modifies the disclosure requirements in Topic 820, Fair Value Measurement, to improve the effectiveness of fair value measurement disclosures by removing or modifying certain disclosure requirements and adding other requirements. This ASU is effective for public companies for annual reporting periods and interim periods within those annual periods beginning after December 15, 2019. The Company is currently evaluating the effect, if any, that ASU 2018-13 will have on its financial statements.

Other Pronouncements:

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

2. REVENUE AND PRODUCT COSTS

The Company enters into contracts that include various combinations of products, accessories and services, such as training, each of which are generally distinct and are accounted for as separate performance obligations.

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

Performance obligations to deliver products and accessories are generally satisfied at the point in time the Company ships the product, as this is when the customer obtains control of the asset under our standard terms and conditions. The Company has elected to recognize shipping costs as an expense in cost of revenue when control has transferred to the customer. The revenue and cost of training, when part of the performance obligations, is recognized when the training is completed, generally following delivery of related products.

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. At December 31, 2018 the Company had no contract assets and no deferred revenue related to products or training for product delivered during the year. At December 31, 2019 the Company had deferred revenue of \$2,684 related to future training.

We may also receive consideration, per terms of a contract, from customers prior to transferring goods to the customer. We record customer deposits as a contract liability.

The Company recognizes an asset if there are incremental costs of obtaining a contract with a customer such as commissions. These costs are ascribed to or allocated to the underlying performance obligations in the contract and amortized consistent with the recognition timing of the revenue for any such underlying performance obligations. The Company had no such assets at December 31, 2019 and December 31, 2018. The Company will apply the practical expedient to expense any sales commissions related to performance obligations with an amortization of one year or less when incurred within selling, general and administrative expense.

Estimated costs for the Company's standard one-year warranty 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. INVENTORIES, NET

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

	December 31,	
	2019	2018
Finished goods	\$ 653,323	\$ 82,313
Work in process	413	12,695
Raw materials	1,590,805	63,259
	<u>\$ 2,244,541</u>	<u>\$ 158,267</u>

During the year ended December 31, 2019 the Company wrote off \$193,506 of raw material and scrap parts primarily due to startup production, model changes and improvements.

4. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following:

	December 31,	
	2019	2018
Laboratory equipment	\$ 44,454	\$ 13,980
Tooling	59,004	22,683
Computer equipment	83,368	12,608
Furniture, fixtures and improvements	128,782	9,595
	<u>315,608</u>	<u>58,866</u>
Accumulated depreciation	(72,732)	(28,493)
	<u><u>\$ 242,876</u></u>	<u><u>\$ 30,373</u></u>

Depreciation expense was \$44,239 and \$20,520 for the years ended December 31, 2019 and 2018, respectively.

5. INTANGIBLE ASSETS, NET

Intangible assets consisted of the following:

	December 31,	
	2019	2018
Patents	\$ 176,425	\$ 111,160
Trademarks	57,919	8,910
	<u>234,344</u>	<u>120,070</u>
Accumulated amortization	(4,061)	(1,355)
	<u><u>\$ 230,283</u></u>	<u><u>\$ 118,715</u></u>

Amortization expense was \$2,706 and \$1,355 for the years ended December 31, 2019 and 2018, respectively.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable includes \$18,809 due to related party Syzygy Licensing, LLC (“Syzygy”). See Note 11.

Accrued liabilities consist of the following:

	December 31,	
	2019	2018
Patent costs	\$ 6,851	\$ 11,600
Accrued compensation	144,193	55,493
Warranty costs	13,923	428
Taxes and other	29,327	932
	<u><u>\$ 194,294</u></u>	<u><u>\$ 68,453</u></u>

7. LEASES

The Company adopted ASU 2016-02, Leases (Topic 842) on January 1, 2019 using the modified retrospective approach. The Company has elected not to apply ASC Topic 842 to arrangements with lease terms of 12 months or less. The adoption of the standard resulted in the recognition of a ROU asset and lease liability of \$12,900 for one operating lease as of January 1, 2019, with no impact to retained earnings. Prior year amounts have not been restated. That lease is for 1,890 square feet of improved office, assembly and warehouse space in Las Vegas, Nevada. In January 2019 the Company recorded an additional \$17,101 ROU remeasurement asset and liability from an extension of the operating facility lease to December 31, 2020.

In March 2019 the Company recorded a \$57,587 ROU asset and liability for a two-year facility operating lease for 1,906 square feet of improved office, assembly and warehouse space in Lake Forest, California expiring in February 2021.

In June 2019 the Company recorded a \$253,412 ROU asset and liability for a 38-month facility operating lease for 11,256 square feet of improved office, assembly, training and warehouse space in Tempe, Arizona expiring in July 2022.

Due to lack of borrowing history or ability the Company used as its incremental borrowing rate a low-grade debt rate published by the Federal Reserve Bank and determined a discount rate of 7.5% for the remeasurement in January 2019, 6.8% for the March 2019 operating lease and 7.0% for the June 2019 operating lease. Management determined these are reasonable borrowing rates.

Amortization of ROU operating lease assets was \$80,069 for the year ended December 31, 2019.

Operating lease expense for capitalized operating leases included in operating activities was \$94,599 for the year ended December 31, 2019. Operating lease obligations recorded on the balance sheet at December 31, 2019 are:

Operating lease liability- short term	\$ 128,131
Operating lease liability - long term	150,018
Total Operating Lease Liability	<u>\$ 278,149</u>

Future lease payments included in the measurement of lease liabilities on the balance sheet at December 31, 2019 for future periods are as follows:

Table

2020	\$ 143,574
2021	101,406
2022	<u>57,328</u>
Total future minimum lease payments	302,308
Less imputed interest	<u>(24,159)</u>
Total	<u>\$ 278,149</u>

The weighted average remaining lease term is 2.3 years and the weighted average discount rate is 7.0%.

The Company does not have any finance leases.

8. DEFERRED AND ACCRUED COMPENSATION

From March 2016 through February 2017, the Company accrued monthly compensation for the services of two officers in the aggregate amount of \$7,000 per month payable to Syzygy. In March 2017 the Company accrued and deferred \$6,000 compensation to each of the two officers. The balance payable to Syzygy of \$84,000 and deferred compensation of an aggregate of \$12,000 was paid in August 2019 without interest.

9. STOCKHOLDERS' EQUITY

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

2018 Private Offering

On October 30, 2018 the Company consummated a private offering of 4,561,074 units ("*Units*") for \$3.00 per Unit. Each Unit consists of one share of common stock and one detachable two-year warrant to purchase one share of common stock at an exercise price of \$5.00 per share. The offering resulted in the receipt of gross cash proceeds of \$13,683,222 and net cash proceeds of \$12,140,786 after deduction of commissions and offering costs. One officer, Elwood G. Norris, purchased 333,334 of the Units for cash of \$1,000,000 on the same terms.

In connection with the offering the Company also issued placement agent warrants exercisable for 456,107 shares of common stock for two years at an exercise price of \$3.00 per share. The estimated fair value of these warrants was \$664,427, as determined using the Black-Scholes methodology (assuming estimated volatility of 49%, risk-free interest rate of 2.84%, and expected dividend yield of 0.0%). This amount was recorded as both an increase to additional paid in capital and as a non-cash issuance cost of the offering.

2019 Follow-On Public Offering

On June 18, 2019, the Company consummated the June 2019 Follow-On Offering, pursuant to which a total of 1,923,076 Units were offered and sold at the public offering price of \$6.50 per Unit. Each Unit sold consisted of one share of Common Stock and one detachable two-year warrant to purchase one share of Common Stock at an exercise price of \$6.50 per share. The offering resulted in the Company's receipt of gross cash proceeds of \$12.5 million, or net cash proceeds of \$11.35 million after deduction of commissions and offering costs.

In connection with the June 2019 Follow-On Offering, the Company also issued placement agent warrants exercisable for 153,846 shares of Common Stock for two years at an exercise price of \$8.125 per share. The estimated fair value of these warrants was \$205,894, as determined using the Black-Scholes methodology (assuming estimated volatility of 49%, risk-free interest rate of 1.86%, and expected dividend yield of 0.0%). This amount was recorded as both an increase to additional paid in capital and as a non-cash issuance cost of the offering.

Summary of Stock Purchase Warrants

The following table summarizes warrant activity during the years ended December 31, 2018 and 2019:

	Number	Average Purchase Price Per Share
Stock purchase warrants issued October 30, 2018	5,017,181	\$ 4.82
Stock purchase warrants exercised	-	
Shares purchasable under outstanding warrants at December 31, 2018	5,017,181	\$ 4.82
Stock purchase warrants issued	2,076,922	\$ 6.62
Stock purchase warrants exercised	(473,483)	\$ 4.46
Shares purchasable under outstanding warrants at December 31, 2019	6,620,620	\$ 5.41

The Company determined that the warrants issued in connection with the 2018 Private Offering and the June 2019 Follow-On Offering should be classified as equity in accordance with ASC 480. However, changes in director and officer ownership or other factors in future periods could require reclassification of outstanding warrants as a liability with changes in value thereafter reflected in the statement of operations.

9. STOCKHOLDERS' EQUITY (Cont'd)

The Company has outstanding Common Stock purchase warrants as of December 31, 2019 as follows:

Description	Number of Common Shares	Exercise Price Per Share	Expiration Date
Purchase Warrants (1)	4,215,240	\$ 5.00	October 30, 2020
Agent Warrants	328,458	\$ 3.00	October 30, 2020
Purchase Warrants	1,923,076	\$ 6.50	June 18, 2021
Agent Warrants	153,846	\$ 8.125	June 18, 2021

(1) 333,334 warrants are held by a family trust of officer Elwood G. Norris.

Subsequent to December 31, 2019 a total of 129,950 warrants were exercised for cash proceeds of \$628,650.

10. SHARE-BASED COMPENSATION

On March 31, 2017, the Company adopted and the stockholders approved the 2017 Stock Incentive Plan (the "*Plan*") authorizing 2,000,000 shares of Company Common Stock for issuance as stock options and restricted stock units ("*RSUs*") to employees, directors or consultants. In March 2019, the Board of the Company approved and in May 2019, the stockholders ratified, an increase in the Plan authorizing an additional 2,100,000 shares of Common Stock for a total of 4,100,000 shares. 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 October 2018 the Company granted consultant options outside of the Plan exercisable for 100,000 shares of common stock at an exercise price of \$3.00 per share with 50% vesting ratably over 18 months and the balance vesting based on performance.

The following table summarizes stock option activity for the years ended December 31, 2018 and 2019:

	Options on Common Shares	Weighted Average		Aggregate Intrinsic Value
		Exercise Price	Remaining Contractual Term	
Outstanding January 1, 2018	-	-		
Granted	2,067,500	\$ 1.68		
Exercised	-	-		
Forfeited, cancelled, expired	-	-		
Outstanding December 31, 2018	2,067,500	\$ 1.68	4.44	
Granted	1,000,000	5.41	5.00	
Exercised	(38,750)	1.50	-	
Forfeited, cancelled, expired	(100,000)	1.50	-	
Outstanding December 31, 2019	2,928,750	\$ 2.96	3.71	\$10,031,388
Vested and exercisable at December 31, 2019	1,573,853	\$ 1.64	3.43	\$7,479,791

Subsequent to December 31, 2019 a total of 84,375 options were exercised for cash proceeds of \$126,562.

10. SHARE-BASED COMPENSATION (Cont'd)

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

	Year Ended December 31,	
	2019	2018
Expected stock price volatility	49%	47% to 49%
Risk-free interest rate	2.41%	2.67% to 2.99%
Forfeiture rate	0%	0%
Expected dividend yield	0%	0%
Expected life of options - years	3.50	2.75-5.00
Weighted-average fair value of options granted	\$ 2.06	\$ 0.72

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, as it only recently commenced trading.

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 data.

The following table summarizes information about stock options outstanding at December 31, 2019:

Range of Exercise Prices	Number Outstanding	Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 1.50	1,708,750	3.4	\$ 1.50	1,448,853	\$ 1.50
\$ 3.00 - \$3.61	220,000	4.07	\$ 3.23	125,000	3.83
\$ 5.41	1,000,000	4.22	\$ 5.41	-	-

During 2019 the Company granted a total of 308,087 service-based RSUs to employees and consultants vesting over three years that convert to Common Stock as vesting occurs. A summary is set forth below:

	Service-Based RSU's	Weighted Average Grant Date Fair Value	Vesting Period
Unvested at January 1, 2019	-		
Granted	308,087	\$ 6.77	3 Years
Vested	-		
Forfeited and cancelled	-		
Unvested at December 31, 2019	308,087		

10. SHARE-BASED COMPENSATION (Cont'd)

The Company recorded stock-based compensation in its statements of operations for the relevant periods as follows:

	Year Ended December 31,	
	2019	2018
Selling, general and administrative	\$ 1,410,095	\$ 417,151
Research and development	126,001	95,837
Total stock-based expense	<u>\$ 1,536,096</u>	<u>\$ 512,988</u>

As of December 31, 2019, total estimated compensation cost of stock options and RSUs granted but not yet vested was \$3.5 million which is expected to be recognized over the weighted average period of 2.14 years.

11. COMMITMENTS AND CONTINGENCIES

Facility Leases

See Note 7.

Related Party Technology License Agreement

The Company is obligated to pay royalties and pay 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 stockholders/officers Mr. Elwood Norris and 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 \$1,000,000 in royalties or until September 30, 2026, whichever occurs earlier. The Company recorded \$23,297 and \$871 for royalties incurred during the years ended December 31, 2019 and 2018, respectively.

Purchase Commitments

At December 31, 2019 the Company was committed for approximately \$82,000 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 may be subject to oversight from regulatory agencies regarding firearms that arise in the ordinary course of its business.

12. INCOME TAXES

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

The Company did not provide any current or deferred U.S. federal income tax provision or benefit for the periods presented because of operating losses since inception. As of December 31, 2019, the Company has federal net operating loss carryforwards of approximately \$11,080,000 to reduce future taxable income that will expire beginning in 2038. Certain changes in stock ownership can result in a limitation on the amount of net operating loss and tax credit carryovers that can be utilized each year. As of December 31, 2019, management has not determined the extent of any such limitations, if any.

The Company provided a full valuation allowance on the net deferred tax asset, consisting of net operating loss carry forwards, because management has determined that it is more likely than not that we will not earn income sufficient to realize the deferred tax assets during the carry forward period. As a result of the change in future Federal statutory tax rates due to the passing of the Tax Cuts and Jobs Act of 2017, management has determined that the deferred tax assets and liabilities should not be valued at a federal statutory rate of 34% but rather at the rate in which the benefit of the deferred tax asset or liability will be realized by the Company. As such, the Federal statutory rate used to value the Company's deferred tax assets and liabilities is 21%.

The Company has not taken a tax position that, if challenged, would have a material effect on the financial statements for the periods ended December 31, 2018 and 2019 applicable under FASB ASC 740. The Company did not recognize any adjustment to the liability for uncertain tax position and therefore did not record any adjustment to the beginning balance of accumulated deficit on the balance sheet. All tax returns for the Company remain open.

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

	Year Ended December 31,	
	2019	2018
Current tax benefit	\$ -	\$ -
Deferred tax benefit	1,800,000	678,000
Change in valuation allowance	(1,800,000)	(678,000)
Income tax benefit (provision)	<u>\$ -</u>	<u>\$ -</u>

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

	Year Ended December 31,	
	2019	2018
Income taxes benefit computed at federal statutory rate	\$ 1,748,000	\$ 701,000
State income taxes, net of federal effect	114,000	-
Research tax credits	-	15,000
Permanent differences and other	(62,000)	(38,000)
Change in valuation allowance	(1,800,000)	(678,000)
Income tax benefit (provision)	<u>\$ -</u>	<u>\$ -</u>

12. INCOME TAXES (Cont'd)

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

	December 31,	
	2019	2018
Deferred tax assets:		
Net operating losses	\$ 2,430,000	\$ 756,000
Research tax credits	26,000	23,000
Deferred compensation	-	20,000
Stock compensation	239,000	76,000
Accruals and other	9,000	-
	<u>2,704,000</u>	<u>875,000</u>
Deferred tax liabilities:		
Depreciation and other	58,000	29,000
	<u>58,000</u>	<u>29,000</u>
Net deferred tax assets	2,646,000	846,000
Less valuation allowance	(2,646,000)	(846,000)
Net deferred taxes after valuation allowance	<u>\$ -</u>	<u>\$ -</u>

In accordance with ASU 2016-09, *Compensation-Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting*, the Company recognizes windfall tax benefits associated with the exercise of stock options as a component of tax expense (rather than equity). Accordingly, our federal and state operating loss carryforwards include windfall tax deductions from stock option exercises of approximately \$144,000 during the year ended December 31, 2019.

13. MAJOR CUSTOMERS AND RELATED INFORMATION

Major Customers

For the year ended December 31, 2019, revenues from one distributor accounted for 22% of revenues with no other single customer accounting for more than 10% of total revenues. This customer accounted for 54% of accounts receivable at December 31, 2019. Sales were nominal for the year ended December 31, 2018 with a limited number of customers.

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

	Year Ended December 31,	
	2019	2018
Americas	\$ 481,622	\$ 18,670
Europe, Middle East and Africa	116,547	-
Asia Pacific	98,621	4,480
	<u>\$ 696,790</u>	<u>\$ 23,150</u>

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

14. RELATED PARTY TRANSACTIONS

Commencing in October 2017 the Company commenced reimbursing officer Mr. Elwood Norris \$1,500 per month on a month to month basis for laboratory costs for an aggregate of \$18,000 each year during the years ended December 31, 2018 and 2019.

See Notes 6, 9 and 11 for additional related party transactions and information.

WRAP TECHNOLOGIES, INC.

CODE OF BUSINESS CONDUCT AND ETHICS

*Adopted November 7, 2018 and
Amended February 14, 2020*

I. SCOPE OF CODE

The Board of Directors (the “*Board*”) of Wrap Technologies, Inc., a Delaware corporation (the “*Company*”), has adopted this Code of Business Conduct and Ethics (the “*Code*”) which is intended to deter wrongdoing and promote honest and ethical conduct, including the fair and ethical handling of actual conflicts of interest between personal and professional relationships. The Code is also designed to avoid conflicts of interest, or the appearance of conflicts, by requiring appropriate disclosure to either (i) a supervisor, (ii) the Chair of the Audit Committee of the Board of Directors (the “*Audit Committee*”), or (iii) or Chair of the Board, as directed below, of any material transaction or relationship that could reasonably be expected to give rise to a conflict. The Code is also intended to promote full, fair, accurate, timely and understandable disclosure in documents the Company files with, or submits to, the Securities and Exchange Commission (the “*SEC*”) and in all other public communications made by the Company. The Code is also intended to promote compliance with applicable governmental laws, rules and regulations; prompt internal reporting to designated persons of violations of the Code; and accountability for adherence to the Code.

II. APPLICATION OF CODE AND REPORTING VIOLATIONS

The Code applies to the members of the Board (“*Directors*”), the executive officers (as defined under the regulations of the SEC) of the Company, including, in any case, but not limited to, the Company’s principal executive officer, principal financial officer, principal accounting officer or persons performing similar functions (collectively the “*Officers*”), and all employees of the Company. Each director, officer, and employee will be responsible for complying with this Code. If any director, officer or employee believes that a prohibited act under this Code has occurred, then he or she should promptly report such belief to their immediate supervisor, or if it is believed that such supervisor would be conflicted, or if any individual feels uncomfortable reporting to their immediate supervisor for any reason, or believes that such supervisor is not the appropriate person to address any perceived wrongdoing, such individual should submit his or her concern to the Chair of the Audit Committee at [auditcommittee@wraptechnologies.com].

Reporting is available 24 hours a day, 7 days a week. Concerns regarding questionable accounting, internal accounting controls or auditing matters may be directed to the Chair of the Audit Committee at [auditcommittee@wraptechnologies.com] by leaving a confidential message.

All concerns or complaints will be promptly reviewed and investigated by the Audit Committee or Board and any such reported prohibited act, without the participation of any director who may be the subject of such report. If the Audit Committee or Board determines that any such act represents a violation under this Code, then appropriate remedial or disciplinary action will be taken, up to and including immediate termination of employment. The Company’s outside counsel or individual designated by the Audit Committee or subcommittee of the Board will document the results of the investigation in a report to the Board in order to ensure a fair process is utilized in determining whether a violation of the Code has occurred. No person expressing concerns or complaints will be subject to any disciplinary or other adverse action by the Company absent a knowingly false report. All concerns or complaints may be made anonymously and will remain confidential, except as otherwise required by law or legal process. Please provide sufficient information to allow the concerns or complaints to be properly investigated.

Although this is the preferred method for reporting prohibited acts, any director, officer or employee should also feel at liberty to report any such alleged prohibited act hereunder to the Chair of the Board or Audit Committee.

All directors, officers and employees are expected to provide full cooperation and disclosure to the Audit Committee or Board, the Company and its internal and external auditors in connection with any review of compliance with this Code. The Company will retain a record of all concerns or complaints, and the results of its investigations for a period of five years.

III. CONFLICTS OF INTEREST

Every director, officer and employee have a duty to avoid any personal activity, investment or association (whether directly or indirectly) that could appear to interfere with good judgement concerning the interests of the Company or that divide such person's loyalty to the Company. No employee, officer or director may exploit his or her position or relationship with the Company for personal gain. All employees, officers and directors should avoid even the appearance of such a conflict. For example, there is a likely conflict of interest if a director, officer or employee should:

- Cause the Company to engage in business transactions with relatives or friends that would not result in the benefit of the Company or that would place the director, officer or employee, or their relatives or friends in a position of conflict with the interests of the Company;
- Use nonpublic Company, customer, vendor or third-party information for personal gain by the director, officer, employee or their relatives or friends;
- Have more than a modest financial interest in any vendor, third-party, customer or competitor;
- Receive a loan, or guarantee of obligations, from the Company or a third-party as a result of his or her position at the Company; or
- Compete, or prepare to compete, with the Company while still employed by the Company or in violation of statutory or contractual duties or restrictions.

Note: These are examples only as there are other situations in which a conflict of interest may arise. If a director, officer, or employee is uncertain of any potential conflict of interest he or she should consult with their immediate supervisor or the Chair of the Audit Committee.

IV. CONDUCT OF BUSINESS, FAIR DEALING AND FAIR COMPETITION AND ANTI-TRUST LAWS

No director, officer or employee may:

- Compete with the Company by providing services to a competitor as an employee, officer or director or in a similar capacity;
- Profit, or assist others to profit, from confidential information or business opportunities that are available because of services to the Company;
- Take unfair advantage of any customer, client, vendor, competitor or other person through manipulation, concealment, misrepresentation of material facts or other unfair-dealing practice;
- Improperly influence or attempt to influence any business transaction between the Company and another entity in which a director, officer or employee has a direct or indirect financial interest or acts as an employee, officer or director or in a similar capacity; or

The Company (including all directors, officers and employees) must comply with all applicable fair competition and antitrust laws. These laws attempt to ensure that businesses compete fairly and honestly and prohibit conduct seeking to reduce or restrain competition.

V. GIFTS, BRIBES AND KICKBACKS

Other than modest gifts given or received in the normal course of business (including travel or entertainment), no employee, officer, or director or their respective relatives may give gifts to, or receive gifts from, the Company's customers, clients and vendors with a value greater than \$50. Other gifts may be given or accepted only with prior approval of executive management. In no event should the director, officer or employee put the Company or himself or herself in a position that would be embarrassing if the gift were made public. Dealing with government employees is often different than dealing with private persons. Many governmental bodies strictly prohibit the receipt of any gratuities by their employees, including meals and entertainment. Directors, officers and employees must be aware of and strictly follow these prohibitions. Any director, officer or employee who pays or receives bribes or kickbacks will be investigated by the Audit Committee or the Board and if it is determined to be necessary, appropriate remedial or disciplinary action will be taken, up to and including immediate termination of employment or immediately terminated and reported or, as warranted, to the appropriate authorities. A kickback or bribe includes any item intended to improperly obtain favorable treatment, regardless of the appropriateness of such a practice in local custom or law.

VI. LOANS

No officer or director may request or accept a loan or advance from the Company. As a general rule, the Company will not make loans or advances, including payroll advances, to any employee.

VII. COMPLIANCE WITH LAWS AND REGULATIONS

It is the policy of the Company to comply with the laws of each country in which the Company conducts business. Each director, officer and employee must comply with all applicable laws, rules and regulations, and should use all reasonable efforts to oversee compliance by other directors, officers and employees with all applicable laws, rules and regulations.

Each director, officer and employee working outside of the United States or with foreign customers, clients, vendors, persons or entities must comply with laws, regulations, rules, and regulatory orders of the United States, including the Foreign Corrupt Practices Act and the U.S. Export Control Act, in addition to applicable local laws. Each such director, officer and employee must acquire appropriate knowledge of the requirements relating to his or her duties sufficient to enable him or her to recognize potential dangers and to know when to seek advice from the Company's outside legal counsel on specific Company policies and procedures. Violations of laws, regulations, rules, and orders may subject a director, officer or employee to individual criminal or civil liability, as well as to discipline by the Company. Such individual violations may also subject the Company to civil or criminal liability or the loss of business.

VIII. USE OF COMPANY FUNDS, ASSETS AND INFORMATION

All directors, officers and employees should protect the Company's assets to ensure their efficient use and protect against theft, carelessness and waste. The Company understands that from time to time, a director, officer or employee may use Company assets, such as photocopiers, computers, secretarial time, Company time, telephone and facilities, etc., for personal use which is only incidental or represents minor uses of Company property. Although the Company does not encourage the use of Company property for personal reasons or benefit, the Company understands and acknowledges that minor or incidental use by a director, officer or employee may unavoidably occur. This Code discourages minor or incidental use of Company assets for personal purposes. Excessive use of Company assets for personal purposes may result in disciplinary action.

IX. GATHERING COMPETITIVE INFORMATION

No officer, director or employee may accept, use or disclose the confidential information of competitors of the Company. When obtaining competitive information, officers, directors and employees must not violate competitors' rights. Particular care must be taken when dealing with competitors' clients, former clients and former employees. Confidential or proprietary information should never be requested nor should an employee, director or officer request a person to violate a non-compete or non-disclosure agreement.

X. USE OF MATERIAL AND INSIDER OR CONFIDENTIAL INFORMATION

Confidential information includes all non-public information that might be of use to competitors or harmful to the Company or its customers, clients and vendors if disclosed. Confidential information, in any form, obtained through business or personal contacts with customers, prospective customers, vendors, suppliers, or other employees must be used solely for the Company's purposes. Information reflecting favorably or adversely upon the current or future value of any business enterprise should not be used in any manner for personal gain or for advantage to a third party. This information must not be revealed to unauthorized persons or discussed with others within the Company unless their duties require this information. In addition, the use of confidential information about one customer, clients and vendors to further the private interests of another such party is unethical and possibly illegal.

Some specific examples of confidential information include but are not limited to:

- Information regarding the Company's strategic plans, regulatory initiatives and certain plans and programs;
- The identity of customers and potential customers and their personal, business and financial information;
- Non-public business and financial information of the Company;
- Personal information regarding any director, officer or employee of the Company;
- Personal or non-public business information regarding any customer, supplier, vendor or agent of the Company;
- Information related to, including the identity of, potential candidates for mergers and acquisitions;
- Information regarding the Company's sales strategies, plans or proposals;
- Information related to computer software programs, whether proprietary or standard;
- Information related to documentation systems, information databases, customized hardware or other information systems and technological developments;
- Manuals, processes, policies, procedures, compositions, innovations, inventions, formulas and other proprietary information belonging to the Company or related to the Company's activities;
- Communications by, to and from regulatory agencies; and
- Certain communications with or from attorneys for the Company, whether internal or external.

This caution on confidential information does not preclude releasing certain customer, vendor or client information when authorized by the customer or to the government when appropriate. Guidance from the Company's outside legal counsel or an immediate supervisor should be sought. Disclosure of confidential information to attorneys, accountants and other professionals working on behalf of the Company, as well as regulatory examiners, may also be appropriate.

XI. PROTECTING THE COMPANY'S CONFIDENTIAL INFORMATION

The Company's confidential information is a valuable asset. The Company's confidential information includes, but is not limited to, product technology; manufacturing processes; product plans; names and lists of existing and prospective customers, clients, vendors, dealers, distributors and employees; financial information and plans, both historical and projected, employee information and related training materials; non-public training plans and materials, research and development plans and results, and marketing and business plans and results. All Company confidential information is the exclusive property of the Company and may also be protected by patent, trademark, copyright, and trade secret laws. All confidential information must be used for Company business purposes only and every director, officer and employee have the obligation to safeguard it. UNLESS OTHERWISE PROVIDED HEREIN, THIS RESPONSIBILITY INCLUDES NOT DISCLOSING THE COMPANY'S CONFIDENTIAL INFORMATION SUCH AS INFORMATION REGARDING THE COMPANY'S PRODUCTS OR BUSINESS OVER THE INTERNET OR TO ANY THIRD-PARTY BY ANY MEANS AND UNDER ANY CIRCUMSTANCES. Each director, officer and employee are also responsible for properly labeling relevant or important documentation shared with or correspondence sent to the Company's outside legal counsel as "Attorney-Client Privileged".

XII. ADDITIONAL POLICIES FOR SENIOR FINANCIAL OFFICERS

In addition to being bound by all other provisions of this Code, the Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO"), Corporate Controller, Director of SEC Reporting and others performing similar functions (collectively, the "*Senior Financial Officers*") are subject to the following additional specific policies:

- All Senior Financial Officers are responsible for full, fair, accurate, timely and understandable disclosure in the reports and documents that the Company files with, or submits to, the SEC and in other public communications made by the Company. Accordingly, it is the responsibility of the CEO and each Senior Financial Officer to promptly to bring to the attention of the Company's outside legal counsel or the CEO any material information of which he or she may become aware of that affects the disclosures made by the Company in its public filings.
 - Further, each Senior Financial Officer must promptly bring to the attention of the Company's outside legal counsel or Chair of the Audit Committee any information he or she may have concerning:
 - significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data or,
 - any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's financial reporting, disclosures or internal controls.
 - The CEO and each Senior Financial Officer must act with honesty and integrity in the performance of his or her duties at the Company, must comply with laws, rules and regulations of federal, state and local governments and other private and public regulatory agencies that affect the conduct of the Company's business and the Company's financial reporting.
 - The CEO and each Senior Financial Officer must avoid actual or apparent conflicts of interest between personal and business relationships, such as holding a substantial equity, debt, or other financial interest in any competitor, vendor, client or customer of the Company, or having a personal financial interest in any transaction involving the purchase or sale by the Company of any products, materials, equipment, services or property, other than through Company-sponsored programs. Any such actual or apparent conflicts of interest must be brought to the attention of the Company's outside legal counsel or Chair of the Audit Committee.
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XIII. ADMINISTRATION OF THE CODE

The Audit Committee will review and evaluate this Code on an annual basis to determine the effectiveness of the Code with respect to providing a confidential and anonymous procedure for reporting prohibited acts and the internal process for investigation and resolution.

The Human Resources Department is responsible to (i) maintain the Code, (ii) ensure all directors, officers and employees are provided with a copy of this Code within one week of their respective appointment or employment by the Company, (iii) provide internal access to this Policy and notify directors, officers and employees of any amendments hereunder within one week of approval by the Board, and (iv) if applicable, to publicly post a current copy of the Code on the Company's website.

ACKNOWLEDGMENT OF CODE OF BUSINESS CONDUCT AND ETHICS

ALL WRAP TECHNOLOGIES, INC. DIRECTORS AND EMPLOYEES MUST READ THIS CODE OF BUSINESS CONDUCT AND ETHICS AND FILL OUT AND RETURN THIS PORTION TO THE HUMAN RESOURCES DEPARTMENT WITHIN ONE WEEK OF RECEIPT.

I have received a copy of Wrap Technologies, Inc.'s Code of Business Conduct and Ethics. I have carefully read and understand its contents and agree to follow the rules stated therein.

Director/Employee Signature

Date

Print Name

**CONSENT OF INDEPENDENT
REGISTERED PUBLIC ACCOUNTING FIRM**

Wrap Technologies, Inc.
Tempe, Arizona

We consent to the incorporation by reference in the Registration Statements (No. 333-225102 and 333-232314) on Form S-8 and (No. 333-228974) on Form S-3 of Wrap Technologies, Inc. of our reports dated March 10, 2020, relating to the financial statements of Wrap Technologies, Inc., appearing in this Annual Report on Form 10-K of Wrap Technologies, Inc. for the year ended December 31, 2019.

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

Somerset, New Jersey
March 10, 2020

CERTIFICATION

I, David Norris, certify that:

1. I have reviewed this annual report on Form 10-K of Wrap Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and 15d-15(e)) 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) 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
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2020

/s/ DAVID NORRIS

David Norris

Chief Executive Officer (Principal Executive Officer)

CERTIFICATION

I, James A. Barnes, certify that:

1. I have reviewed this annual report on Form 10-K of Wrap Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and 15d-15(e)) 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) 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
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2020

/s/ JAMES A. BARNES

James A. Barnes

Chief Financial Officer, Secretary 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 Annual Report of the Company on Form 10-K for the period ended December 31, 2019, fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Dated: March 10, 2020

/s/ DAVID NORRIS

David Norris

Chief Executive Officer (Principal Executive Officer)

Dated: March 10, 2020

/s/ JAMES A. BARNES

James A. Barnes

Chief Financial Officer, Secretary and Treasurer
(Principal Accounting Officer)
