

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2021

OR

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

For the transition period from _____ to _____

Commission File Number: 001-38107

ShotSpotter, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

39300 Civic Center Dr., Suite 300

Fremont, California

(Address of principal executive offices)

47-0949915

(I.R.S. Employer
Identification No.)

94538

(Zip Code)

Registrant's telephone number, including area code: (510) 794-3100

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value \$0.005 per share	SSTI	The Nasdaq Capital Market

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

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

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

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

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

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

As of October 31, 2021, the registrant had 11,675,860 shares of common stock, \$0.005 par value per share, outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

ShotSpotter, Inc.
Condensed Consolidated Balance Sheets
(In thousands, except share and per share data)

	September 30, 2021 (Unaudited)	December 31, 2020
Assets		
Current assets		
Cash and cash equivalents	\$ 13,114	\$ 16,043
Accounts receivable and contract asset	13,374	12,921
Prepaid expenses and other current assets	2,880	2,172
Total current assets	29,368	31,136
Property and equipment, net	16,493	15,346
Operating lease right-of-use assets	491	882
Goodwill	2,816	2,811
Intangible assets, net	13,807	14,540
Other assets	1,924	1,605
Total assets	<u>\$ 64,899</u>	<u>\$ 66,320</u>
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 1,443	\$ 1,192
Deferred revenue, short-term	21,218	24,174
Accrued expenses and other current liabilities	5,869	5,613
Total current liabilities	28,530	30,979
Deferred revenue, long-term	612	405
Other liabilities	481	631
Total liabilities	29,623	32,015
Commitments and contingencies (Note 13)		
Stockholders' equity		
Preferred stock: \$0.005 par value; 20,000,000 shares authorized; no shares issued and outstanding as of September 30, 2021 and December 31, 2020	—	—
Common stock: \$0.005 par value; 500,000,000 shares authorized; 11,675,860 and 11,538,998 shares issued and outstanding as of September 30, 2021 and December 31, 2020, respectively	58	58
Additional paid-in capital	130,855	128,771
Accumulated deficit	(95,474)	(94,354)
Accumulated other comprehensive loss	(163)	(170)
Total stockholders' equity	35,276	34,305
Total liabilities and stockholders' equity	<u>\$ 64,899</u>	<u>\$ 66,320</u>

See accompanying notes to condensed consolidated financial statements.

ShotSpotter, Inc.
Condensed Consolidated Statements of Operations
(In thousands, except share and per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Revenues	\$ 14,547	\$ 11,350	\$ 44,184	\$ 33,085
Costs				
Cost of revenues	6,520	4,745	19,137	13,440
Impairment of property and equipment	—	161	25	161
Total costs	6,520	4,906	19,162	13,601
Gross profit	8,027	6,444	25,022	19,484
Operating expenses				
Sales and marketing	4,018	2,400	11,881	7,237
Research and development	1,703	1,375	5,156	4,104
General and administrative	3,217	2,040	8,900	6,627
Total operating expenses	8,938	5,815	25,937	17,968
Operating (loss) income	(911)	629	(915)	1,516
Other income (expense), net				
Interest income, net	8	3	28	101
Other expense, net	(46)	(58)	(184)	(173)
Total other income (expense), net	(38)	(55)	(156)	(72)
(Loss) income before income taxes	(949)	574	(1,071)	1,444
Provision (benefit) for income taxes	—	8	49	(1)
Net (loss) income	<u>\$ (949)</u>	<u>\$ 566</u>	<u>\$ (1,120)</u>	<u>\$ 1,445</u>
Net (loss) income per share, basic	<u>\$ (0.08)</u>	<u>\$ 0.05</u>	<u>\$ (0.10)</u>	<u>\$ 0.13</u>
Net (loss) income per share, diluted	<u>\$ (0.08)</u>	<u>\$ 0.05</u>	<u>\$ (0.10)</u>	<u>\$ 0.12</u>
Weighted average shares used in computing net (loss) income per share, basic	11,680,413	11,423,079	11,634,422	11,383,860
Weighted average shares used in computing net (loss) income per share, diluted	11,680,413	11,727,112	11,634,422	11,718,770

See accompanying notes to condensed consolidated financial statements.

ShotSpotter, Inc.
Condensed Consolidated Statements of Comprehensive Income (Loss)
(In thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net (loss) income	\$ (949)	\$ 566	\$ (1,120)	\$ 1,445
Other comprehensive income (loss):				
Change in foreign currency translation adjustment, net	(14)	29	7	(174)
Comprehensive (loss) income	<u>\$ (963)</u>	<u>\$ 595</u>	<u>\$ (1,113)</u>	<u>\$ 1,271</u>

See accompanying notes to condensed consolidated financial statements.

ShotSpotter, Inc.
Condensed Consolidated Statements of Stockholders' Equity
(In thousands, except share data)
(Unaudited)

	Common Stock Shares	Par Value	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance at January 1, 2021	11,538,998	\$ 58	\$ 128,771	\$ (94,354)	\$ (170)	\$ 34,305
Exercise of stock options	60,600	—	213	—	—	213
Issuance of common stock in connection with exercise of warrants	50,716	—	8	—	—	8
Issuance of common stock from RSUs vested	24,332	—	—	—	—	—
Repurchase of common stock	(56,162)	—	(2,192)	—	—	(2,192)
Stock-based compensation	—	—	1,375	—	—	1,375
Other comprehensive loss	—	—	—	—	(17)	(17)
Net income	—	—	—	79	—	79
Balance at March 31, 2021	11,618,484	58	128,175	(94,275)	(187)	33,771
Exercise of stock options	16,432	—	364	—	—	364
Issuance of common stock from RSUs vested	37,538	—	—	—	—	—
Issuance of common stock from ESPP purchase	18,294	—	462	—	—	462
Repurchase of common stock	(12,585)	—	(491)	—	—	(491)
Stock-based compensation	—	—	1,494	—	—	1,494
Other comprehensive income	—	—	—	—	38	38
Net loss	—	—	—	(250)	—	(250)
Balance at June 30, 2021	11,678,163	58	130,004	(94,525)	(149)	35,388
Exercise of stock options	14,550	—	316	—	—	316
Issuance of common stock from RSUs vested	9,551	—	—	—	—	—
Repurchase of common stock	(26,404)	—	(918)	—	—	(918)
Stock-based compensation	—	—	1,453	—	—	1,453
Other comprehensive loss	—	—	—	—	(14)	(14)
Net loss	—	—	—	(949)	—	(949)
Balance at September 30, 2021	<u>11,675,860</u>	<u>\$ 58</u>	<u>\$ 130,855</u>	<u>\$ (95,474)</u>	<u>\$ (163)</u>	<u>\$ 35,276</u>

See accompanying notes to condensed consolidated financial statements.

	Common Stock		Additional	Accumulated	Accumulated	Total
	Shares	Par Value	Paid-in	Deficit	Other	Stockholders'
			Capital		Comprehensive	Equity
					Loss	
Balance at January 1, 2020	11,314,150	\$ 57	\$ 122,907	\$ (95,579)	\$ (134)	\$ 27,251
Exercise of stock options	17,543	—	57	—	—	57
Issuance of common stock in connection with exercise of warrants	46,939	—	—	—	—	—
Issuance of common stock from RSUs vested	20,297	—	—	—	—	—
Stock-based compensation	—	—	887	—	—	887
Other comprehensive loss	—	—	—	—	(227)	(227)
Net income	—	—	—	13	—	13
Balance at March 31, 2020	11,398,929	57	123,851	(95,566)	(361)	27,981
Exercise of stock options	26,562	—	41	—	—	41
Issuance of common stock from RSUs vested	22,754	—	—	—	—	—
Issuance of common stock from ESPP purchase	21,431	—	408	—	—	408
Repurchase of common stock	(74,520)	—	(1,615)	—	—	(1,615)
Stock-based compensation	—	—	1,163	—	—	1,163
Other comprehensive income	—	—	—	—	24	24
Net income	—	—	—	866	—	866
Balance at June 30, 2020	11,395,156	57	123,848	(94,700)	(337)	28,868
Exercise of stock options	40,565	—	69	—	—	69
Issuance of common stock from RSUs vested	6,041	—	—	—	—	—
Stock-based compensation	—	—	1,196	—	—	1,196
Other comprehensive income	—	—	—	—	29	29
Net income	—	—	—	566	—	566
Balance at September 30, 2020	<u>11,441,762</u>	<u>\$ 57</u>	<u>\$ 125,113</u>	<u>\$ (94,134)</u>	<u>\$ (308)</u>	<u>\$ 30,728</u>

See accompanying notes to condensed consolidated financial statements.

ShotSpotter, Inc.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2021	2020
Cash flows from operating activities:		
Net (loss) income	\$ (1,120)	\$ 1,445
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property and equipment	4,298	3,975
Amortization of intangible assets	774	71
Impairment of property and equipment	25	161
Stock-based compensation	4,322	3,246
Loss on disposal of property and equipment	—	3
Provision for accounts receivable	13	41
Changes in operating assets and liabilities:		
Accounts receivable and contract asset	(465)	6,976
Prepaid expenses and other assets	(1,077)	(273)
Accounts payable	417	(185)
Accrued expenses and other current liabilities	930	(336)
Deferred revenue	(2,742)	(6,315)
Net cash provided by operating activities	5,375	8,809
Cash flows from investing activities:		
Purchase of property and equipment	(5,632)	(3,132)
Investment in intangible and other assets	(45)	(46)
Business acquisition purchase price adjustment	15	—
Net cash used in investing activities	(5,662)	(3,178)
Cash flows from financing activities:		
Payment of contingent consideration liability	(403)	(347)
Payment of line of credit costs	—	(4)
Proceeds from exercise of stock options	893	167
Repurchases of common stock	(3,601)	(1,615)
Proceeds from exercise of warrants	8	—
Proceeds from employee stock purchase plan	462	408
Net cash used in financing activities	(2,641)	(1,391)
(Decrease) increase in cash and cash equivalents	(2,928)	4,240
Effect of exchange rate on cash and cash equivalents	(1)	(124)
Cash and cash equivalents at beginning of year	16,043	24,550
Cash and cash equivalents at end of period	<u>\$ 13,114</u>	<u>\$ 28,666</u>
Supplemental disclosure of non-cash financing activities:		
Property and equipment purchases included in accounts payable	\$ 454	\$ 143

See accompanying notes to condensed consolidated financial statements.

ShotSpotter, Inc.
Notes to Condensed Consolidated Financial Statements

Note 1. Organization and Description of Business

ShotSpotter, Inc. (the “Company”) provides precision-policing solutions for law enforcement and security personnel to help prevent and reduce gun violence and make cities, campuses and facilities safer. The Company’s flagship product, ShotSpotter Respond is the leading outdoor gunshot detection, location and alerting system trusted by 125 cities as of September 30, 2021. ShotSpotter Connect creates crime forecasts designed to enable more precise and effective use of patrol resources to deter crime. The Company’s case management solution, ShotSpotter Investigate, is a cloud-based investigative platform to help law enforcement agencies modernize every phase of an investigation and accelerate case work with easy-to-use software tools. The Company offers its solutions on a Software as a Service, (“SaaS”), subscription model to its customers. ShotSpotter Labs is the Company’s effort to support innovative uses of its technology to help protect wildlife and the environment.

The Company’s principal executive offices are located in Fremont, California. The Company has five wholly-owned subsidiaries globally.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) and applicable rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial reporting. Certain information and note disclosures normally included in the consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. The condensed consolidated financial statements include the results of the Company and its wholly-owned subsidiaries. All significant intercompany transactions have been eliminated upon consolidation.

The accompanying condensed consolidated financial statements and related financial information should be read in conjunction with the consolidated financial statements filed with the Company’s Annual Report on Form 10-K for the year ended December 31, 2020 (“Annual Report”) filed with the SEC on March 29, 2021.

In the opinion of management, the accompanying condensed consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, results of operations, comprehensive income (loss), stockholders’ equity and cash flows for the interim periods, but are not necessarily indicative of the results of operations or cash flows to be anticipated for the full year 2021 or any future period. The Company has evaluated subsequent events occurring after the date of the condensed consolidated financial statements for events requiring recording or disclosure in the condensed consolidated financial statements.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its significant estimates, including the valuation of accounts receivable, the lives and realization of tangible and intangible assets, contingent consideration liabilities, stock-based compensation expense, customer life, accounting for revenue recognition, contingent liabilities related to legal matters, and income taxes including deferred taxes and any related valuation allowance. Management bases its estimates on historical experience and on various other market-specific and relevant assumptions it believes to be reasonable under the circumstances. Actual results could differ from those estimates and such differences could be material to the Company’s financial position and results of operations.

The Company records net deferred tax assets to the extent the Company believes these assets will more likely than not be realized. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. In the event the Company determines that it would be able to realize its deferred assets in the future in excess of their net recorded amount, the Company makes an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

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 trade customers. The Company maintains its cash deposits at one domestic and four international 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 and other local country government agencies. The Company generally 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.

Concentration of Accounts Receivable and Contract Asset – At September 30, 2021, two customers accounted for 22% and 19% of the Company's total accounts receivable, respectively. At December 31, 2020, three customers accounted for 37%, 27% and 11%, respectively, of the Company's total accounts receivable.

Concentration of Revenues – For the three months ended September 30, 2021, two customers accounted for 26% and 14% of the Company's total revenues, respectively. For the three months ended September 30, 2020, two customers accounted for 18% and 13% of the Company's total revenues, respectively. For the nine months ended September 30, 2021, two customers accounted for 30% and 14% of the Company's total revenues, respectively. For the nine months ended September 30, 2020, two customers accounted for 18% and 13% of the Company's total revenues, respectively.

Concentration of Suppliers – The Company relies on a limited number of suppliers and contract manufacturers. In particular, a single supplier is currently the sole manufacturer of the Company's proprietary sensors.

Accounting Pronouncements Recently Adopted

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740)*, simplifying the accounting for income taxes by removing certain exceptions to the general principles. The Company adopted this ASU as of January 1, 2021. The adoption of this ASU did not have any impact on the Company's condensed consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments in this ASU replace the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects current expected credit loss and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The Company adopted this ASU as of January 1, 2021. The adoption of this ASU did not have a material impact on the Company's condensed consolidated financial statements.

Accounting Pronouncements Not Yet Adopted

In October 2021, the FASB issued ASU 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts from Customers*. ASU 2021-08 aims to improve the accounting for acquired revenue contracts with customers in a business combination by addressing diversity in practice and inconsistency related to recognition of an acquired contract liability and the effect of payment terms on subsequent revenue recognized by the acquirer. These amendments are effective prospectively for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is allowed. The Company is currently assessing the impact the adoption of this ASU will have on its consolidated financial statements and related disclosures.

Note 3. Revenue Related Disclosures

The changes in deferred revenue were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Balance at the beginning of period	\$ 19,791	\$ 22,308	\$ 24,579	\$ 26,958
New billings	16,512	9,650	41,336	26,653
Revenue recognized during the period from balance at the beginning of the period	(8,999)	(9,519)	(22,659)	(22,790)
Revenue recognized during the period from new billings	(5,467)	(1,796)	(21,419)	(10,178)
Foreign currency impact	(7)	—	(7)	—
Balance at end of period	<u>\$ 21,830</u>	<u>\$ 20,643</u>	<u>\$ 21,830</u>	<u>\$ 20,643</u>

The following table presents remaining performance obligations for contractually committed revenues as of September 30, 2021 (in thousands):

Remainder of 2021	\$ 24,318
2022	13,932
2023	10,683
Thereafter	10,269
Total	<u>\$ 59,202</u>

The timing of revenue recognition included in the table above is based on estimates of go-live dates for contracts not yet live. Contractually committed revenue includes deferred revenue as of September 30, 2021 and amounts under contract that will be invoiced after September 30, 2021.

During the three months ended September 30, 2021, the Company recognized revenues of \$14.3 million from customers in the United States, and \$0.2 million from customers in the Bahamas and South Africa. During the nine months ended September 30, 2021, the Company recognized revenues of \$43.6 million from customers in the United States, and \$0.5 million from a customer in the Bahamas and South Africa.

During the three months ended September 30, 2020, the Company recognized revenues of \$11.2 million from customers in the United States, and \$0.2 million from a customer in the Bahamas. During the nine months ended September 30, 2020, the Company recognized revenues of \$32.6 million from customers in the United States, and \$0.5 million from a customer in the Bahamas.

During the three months ended September 30, 2021, the Company recognized revenues of \$14.2 million from monthly subscription, maintenance and support services, and \$0.3 million from professional software development services. During the nine months ended September 30, 2021, the Company recognized revenues of \$41.1 million from monthly subscription, maintenance and support services, and \$3.0 million from professional software development services.

During the three and nine months ended September 30, 2020, all recognized revenues were from subscription, maintenance and support services.

Note 4. Business Acquisition

LEEDS

During the fourth quarter of 2020, the Company acquired all the membership interests in LEEDS, LLC ("LEEDS"), a New Jersey based technology company. The purchase consideration included cash consideration of \$21.6 million and \$2.0 million in ShotSpotter common stock. The purchase consideration also included a contingent earnout payable based on LEEDS' revenues generated during 2021 and 2022. The fair value of the contingent earnout was \$0.2 million, resulting

in a total purchase consideration of \$23.8 million. The Company recorded \$8.0 million of net tangible assets, \$14.4 million of identifiable intangible assets and \$1.4 million of goodwill.

Note 5. Fair Value Measurements

In October 2018, upon the acquisition of certain technology, referred to as HunchLab, from Azavea, Inc., the Company recognized a contingent consideration liability classified within Level III of the fair value hierarchy because some of the inputs used in its measurement were neither directly nor indirectly observable. In January 2020 and February 2021, based on the relevant revenues earned during the second and third year respectively, of the three-year contingent consideration period, the Company paid \$0.3 million and \$0.4 million respectively, to Azavea, Inc., resulting in a reduction of the contingent consideration liability.

In November 2020, using a Monte Carlo Simulation approach, the Company estimated the fair value of the contingent consideration at the acquisition date of LEEDS to be \$0.2 million. There have been no changes in the assumptions or fair value of the contingent consideration liability at September 30, 2021.

The changes in the fair value of contingent consideration liability for the nine months ended September 30, 2021 and 2020 are as follows (in thousands):

	Nine Months Ended September 30,			
	2021		2020	
Balance, beginning of period	\$	573	\$	750
Payment of contingent consideration liability		(403)		(347)
Balance, end of period	\$	<u>170</u>	\$	<u>403</u>

Note 6. Goodwill

The change in goodwill are as follows (in thousands):

	September 30, 2021	December 31, 2020
Balance at the beginning of the period	\$ 2,811	\$ 1,379
Goodwill recorded on acquisition of LEEDS	—	1,432
Measurement period adjustment	5	—
Balance at the end of the period	<u>\$ 2,816</u>	<u>\$ 2,811</u>

Note 7. Intangible Assets, net

Intangible assets consist of the following (in thousands):

	September 30, 2021		
	Gross	Accumulated Amortization	Net
Customer relationships	\$ 14,570	\$ (885)	\$ 13,685
Patents	1,200	(1,078)	122
Total intangible assets, net	<u>\$ 15,770</u>	<u>\$ (1,963)</u>	<u>\$ 13,807</u>

	December 31, 2020		
	Gross	Accumulated Amortization	Net
Customer relationships	\$ 14,570	\$ (147)	\$ 14,423
Patents	1,158	(1,041)	117
Total intangible assets, net	<u>\$ 15,728</u>	<u>\$ (1,188)</u>	<u>\$ 14,540</u>

Intangible amortization expense was approximately \$257,000 and \$774,000 for the three and nine months ended September 30, 2021, respectively. Intangible amortization expense was approximately \$0 and \$71,000 for the three and nine months ended September 30, 2020, respectively.

The following table presents future intangible asset amortization as of September 30, 2021 (in thousands):

Remainder of 2021	\$	270
2022		1,036
2023		1,014
2024		999
2025		978
Thereafter		9,510
Total	\$	<u>13,807</u>

Note 8. Details of Certain Condensed Consolidated Balance Sheet Accounts

Accounts receivable and contract assets (in thousands):

	September 30, 2021		December 31, 2020	
Accounts receivable	\$	13,078	\$	12,459
Contract asset		383		536
Allowance for potential credit losses		(87)		(74)
	\$	<u>13,374</u>	\$	<u>12,921</u>

Prepaid expenses and other current assets (in thousands):

	September 30, 2021		December 31, 2020	
Prepaid software and licenses	\$	549	\$	653
Prepaid insurance		978		561
Other prepaid expenses		291		135
Deferred commissions		819		715
Other		243		108
	\$	<u>2,880</u>	\$	<u>2,172</u>

Other assets (long-term) (in thousands):

	September 30, 2021		December 31, 2020	
Deferred commissions	\$	1,726	\$	1,465
Other		198		140
	\$	<u>1,924</u>	\$	<u>1,605</u>

Accrued expenses and other current liabilities (in thousands):

	September 30, 2021	December 31, 2020
Personnel-related accruals	\$ 4,920	\$ 4,217
Royalties payable	52	55
Professional fees	386	92
Sales/ use tax payable	46	46
Contingent consideration liability	—	403
Operating lease liabilities	189	484
Other	276	316
	<u>\$ 5,869</u>	<u>\$ 5,613</u>

Other liabilities (long-term) (in thousands):

	September 30, 2021	December 31, 2020
Operating lease liabilities	\$ 311	\$ 461
Contingent consideration liability	170	170
	<u>\$ 481</u>	<u>\$ 631</u>

Note 9. Related Party Transactions

During the three and nine months ended September 30, 2021, the Company recognized approximately \$22,000 and \$85,000, respectively, in revenues from ShotSpotter Labs projects with charitable organizations that have received donations from one of the Company's directors and from one of the Company's significant stockholders. During the three and nine months ended September 30, 2020, the Company recognized approximately \$60,000 and \$0.2 million, respectively, in revenues from those ShotSpotter Labs projects.

Note 10. Stock Repurchase Program

During the nine months ended September 30, 2021, the Company repurchased 95,151 shares of its common stock at an average price of \$37.82 per share for \$3.6 million. The repurchases were made in open market transactions using cash on hand, and all of the shares repurchased were retired. At September 30, 2021, \$3.1 million remained available for repurchase under the Company's stock repurchase program.

Note 11. Net Income per Share

The computation of basic net income per share is based on the weighted-average number of shares of common stock outstanding during each period. The computation of diluted net income per share is based on the weighted-average number of shares outstanding during the period plus, when their effect is dilutive, incremental shares consisting of shares subject to stock options, restricted stock units, employee stock purchase plan purchase rights and warrants.

The following table summarizes the computation of basic and diluted net income per share (in thousands, except share and per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Numerator:				
Net (loss) income	\$ (949)	\$ 566	\$ (1,120)	\$ 1,445
Denominator:				
Weighted-average shares outstanding, basic	11,680,413	11,423,079	11,634,422	11,383,860
Dilutive effect of common stock equivalents	—	304,033	—	334,910
Weighted-average shares outstanding, diluted	11,680,413	11,727,112	11,634,422	11,718,770
Net (loss) income per share, basic	\$ (0.08)	\$ 0.05	\$ (0.10)	\$ 0.13
Net (loss) income per share, diluted	\$ (0.08)	\$ 0.05	\$ (0.10)	\$ 0.12
Anti-dilutive employee share-based awards, excluded	416,161	544,269	557,301	568,980

Note 12. Equity Incentive Plans

Stock options:

A summary of option activities under the 2005 Plan and 2017 Plan during the nine months ended September 30, 2021 is as follows:

	Number of Options Outstanding	Weighted Average Exercise Price
Outstanding as of December 31, 2020	813,242	\$ 24.58
Granted	89,919	\$ 39.15
Exercised	(91,582)	\$ 9.61
Canceled	(24,149)	\$ 32.49
Outstanding as of September 30, 2021	<u>787,430</u>	\$ 27.77

Restricted stock units:

A summary of restricted stock unit ("RSU") activities under the 2017 Plan during the nine months ended September 30, 2021 is as follows:

	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value per RSU
Nonvested at December 31, 2020	141,508	\$ 29.67
Granted	82,502	\$ 37.73
Vested	(71,421)	\$ 28.08
Canceled	(15,761)	\$ 31.38
Nonvested at September 30, 2021	<u>136,828</u>	\$ 35.13

2017 Employee Stock Purchase Plan

There were 18,294 shares issued under the 2017 Employee Stock Purchase Plan ("2017 ESPP") during the nine months ended September 30, 2021. The number of shares available for grant under the 2017 ESPP was 261,277 as of September 30, 2021.

Total stock-based compensation expense associated with the 2005 Plan, 2017 Plan and 2017 ESPP is recorded in the condensed consolidated statements of operations and was allocated as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Cost of revenues	\$ 372	\$ 292	\$ 1,179	\$ 788
Sales and marketing	399	344	1,182	925
Research and development	181	160	543	416
General and administrative	501	400	1,418	1,117
Total	<u>\$ 1,453</u>	<u>\$ 1,196</u>	<u>\$ 4,322</u>	<u>\$ 3,246</u>

Note 13. Commitments and Contingencies

Contingencies

On August 28, 2018, Silvon S. Simmons (the "Plaintiff") amended a complaint against the City of Rochester, New York and various city employees, filed in the United States District Court, Western District of New York, to add the Company and employees as a defendant. The amended complaint alleges conspiracy to violate plaintiff's civil rights, denial of the right to a fair trial, and malicious prosecution. The Plaintiff claims that ShotSpotter colluded with the City of Rochester to fabricate and create gunshot alert evidence to secure Plaintiff's conviction. On the basis of the allegations, the Plaintiff has petitioned for compensatory and punitive damages and other costs and expenses, including attorney's fees. The Company believes that the Plaintiff's claims are without merit and is disputing them vigorously.

On October 12, 2021, the Company filed a defamation lawsuit against VICE Media, LLC ("VICE"), in Delaware Superior Court. The complaint alleges that VICE intentionally misrepresented court records and targeted ShotSpotter with false accusations in order to cultivate a subversive brand that enables VICE to sell sponsored content to corporate advertisers. ShotSpotter seeks more than \$200 million in compensatory damages and \$100 million in punitive damages.

The Company may become subject to legal proceedings, as well as demands and claims that arise in the normal course of business. Such claims, even if not meritorious, could result in the expenditure of significant financial and management resources. The Company makes a provision for a liability relating to legal matters when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed and adjusted to include the impacts of negotiations, estimated settlements, legal rulings, advice of legal counsel, and other information and events pertaining to a particular matter.

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

The COVID-19 pandemic has resulted in a substantial curtailment of business activities worldwide and is causing weakened economic conditions, both in the United States and many countries abroad. As part of intensifying efforts to contain the spread of COVID-19, many companies and state, local and foreign governments have imposed restrictions, including shelter-in-place orders and travel bans. While some of these companies and jurisdictions have started to relax such restrictions, in some cases, the restrictions were put back in place after having been lifted. The Company understands that the ongoing COVID-19 pandemic, associated travel restrictions and social distancing requirements may continue to have an adverse impact on its results of operations. While the ultimate economic impact of

the COVID-19 pandemic is highly uncertain, the Company expects that its business and results of operations, including its revenues, earnings and cash flows from operations, may be adversely impacted for at least the balance of 2021.

The Company may be adversely affected by increasing social unrest, protests against racial inequality, protests against police brutality and associated ongoing movements such as “Defund the Police”. These events may directly or indirectly affect police agency budgets and funding available to current and potential customers. Participants in these events may also attempt to create the perception that the Company’s solutions are contributing to the “problem”, which may adversely affect the Company, its business and results of operations, including its revenues, earnings and cash flows from operations.

Note 14. Subsequent Events

In August, 2021, the Company entered into an agreement to lease approximately 11,625 square feet of office space in Fremont, California. The lease commenced on October 1, 2021 and expires on February 28, 2027 (the “Initial Term”). The Company will occupy the facility once all tenant improvements are completed, expected in January, 2022. The aggregate base rent due over the Initial Term under the terms of the lease agreement is approximately \$2.2 million (without giving effect to certain rent abatement terms). The Company will also be responsible for the payment of additional rent to cover certain costs, taxes and insurance.

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

You should read the following discussion and analysis of our financial condition and results of operations together with our unaudited condensed consolidated financial statements and accompanying notes included in this Quarterly Report on Form 10-Q and the financial statements and accompanying notes and other financial information in the Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020, filed with the Securities and Exchange Commission ("SEC") on March 29, 2021. This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Exchange Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These statements are often identified by the use of words such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "plan," "project," "will," "would" or the negative or plural of these words or similar expressions or variations. Such forward-looking statements are subject to a number of risks, uncertainties, assumptions and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified herein, those discussed in the subsection titled "Impact of COVID-19 and Social Unrest on our Business" below, as well as the section titled "Risk Factors" set forth in Part II, Item 1A of this Quarterly Report on Form 10-Q and in our other SEC filings. You should not rely upon forward-looking statements as predictions of future events. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Overview

We provide precision-policing and security solutions for law enforcement and security personnel to help prevent and reduce gun violence and make cities, campuses and facilities safer. Our flagship public safety solution, ShotSpotter Respond, is the leading outdoor gunshot detection, location and alerting system. Our patrol management software, ShotSpotter Connect, creates crime forecasts designed to enable more precise and effective use of patrol resources to deter crime. Our security solutions, ShotSpotter SecureCampus and ShotSpotter SiteSecure, are designed to help law enforcement and security personnel serving universities and corporations, mitigate risk and enhance security by notifying authorities of a potential outdoor gunfire incident, saving critical minutes for first responders to arrive. ShotSpotter Investigate™, adds case management to our expanding suite of precision policing technology solutions and provides agencies with a cloud-based investigative digital case folder and analytical and collaboration tools to improve case closure rates. Our technology innovation unit, ShotSpotter Labs, supports innovative uses of our technology to help protect wildlife and the environment.

Our gunshot detection solutions consist of highly-specialized, cloud-based software integrated with proprietary, internet-enabled sensors designed to detect outdoor gunfire. The speed and accuracy of our gunfire alerts enable law enforcement and security personnel to consistently and quickly respond to shooting events including those unreported through 911, which can increase the chances of apprehending the shooter, providing timely aid to victims, and identifying witnesses before they scatter, as well as aid in evidentiary collection and serve as an overall deterrent. When a potential gunfire incident is detected by our sensors, our system precisely locates where the incident occurred and applies machine classification combined with human review to analyze and validate the incident. An alert containing a location on a map and critical information about the incident is sent directly to subscribing law enforcement or security personnel through any internet-connected computer and to iPhone or Android mobile devices.

Our software sends validated gunfire data along with the audio of the triggering sound to our Incident Review Center ("IRC"), where our trained incident review specialists are on duty 24 hours a day, seven days a week, 365 days a year to screen and confirm actual gunfire incidents. Our trained incident review specialists can supplement alerts with additional tactical information, such as the potential presence of multiple shooters or the use of high-capacity weapons. Gunshot incidents reviewed by our IRC result in alerts typically sent within approximately 45 seconds of the receipt of the gunfire incident.

We generate annual subscription revenues from the deployment of ShotSpotter Respond on a per-square-mile basis. Our security solutions, ShotSpotter SecureCampus and ShotSpotter SiteSecure are typically sold on a subscription basis, each with a customized deployment plan. Our ShotSpotter Connect solution is also sold on a subscription basis. As of September 30, 2021, we had coverage areas under contract in 125 cities and 14 campuses/sites worldwide across the United States, South Africa and the Bahamas, including four of the ten largest cities in the United States.

While we intend to continue to devote resources to increase sales of our solutions, we expect that revenues from our ShotSpotter Respond solution will continue to comprise a substantial majority of our revenues for the foreseeable future. ShotSpotter Labs projects are generally conducted in coordination with a sponsoring charitable organization. These projects may or may not be revenue-producing. When they are revenue-producing, they will generally be sold on a cost-plus basis. As such, ShotSpotter Labs projects will normally produce gross margins significantly lower than our ShotSpotter Respond solutions. Additionally, in early 2020, we added new pricing programs for Tier 4 and 5 law enforcement agencies (those with fewer than 100 sworn officers) that allow them to contract for our gunshot detection solutions to cover a footprint of less than three square miles, using standardized coverage parameters, at a discounted annual subscription rate.

We acquired LEEDS, LLC (“LEEDS”) in November 2020 to expand our suite of solutions with ShotSpotter Investigate. ShotSpotter Investigate is our case management solution that helps automate investigative work and improve case clearance rates – addressing an inefficiency problem for many agencies that have had to rely on multiple disparate systems to work cases. Using the software, investigators benefit from a single digital case folder that includes all elements related to a case. Analytical and collaboration tools help investigators connect the dots and share information faster while reporting helps package cases for command staff and prosecutors. With the launch of ShotSpotter Investigate in the second quarter of fiscal 2021, we now offer a more complete precision policing platform to enable intelligence-driven prevention, response to, and investigation of crime for local, state and federal agencies.

Since our founding 25 years ago, ShotSpotter has been and continues to be a purpose-led company. We are a mission-driven organization that is focused on improving public safety outcomes. We accomplish this by earning the trust of law enforcement and providing them solutions to help them better engage and strengthen the police-community relationships in fulfilling their sworn obligation equally to serve and protect all. Our inspiration comes from our principal founder, Dr. Bob Showen, who believes that the highest and best use of technology is to promote social good. We are committed to developing comprehensive, respectful, and engaged partnerships with law enforcement agencies, elected officials and communities focused on making a positive difference in the world.

We enter into subscription agreements on a term basis that typically range from one to five years in duration, with the majority having a contract term of one year. Substantially all of our sales are to governmental agencies and universities, which often undertake a prolonged contract evaluation process that affects the size or the timing of our sales contracts and may likewise increase our customer acquisition costs. For a discussion of the risks associated with our sales cycle, see risks entitled “Our sales cycle can be unpredictable, time-consuming and costly, and our inability to successfully complete sales could harm our business” and “Because we generally recognize our subscription revenues ratably over the term of our contract with a customer, fluctuations in sales will not be fully reflected in our operating results until future periods” in Item 1A, *Risk Factors*, included in this Quarterly Report on Form 10-Q.

We rely on a limited number of suppliers and contract manufacturers to produce components of our solutions. We have no long-term contracts with these manufacturers and purchase from them on a purchase-order basis. Our outsourced manufacturers generally procure the components directly from third-party suppliers. Although we use a limited number of suppliers and contract manufacturers, we believe that we could find alternate suppliers or manufacturers if circumstances required us to do so, in part because a significant portion of the components required by our solutions is available off the shelf. For a discussion of the risks associated with our limited number of suppliers, see risks entitled “We rely on a limited number of suppliers and contract manufacturers, and our proprietary ShotSpotter sensors are manufactured by a single contract manufacturer” and “Impact of COVID-19 and Social Unrest on our Business” in Item 1A, *Risk Factors*, included in this Quarterly Report on Form 10-Q.

We generated revenues of \$14.5 million and \$11.4 million for the three months ended September 30, 2021 and 2020, respectively, a year-over-year increase of 28%. Revenues from ShotSpotter Respond during the three months ended September 30, 2021 and 2020, represented approximately 84% and 97% of total revenues, respectively. Our two current largest customers, the City of New York and the City of Chicago, accounted for 30% and 14%, respectively, of our total revenues for the three months ended September 30, 2021, and 13% and 18%, respectively, of our total revenues for the three months ended September 30, 2020.

We generated revenues of \$44.2 million and \$33.1 million for the nine months ended September 30, 2021 and 2020, respectively, a year-over-year increase of 34%. Revenues from ShotSpotter Respond during the nine months ended September 30, 2021 and 2020, represented approximately 79% and 96% of total revenues, respectively. Our two current largest customers, the City of New York and the City of Chicago, accounted for 30% and 14%, respectively, of our total revenues for the nine months ended September 30, 2021, and the City of Chicago and City of New York accounted for 18% and 13%, respectively, of our total revenues for the nine months ended September 30, 2020.

For the three months ended September 30, 2021 and 2020, revenues generated within the United States accounted for \$14.3 million and \$11.2 million, or 99% and 98%, of total revenues for both periods. For the three months ended September 30, 2021 and 2020, revenues derived from our customers located outside the United States accounted for \$0.2 million of total revenues, for both periods.

For the nine months ended September 30, 2021 and 2020, revenues generated within the United States accounted for \$43.7 million and \$32.6 million, or 99% and 98%, respectively, of total revenues. For the nine months ended September 30, 2021 and 2020, revenues derived from our customers located outside the United States accounted for \$0.5 million of total revenues for both periods.

We had net (loss) income of \$(0.9) million and \$0.6 million for the three months ended September 30, 2021 and 2020, respectively, and net (loss) income of \$(1.1) million and \$1.4 million for the nine months ended September 30, 2021 and 2020, respectively. Our accumulated deficit was \$95.5 million and \$94.4 million at September 30, 2021 and December 31, 2020, respectively.

We have focused on rapidly growing our business and believe that its future growth is dependent on many factors, including our ability to increase our customer base, expand the coverage of our solutions among our existing customers, expand our international presence and increase sales of our security solutions. Our future growth will primarily depend on the market acceptance for outdoor gunshot detection solutions. The challenges we are facing in this regard as a result of the COVID-19 pandemic are summarized in the section below entitled "Impact of COVID-19 and Social Unrest on our Business." Other challenges we face in this regard include our target customers not having access to adequate funding sources, the fact that contracting with government entities can be complex, expensive, and time-consuming and the fact that our typical sales cycle is often very long, difficult to estimate accurately and can be costly, and the fact that negative publicity about our company can and has caused current and potential future customers to evaluate the sales of our solutions more than in the past. We expect international sales cycles to be even longer than our domestic sales cycles. To combat these challenges, we invest in research and development, increase awareness of our solutions, invest in new sales and marketing campaigns, often in different languages for international sales, and hire additional sales representatives to drive sales in order to continue to maintain our position as a market leader. In addition, we believe that entering into strategic partnerships with other service providers to cities and municipalities offers another potential avenue for expansion.

We will also focus on expanding our business by introducing new products and services such as ShotSpotter Connect to existing customers and gaining new customers for ShotSpotter Labs. We believe that developing and acquiring products for law enforcement in adjacent categories is a path for additional growth given our large and growing installed base of police departments who trust ShotSpotter's products, support and way of doing business. The ability to cross-sell new products provides an opportunity to grow revenues per customer and lifetime value. Challenges we face in this area include ensuring our new products are reliable, integrated well with other ShotSpotter solutions and priced and serviced appropriately. In some cases, we will need to bring in new skills sets to properly develop, market, sell or service these new products depending on the categories they represent.

In October 2018, we acquired the HunchLab technology and related assets that underlie our ShotSpotter Connect solution. ShotSpotter Connect applies risk modeling and artificial intelligence to help forecast when and where crimes are likely to emerge and recommends directed patrols that can deter these events. We believe our investment will democratize the sharing of important intelligence with patrol officers who currently have limited direct access to crime analysts.

With respect to international sales, we believe that we have the potential to expand our coverage within existing areas, and to pursue opportunities in Latin America and other regions of the world. By adding additional sales resources in strategic locations, we believe we will be better positioned to reach these markets. However, we recognize that we have limited international operational experience and currently operate in a limited number of regions outside of the United States. Operating successfully in international markets will require significant resources and management attention and will subject us to additional regulatory, economic and political risks. We may face additional challenges that may delay contract execution related to negotiating with governments in transition, the use of third-party integrations and consultants. Moreover, we anticipate that different political and regulatory considerations that vary across different jurisdictions could extend or make more difficult to predict the length of what is already a lengthy sales cycle.

Net New “Go-Live” Cities

Net new “go-live” cities represent the number of cities covered by deployments of our gunshot detection solutions that were formally approved by customers during the year, both from initial and expanded customer deployments, net of cities that ceased to be “live” during the year due to customer cancellations. New cities include deployed coverage areas that may have been sold, or booked, in a prior period. We focus on net new “go-live” cities as a key business metric to measure our operational performance and market penetration.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net new "go-live" cities	3	6	11	5

Impact of COVID-19 and Social Unrest on our Business

The COVID-19 pandemic resulted in a substantial curtailment of business activities worldwide and caused ongoing economic uncertainty, both in the United States and many countries abroad. In connection with efforts to contain the spread of COVID-19, many companies and state, local and foreign governments imposed restrictions, including shelter-in-place orders and travel bans that were in effect for most or all of 2020 and during the first half of 2021. While some of these companies and jurisdictions have relaxed or ended such restrictions, some restrictions remain and others may be put back in place after having been lifted. We expect that the evolving COVID-19 pandemic, associated travel restrictions and social distancing requirements will continue to have an adverse impact on our results of operations. While the ultimate economic impact of the COVID-19 pandemic is highly uncertain, we expect that our business and results of operations, including our revenues, earnings and cash flows from operations, may continue to be adversely impacted in 2021.

We may be adversely affected by increasing social unrest, protests against racial inequality, protests against police brutality and movements such as “Defund the Police” and such unrest may be exacerbated by inaccurate information or negative publicity regarding our solutions. These events may directly or indirectly affect police agency budgets and funding available to current and potential customers. Participants in these events may also attempt to create the perception that our solutions are contributing to the perceived problems, which may adversely affect us, our business and results of operations, including our revenues, earnings and cash flows from operations.

In addition, the global supply chain for semiconductor chips, including the type of chips used in the sensors integrated into our gunshot detection solutions, has been disrupted by events related to the COVID-19 pandemic, including business shutdowns and increased demand. As a result, we are experiencing delays in the delivery of sensors needed for new deployments and updates or repairs of existing assets. While we believe these delays are temporary and we are able to take some steps to mitigate the impact of these delays, we may not be able to deploy, update or repair our gunshot detection solutions as expected. If we are unable to deliver our solutions or update or repair existing assets, our revenues may not grow as expected and our business may be adversely impacted.

It is currently not possible to predict the magnitude or duration of the COVID-19 pandemic’s impact on our business or the future impact of the recent, ongoing and possible future unrest. The extent to which these events impact our business will depend on numerous evolving factors that we may not be able to control or accurately predict, including without limitation:

- the impact of possible disruption to our supply chain caused by distribution and other logistical issues, including delays in manufacturing chips used in our sensors, which could delay our ability to deploy new go-live miles or update our currently deployed technology;
- the impact of increased sensor costs and unforeseen operating expenses, difficulties, delays and other additional deployment expenses created by the pandemic, resulting business disruptions and global supply chain issues;
- the duration and scope of the challenges created by pandemic or by ongoing social unrest;
- governmental, business and individuals' actions that have been and continue to be taken in response to these events;
- the impact of the pandemic and social unrest on economic activity and actions taken in response;
- the effect on our customers and demand for our products and services;
- our ability to continue to sell our products and services, including as a result of travel restrictions and people working from home, or restrictions on access to our potential customers;
- the ability of our customers to pay for our products and services;
- any closures of our facilities and the facilities of our customers and suppliers; and
- the degree to which our employees or those of our customers or suppliers become ill with COVID-19.

Components of Results of Operations

Presentation of Financial Statements

Our consolidated financial statements include the accounts of our wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Revenues

We derive the majority of our revenues from subscription services. We recognize subscription fees ratably, on a straight-line basis, over the term of the subscription, which for new customers is typically initially one to three years in length. Customer contracts include one-time set-up fees for the set-up of our sensors in the customer's coverage areas, training and third-party integration licenses. If the set-up fees are deemed to be a material right, they are recognized ratably over three to five years. Training and third-party integration license fees are recognized upon delivery.

For ShotSpotter Respond, we generally invoice customers for 50% of the total contract value when the contract is fully executed and for the remaining 50% when the subscription service is operational and ready to go live – that is, when the customer has acknowledged the completion of all the deliverables in the signed customer acceptance form. All fees billed in advance of services being delivered are recorded as deferred revenue. The timing of when new miles go live can be uncertain and, as a result, can have a significant impact on the levels of revenues and deferred revenue from quarter to quarter. For our ShotSpotter Respond solution, our pricing model is based on a per-square-mile basis. For ShotSpotter SecureCampus, ShotSpotter SiteSecure and ShotSpotter Investigate, our pricing model is on a customized-site basis. For our ShotSpotter Connect solution, pricing is currently customized, generally tied to the number of sworn police officers in a particular city. We may also offer discounts or other incentives in conjunction with all ShotSpotter sales in an effort to introduce the product, accelerate sales or extend renewals for a longer contractual term. As a result of our process for invoicing contracts and renewals upon execution, our cash flow from operations and accounts receivable can fluctuate due to timing of contract execution and timing of deployment.

We generally invoice subscription service renewals for 100% of the total contract value when the renewal contract is executed. Renewal fees are recognized ratably over the term of the renewal, which is typically one year. While most of our customers elect to renew their agreements, in some cases, they may not be able to obtain the proper approvals or funding to complete the renewal prior to expiration. For these customers, we stop recognizing subscription revenues at

the end of the current contract term, even though we may continue to provide services for a period of time until the renewal process is completed. Once the renewal is complete, we then recognize subscription revenues for the period between the expiration of the term of the agreement and the completion of the renewal process in the month in which the renewal is executed. If a customer declines to renew its subscription prior to the end of three years, then the remaining setup fees are immediately recognized.

With the acquisition of LEEDS, we also generate revenues through the sale of (i) a software license and related maintenance and support services to our proprietary software technology and (ii) professional software development services to a single customer, through a sales channel intermediary. The sales channel intermediary contract includes an annual, renewable subscription for software and related maintenance and support services. The contract also provides for the procurement of professional services, such as for software development and testing for product feature enhancements, by executing supplementary work orders.

It is likely that international deployments may have different payment and billing terms due to their local laws, restrictions or other customary terms and conditions.

ShotSpotter Labs projects may or may not be revenue-producing. When they are revenue-producing, they will generally be sold on a cost-plus basis.

We anticipate that, due to the COVID-19 pandemic, our customers may still face budget shortfalls due to the increased expenditures our customers have had to endure to address the pandemic.

Costs

Costs include the cost of revenues. Cost of revenues primarily includes depreciation expense associated with capitalized customer acoustic sensor networks, communication expenses, costs related to hosting our service applications, costs related to operating our IRC, providing remote and on-site customer support and maintenance and forensic services, providing customer training and onboarding services, certain personnel and related costs of operations, stock-based compensation and allocated overheads, which includes information technology, facility and equipment depreciation costs.

Impairment of property and equipment is primarily attributable to our write-off of the remaining book value of sensor networks related to customers lost during the nine months ended September 30, 2021.

We are upgrading our sensors that use third-generation (“3G”) cellular communications to the fourth-generation Long-Term Evolution wireless technology, which will increase our cost of revenues. Originally, we had expected to start incurring these upgrade costs in 2021 through 2022. We accelerated these plans and began to replace sensors in certain geographic areas starting in the second half of 2020 in order to optimize personnel utilization as deployments were limited as a result of pandemic-related restrictions. Accelerated bandwidth changes by our carriers may require us to continue to accelerate the upgrade of our 3G sensors prior to 2022, which would accelerate the costs associated with the upgrade, which are estimated to be approximately \$5.0 million in total. Current delays in the supply chain for semiconductor chips are impacting the timely delivery to us of the sensors required to make these upgrades and could increase the cost to us of such upgrades. We may re-use and re-deploy the old 3G sensors, or components within them that have a remaining serviceable life where it makes sense to do so. As we upgrade our sensors, cost of revenues may increase as a percentage of revenues.

In the near term, we expect our cost of revenues to increase in absolute dollars as our installed base increases, although certain of our costs of revenues are fixed and do not need to increase commensurate with increases in revenues. In addition, depreciation expense associated with deployed equipment is recognized over the first five years from the go-live date. We also expect cost of revenues to increase in absolute dollars as we continue to invest in our customer success capabilities to drive growth and value for our customers.

With the acquisition of LEEDS, we also generate costs relating to revenues generated through the sale of software license and related maintenance and support services and professional software development services. Costs of these professional services include employee compensation costs which are relatively fixed, third-party contractor costs, allocated facility costs and overhead, and the costs of billable expenses such as travel and lodging. The unpredictability of the timing of entering into significant professional services agreements may cause significant fluctuations in our costs which, in turn, may impact our quarterly financial results.

Operating Expenses

Operating expenses consist of sales and marketing, research and development, and general and administrative expenses. Salaries, bonuses, stock-based compensation expense and other personnel costs are the most significant components of each of these expense categories. We include stock-based compensation expense incurred in connection with the grant of stock options and restricted stock units to the applicable operating expense category based on the equity award recipient's functional area.

We are focused on executing on our growth strategy. As a result, in the near term we expect our total operating expenses to increase in absolute dollars as we incur additional expenses due to growth. Although our operating expenses will fluctuate, we expect that over time, as a whole, they will generally decrease as a percentage of revenues.

Sales and Marketing

Sales and marketing expenses primarily consist of personnel-related costs attributable to our sales and marketing personnel, commissions earned by our sales personnel, marketing expenses for trade shows and lead generation programs, consulting fees, travel and facility-related costs and allocated overhead.

During the start of the COVID-19 pandemic and associated shelter-in-place orders, work-from-home policies and travel bans, our sales and marketing expense decreased. As travel has increased, our sales and marketing expenses have increased in absolute dollars due to the increased travel and growth in our sales and marketing organization. This growth has included adding sales and/or marketing personnel and expanding our marketing and strategic communications activities to continue to generate additional leads. Sales and marketing expense may fluctuate from quarter to quarter based on the timing of commission expense, marketing campaigns and tradeshow.

Research and Development

Research and development expenses primarily consist of personnel-related costs attributable to our research and development personnel, consulting fees and allocated overhead. We have devoted our product development efforts primarily to develop new lower-cost sensor hardware, develop new features, improve functionality of our solutions and adapt to new technologies or changes to existing technologies.

We are investing in engineering resources to support further development of ShotSpotter Connect and ShotSpotter Investigate. The focus of this effort will be in the areas of data science modeling, user experience, core application functionality and backend infrastructure improvements, including integration of ShotSpotter gunshot data to enhance forecasting of gun violence.

We are also investing research and development resources in conjunction with our ShotSpotter Labs projects and initiatives. The initial focus of these efforts is to develop innovative sensor applications as well as to test and expand the functionality of our outdoor sensors in challenging environmental conditions.

In the near term, we expect our research and development expenses to increase in absolute dollars as we increase our research and development headcount to further strengthen our software and invest in the development of our service.

We will continue to invest in research and development to leverage our large and growing database of acoustic events, which includes those from both gunfire and non-gunfire. We also intend to leverage third-party AI and our own evolving cognitive and analytical applications to improve the efficiency of our solutions. Certain of these applications and outputs may expand the platform of services that we will be able to offer our customers.

General and Administrative

General and administrative expenses primarily consist of personnel-related costs attributable to our executive, finance, and administrative personnel, legal, litigation, strategic communications, accounting and other professional services fees, other corporate expenses and allocated overhead.

In the near term, we expect our general and administrative expenses to increase in absolute dollars as we grow our business, support our operations as a public company, cover increased legal, litigation and strategic communications costs and increase our headcount.

Other Income (Expense), Net

Other income (expense), net, consisted primarily of interest income and local and franchise tax expenses.

Income Taxes

Our income taxes are based on the amount of our income before tax and enacted federal, state and foreign tax rates, adjusted for allowable credits and deductions, as applicable.

We continually monitor all positive and negative evidence regarding the realization of our deferred tax assets and may record assets when it becomes more likely than not that they will be realized, which may impact the expense or benefit from income taxes.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. We regularly assesses the likelihood that the deferred tax assets will be recovered from future taxable income. We consider projected future taxable income and ongoing tax planning strategies, then records a valuation allowance to reduce the carrying value of the net deferred taxes to an amount that is more likely than not able to be realized. Based upon our assessment of all available evidence, including the previous three years of income before tax after permanent items, estimates of future profitability, and our overall prospects of future business, we have determined that it is more likely than not that we will not be able to realize a portion of the deferred tax assets in the future. We will continue to assess the potential realization of deferred tax assets on an annual basis, or an interim basis if circumstances warrant. If our actual results and updated projections vary significantly from the projections used as a basis for this determination, we may need to change the valuation allowance against the gross deferred tax assets.

Results of Operations

Comparison of Three Months Ended September 30, 2021 and 2020

The following table sets forth our selected condensed consolidated statements of operations data for the three months ended September 30, 2021 and 2020 (in thousands):

	Three Months Ended September 30,		As a % of		Change	
	2021	Revenues	2020	Revenues	\$	%
Revenues	\$ 14,547	100 %	\$ 11,350	100 %	\$ 3,197	28 %
Costs						
Cost of revenues	6,520	45 %	4,745	42 %	1,775	37 %
Impairment of property and equipment	—	—	161	1 %	(161)	(100) %
Total costs	6,520	45 %	4,906	43 %	1,614	33 %
Gross profit	8,027	55 %	6,444	57 %	1,583	25 %
Operating expenses:						
Sales and marketing	4,018	28 %	2,400	21 %	1,618	67 %
Research and development	1,703	12 %	1,375	12 %	328	24 %
General and administrative	3,217	22 %	2,040	18 %	1,177	58 %
Total operating expenses	8,938	62 %	5,815	51 %	3,123	54 %
Operating loss	(911)	(7 %)	629	6 %	(1,540)	(245) %
Other income (expense), net	(38)	—	(55)	—	17	(31) %
Provision (benefit) for income taxes	—	—	8	—	(8)	(100) %
Net income	\$ (949)	(7 %)	\$ 566	5 %	\$ (1,515)	(268) %

Revenues

The increase of \$3.2 million was due primarily to a \$2.0 million increase in revenues attributable to the acquisition of LEEDS in November 2020 with the remaining \$1.2 million increase attributable to increased revenues from new customers and expansions of existing customer coverage areas, partially offset by the effect of COVID-19 related delays in deploying contracted miles and contract renewals with certain customers. We went live in three new Respond cities and had seven Respond expansions during the three months ended September 30, 2021.

Costs

The increase of \$1.6 million was due primarily to an increase of increase of \$1.2 million in third-party labor costs, an increase of \$0.5 million in overall personnel-related costs primarily driven by our LEEDS' acquisition and an increase of \$0.1 million in depreciation expense offset by a decrease of \$0.2 million in product and software costs.

Operating Expenses

Sales and Marketing Expense

Sales and marketing expense increased by \$1.6 million and was primarily due to an increase of \$0.5 million in consulting and outside services, a \$0.5 million increase in personnel costs, a \$0.2 million increase in advertising costs and a \$0.4 million increase in other costs including travel and entertainment expense and amortization of the customer relationship intangible asset related to LEEDS.

Research and Development Expense

Research and development expense increased by \$0.3 million and was primarily due to increased personnel and headcount costs as a result of the LEEDS acquisition.

General and Administrative Expense

The increase of \$1.2 million was due primarily to a \$0.3 million increase in legal and litigation expense, primarily related to the initiation of our lawsuit against VICE Media, LLC for defamation, a \$0.3 million increase in strategic communications expense, a \$0.2 million increase in personnel-related costs and a \$0.4 million increase in other costs including business insurance expense and travel and entertainment expense and consulting expense.

Other Income (Expense), Net

The decrease in other income (expense) net of \$0.02 million was due primarily to a decrease in interest income due to a decline in interest rates.

Income Taxes

Our income taxes are based on the amount of our taxable income and enacted federal, state and foreign tax rates, adjusted for allowable credits, deductions and the valuations allowance against deferred tax assets, as applicable. For the three months ended September 30, 2021 and 2020, due to having net operating loss carryforwards, our recorded income taxes consisted of foreign taxes only.

Comparison of Nine Months Ended September 30, 2021 and 2020

The following table sets forth our selected condensed consolidated statements of operations data for the nine months ended September 30, 2021 and 2020 (in thousands):

	Nine Months Ended September 30,		As a % of		Change	
	2021	As a % of Revenues	2020	As a % of Revenues	\$	%
Revenues	\$ 44,184	100 %	\$ 33,085	100 %	\$ 11,099	34 %
Costs						
Cost of revenues	19,137	43 %	13,440	41 %	5,697	42 %
Impairment of property and equipment	25	—	161	—	(136)	—
Total costs	19,162	43 %	13,601	41 %	5,561	41 %
Gross profit	25,022	57 %	19,484	59 %	5,538	28 %
Operating expenses:						
Sales and marketing	11,881	28 %	7,237	22 %	4,644	64 %
Research and development	5,156	12 %	4,104	12 %	1,052	26 %
General and administrative	8,900	20 %	6,627	20 %	2,273	34 %
Total operating expenses	25,937	60 %	17,968	54 %	7,969	44 %
Operating loss	(915)	(3 %)	1,516	5 %	(2,431)	(160 %)
Other income (expense), net	(156)	—	(72)	—	(84)	117 %
Provision (benefit) for income taxes	49	—	(1)	—	50	(5,000 %)
Net (loss) income	\$ (1,120)	(3 %)	\$ 1,445	4 %	\$ (2,565)	(178 %)

Revenues

The increase of \$11.1 million was due primarily to a \$8.1 million increase in revenues attributable to the acquisition of LEEDS in November 2020, with the remaining \$3.0 million increase attributable to increased revenues from new customers and expansions of existing customer coverage areas for ShotSpotter Respond. The increase was partially offset by the effect of COVID-19 related delays in deploying contracted miles and contract renewals with certain customers. We went live in ten new Respond cities and had twelve Respond expansions during the nine months ended September 30, 2021.

Costs

The increase of \$5.6 million was due primarily driven by a \$3.8 million increase in third-party labor expense, a \$1.9 million increase in overall personnel-related costs primarily driven by our acquisition of LEEDS in November 2020, a \$0.3 million increase in depreciation expense, offset by a \$0.4 million increase in maintenance and support product and software expense.

Operating Expenses

Sales and Marketing Expense

The increase in sales and marketing expense of \$4.6 million was primarily due to an increase of \$2.2 million in consulting and outside services, an increase of \$1.4 million in personnel costs, an increase of \$0.7 million in amortization of the customer relationship intangible asset related to LEEDS, an increase of \$0.5 million in advertising costs, an increase of \$0.1 million in equipment and software expense offset by a decrease in other costs of \$0.2 million.

Research and Development Expense

The increase in research and development expense of \$1.0 million was primarily due to increased personnel and headcount costs as a result of the LEEDS acquisition.

General and Administrative Expense

The increase of \$2.3 million was due primarily to an increase of \$1.0 million in legal, litigation, strategic communications and professional fees expense, an increase of \$0.5 million increase in personnel costs, an increase of \$0.3 million in consulting expense, an increase of \$0.1 million increase in business insurance expense, an increase in recruiting expense of \$0.1 million and an increase in other costs of \$0.3 million.

Other Income (Expense), Net

The decrease of \$0.1 million was due primarily to a decrease in interest income due to a decline in interest rates.

Income Taxes

Our income taxes are based on the amount of our taxable income and enacted federal, state and foreign tax rates, adjusted for allowable credits, deductions and the valuations allowance against deferred tax assets, as applicable. For the nine months ended September 30, 2021 and 2020, as a result of net operating loss carryforwards, our recorded income taxes consisted of foreign taxes only.

Liquidity and Capital Resources

Sources of Funds

Our operations have been financed primarily through net proceeds from the sale of equity, debt financing arrangements and cash from operating activities. Our principal source of liquidity is cash and cash equivalents totaling \$13.1 million as of September 30, 2021. In August 2020, we entered into an amendment to our credit facility to increase the size of our available loan facility from \$10.0 million to \$20.0 million. As of September 30, 2021, no amounts were outstanding.

We believe our existing cash and cash equivalent balances, our available credit facility and cash flow from operations will be sufficient to meet our working capital and capital expenditure requirements for at least the next 12 months. Our future capital requirements may vary materially from those currently planned and will depend on many factors, including our rate of revenue growth, the timing and extent of spending on sales and marketing, the expansion of sales and marketing activities, the timing of new product introductions, market acceptance of our products and overall economic conditions and potential or pending acquisitions. We may also seek additional capital to fund our operations and potential acquisitions, including through the sale of equity or debt financings. To the extent that we raise additional capital through the future sale of equity, the ownership interest of our stockholders will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect the rights of our existing common stockholders. The incurrence of debt financing would result in debt service obligations and the instruments governing such debt could provide for operating and financing covenants that would restrict our operations. Additionally, there is no guarantee debt or equity financing will be available to the Company.

Use of Funds

Our historical uses of cash have primarily consisted of cash used for operating activities, such as expansion of our sales and marketing operations, research and development activities and other working capital needs, and cash used in investing activities, such as property and equipment expenditures to install infrastructure in customer cities in order to deliver our solutions. We also invest in company and technology acquisitions, where appropriate.

Stock Repurchase Program

In May 2019, we announced that our board of directors had approved a stock repurchase program for up to \$15 million of our common stock. The shares may be repurchased from time to time in open market transactions, in privately negotiated transactions or by other methods in accordance with federal securities laws. The actual timing, number and value of shares repurchased under the program will be determined by management in its discretion and will depend on a number of factors, including the market price of our common stock, general market and economic conditions and applicable legal requirements. The stock repurchase program does not obligate us to purchase any particular amount of common stock and may be suspended or discontinued at any time.

During the nine months ended September 30, 2021, the Company repurchased 95,151 shares of its common stock at an average price of \$37.82 per share for \$3.6 million. The repurchases were made in open market transactions using cash on hand, and all of the shares repurchased were retired. At September 30, 2021, \$3.1 million remained available for repurchase under the Company's stock repurchase program.

Cash Flows

Comparison of Nine Months Ended September 30, 2021 and 2020

The following table presents a summary of our cash flows for the nine months ended September 30, 2021 and 2020:

	Nine Months Ended September 30,	
	2021	2020
	(in thousands)	
Net cash provided by (used in):		
Operating activities	\$ 5,375	\$ 8,809
Investing activities	(5,662)	(3,178)
Financing activities	(2,641)	(1,391)
Net change in cash and cash equivalents	<u>\$ (2,928)</u>	<u>\$ 4,240</u>

Operating Activities

Our net income and cash flows provided by operating activities are significantly influenced by our increase in headcount to support our growth, increase in legal, outside services fees, and sales and marketing expenses, and our ability to bill and collect in a timely manner.

Net cash provided by operating activities decreased \$3.4 million from the nine months ended September 30, 2020 to the nine months ended September 30, 2021, primarily due to a \$6.5 million increase in payments for personnel costs, an increase of \$3.4 million in professional services, offset by an increase of \$6.2 million in cash collected from customers and an increase of \$0.3 million in other.

Investing Activities

Our investing activities consist primarily of capital expenditures to install our solutions in customer coverage areas, purchases of property and equipment, and investment in intangible assets.

Investing activities used \$5.7 million and \$3.2 million in the nine months ended September 30, 2021 and 2020, respectively, primarily for property and equipment installed for new deployments and our solutions in customer coverage areas.

Financing Activities

Cash generated by financing activities includes net proceeds from the exercise of stock options and warrants, proceeds from the employee stock purchase plan, offset by payment for repurchases of our common stock, payment of indebtedness, and debt issuance and financing costs.

Financing activities used \$2.6 million in cash during the nine months ended September 30, 2021. This was primarily driven by \$3.6 million in payments for repurchases of our common stock and \$0.4 million in payments for HunchLab's contingent consideration, partially offset by \$0.9 million in proceeds from the exercise of options and warrants and \$0.5 million in proceeds from employee stock purchase plan purchases during the nine months ended September 30, 2021.

Off-Balance Sheet Arrangements

At September 30, 2021, we did not have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities that were established for the purpose of facilitating off-balance sheet arrangements. We do not engage in off-balance sheet financing arrangements. In addition, we do not engage in trading activities involving non-exchange traded contracts.

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles. The preparation of our consolidated financial statements requires us to make estimates, assumptions and judgments that affect the reported amounts of revenues, assets, liabilities, costs and expenses. We base our estimates and assumptions on historical experience and other factors that we believe to be reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ from these estimates.

For the significant or material changes in our critical accounting policies during the nine months ended September 30, 2021, see Note 2, *Summary of Significant Accounting Policies*, to the notes of our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

Recently Issued Accounting Pronouncements

See Note 2, *Summary of Significant Accounting Policies*, to the notes to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for a summary of recently issued accounting pronouncements.

Item 3. Qualitative and Quantitative Disclosures about Market Risk

Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily the result of fluctuations in interest rates and foreign exchange rates as well as, to a lesser extent, inflation.

There were no material changes in our market risk during the nine months ended September 30, 2021, compared to the market risk disclosed in the Qualitative and Quantitative Disclosures about Market Risk section of our 2020 Annual Report on Form 10-K.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management has evaluated, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13-a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of September 30, 2021, our disclosure controls and procedures were effective to provide reasonable assurance that the information we are required to file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

In November 2020, we completed the acquisition of LEEDS, LLC ("LEEDS"). We continue to integrate internal controls at LEEDS into our control structure. With the exception of these changes, there were no changes in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) during the quarter ended September 30, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including our principal executive officer and principal financial officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Item 1. Legal Proceedings

ShotSpotter, Inc. v. VICE Media, LLC

On October 12, 2021, the Company filed a defamation lawsuit against VICE Media, LLC in Delaware Superior Court. The complaint alleges that VICE intentionally misrepresented court records and targeted ShotSpotter with false accusations in order to cultivate a subversive brand that enables VICE to sell sponsored content to corporate advertisers. ShotSpotter seeks more than \$200 million in compensatory damages and \$100 million in punitive damages.

Item 1A. RISK FACTORS

Investing in our common stock involves a high degree of risk. You should consider carefully the risks and uncertainties described below, together with all of the other information in this report, including our consolidated financial statements and related notes, before deciding whether to purchase shares of our common stock. If any of the following risks is realized, our business, operating results, financial condition and prospects could be materially and adversely affected. In that event, the price of our common stock could decline, and you could lose part or all of your investment. Moreover, the risks described below are not the only ones that we face. Additional risks not presently known to us or that we currently deem immaterial may also affect our business, operating results, prospects or financial condition. You should carefully consider these risk factors, together with all of the other information included in this Quarterly Report on Form 10-Q as well as our other publicly available filings with the SEC.

SUMMARY OF RISK FACTORS

Investing in our common stock involves risks, including those discussed in the section titled “Risk Factors.” These risks include, among others:

- ⌚ The COVID-19 pandemic has resulted in a material adverse effect on our business, the future magnitude or duration of which we cannot predict with accuracy.
- ⌚ If our business does not grow as we expect, or if we fail to manage our growth effectively, our operating results and business prospects would suffer.
- ⌚ Our quarterly results of operations may fluctuate significantly due to a wide range of factors, which makes our future results difficult to predict.
- ⌚ Because we generally recognize our subscription revenues ratably over the term of our contract with a customer, fluctuations in sales will not be fully reflected in our operating results until future periods.
- ⌚ We have not been profitable historically and may not achieve or maintain profitability in the future.
- ⌚ We may require additional capital to fund our business and support our growth, and our inability to generate and obtain such capital on acceptable terms, or at all, could harm our business, operating results, financial condition and prospects.
- ⌚ Interruptions or delays in service from our third-party providers, including delays in the delivery of new sensors as a result of an industry-wide chip shortage, could increase the cost to us of providing our solutions, or could impair our ability to make our solutions available to our customers, resulting in customer dissatisfaction, damage to our reputation, loss of customers, limited growth and reduction in revenues.
- ⌚ If we are unable to sell our solutions into new markets, our revenues may not grow.
- ⌚ Ongoing social unrest may result in a material adverse effect on our business, the future magnitude or duration of which we cannot predict with accuracy.
- ⌚ Our success depends on maintaining and increasing our sales, which depends on factors we cannot control, including the availability of funding to our customers.
- ⌚ Contracting with government entities can be complex, expensive, and time-consuming.
- ⌚ If we are unable to further penetrate the public safety market, our revenues may not grow.
- ⌚ Our sales cycle can be lengthy, time-consuming and costly, and our inability to successfully complete sales could harm our business.
- ⌚ Changes in the availability of federal funding to support local law enforcement efforts could impact our business.
- ⌚ The failure of our solutions to meet our customers’ expectations could harm our reputation, which may have a material adverse effect on our business, operating results and financial condition.
- ⌚ Real or perceived false positive gunshot alerts or failure or perceived failure to generate alerts for actual gunfire could adversely affect our customers and their operations, damage our brand and reputation and adversely affect our growth prospects and results of operations.
- ⌚ The nature of our business may result in undesirable press coverage or other negative publicity. In addition, we may, from time to time, become involved in lawsuits to defend ourselves against false claims about our solutions

or our business, which may increase negative publicity and could have a negative impact on our business, operating results or financial condition.

- ⌚ Economic uncertainties or downturns, or political changes, could limit the availability of funds available to our customers and potential customers, which could materially adversely affect our business.
- ⌚ The nature of our business exposes us to inherent liability risks.
- ⌚ As a result of our use of outdoor acoustic sensors, we are subject to governmental regulation and other legal obligations, particularly related to privacy, data protection and information security, and our actual or perceived failure to comply with such obligations could harm our business. Compliance with such laws could impair our efforts to maintain and expand our customer base, and thereby decrease our revenues.
- ⌚ Failure to protect our intellectual property rights could adversely affect our business.

Risks Related to the COVID-19 Pandemic

The COVID-19 pandemic has resulted in a material adverse effect on our business, the future magnitude or duration of which we cannot predict with accuracy.

The COVID-19 pandemic has resulted in a substantial curtailment of business activities worldwide and is causing weakened economic conditions, both in the United States and many countries abroad. As part of intensifying efforts to contain the spread of COVID-19, many companies and state, local and foreign governments have imposed restrictions, including shelter-in-place orders and travel bans. While some of these companies and jurisdictions have started to relax such restrictions, these restrictions may be put back in place. These factors have negatively impacted our operations and results of operations for the year ended 2020. We expect that the evolving COVID-19 pandemic, associated travel restrictions and social distancing requirements will continue to have an adverse impact on our results of operations. While the ultimate economic impact of the COVID-19 pandemic is highly uncertain, we expect that our business and results of operations, including our revenues, earnings and cash flows from operations, will be adversely impacted for the remainder of 2021, including as a result of:

- ⌚ Delays in our ability to deploy new “go-live” miles attributable to company policies or customer policies designed to protect employee health and comply with government restrictions;
- ⌚ Greater funding challenges for our customer base, which may adversely affect customer contract renewals, expansion of existing customer deployments or new customer sales;
- ⌚ Possible disruption to our supply chain caused by distribution and other logistical issues, including delays in manufacturing chips used in our sensors may further delay our ability to deploy new go-live miles or update our currently deployed technology;
- ⌚ Increased deployment costs, including increases in the price of equipment as a result of supply chain interruptions; and
- ⌚ Potential decrease in productivity or availability of our employees or those of our customers or suppliers due to travel bans or restrictions, work-from-home or shelter-in-place policies and orders, or vaccine requirements.

It is currently not possible to predict the magnitude or duration of the COVID-19 pandemic’s impact on our business. The extent to which the COVID-19 pandemic impacts our business will depend on numerous evolving factors that we may not be able to control or accurately predict, including without limitation:

- ⌚ the duration and scope of the pandemic;
- ⌚ governmental, business and individuals’ actions that have been and continue to be taken in response to the pandemic;

- ① the impact of the pandemic on economic activity and actions taken in response;
- ① the effect on our customers and demand for our products and services;
- ① our ability to continue to sell our products and services, including as a result of travel restrictions and people working from home, or restrictions on access to our potential customers;
- ① the ability of our customers to pay for its products and services;
- ① any closures of our facilities and the facilities of our customers and suppliers; and
- ① the degree to which our employees or those of our customers or suppliers become ill with COVID-19.

The COVID-19 pandemic has impacted our supply chain, which could adversely impact on our business.

The global supply chain for semiconductor chips, including the type of chips used in the sensors integrated into our gunshot detection solutions, has been disrupted by events related to the COVID-19 pandemic, including business shutdowns and increased demand. As a result, we are experiencing delays in the delivery of sensors needed for new deployments and updates or repairs of existing assets, and we may experience higher costs to procure the sensors required for our solutions. While we believe these delays are temporary and we are able to take some steps to mitigate the impact of these delays, we may not be able to deploy, update or repair our gunshot detection solutions as expected. If we are unable to deliver our solutions or update or repair existing assets or if we incur higher than expected costs to do so, our revenues may not grow as expected and our business may be adversely impacted.

Risks Related to Our Growth

If our business does not grow as we expect, or if we fail to manage our growth effectively, our operating results and business prospects would suffer.

Our ability to successfully grow our business depends on a number of factors including our ability to:

- ① accelerate our acquisition of new customers;
- ① further sell expansions of coverage areas to our existing customers;
- ① expand our international footprint;
- ① expand into new vertical markets, such as precision policing, and security solutions;
- ① increase awareness of the benefits that our solutions offer;
- ① maintain our competitive and technology leadership position; and
- ① manage our business successfully through the COVID-19 pandemic and any resulting impact on economic conditions, including conditions impacting the availability of funding for our public safety solution.

As usage of our solutions grows, we will need to continue to make investments to develop and implement new or updated solutions, technologies, security features and cloud-based infrastructure operations. In addition, we will need to appropriately scale our internal business systems and our services organization, including the suppliers of our detection equipment and customer support services, to serve our growing customer base. Any failure of, or delay in, these efforts could impair the performance of our solutions and reduce customer satisfaction.

Further, our growth could increase quickly and place a strain on our managerial, operational, financial and other resources, and our future operating results depend to a large extent on our ability to successfully manage our anticipated expansion and growth. To manage our growth successfully, we will need to continue to invest in sales and marketing, research and development, and general and administrative functions and other areas. We are likely to recognize the costs

associated with these investments earlier than receiving some of the anticipated benefits, and the return on these investments may be lower, or may develop more slowly, than we expect, which could adversely affect our operating results.

If we are unable to manage our growth effectively, we may not be able to take advantage of market opportunities or develop new solutions or upgrades to our existing solutions, satisfy customer requirements, maintain the quality and security of our solutions or execute on our business plan, any of which could have a material adverse effect on our business, operating results and financial condition.

Our quarterly results of operations may fluctuate significantly due to a wide range of factors, which makes our future results difficult to predict.

Our revenues and results of operations could vary significantly from quarter to quarter as a result of various factors, many of which are outside of our control, including:

- ① the expansion or contraction of our customer base;
- ① the renewal or nonrenewal of subscription agreements with, and expansion of coverage areas by, existing customers;
- ① the size, timing, terms and deployment schedules of our sales to both existing and new customers;
- ① the introduction of products or services that may compete with us for the limited funds available to our customers, and changes in the cost of such products or services;
- ① changes in our customers' and potential customers' budgets;
- ① our ability to control costs, including our operating expenses;
- ① our ability to hire, train and maintain our direct sales force;
- ① the timing of satisfying revenues recognition criteria in connection with initial deployment and renewals;
- ① fluctuations in our effective tax rate;
- ① the impact of the COVID-19 pandemic on business operations and economic conditions; and
- ① general economic and political conditions, both domestically and internationally.

Any one of these or other factors discussed elsewhere in this report may result in fluctuations in our revenues and operating results, meaning that quarter-to-quarter comparisons of our revenues, results of operations and cash flows may not necessarily be indicative of our future performance.

Because of the fluctuations described above, our ability to forecast revenues is limited and we may not be able to accurately predict our future revenues or results of operations. In addition, we base our current and future expense levels on our operating plans and sales forecasts, and our operating expenses are expected to increase in the short term. Accordingly, we may not be able to reduce our costs sufficiently to compensate for an unexpected shortfall in revenues, and even a small shortfall in revenues could disproportionately and adversely affect our financial results for that quarter. The variability and unpredictability of these and other factors could result in our failing to meet or exceed financial expectations for a given period.

Because we generally recognize our subscription revenues ratably over the term of our contract with a customer, fluctuations in sales will not be fully reflected in our operating results until future periods.

Our revenues are primarily generated from subscriptions to our solutions. With the exception of a small number of legacy customers, our customers do not have the right to take possession of our equipment or software platform. Revenues

from subscriptions to our software platform is recognized ratably over the subscription period beginning on the date that the subscription is made available to the customer, which we refer to as the “go-live” date. Our agreements with our customers typically range from one to five years. As a result, much of the revenues that we report in each quarter are attributable to agreements entered into during previous quarters. Consequently, a decline in sales, customer renewals or market acceptance of our solutions in any one quarter would not necessarily be fully reflected in the revenues in that quarter and would negatively affect our revenues and profitability in future quarters. This ratable revenues recognition also makes it difficult for us to rapidly increase our revenues through additional sales in any period, as revenues from new customers generally are recognized over the applicable agreement term. Our subscription-based approach may result in uneven recognition of revenues.

We recognize subscription revenues over the term of a subscription agreement. Once we enter into a contract with a customer, there is a delay until we begin recognizing revenues while we survey the coverage areas, obtain any required consents for installation, and install our sensors, which together can take up to several months or more. We begin recognizing revenues from a sale only when all of these steps are complete and the solution is live.

While most of our customers elect to renew their subscription agreements following the expiration of a term, in some cases, they may not be able to obtain the proper approvals or funding to complete the renewal prior to such expiration. For these customers, we stop recognizing subscription revenues at the end of the current term, even though we may continue to provide services for a period of time while the renewal process is completed. Once the renewal is complete, we then recognize subscription revenues for the period between the expiration of the term of the agreement and the completion of the renewal process.

The variation in the timeline for deploying our solutions and completing renewals may result in fluctuations in our revenues, which could cause our results to differ from projections. Additionally, while we generally invoice for 50% of the contract cost upon a customer’s go-live date, our cash flows may be volatile and will not match our revenues recognition.

We have not been profitable historically and may not achieve or maintain profitability in the future.

We reached our first full year of net income in 2019; prior to that, we posted a net loss in each year since inception. As of September 30, 2021 we had an accumulated deficit of \$95.5 million. We are not certain whether we will be able to maintain enough revenues from sales of our solutions to sustain or increase our growth or maintain profitability in the future. We also expect our costs to increase in future periods, which could negatively affect our future operating results if our revenues do not increase. In particular, we expect to continue to expend substantial financial and other resources on:

- ① sales and marketing, including a significant expansion of our sales organization, both domestically and internationally;
- ① research and development related to our solutions, including investments in our engineering and technical teams;
- ① acquisition of complementary technologies or businesses, such as our acquisition of HunchLab technology in October 2018 and our acquisition of LEEDS, LLC ("LEEDS") in November 2020;
- ① continued international expansion of our business; and
- ① general and administrative expenses.

These investments may not result in increased revenues or growth in our business. If we are unable to increase our revenues at a rate sufficient to offset the expected increase in our costs, our business, operating results and financial position may be harmed, and we may not be able to maintain profitability over the long term. In particular, the COVID-19 pandemic and its impact on economic conditions, including supply chain disruptions, may make it more difficult for us to increase revenues sufficient to maintain profitability. Additionally, we may encounter unforeseen operating expenses, difficulties, complications, delays and other unknown factors that may result in losses in future periods. If our revenue growth does not meet our expectations in future periods, our financial performance may be harmed, and we may not maintain profitability in the future.

We may require additional capital to fund our business and support our growth, and our inability to generate and obtain such capital on acceptable terms, or at all, could harm our business, operating results, financial condition and prospects.

We intend to continue to make substantial investments to fund our business and support our growth. In addition, we may require additional funds to respond to business challenges, including the need to develop new features or enhance our solutions, improve our operating infrastructure or acquire or develop complementary businesses and technologies. As a result, in addition to the revenues we generate from our business and our existing cash balances, we may need to engage in additional equity or debt financings to provide the funds required for these and other business endeavors. If we raise additional funds through future issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Any debt financing that we may secure in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. We may not be able to obtain such additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly impaired, and our business may be adversely affected. In addition, our inability to generate or obtain the financial resources needed may require us to delay, scale back, or eliminate some or all of our operations, which may have a material adverse effect on our business, operating results, financial condition and prospects.

Risks Related to Our Public Safety Business

Ongoing social unrest may result in a material adverse effect on our business, the future magnitude or duration of which we cannot predict with accuracy.

We may be adversely affected by ongoing social unrest, protests against racial inequality, protests against police brutality and movements such as “Defund the Police” or increases in such unrest that may occur in the future, and such unrest may be exacerbated by inaccurate information or negative publicity regarding our solutions. These events may directly or indirectly affect police agency budgets and funding available to current and potential customers. Participants in these events may also attempt to create the perception that our solutions are contributing to the “problem”, which may adversely affect the Company, its business and results of operations, including its revenues, earnings and cash flows from operations.

Our success depends on maintaining and increasing our sales, which depends on factors we cannot control, including the availability of funding to our customers.

To date, substantially all of our revenues have been derived from contracts with local governments and their agencies, in particular the police departments of major cities in the United States. To a lesser extent, we also generate revenues from federal agencies, foreign governments and higher education institutions. We believe that the success and growth of our business will continue to depend on our ability to add new police departments and other government agencies, domestically and internationally, as customers of our public safety solution and new universities, corporate campuses and key infrastructure and transportation centers as customers of our security solutions. Many of our target customers have restricted budgets, such that we are forced to compete with programs or solutions that offer an alternative use of the same funds. A number of factors could cause current and/or potential customers to: delay or refrain from purchasing our solutions, prevent expansion of, or reduce coverage areas and/ or terminate use of our solutions, including:

- ① decreases or changes in available funding, including tax revenues, budgetary allocations, government grants and other government funding programs;
- ① potential delays or changes in appropriations or other funding authorization processes;
- ① changes in fiscal or contracting policies;
- ① macro-and/or local economic changes that may affect customer funding;
- ① changes in elected or appointed officials;

- ① changes in public perception of the accuracy of our solutions and the appropriate use of our solutions by law enforcement, including as a result of negative publicity; and
- ② changes in laws or public sentiment regarding privacy or surveillance.

The COVID-19 pandemic and any associated impact on economic conditions could also cause or exacerbate any of the foregoing. The occurrence of any of the foregoing would impede or delay our ability to maintain or increase the amount of revenues derived from these customers, which could have a material adverse effect on our business, operating results and financial condition.

Contracting with government entities can be complex, expensive, and time-consuming.

The procurement process for government entities is in many ways more challenging than contracting in the private sector. We must comply with laws and regulations relating to the formation, administration, performance and pricing of contracts with government entities, including U.S. federal, state and local governmental bodies. These laws and regulations may impose added costs on our business or prolong or complicate our sales efforts, and failure to comply with these laws and regulations or other applicable requirements could lead to claims for damages from our customers, penalties, termination of contracts and other adverse consequences. Any such damages, penalties, disruptions or limitations in our ability to do business with government entities could have a material adverse effect on our business, operating results and financial condition.

Government entities often require highly specialized contract terms that may differ from our standard arrangements. For example, if the federal government provides grants to certain state and local governments for our solutions, and such governments do not continue to receive these grants, then these customers have the ability to terminate their contracts with us without penalty. Government entities often impose compliance requirements that are complicated, require preferential pricing or “most favored nation” terms and conditions, or are otherwise time-consuming and expensive to satisfy. Compliance with these special standards or satisfaction of such requirements could complicate our efforts to obtain business or increase the cost of doing so. Even if we do meet these special standards or requirements, the increased costs associated with providing our solutions to government customers could harm our margins. Additionally, even once we have secured a government contract, the renewal process can be lengthy and as time-consuming as the initial sale, and we may be providing our service for months past the contract expiration date without certainty if the renewal agreement will be signed or not. During the COVID-19 pandemic and any associated impact on economic conditions, these risks are more pronounced than usual, as government entities struggle with reduced levels of resources related to implications of the pandemic.

Changes in the underlying regulatory conditions, political landscape or required procurement procedures that affect these types of customers could be introduced prior to the completion of our sales cycle, making it more difficult or costly to finalize a contract with a new customer or expand or renew an existing customer relationship. For example, customers may require a competitive bidding process with extended response deadlines, review or appeal periods, or customer attention may be diverted to other government matters, postponing the consideration of the purchase of our products. Such delays could harm our ability to provide our solutions efficiently and to grow or maintain our customer base.

If we are unable to further penetrate the public safety market, our revenues may not grow.

Our ability to increase revenues will depend in large part on our ability to sell our current and future public safety solutions. For example, our ability to have our ShotSpotter Respond customers renew their annual subscriptions and expand their mileage coverage or purchasing and implementing our new products such as ShotSpotter Connect and ultimately ShotSpotter Investigate drives our ability to increase our revenues. Most of our ShotSpotter Respond customers begin using our solution in a limited coverage area. Our experience has been, and we expect will continue to be, that after the initial implementation of our solutions, our new customers typically renew their annual subscriptions, and many also choose to expand their coverage area. However, some customers may choose to not renew or reduce their coverage. If existing customers do not choose to renew or expand their coverage areas, our revenues will not grow as we anticipate, or may even decline. During the COVID-19 pandemic and any associated impact on economic conditions, this risk is more pronounced than usual, as our customers’ priorities may change or they may have greater uncertainty regarding the availability of funding for our solutions as a result.

Our ability to further penetrate the market for our public safety solutions depends on several factors, including: maintaining a high level of customer satisfaction and a strong reputation among law enforcement; increasing the awareness of our ShotSpotter solutions and their benefits; the effectiveness of our marketing programs; the availability of funding to our customers, particularly in challenging economic conditions we anticipate from the COVID-19 pandemic; our ability to expand ShotSpotter Investigate; and the costs of our solutions. Some potential public safety customers may be reluctant or unwilling to use our solution for a number of reasons, including concerns about additional costs, unwillingness to expose or lack of concern regarding the extent of gun violence in their community, uncertainty regarding the reliability and security of cloud-based offerings or lack of awareness of the benefits of our public safety solutions. If we are unsuccessful in expanding the coverage of ShotSpotter solutions by existing public safety customers or adding new customers, our revenues and growth prospects would suffer.

Our sales cycle can be lengthy, time-consuming and costly, and our inability to successfully complete sales could harm our business.

Our sales process involves educating prospective customers and existing customers about the use, technical capabilities and benefits of our solutions. Prospective customers, especially government agencies, often undertake a prolonged evaluation process that may last up to nine months or more and that typically involves comparing the benefits of our solutions to alternative uses of funds. We may spend substantial time, effort and money on our sales and marketing efforts without any assurance that our efforts will produce any sales.

In addition, in 2011 the Federal Bureau of Investigation's (the "FBI") Criminal Justice Information Services Division (the "CJIS") issued the CJIS Security Policy, a set of standards for organizations that access criminal justice information ("CJI"). CJIS developed this policy to better protect the data it delivers to federal, state and local law enforcement agencies, from services like the National Crime Information Center, the Integrated Automated Fingerprint Identification System and the National Incident Based Reporting System. The policy is also designed to protect CJI that comes from sources other than the FBI. As part of the process of implementing ShotSpotter Investigate for a customer, we will have to complete a rigorous application process to become an approved CJIS compliant vendor. While this CJIS compliant vendor approval process is based upon the FBI's CJIS Security Policy, a separate process will have to be completed in each state where ShotSpotter Investigate will be implemented.

Additionally, events affecting our customers' budgets or missions may occur during the sales cycle that could negatively impact the size or timing of a purchase after we have invested substantial time, effort and resources into a potential sale, contributing to more unpredictability in the growth of our business. If we are unable to succeed in closing sales with new and existing customers, our business, operating results and financial condition will be harmed. During the COVID-19 pandemic and any associated impact on economic conditions, this risk is more pronounced than usual, as our customers' priorities may change or they may have greater uncertainty regarding the availability of funding for our solutions as a result.

Changes in the availability of federal funding to support local law enforcement efforts could impact our business.

Many of our customers rely to some extent on funds from the U.S. federal government in order to purchase and pay for our solutions. Any reduction in federal funding for local law enforcement efforts could result in our customers having less access to funds required to continue, renew, expand or pay for our solutions. Increasing social unrest, protests against racial inequality, protests against police brutality and movements such as "Defund the Police" increased during 2020. These events may directly or indirectly affect municipal and police agency budgets, including federal funding available to current and potential customers. If federal funding is reduced or eliminated and our customers cannot find alternative sources of funding to purchase our solutions, our business will be harmed.

Federal stimulus funding as a result of the COVID-19 pandemic does exist; however, we do not know whether this funding will be made available to our existing or potential customers, and many state and local governments anticipate budget shortfalls without additional funding. Further, the allocation of and prioritization of stimulus funds is uncertain and may change. There is no guarantee that additional funding will be made available to fund our solutions.

Real or perceived false positive gunshot alerts or failure or perceived failure to generate alerts for actual gunfire could adversely affect our customers and their operations, damage our brand and reputation and adversely affect our growth prospects and results of operations.

A false positive alert, in which a non-gunfire incident is reported as gunfire, could result in an unnecessary rapid deployment of police officers and first responders, which may raise unnecessary fear among the occupants of a community or facility, and may be deemed a waste of police and first responder resources. A failure to alert law enforcement or security personnel of actual gunfire (false negative) could result in a less rapid or no response by police officers and first responders, increasing the probability of injury or loss of life. Both false positive alerts and the failure to generate alerts of actual gunfire (false negative) may result in customer dissatisfaction, potential loss of confidence in our solutions, and potential liabilities to customers or other third parties, any of which could harm our reputation and adversely impact our business and operating results. Additionally, third parties may misunderstand or misrepresent what constitutes a false positive or false negative and generate negative publicity regarding our solutions. For example, a recent report by the MacArthur Center for Justice suggests that any incident that does not result in a police report is a false positive. The perception of a false positive alert or of a failure to generate an alert, even where our customers understand that our solutions were utilized correctly, could lead to negative publicity or harm the public perception of our solutions, which could harm our reputation and adversely impact our business and operating results.

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

Our solutions are used to assist law enforcement and first responders in the event that gunfire is detected. Even when our solutions work as intended, the incidents detected by our solutions could lead to injury, loss of life and other negative outcomes, and such events are likely to receive negative publicity. If we fail to detect an incident, or if we detect an incident, such as a terrorist attack or active-shooter event, but the response time of law enforcement or first responders is not sufficiently quick to prevent injury, loss of life, property damage or other adverse outcomes, we may receive negative media attention. At times, our data or information concerning our techniques and processes may become a matter of public record due to legal or other obligations (for example, as a result of public-records requests or subpoenas to provide information or to testify in court), and we may receive negative media attention as a result.

Our reputation and our business may be harmed by inaccurate reporting or by an incomplete understanding of our solutions, which negative publicity could have an adverse impact on new sales or renewals or expansions of coverage areas by existing customers, which would adversely impact our financial results and future prospects. For example, a recent report by the MacArthur Justice Center at the Pritzker School of Law at Northwestern University questions the accuracy of our gunshot detection solutions. In addition, VICE Media, LLC (“VICE”) published a podcast, a series of tweets and an article July and August 2021 that falsely accused us of illegal behavior, which has had a material adverse effect on our business. We are pursuing a defamation lawsuit against VICE, the outcome of which cannot be assured. The fact that we are pursuing a defamation lawsuit against VICE may mean more attention is drawn to VICE’s publications during the pendency of the litigation than would otherwise be the case.

Economic uncertainties or downturns, or political changes, could limit the availability of funds available to our customers and potential customers, which could materially adversely affect our business.

Economic uncertainties or downturns could adversely affect our business and operating results. Negative conditions in the general economy both in the United States and abroad, including conditions resulting from changes in gross domestic product growth, financial and credit market fluctuations, political deadlock, natural catastrophes, warfare, terrorist attacks and infectious disease outbreaks, such as the COVID-19 pandemic, could cause a decrease in funds available to our customers and potential customers and negatively affect the rate of growth of our business.

These economic conditions may make it extremely difficult for our customers and us to forecast and plan future budgetary decisions or business activities accurately, and they could cause our customers to reevaluate their decisions to purchase our solutions, which could delay and lengthen our sales cycles or result in cancellations of planned purchases. Furthermore, during challenging economic times or as a result of political changes, our customers may tighten their budgets and face constraints in gaining timely access to sufficient funding or other credit, which could result in an impairment of their ability to make timely payments to us. In turn, we may be required to increase our allowance for doubtful accounts, which would adversely affect our financial results.

We cannot predict the timing, strength or duration of any economic slowdown, instability or recovery, generally or within any particular industry, or the impact of political changes. If the economic conditions of the general economy or industries in which we operate worsen from present levels, or if recent political changes result in less funding being available to purchase our solutions, our business, operating results, financial condition and cash flows could be adversely affected.

New competitors may enter the market for our public safety solution.

If cities and other government entities increase their efforts to reduce gun violence or our solutions gain visibility in the market, companies could decide to enter into the public safety solution market and thereby increase the competition we face. In addition to other gunshot detection products, we also compete with other technologies and solutions targeting our public safety customers' resources for law enforcement and crime prevention. Our competitors could benefit from the disclosure of our data or information concerning our techniques and processes due to legal or other obligations (for example, as a result of public-records requests or subpoenas to provide information or to testify in court). Because there are several possible uses for these limited budgetary resources, if we are not able to compete successfully for these limited resources, our business may not grow as we expect, which could adversely impact our revenues and operating results.

Concerns regarding privacy and government-sponsored surveillance may deter customers from purchasing our solutions.

Governmental agencies and private citizens have become increasingly sensitive to real or perceived government or third-party surveillance and may wrongly believe that our outdoor sensors allow customers to listen to private conversations and monitor private citizen activity. Our sensors are not designed for "live listening" and are triggered only at loud impulsive sounds that may likely be gunfire. However, perceived privacy concerns may result in negative media coverage and efforts by private citizens to persuade municipalities, educational institutions or other potential customers not to purchase our precision policing solutions for their communities, campuses or facilities. In addition, laws may exist or be enacted to address such concerns that could impact our ability to deploy our solutions. For example, the City of Toronto, Canada decided against using ShotSpotter solutions because the Ministry of the Attorney General of Ontario indicated that it may compromise Section 8 of Canada's Charter of Rights and Freedoms, which relates to unreasonable search and seizure. If customers choose not to purchase our solutions due to privacy or surveillance concerns, then the market for our solutions may develop more slowly than we expect, or it may not achieve the growth potential we expect, any of which would adversely affect our business and financial results.

Strategic and Operational Risks

If we are unable to sell our solutions into new markets, our revenues may not grow.

Part of our growth strategy depends on our ability to increase sales of our security and public safety solutions in markets outside of the United States. We are focused on expanding the sales of these solutions into new markets, but customers in these new markets may not be receptive or sales may be delayed beyond our expectations, causing our revenue growth and growth prospects to suffer. During the COVID-19 pandemic and any associated impact on economic conditions, this risk is more pronounced than usual.

Our ability to successfully face these challenges depends on several factors, including increasing the awareness of our solutions and their benefits; the effectiveness of our marketing programs; the costs of our solutions; our ability to attract, retain and effectively train sales and marketing personnel; and our ability to develop relationships with communication carriers and other partners. If we are unsuccessful in developing and marketing our solutions into new markets, new markets for our solutions might not develop or might develop more slowly than we expect, either of which would harm our revenues and growth prospects.

The failure of our solutions to meet our customers' expectations could harm our reputation, which may have a material adverse effect on our business, operating results and financial condition.

Promoting and demonstrating the utility of our solutions as useful, reliable and important tools for law enforcement and security personnel is critical to the success of our business. Our ability to secure customer renewals, expand existing customer coverage areas, and enter into new customer contracts is dependent on our reputation and our ability to deliver our solutions effectively. We believe that our reputation among police departments using ShotSpotter solutions is

particularly important to our success. Our ability to meet customer expectations will depend on a wide range of factors, including:

- ① our ability to continue to offer high-quality, innovative and accurate precision policing solutions;
- ① our ability to maintain continuous gunshot detection monitoring during high outdoor-noise activity periods such as New Year's Day, the Fourth of July and Cinco de Mayo, and Carnival for international deployments;
- ① our ability to maintain high customer satisfaction, including meeting our service level agreements standards;
- ① the perceived value and quality of our solutions;
- ① differences in opinion regarding the metrics that measure the success of our solutions;
- ① our ability to successfully communicate the unique value proposition of our solutions;
- ① our ability to provide high-quality customer support;
- ① any misuse or perceived misuse of our solutions;
- ① interruptions, delays or attacks on our platform;
- ① litigation- or regulation-related developments; and
- ① damage to or degradation of our sensors or sensor network by third parties.

Interruptions or performance problems associated with our technology and infrastructure may adversely affect our business and results of operations.

We have in the past experienced, and may in the future experience, performance issues due to a variety of factors, including infrastructure changes, human or software errors, intentional or accidental damage to our technology (including sensors), website or third-party hosting disruptions or capacity constraints due to a number of potential causes including technical failures, natural disasters or security attacks. If our security is compromised, our platform is unavailable or our users are unable to receive our alerts or otherwise communicate with our IRC reviewers, within a reasonable amount of time or at all, our business could be negatively affected. In some instances, we may not be able to identify the cause or causes of these performance problems within an acceptable period of time.

In addition, our IRC department personnel operate either remotely or out of our offices. Any interruption or delay in service from our IRC, such as from a communications or power outage, could limit our ability deliver our solutions. In addition, it may become increasingly difficult to maintain and improve the performance of our solutions, especially during peak usage times as the capacity of our IRC operations reaches its limits. If there is an interruption or delay in service from our IRC operations and a gunshot is detected but not reviewed in the allotted time, our software will flag the incident for off-line review. This may result in delayed notifications to our customers and as a result, we could experience a decline in customer satisfaction with our solutions and our reputation and growth prospects could be harmed.

We expect to continue to make significant investments to maintain and improve the performance of our solutions. To the extent that we do not effectively address capacity constraints, upgrade our systems as needed and continually develop our technology to accommodate actual and anticipated changes in technology, our business, operating results and financial condition may be adversely affected.

We rely on wireless carriers to provide access to wireless networks through which our acoustic sensors communicate with our cloud-based backend and with which we provide our notification services to customers, and any interruption of such access would impair our business.

We rely on wireless carriers, mainly AT&T and Verizon, to provide access to wireless networks for machine-to-machine data transmissions, which are an integral part of our services. Our wireless carriers may suspend wireless service

to expand, maintain or improve their networks. These wireless carriers perform routine maintenance and periodic software and firmware updates that may damage our sensors or make them inoperable. Any suspension or other interruption of services would adversely affect our ability to provide our services to our customers and may adversely affect our reputation. In addition, the terms of our agreements with these wireless carriers provide that either party can cancel or terminate the agreement for convenience. If one of our wireless carriers were to terminate its agreement with us, we would need to source a different wireless carrier and/or modify our equipment during the notice period in order to minimize disruption in the performance of our solutions. Price increases or termination by our wireless carriers or changes to existing contract terms could have a material adverse effect on our business, operating results and financial condition.

Natural disasters, infectious disease outbreaks, power outages or other events impacting us or our customers could harm our operating results and financial condition.

We recognize revenue on a subscription basis as our solutions are provided to our customers over time. If our services are disrupted due to natural disasters, infectious disease outbreaks, power outages or other events that we cannot control, we may not be able to continue providing our solutions as expected. For example, during the COVID-19 pandemic, our employees, including our IRC reviewers, are being required to work remotely, which may negatively impact productivity of our employees and effectiveness of our solutions.

When we stop providing coverage, we also stop recognizing revenues as a result of the affected subscription agreement. If we are forced to discontinue our services due to natural disasters, power outages and other events outside of our control, our revenues may decline, which would negatively impact our results of operations and financial condition. In addition, we may face liability for damages caused by our sensors in the event of heavy weather, hurricanes or other natural disasters. We may also incur additional costs to repair or replace installed sensor networks damaged by heavy weather, hurricanes or other natural disasters.

Any of our facilities or operations may be harmed or rendered inoperable by natural or man-made disasters, including earthquakes, tornadoes, hurricanes, wildfires, floods, nuclear disasters, acts of terrorism or other criminal activities, infectious disease outbreaks, such as COVID-19, and power outages, which may render it difficult or impossible for us to operate our business for some period of time or decrease productivity. For example, our primary IRC and a data center that hosts some of our customer services are located in the San Francisco Bay Area, a region known for seismic activity. Our facilities would likely be costly to repair or replace, and any such efforts would likely require substantial time. In addition, like many companies, we have implemented a work from home policy as a result of the COVID-19 pandemic. This policy may negatively impact productivity of our employees.

Any disruptions in our operations could negatively impact our business and operating results and harm our reputation. In addition, we may not carry business insurance or may not carry sufficient business insurance to compensate for losses that may occur. Any such losses or damages could have a material adverse effect on our business, operating results and financial condition. In addition, the facilities of significant vendors, including the manufacturer of our proprietary acoustic sensor, may be harmed or rendered inoperable by such natural or man-made disasters, which may cause disruptions, difficulties or material adverse effects on our business.

The incurrence of debt may impact our financial position and subject us to additional financial and operating restrictions.

On September 27, 2018, we entered into a senior secured revolving credit facility with Umpqua Bank (the “Umpqua Credit Agreement”), which we increased to \$20.0 million in August 2020 and which we intend to use for general working capital purposes. As of September 30, 2021, we had no outstanding amounts due on nor any usage of the Umpqua Credit Agreement.

Under the Umpqua Credit Agreement, we are subject to various negative covenants that limit, subject to certain exclusions, our ability to incur indebtedness, make loans, invest in or secure the obligations of other parties, pay or declare dividends, make distributions with respect to our securities, redeem outstanding shares of our stock, create subsidiaries, materially change the nature of its business, enter into related party transactions, engage in mergers and business combinations, the acquisition or transfer of our assets outside of the ordinary course of business, grant liens or enter into collateral relationships involving company assets or reincorporate, reorganize or dissolve the company. These covenants could adversely affect our financial health and business and future operations by, among other things:

- ⌚ making it more difficult to satisfy our obligations, including under the terms of the Umpqua Credit Agreement;
- ⌚ limiting our ability to refinance our debt on terms acceptable to us or at all;
- ⌚ limiting our flexibility to plan for and adjust to changing business and market conditions and increasing our vulnerability;
- ⌚ limiting our ability to use our available cash flow to fund future acquisitions, working capital, business activities, and other general corporate requirements; and
- ⌚ limiting our ability to obtain additional financing for working capital to fund growth or for general corporate purposes, even when necessary to maintain adequate liquidity.

We are also required to maintain certain financial covenants tied to our leverage, interest charges and profitability. Our ability to meet such covenants (those negative covenants discussed in the preceding paragraph) or other restrictions can be affected by events beyond our control, and our failure to comply with the financial and other covenants would be an event of default under the Umpqua Credit Agreement. If an event of default under the Umpqua Credit Agreement, has occurred and is continuing, the outstanding borrowings thereunder could become immediately due and payable, and we would then be required to cash collateralize any letters of credit then outstanding, and the lender could refuse to permit additional borrowings under the facility. We cannot assure you that we would have sufficient assets to repay those borrowings and, if we are unable to repay those amounts, the lender could proceed against the collateral granted to them to secure such indebtedness. We have pledged substantially all of our assets as collateral, and an event of default would likely have a material adverse effect on our business.

The competitive landscape for our security solutions is evolving.

The market for security solutions for university campuses, corporate campuses and transportation and key infrastructure centers includes a number of available options, such as video surveillance and increased human security presence. Because there are several possible uses of funds for security needs, we may face increased challenges in demonstrating or distinguishing the benefits of ShotSpotter SecureCampus and ShotSpotter SiteSecure. In particular, while we have seen growing interest in our security solutions, interest in the indoor gunshot detection offering was limited, and as a result, in June 2018, we made the strategic decision to cease indoor coverage as part of our service offering.

Failure to effectively develop and expand our sales and marketing capabilities could harm our ability to increase our customer base and achieve broader market acceptance of our solutions.

To increase total customers and customer coverage areas and to achieve broader market acceptance of our solutions, we will need to expand our sales and marketing organization and increase our business development resources, including the vertical and geographic distribution of our sales force and our teams of account executives focused on new accounts and responsible for renewal and growth of existing accounts.

Our business requires that our sales personnel have particular expertise and experience in working with law enforcement agencies, other government organizations and higher education institutions. We may not achieve revenue growth from expanding our sales force if we are unable to hire, develop and retain talented sales personnel with appropriate experience, if our new sales personnel are unable to achieve desired productivity levels in a reasonable period of time or if our sales and marketing programs are not effective.

During the COVID-19 pandemic, this risk is more pronounced than usual, as our sales and marketing organization has been unable to travel and meetings with our current and potential customers have been more difficult to conduct.

Our strategy includes pursuing acquisitions, and our inability to successfully integrate newly-acquired technologies, assets or businesses may harm our financial results. Future acquisitions of technologies, assets or businesses, which are paid for partially or entirely through the issuance of stock or stock rights, could dilute the ownership of our existing stockholders.

We acquired LEEDS in November 2020 in order to enhance our precision policing platform. We will continue to evaluate and consider potential strategic transactions, including acquisitions of, or investments in, businesses, technologies, services, products and other assets in the future. We also may enter into relationships with other businesses to expand our platform and applications, which could involve preferred or exclusive licenses, additional channels of distribution, discount pricing or investments in other companies.

We believe that part of our continued growth will be driven by acquisitions of other companies or their technologies, assets, businesses and teams. Acquisitions in the future that we complete will give rise to risks, including:

- ⌚ incurring higher than anticipated capital expenditures and operating expenses;
- ⌚ failing to assimilate the operations and personnel or failing to retain the key personnel of the acquired company or business;
- ⌚ failing to integrate the acquired technologies, or incurring significant expense to integrate acquired technologies, into our platform and applications;
- ⌚ disrupting our ongoing business;
- ⌚ diverting our management's attention and other company resources;
- ⌚ failing to maintain uniform standards, controls and policies;
- ⌚ incurring significant accounting charges;
- ⌚ impairing relationships with our customers and employees;
- ⌚ finding that the acquired technology, asset or business does not further our business strategy, that we overpaid for the technology, asset or business or that we may be required to write off acquired assets or investments partially or entirely;
- ⌚ failing to realize the expected synergies of the transaction;
- ⌚ being exposed to unforeseen liabilities and contingencies that were not identified prior to acquiring the company; and
- ⌚ being unable to generate sufficient revenues and profits from acquisitions to offset the associated acquisition costs.

Fully integrating an acquired technology, asset or business into our operations may take a significant amount of time. We may not be successful in overcoming these risks or any other problems encountered with the acquisition of and integration of LEEDS or any future acquisitions. To the extent that we do not successfully avoid or overcome the risks or problems related to any such acquisitions, our results of operations and financial condition could be harmed. Acquisitions also could impact our financial position and capital requirements or could cause fluctuations in our quarterly and annual results of operations. Acquisitions could include significant goodwill and intangible assets, which may result in future impairment charges that would reduce our stated earnings. We may incur significant costs in our efforts to engage in strategic transactions and these expenditures may not result in successful acquisitions.

We expect that the consideration we might pay for any future acquisitions of technologies, assets, businesses or teams could include stock, rights to purchase stock, cash or some combination of the foregoing. If we issue stock or rights to purchase stock in connection with future acquisitions, net income per share and then-existing holders of our common stock may experience dilution.

The nature of our business exposes us to inherent liability risks.

Our gunshot detection solutions are designed to communicate real-time alerts of gunfire incidents to police officers and first responders. Due to the nature of such applications, we are potentially exposed to greater risks of liability for employee acts or omissions or system failures than may be inherent in other businesses. Although substantially all of our customer agreements contain provisions limiting our liability to our customers, we cannot be certain that these limitations will be enforced or that the costs of any litigation related to actual or alleged omissions or failures would not have a material adverse effect on us even if we prevail. Further, certain of our insurance policies and the laws of some states may limit or prohibit insurance coverage for punitive or certain other types of damages or liability arising from gross negligence, or other issues, such as damages caused due to installation of our sensors on buildings owned by third parties, and we cannot assure you that we are adequately insured against the risks that we face.

Real or perceived errors, failures or bugs in our software could adversely affect our operating results and growth prospects.

Because our software is complex, undetected errors, failures or bugs may occur. Our software is often installed and used with different operating systems, system management software, and equipment and networking configurations, which may cause errors or failures of our software or other aspects of the computing environment into which it is deployed. In addition, deployment of our software into computing environments may expose undetected errors, compatibility issues, failures or bugs in our software. Despite our testing, errors, failures or bugs may not be found in our software until it is released to our customers. Moreover, our customers could incorrectly implement or inadvertently misuse our software, which could result in customer dissatisfaction and adversely impact the perceived utility of our products as well as our brand. Any of these real or perceived errors, compatibility issues, failures or bugs in our software could result in negative publicity, reputational harm, loss of or delay in market acceptance of our software, loss of competitive position or claims by customers for losses sustained by them. In any such event, we may be required, or may choose, for customer relations or other reasons, to expend additional resources in order to correct the problem. Alleviating any of these problems could require significant expenditures of our capital and other resources and could cause interruptions or delays in the use of our solutions, which could cause us to lose existing or potential customers and could adversely affect our operating results and growth prospects.

Interruptions or delays in service from our third-party providers could impair our ability to make our solutions available to our customers, resulting in customer dissatisfaction, damage to our reputation, loss of customers, limited growth and reduction in revenues.

We currently use third-party data center hosting facilities to host certain components of our solutions. Our operations depend, in part, on our third-party providers' abilities to protect these facilities against damage or interruption from natural disasters, power or communications failures, cyber incidents, criminal acts and similar events. In the event that any of our third-party facility arrangements is terminated, or if there is a lapse of service or damage to a facility, we could experience service interruptions in our solutions as well as delays and additional expenses in arranging new facilities and services. The COVID-19 pandemic and its associated shelter-in-place orders, travel bans and work-from-home policies may increase the likelihood of service interruptions or cyber incidents at these data center hosting facilities. Any changes in third-party service levels at our data centers or any errors, defects, disruptions, cyber incidents or other performance problems with our solutions could harm our reputation.

Any damage to, or failure of, the systems of the communications providers with whom our data center provider contracts could result in interruptions to our solutions. The occurrence of spikes in usage volume, natural disasters, cyber incidents, acts of terrorism, vandalism or sabotage, closure of a facility without adequate notice or other unanticipated problems could result in lengthy interruptions in the availability of our services. Problems faced by these network providers, or with the systems by which they allocate capacity among their customers, including us, could adversely affect the experience of our customers. The COVID-19 pandemic and its associated shelter-in-place orders, travel bans and work-from-home policies may increase the likelihood of these problems with such network providers and their capacity

allocation systems. Interruptions in our services might cause us to issue refunds to customers and subject us to potential liability.

Further, our insurance policies may not adequately compensate us for any losses that we may incur in the event of damage or interruption, and therefore the occurrence of any of the foregoing could subject us to liability, cause us to issue credits to customers or cause customers not to renew their subscriptions for our applications, any of which could materially adversely affect our business.

If our security measures or those of our customers or third-party providers are compromised, or if unauthorized access to the data of our customers is otherwise obtained, our solutions may be perceived as not being secure, our customers may be harmed and may curtail or cease their use of our solutions, our reputation may be damaged and we may incur significant liabilities.

Our operations involve the storage and transmission of gunfire incident data, including date, time, address and GPS coordinates, occurring in our customer's coverage area. Our systems read, write, store and transfer information from third parties including criminal justice information. Access to some of this data is contingent on complying with federal and applicable state security policies, which requires background checks, the use of encryption and compliance with other information security policies.

Security incidents, whether as a result of third-party action, employee or customer error, technology impairment or failure, malfeasance or criminal activity, could result in unauthorized access to, or loss or unauthorized disclosure of, data which could result in; inability to obtain approvals to sell our products, litigation expenses or damages, indemnity and other contractual obligations and other possible liabilities, including but not limited to government fines and penalties and mitigation expenses, as well as negative publicity, which could damage our reputation, impair our sales and harm our customers and our business. Cyber incidents and malicious internet-based activity continue to increase generally, and providers of cloud-based services have been targeted. If third parties with whom we work, such as vendors or developers, violate applicable laws or our security policies, such violations may also put our systems and data at risk and could in turn have an adverse effect on our business. In addition, such a violation could expose sensitive data including; criminal justice information, and other data we are contractually obliged to keep confidential. The COVID-19 pandemic may increase the likelihood of such cyber incidents. We may be unable to anticipate or prevent techniques used to obtain unauthorized access or to sabotage systems because such techniques change frequently and often are not detected until after an incident has occurred. As we increase our customer base and our brand becomes more widely known and recognized, third parties may increasingly seek to compromise our security controls or gain unauthorized access to customer data or other sensitive information. Further, because of the nature of the services that we provide to our customers, we may be a unique target for attacks.

Many governments have enacted laws requiring companies to notify individuals of data security incidents or unauthorized transfers involving certain types of personal data. In addition, some of our customers contractually require notification of any data security incident. Accordingly, security incidents experienced by our competitors, by our customers or by us may lead to public disclosures, which may lead to widespread negative publicity. Any security compromise in our industry, whether actual or perceived, could harm our reputation, erode customer confidence in the effectiveness of our security measures, negatively impact our ability to attract new customers, cause existing customers to elect not to renew their subscriptions or subject us to third-party lawsuits, regulatory fines or other action or liability, which could materially and adversely affect our business and operating results. Further, the costs of compliance with notification laws and contractual obligations may be significant and any requirement that we provide such notifications as a result of an actual or alleged compromise could have a material and adverse effect on our business.

While we maintain general liability insurance coverage and coverage for errors or omissions, we cannot assure you that such coverage would be adequate or would otherwise protect us from liabilities or damages with respect to claims alleging compromise or loss of data, or that such coverage will continue to be available on acceptable terms or at all.

We rely on the cooperation of customers and third parties to permit us to install our ShotSpotter sensors on their facilities, and failure to obtain these rights could increase our costs or limit the effectiveness of our ShotSpotter Respond solution.

Our ShotSpotter Respond solution requires us to deploy ShotSpotter sensors in our customer coverage areas, which typically entails the installation of approximately 20 to 25 sensors per square mile. The ShotSpotter sensors are mounted

on city facilities and third-party buildings, and occasionally on city or utility-owned light poles, and installing the sensors requires the consent of the property owners, which can be time-consuming to obtain and can delay deployment. Generally, we do not pay a site license fee in order to install our sensors, and our contractual agreements with these facility owners provide them the right to revoke permission to use their facility with notice of generally 60 days.

To the extent that required consents delay our ability to deploy our solutions or facility owners do not grant permission to use their facilities, revoke previously granted permissions, or require us to pay a site license fee in order to install our sensors, our business may be harmed. If we were required to pay a site license fee in order to install sensors, our deployment expenses would increase, which would impact our gross margins. If we cannot obtain a sufficient number of sensor mounting locations that are appropriately dispersed in a coverage area, the effectiveness of our ShotSpotter Respond solution would be limited, we may need to reduce the coverage area of the solution. During the COVID-19 pandemic, our installation team has been unable to travel at times. Additionally, both our installation team and our third-party providers are facing greater challenges in obtaining permissions to install and in installing our sensors. To the extent our deployments are delayed for these reasons, we may not be able to meet our service level requirements, any of which could result in customer dissatisfaction or have a material adverse impact on our reputation, our business and our financial results.

If we fail to offer high-quality customer support, our business and reputation may suffer.

We offer customer support 24 hours a day, seven days a week, as well as training on best practices, forensic expertise and expert witness services. Providing these services requires that our personnel have specific experience, knowledge and expertise, making it more difficult for us to hire qualified personnel and to scale up our support operations. The importance of high-quality customer support will increase as we expand our business and pursue new customers. We may be unable to respond quickly enough to accommodate short-term increases in customer demand for support services or scale our services if our business grows. Increased customer demand for these services, without corresponding revenues, could increase our costs and harm our operating results. If we do not help our customers use applications within our solutions and provide effective ongoing support, our ability to sell additional applications to, or to retain, existing customers may suffer and our reputation with existing or potential customers may be harmed.

Our reliance on wireless carriers will require updates to our technology, and making such updates could result in disruptions in our service or increase our costs of operations.

Approximately 81% of our installed ShotSpotter sensors use fourth-generation Long-Term Evolution (“LTE”) wireless technology and 19% use third-generation (“3G”) cellular communications. Our U.S. wireless carriers have advised us that they will discontinue their 3G services in the future and our ShotSpotter sensors will not be able to transmit on these networks. As a result, we will have to upgrade the sensors that use 3G cellular communications at no additional cost to our customers prior to the discontinuation of 3G services. As our wireless carriers phase out their 3G services or make changes to their spectrum allocation, we may experience reduced service performance, which may require us to replace our 3G sensors sooner than planned. Accelerated bandwidth changes by our carriers may require us to accelerate the upgrade of our 3G sensors prior to the end of 2022, which would accelerate the costs associated with the upgrade. Additionally, current delays in the supply chain for semiconductor chips are impacting the timely delivery to us of the sensors required to make these upgrades. If we are unable to make these upgrades, we could experience disruptions in our ability to provide our solutions, which would adversely impact our business. These sensor replacements will require significant capital expenditures, which are estimated to be approximately \$5.0 million in total and may reduce our gross margins and also divert management’s attention and other important resources away from our customer service and sales efforts for new customers.

In the future, we may not be able to successfully implement new technologies or adapt existing technologies to changing market demands. If we are unable to adapt timely to changing technologies, market conditions or customer preferences, our business, operating results and financial condition could be materially and adversely affected.

We rely on a limited number of suppliers and contract manufacturers, and our proprietary ShotSpotter sensors are manufactured by a single contract manufacturer.

We rely on a limited number of suppliers and contract manufacturers. In particular, we use a single manufacturer, with which we have no long-term contract and from which we purchase on a purchase-order basis, to produce our proprietary ShotSpotter sensors. Our reliance on a sole contract manufacturer increases our risks since we do not currently

have any alternative or replacement manufacturers, and we do not maintain a high volume of inventory. In the event of an interruption from a contract manufacturer, we may not be able to develop alternate or secondary sources without incurring material additional costs and substantial delays. Furthermore, these risks could materially and adversely affect our business if our contract manufacturer is impacted by a natural disaster or other interruption at a particular location because each of our contract manufacturers produces our products from a single location. Although our contract manufacturer has alternative manufacturing locations, transferring manufacturing to another location may result in significant delays in the availability of our sensors. Also, many standardized components used broadly in our sensors are manufactured in significant quantities in concentrated geographic regions, particularly in Greater China. As a result, protracted regional crises, issues with manufacturing facilities, or the COVID-19 pandemic, could lead to eventual shortages of necessary components. It could be difficult, costly and time consuming to obtain alternative sources for these components, or to change product designs to make use of alternative components. In addition, difficulties in transitioning from an existing supplier to a new supplier could create delays in component availability that would have a significant impact on our ability to fulfill orders for our products.

Many of the key components used to manufacture our proprietary ShotSpotter sensors also come from limited or sole sources of supply. Our contract manufacturer generally purchases these components on our behalf, and we do not have any long-term arrangements with our suppliers. We are therefore subject to the risk of shortages and long lead times in the supply of these components and the risk that suppliers discontinue or modify components used in our products. In addition, the lead times associated with certain components are lengthy and preclude rapid changes in quantities and delivery schedules. Currently, the supply of chips required for our sensors is being adversely impacted by disruptions to the global supply chain and we are not able to procure the required number of sensors on our desired timeline as a result. Developing alternate sources of supply for these components may be time-consuming, difficult, and costly, and we or our suppliers may not be able to source these components on terms that are acceptable to us, or at all, which may undermine our ability to fill our orders in a timely manner.

If we experience significantly increased demand, or if we need to replace an existing supplier or contract manufacturer, we may be unable to supplement or replace such supply or contract manufacturing on terms that are acceptable to us, which may undermine our ability to deliver our products to customers in a timely manner. For example, for our ShotSpotter sensors, it may take a significant amount of time to identify a contract manufacturer that has the capability and resources to build the sensors to our specifications. Identifying suitable suppliers and contract manufacturers is an extensive process that requires us to become satisfied with their quality control, technical capabilities, responsiveness and service, financial stability, regulatory compliance, and labor and other ethical practices. Accordingly, the loss of any key supplier or contract manufacturer could adversely impact our business, operating results and financial condition.

Our solutions use third-party software and services that may be difficult to replace or cause errors or failures of our solutions that could lead to a loss of customers or harm to our reputation and our operating results.

We license third-party software and depend on services from various third parties for use in our solutions. In the future, such software or services may not be available to us on commercially reasonable terms, or at all. Any loss of the right to use any of the software or services could result in decreased functionality of our solutions until equivalent technology is either developed by us or, if available from another provider, is identified, obtained and integrated, which could harm our business. In addition, any errors or defects in or failures of the third-party software or services could result in errors or defects in our solutions or cause our solutions to fail, which could harm our business and be costly to correct. Many of these providers attempt to impose limitations on their liability for such errors, defects or failures, and if enforceable, we may have additional liability to our customers or third-party providers that could harm our reputation and increase our operating costs.

We will need to maintain our relationships with third-party software and service providers, and obtain from such providers software and services that do not contain any errors or defects. Any failure to do so could adversely impact our ability to deliver effective products to our customers and could harm our operating results.

If we do not or cannot maintain the compatibility of our platform with applications that our customers use, our business could suffer.

Some of our customers choose to integrate our solutions with certain other systems used by our customers, such as real-time LEEDS platforms or computer-aided dispatch systems. The functionality and popularity of our solutions depend,

in part, on our ability to integrate our solutions these systems. Providers of these systems may change the features of their technologies, restrict our access to their applications or alter the terms governing use of their applications in an adverse manner. Such changes could functionally limit or terminate our ability to use these technologies in conjunction with our solutions, which could negatively impact our customer service and harm our business. If we fail to integrate our solutions with applications that our customers use, we may not be able to offer the functionality that our customers need, and our customers may not renew their agreements, which would negatively impact our ability to generate revenues and adversely impact our business.

We are in the process of expanding our international operations, which exposes us to significant risks.

We currently operate in limited number of locations outside the United States. A key component to our business strategy is to expand our international operations to increase our revenues from customers outside of the United States as part of our growth strategy. Operating in international markets requires significant resources and management attention and will subject us to regulatory, economic and political risks in addition to those we already face in the United States. In addition, we will need to invest time and resources in understanding the regulatory framework and political environments of our potential customers overseas in order to focus our sales efforts. Because such regulatory and political considerations are likely to vary across jurisdictions, this effort will require additional time and attention from our sales team and could lead to a sales cycle that is longer than our typical process for sales in the United States. We also may need to hire additional employees and otherwise invest in our international operations in order to reach new customers. Because of our limited experience with international operations as well as developing and managing sales in international markets, our international expansion efforts may be delayed or may not be successful.

In addition, we face and will continue to face risks in doing business internationally that could adversely affect our business, including:

- ⌚ the potential impact of currency exchange fluctuations;
- ⌚ the need to comply with local data residency requirements;
- ⌚ the availability and reliability of local data centers and internet bandwidth providers;
- ⌚ the difficulty of staffing and managing international operations and the increased operations, travel, shipping and compliance costs associated with having customers in numerous international locations;
- ⌚ potentially greater difficulty collecting accounts receivable and longer payment cycles;
- ⌚ the availability and cost of coverage by wireless carriers in international markets;
- ⌚ higher or more variable costs associated with wireless carriers and other service providers;
- ⌚ the need to offer customer support in various languages;
- ⌚ challenges in understanding and complying with local laws, regulations and customs in foreign jurisdictions, including laws regarding privacy and government surveillance;
- ⌚ export controls and economic sanctions administered by the Department of Commerce Bureau of Industry and Security and the Treasury Department's Office of Foreign Assets Control;
- ⌚ compliance with various anti-bribery and anti-corruption laws such as the Foreign Corrupt Practices Act and United Kingdom Bribery Act of 2010;
- ⌚ tariffs and other non-tariff barriers, such as quotas and local content rules;
- ⌚ more limited protection for our intellectual property in some countries;
- ⌚ adverse or uncertain tax consequences as a result of international operations;

- ① currency control regulations, which might restrict or prohibit our conversion of other currencies into U.S. dollars;
- ① restrictions on the transfer of funds;
- ① deterioration of political relations between the United States and other countries; and
- ① political or social unrest, global pandemics such as the COVID-19 pandemic or economic instability in a specific country or region in which we operate, which could have an adverse impact on our operations in that location.

Also, we expect that due to costs related to our international expansion efforts and the increased cost of doing business internationally, we will incur higher costs to secure sales to international customers than the comparable costs for domestic customers. As a result, our financial results may fluctuate as we expand our operations and customer base worldwide.

Our failure to manage any of these risks successfully could harm our international operations, and adversely affect our business, operating results and financial condition.

We are dependent on the continued services and performance of our senior management and other key personnel, the loss of any of whom could adversely affect our business.

Our future success depends in large part on the continued contributions of our senior management and other key personnel. In particular, the leadership of key management personnel is critical to the successful management of our company, the development of our products, and our strategic direction. We also depend on the contributions of key technical personnel.

We do not maintain “key person” insurance for any member of our senior management team or any of our other key employees. Our senior management and key personnel are all employed on an at-will basis, which means that they could terminate their employment with us at any time, for any reason and without notice. The loss of any of our key management personnel could significantly delay or prevent the achievement of our development and strategic objectives and adversely affect our business.

If we are unable to attract, integrate and retain additional qualified personnel, including top technical talent, our business could be adversely affected.

Our future success depends in part on our ability to identify, attract, integrate and retain highly skilled technical, managerial, sales and other personnel. We face intense competition for qualified individuals from numerous other companies, including other software and technology companies, many of whom have greater financial and other resources than we do. Some of these characteristics may be more appealing to high-quality candidates than those we have to offer. In addition, new hires often require significant training and, in many cases, take significant time before they achieve full productivity. We may incur significant costs to attract and retain qualified personnel, including significant expenditures related to salaries and benefits and compensation expenses related to equity awards, and we may lose new employees to our competitors or other companies before we realize the benefit of our investment in recruiting and training them. Moreover, new employees, especially those who work from home, may not be or become as productive as we expect, as we may face challenges in adequately or appropriately integrating them into our workforce and culture. If we are unable to attract, integrate and retain suitably qualified individuals who are capable of meeting our growing technical, operational and managerial requirements, on a timely basis or at all, our business will be adversely affected.

Volatility or lack of positive performance in our stock price may also affect our ability to attract and retain our key employees. Many of our senior management personnel and other key employees have become, or will soon become, vested in a substantial amount of stock or stock options. Employees may be more likely to leave us if the shares they own or the shares underlying their vested options have significantly appreciated in value relative to the original purchase prices of the shares or the exercise prices of the options, or, conversely, if the exercise prices of the options that they hold are significantly above the market price of our common stock. If we are unable to appropriately incentivize and retain our

employees through equity compensation, or if we need to increase our compensation expenses in order to appropriately incentivize and retain our employees, our business, operating results and financial condition would be adversely affected.

Legal and Regulatory Risks

We and our use of outdoor acoustic sensors, are subject to governmental regulation and other legal obligations, particularly related to privacy, data protection and information security, and our actual or perceived failure to comply with such obligations could harm our business. Compliance with such laws could impair our efforts to maintain and expand our customer base, and thereby decrease our revenues.

Our outdoor sensors are acoustic devices that are designed to recognize impulsive sounds that are likely to be gunfire. ShotSpotter sensors do not use high gain, directional or other specialized microphones, or have the ability to live stream audio. Typically, sounds, noises or voices captured on the secure sensors are cached temporarily but are written over and permanently deleted within 30 hours. When a sensor is triggered by an impulsive sound, it creates a potential gunshot “incident” that contains a recording, which includes no more than one second before the incident and one second after the incident. This incident audio snippet is preserved indefinitely for potential evidentiary use. We also use information collected to support, expand and improve our software algorithms as well as our gunfire detection and notification methods.

Our sensors are not designed or tuned to capture human voices, but are often installed in densely populated urban areas and it is possible they could pick up a human voice that is audible at the same time as the loud impulsive sound. Human voices are not impulsive and do not typically trigger the sensors, and unless accompanied by an impulsive sound no audio snippet would be transmitted out of the sensor and preserved as an incident audio snippet. Any human voice not associated with a loud impulsive sound would be temporarily cached on the sensor for 30 hours and would then be written over and permanently deleted. Information derived from loud impulsive sounds (“incidents”) and the associated audio snippet of the loud impulsive sounds are provided to our customers. Audio shared with our customers is limited, by both our technology and our privacy policies, to the audio snippet containing the incident.

Our handling and storage of data is subject to a variety of local, state, federal and foreign laws and regulations, including restrictions on audio monitoring and the collection, use, storage and disclosure of personal information. In the United States, such laws include federal and state consumer protection laws under which the Federal Trade Commission and state attorneys general have imposed standards for the collection, use, disclosure and security of personal information.

In addition, states are beginning to adopt and consider proposals for new comprehensive privacy laws and regulations. While these laws vary, the generally require companies to implement privacy policies and security measures, permit users to access, correct and delete personal information, inform individuals of security breaches that affect their personal information, and, in some cases, obtain individuals’ consent to use personal information for certain purposes. For example, California enacted the California Consumer Privacy Act of 2018, or CCPA, which took effect on January 1, 2020. The CCPA provides for civil penalties for violations, as well as a private right of action for statutory damages in connection with certain data breaches. Further, in November 2020, California voters passed the California Privacy Rights Act, or CPRA, which will substantially expand the CCPA when it takes effect on January 1, 2023. Among other things, the CPRA will introduce data minimization and storage limitation requirements and create a new regulatory agency to implement and enforce the law. Virginia has similarly enacted a comprehensive privacy law, the Consumer Data Protection Act, which emulates the CCPA and CPRA in many respects. Legislative proposals to adopt comprehensive privacy laws in other states are under consideration.

In addition, foreign laws and regulations pertaining to privacy, data protection and information security – including in Europe, Brazil and Japan – have becoming increasingly stringent in recent years and legislative proposals for similar requirements are being considered in several other major foreign economies. Many of these countries are also beginning to impose or increase restrictions on the transfer of personal information to other countries. Data protection restrictions in these countries may limit the services we can offer in them, which in turn may limit demand for our services in such countries.

Many of the new and proposed laws and regulations concerning privacy, data protection and information security are in their early stages, and we cannot yet determine how these laws and regulations may be interpreted or impact our business. The lack of a clear and universal standard for handling and protecting such information means that these obligations may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may

conflict with other requirements or our practices. Any failure or perceived failure by us to comply with privacy or security laws, policies, legal obligations or industry standards or any security incident that results in the unauthorized access to or disclosure of personal information or customer data may result in governmental enforcement actions, litigation, fines and penalties and/or adverse publicity, and could cause our customers to lose trust in us, which could have a material adverse effect on our reputation and on our business, financial condition and results of operations.

Some proposed laws or regulations concerning privacy, data protection and information security are in their early stages, and we cannot yet determine how these laws and regulations may be interpreted nor can we determine the impact these proposed laws and regulations, may have on our business. Such proposed laws and regulations may require companies to implement privacy and security policies, permit users to access, correct and delete personal information stored or maintained by such companies, inform individuals of security breaches that affect their personal information, and, in some cases, obtain individuals' consent to use personal information for certain purposes. In addition, a foreign government could require that any personal information collected in a country not be disseminated outside of that country, and we may not be currently equipped to comply with such a requirement. Our failure to comply with federal, state and international data privacy laws and regulators could harm our ability to successfully operate our business and pursue our business goals.

We may be subject to additional obligations to collect and remit certain taxes, and we may be subject to tax liability for past activities, which could harm our business.

State, local and foreign jurisdictions have differing rules and regulations governing sales, use, value added and other taxes, and these rules and regulations are subject to varying interpretations that may change over time, particularly with respect to software-as-a-service products like our solutions. Further, these jurisdictions' rules regarding tax nexus are complex and vary significantly. If one or more jurisdictions were to assert that we have failed to collect taxes for sales of our solutions, we could face the possibility of tax assessments and audits. A successful assertion that we should be collecting additional sales, use, value added or other taxes in those jurisdictions where we have not historically done so and do not accrue for such taxes could result in substantial tax liabilities and related penalties for past sales or otherwise harm our business and operating results.

Our ability to use our net operating losses to offset future taxable income may be subject to certain limitations.

As of September 30, 2021, we had federal net operating loss carryforwards ("NOLs") of approximately \$80.4 million, of which \$75.5 million will begin to expire in 2026, if not utilized. The remaining net operating losses of \$4.9 million can be carried forward indefinitely under the Tax Cuts and Jobs Act. As of December 31, 2020, we also had state NOLs of approximately \$51.1 million, which will expire, if not utilized, between 2021 through 2039. These federal and state NOLs may be available to reduce future income subject to income taxes. In general, under Section 382 of the Internal Revenue Code of 1986, as amended ("the Code"), a corporation that undergoes an "ownership change" is subject to limitations on its ability to utilize its NOLs to offset future taxable income. Past or future changes in our stock ownership, some of which are outside of our control, may have resulted or could result in an ownership change. State NOLs generated in one state cannot be used to offset income generated in another state. In addition, at the state level, there may be periods during which the use of NOLs is suspended or otherwise limited, such as a 2020 temporary suspension of the ability to use California NOLs and limitation on the use of certain tax credits to offset California income and tax liabilities, which could accelerate or permanently increase state taxes owed.

We may be subject to litigation for a variety of claims or to other legal requests, which could adversely affect our results of operations, harm our reputation or otherwise negatively impact our business.

We may be subject to litigation for a variety of claims arising from our normal business activities. These may include claims, suits, and proceedings involving labor and employment, wage and hour, commercial and other matters. The outcome of any litigation, regardless of its merits, is inherently uncertain. Any claims and lawsuits, and the disposition of such claims and lawsuits, could be time-consuming and expensive to resolve, divert management attention and resources, and lead to attempts on the part of other parties to pursue similar claims. Any adverse determination related to litigation could adversely affect our results of operations, harm our reputation or otherwise negatively impact our business. In addition, depending on the nature and timing of any such dispute, a resolution of a legal matter could materially affect our future operating results, our cash flows or both.

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

We, or our customers, may be subject to requests for our data or information concerning our techniques and processes, pursuant to state or federal law (for example, public-records requests or subpoenas to provide information or to testify in court). This data and information, some of which we may deem to be confidential or trade secrets, could therefore become a matter of public record and also become accessible by competitors, which could negatively impact our business.

Changes in financial accounting standards may cause adverse and unexpected revenues fluctuations and impact our reported results of operations.

The accounting rules and regulations that we must comply with are complex and subject to interpretation by the Financial Accounting Standards Board, the Securities and Exchange Commission and various bodies formed to promulgate and interpret appropriate accounting principles. In addition, many companies' accounting disclosures are being subjected to heightened scrutiny by regulators and the public. Further, the accounting rules and regulations are continually changing in ways that could impact our financial statements.

Changes to accounting principles or our accounting policies on our financial statements going forward are difficult to predict, could have a significant effect on our reported financial results, and could affect the reporting of transactions completed before the announcement of the change. In addition, were we to change our critical accounting estimates, including the timing of recognition of subscription and professional services revenues and other revenues sources, our results of operations could be significantly impacted.

Failure to protect our intellectual property rights could adversely affect our business.

Our success depends, in part, on our ability to protect proprietary methods and technologies that we develop or license under patent and other intellectual property laws of the United States, as well as our brands, so that we can prevent others profiting from them. We rely on a combination of contractual and intellectual property rights, including non-disclosure agreements, patents, trade secrets, copyrights and trademarks, to establish and protect our intellectual property rights in our names, services, innovations, methodologies and related technologies. If we fail to protect our intellectual property rights adequately, our competitors might gain access to our technology and our business might be adversely affected.

As of September 30, 2021 we had 37 issued patents directed to our technologies, 34 are granted in the United States, as well as one granted patent in Israel, one granted patent in Mexico and one granted in the European Union. The issued patents expire on various dates from 2022 to 2034. We also license one patent from a third party, which expires in 2023. We have patent applications pending for examination in the United States, Europe, Mexico and Brazil, but we cannot guarantee that these patent applications will be granted. We also license one other U.S. patent from one third party. The patents that we own or those that we license from others (including those that may be issued in the future) may not provide us with any competitive advantages or may be challenged by third parties.

The process of obtaining patent protection is expensive and time-consuming, and we may not be able to prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner. Even if issued, there can be no assurance that these patents will adequately protect our intellectual property, as the legal standards relating to the validity, enforceability and scope of protection of patent and other intellectual property rights are uncertain.

Any patents that are issued may subsequently be invalidated or otherwise limited, allowing other companies to develop offerings that compete with ours, which could adversely affect our competitive business position, business prospects and financial condition. In addition, issuance of a patent does not guarantee that we have a right to practice the patented invention. Patent applications in the United States are typically not published until 18 months after their earliest priority date or, in some cases, not at all, and publications of discoveries in industry-related literature lag behind actual discoveries. We cannot be certain that third parties do not have blocking patents that could be used to prevent us from marketing or practicing our software or technology.

Effective patent, trademark, copyright and trade secret protection may not be available to us in every country in which our software is available. The laws of some foreign countries may not be as protective of intellectual property rights as those in the United States (in particular, some foreign jurisdictions do not permit patent protection for software), and mechanisms for enforcement of intellectual property rights may be inadequate. Additional uncertainty may result from changes to intellectual property legislation enacted in the United States, including the recent America Invents Act, or to the laws of other countries and from interpretations of the intellectual property laws of the United States and other countries by applicable courts and agencies. Accordingly, despite our efforts, we may be unable to prevent third parties from infringing upon or misappropriating our intellectual property.

We rely in part on trade secrets, proprietary know-how and other confidential information to maintain our competitive position. Although we endeavor to enter into non-disclosure agreements with our employees, licensees and others who may have access to this information, we cannot assure you that these agreements or other steps we have taken will prevent unauthorized use, disclosure or reverse engineering of our technology. Moreover, third parties may independently develop technologies or products that compete with ours, and we may be unable to prevent this competition. Third parties also may seek access to our trade secrets, proprietary know-how and other confidential information through legal measures (for example, public-records requests or subpoenas to provide information or to testify in court) and it could be expensive to defend against those requests. Disclosure of our trade secrets, proprietary know-how and other confidential information could negatively impact our business.

We might be required to spend significant resources to monitor and protect our intellectual property rights. We may initiate claims or litigation against third parties for infringement of our proprietary rights or to establish the validity of our proprietary rights. Litigation also puts our patents at risk of being invalidated or interpreted narrowly and our patent applications at risk of not issuing. Additionally, we may provoke third parties to assert counterclaims against us. We may not prevail in any lawsuits that we initiate, and the damages or other remedies awarded, if any, may not be commercially viable. Any litigation, whether or not resolved in our favor, could result in significant expense to us and divert the efforts of our technical and management personnel, which may adversely affect our business, operating results, financial condition and cash flows.

We may be subject to intellectual property rights claims by third parties, which are extremely costly to defend, could require us to pay significant damages and could limit our ability to use certain technologies.

Companies in the software and technology industries, including some of our current and potential competitors, own large numbers of patents, copyrights, trademarks and trade secrets and frequently enter into litigation based on allegations of infringement or other violations of intellectual property rights. In addition, many of these companies have the capability to dedicate substantially greater resources to enforce their intellectual property rights and to defend claims that may be brought against them. The litigation may involve patent holding companies or other adverse patent owners that have no relevant product revenues and against which our patents may therefore provide little or no deterrence. We may have previously received, and may in the future receive, notices that claim we have misappropriated, misused, or infringed other parties' intellectual property rights, and, to the extent we gain greater market visibility, we face a higher risk of being the subject of intellectual property infringement claims.

There may be third-party intellectual property rights, including issued or pending patents that cover significant aspects of our technologies or business methods. Any intellectual property claims, with or without merit, could be very time-consuming, could be expensive to settle or litigate and could divert our management's attention and other resources. These claims could also subject us to significant liability for damages, potentially including treble damages if we are found to have willfully infringed patents or copyrights. These claims could also result in our having to stop using technology found to be in violation of a third party's rights. We might be required to seek a license for the intellectual property, which may not be available on a timely basis, on reasonable terms or at all. We also may be required to modify our products, services, internal systems or technologies. Even if a license were available, we could be required to pay significant royalties, which would increase our operating expenses. As a result, we may be required to develop alternative non-infringing technology, which could require significant effort and expense. If we cannot license or develop technology for any infringing aspect of our business, we would be forced to limit or stop sales of our software and may be unable to compete effectively. Any of these results would adversely affect our business, operating results, financial condition and cash flows.

Our use of open source software could subject us to possible litigation.

A portion of our technologies incorporates open source software, and we expect to continue to incorporate open source software into our platform in the future. Few of the licenses applicable to open source software have been interpreted by courts, and their application to the open source software integrated into our proprietary technology platform may be uncertain. If we fail to comply with these licenses, then pursuant to the terms of these licenses, we may be subject to certain requirements, including requirements that we make available the source code for our software that incorporates the open source software. We cannot assure you that we have not incorporated open source software in our software in a manner that is inconsistent with the terms of the applicable licenses or our current policies and procedures. If an author or other third party that distributes such open source software were to allege that we had not complied with the conditions of one or more of these licenses, we could incur significant legal expenses defending against such allegations. Litigation could be costly for us to defend, have a negative effect on our operating results and financial condition or require us to devote additional research and development resources to change our technology platform.

Risks Related to the Ownership of 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 and may continue to 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;
- ⌚ the financial projections we may provide to the public, any changes in these projections or our failure to meet these projections;
- ⌚ 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;
- ⌚ ratings 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 software 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;
- ⌚ novel and unforeseen market forces and trading strategies, as well as short sales, hedging and other derivative transactions involving our capital stock;
- ⌚ the impact of the COVID-19 pandemic;

- ④ general economic conditions in the United States and abroad;
- ④ other events or factors, including those resulting from pandemics, protests against racial inequality, protests against police brutality and movements such as “Defund the Police”, war, incidents of terrorism or responses to these events;
- ④ negative publicity, including false information, regarding our solutions; and
- ④ media misperception of our sales and customer relationships, including press announcements or media mentions of future sales that may be misleading or inaccurate.

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 software companies. Stock prices of many software companies have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies. Broad market and industry fluctuations, as well as general economic, political, regulatory and market conditions, may negatively impact the market price of our common stock. In the past, stockholders have instituted securities action litigation 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.

Substantial future sales of shares of our common stock could cause the market price of our common stock to decline.

Certain holders of our shares of common stock have the right, subject to various conditions and limitations, to include their shares of our common stock in registration statements relating to our securities. If the offer and sale of these shares are registered, they will be freely tradable without restriction under the Securities Act. In addition, non-affiliates have the ability to sell shares of our common stock in the open market or through block trades without being subject to volume restrictions under Rule 144 of the Securities Act. In addition, in the future we may issue common stock or other securities if we need to raise additional capital. The number of new shares of our common stock issued in connection with raising additional capital could constitute a material portion of the then outstanding shares of our common stock. In the event a large number of shares of common stock are sold in the public market, such share sales could reduce the trading price of our common stock.

Stock repurchases could increase the volatility of the trading price of our common stock and diminish our cash reserves, and we cannot guarantee that our stock repurchase program will enhance long-term stockholder value.

In May 2019, our board of directors adopted a stock repurchase program for up to \$15 million of our common stock, of which \$11.9 million had been utilized as of September 30, 2021, leaving \$3.1 million remaining. Although our board of directors has authorized the stock repurchase program, it does not obligate us to repurchase any specific dollar amount or number of shares, there is no expiration date for the stock repurchase program, and the stock repurchase program may be modified, suspended or terminated at any time and for any reason. The timing and actual number of shares repurchased under the stock repurchase program will depend on a variety of factors, including the acquisition price of the shares, our liquidity position, general market and economic conditions, legal and regulatory requirements and other considerations. Our ability to repurchase shares may also be limited by restrictive covenants in our existing credit agreement or in future borrowing arrangements we may enter into from time to time.

Repurchases of our shares could increase the volatility of the trading price of our stock, which could have a negative impact on the trading price of our stock. Similarly, the future announcement of the termination or suspension of the stock repurchase program, or our decision not to utilize the full authorized repurchase amount under the stock repurchase program, could result in a decrease in the trading price of our stock. In addition, the stock repurchase program could have the impact of diminishing our cash reserves, which may impact our ability to finance our growth, complete acquisitions and execute our strategic plan. There can be no assurance that any share repurchases we do elect to make will enhance stockholder value because the market price of our common stock may decline below the levels at which we repurchased our shares. Although our stock repurchase program is intended to enhance long-term stockholder value, we cannot guarantee that it will do so and short-term stock price fluctuations could reduce the effectiveness of the stock repurchase program.

If securities or industry analysts do not publish research or reports about our business, or publish negative reports about our business, our share price and trading volume could decline.

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us or our business, our market and our competitors. We do not have any control over these analysts. If one or more of the analysts who cover us downgrade our shares of common stock or change their opinion of our shares of common stock, our share price would likely decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline.

We are an “emerging growth company” and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.

We are an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act (the “JOBS Act”), and we take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not “emerging growth companies” including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We will remain an “emerging growth company” for up to five years, although we will cease to be an “emerging growth company” upon the earliest of (i) December 31, 2022, (ii) the last day of the first fiscal year in which our annual gross revenues are \$1.07 billion or more, (iii) the date on which we have, during the previous rolling three-year period, issued more than \$1 billion in non-convertible debt securities or (iv) the date on which we are deemed to be a “large accelerated filer” as defined in the Exchange Act. We cannot predict if investors will find our common stock less attractive or our company less comparable to certain other public companies because we will rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

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

We do not intend to pay dividends for the foreseeable future.

We have never declared or paid any cash dividends on our common stock and do not intend to pay any cash dividends in the foreseeable future. We anticipate that we will retain all of our future earnings for use in the development of our business and for general corporate purposes. Any determination to pay dividends in the future will be at the discretion of our board of directors. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investments.

Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of our company more difficult, limit attempts by our stockholders to replace or remove our current management and limit the market price of our common stock.

Provisions in our certificate of incorporation and bylaws may have the effect of delaying or preventing a change of control or changes in our management. Our certificate of incorporation and bylaws include provisions that:

- ⌚ establish a classified board of directors so that not all members of our board of directors are elected at one time;
- ⌚ permit the board of directors to establish the number of directors and fill any vacancies and newly-created directorships;
- ⌚ provide that directors may only be removed for cause;
- ⌚ require super-majority voting to amend some provisions in our certificate of incorporation and bylaws;
- ⌚ authorize the issuance of “blank check” preferred stock that our board of directors could use to implement a stockholder rights plan;
- ⌚ eliminate the ability of our stockholders to call special meetings of stockholders;
- ⌚ prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;
- ⌚ provide that the board of directors is expressly authorized to make, alter or repeal our bylaws; and
- ⌚ establish advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted upon by stockholders at annual stockholder meetings.

In addition, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which generally prohibits stockholders owning 15% or more of our outstanding voting stock from merging or otherwise combining with us for a period of three years following the date on which the stockholder became a 15% stockholder without the consent of our board of directors. These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management, and otherwise discourage management takeover attempts.

Our certificate of incorporation contains exclusive forum provisions that could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us.

Pursuant to our certificate of incorporation, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware is the sole and exclusive forum for (1) any derivative action or proceeding brought on our behalf, (2) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees to us or our stockholders, (3) any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law, our certificate of incorporation or our bylaws or (4) any action asserting a claim governed by the internal affairs doctrine. Our certificate of incorporation further provides that any person or entity purchasing or otherwise acquiring any interest in shares of our common stock is deemed to have notice of and consented to the foregoing provision.

Our certificate of incorporation further provides that the federal district courts of the United States of America will be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act. These forum selection clauses in our certificate of incorporation may limit our stockholders' ability to obtain a favorable judicial forum for disputes with us.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**(a) Unregistered Sales of Equity Securities**

None

(b) None.**(c) Issuer Purchases of Equity Securities**

The following table sets forth for the indicated period, share repurchases of our common stock:

	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share	Total Number of Shares Purchased as part of Publicly Announced Program	Dollar Value of Shares that May Yet Be Purchased Under the Program (in thousands)
July 1, 2021- July 31, 2021	—	—	—	\$ 3,992
August 1, 2021- August 30, 2021	—	—	—	\$ 3,992
September 1, 2021- September 30, 2021	26,404	\$ 34.75	26,404	\$ 3,074
Total	26,404		26,404	

- (1) All repurchases were made as part of our publicly announced stock repurchase program. In May 2019, we announced that our board of directors approved a stock repurchase program, under which we were authorized to repurchase up to \$15 million of our common stock. The repurchase program has no expiration date and may be modified, suspended or discontinued at any time. For further information regarding our stock repurchase program, see Note 10, Stock Repurchase Program, of the accompanying notes to the condensed consolidated financial statements.

Item 6. Exhibits

A list of exhibits is set forth below.

Exhibit Index

Exhibit Number	Exhibit Description	Form	Incorporated by Reference		Filing Date	Filed Herewith
			File No.	Exhibit		
3.1	Amended and Restated Certificate of Incorporation	8-K	001-38107	3.1	June 13, 2017	
3.2	Amended and Restated Bylaws	8-K	001-38107	3.2	June 13, 2017	
10.1	Lease Agreement between Washington Township Health Care District and ShotSpotter, Inc., dated August 16, 2021					X
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1*	Certification of Principal 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.					X
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document).					X
101.SCH	Inline XBRL Taxonomy Extension Schema Document					X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)					X

* Furnished herewith and not deemed to be “filed” for purposes of Section 18 of the Exchange Act, and shall not be deemed to be incorporated by reference into any filing under the Securities Act, or the Exchange Act (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.

SIGNATURES

Pursuant to the requirements 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.

SHOTSPOTTER, INC.

Date: November 12, 2021

By: /s/ Ralph A. Clark
Ralph A. Clark
President and Chief Executive Officer

Date: November 12, 2021

By: /s/ Alan R. Stewart
Alan R. Stewart
Chief Financial Officer

OFFICE BUILDING LEASE

BETWEEN

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT "LANDLORD"

AND

ShotSpotter, Inc.

"TENANT"

LEASE SUMMARY

Date: _____

Tenant: ShotSpotter, Inc., a Delaware Corporation

Leased Premises: Suite 300 of the third (3rd) floor, of the Building, City of Fremont, State of California 94538 consisting of approximately 11,265 rentable square feet

Building: 39300 Civic Center Drive

Project: Two office buildings totaling 190,648 RSF located at 39300 Civic Center Drive and 2201 Walnut Avenue, Fremont, CA commonly referred to as the "Fremont Office Center"

Term: Sixty-Five (65) months

Lease Commencement: October 1, 2021

Lease Expiration: February 28, 2021

Primary Rent Term: See Schedule "G"

Prepaid Rent: \$33,712.50

Security Deposit: \$42,990.23

Total Due at Lease Expiration \$76,702.73

Proportionate Share: 6.10% of the Project

Operating Expenses: 2022 Base Year

Tenant Improvements: See Schedule "H:"

Parking: See Schedule "I"

Guarantor: See Schedule "J"

Signage: Suite entry, lobby and directory signs for Tenant shall be at the sole cost of the Landlord

Monthly Rental Remittance Address: **All Checks Must be Made Payable to Washington Township Health Care District**

Notice Address: Washington Township Health Care District
2000 Mowry Avenue
Fremont, CA 94538

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STANDARD OFFICE LEASE

THIS OFFICE BUILDING LEASE ("Agreement" or "Lease") is dated as of the date first appearing above and is entered into by and between Washington Township Health Care District, a local Health Care District organized under the laws of the State of California, doing business as Washington Hospital Healthcare System ("Landlord"), and ShotSpotter, Inc. ("Tenant"), a Delaware corporation.

In consideration of the rents, covenants and agreements hereinafter contained, the Landlord and Tenant hereby agree as follows:

1. LEASED PREMISES

Leased Premises

The Landlord does demise and lease to the Tenant the premises (the "Leased Premises"), described as Suite 300 in the building (the "Building") having a municipal address of 39300 Civic Center Drive in the City of Fremont, County of Alameda, State of California, in the Project (as defined in the Lease Summary) known as Fremont Office Center (the Leased Premises, the Building, the Project, together with the lands described in Schedule "A" attached and present and future improvements, additions and changes thereto being herein called the "Property"), consisting of approximately 11,625 rentable square feet (which is the usable square feet of the Leased Premises), on the third (3rd) floor as shown on the plan marked Schedule "B" attached hereto, excluding the exterior surfaces of the exterior walls of the Leased Premises.

2. TERM

Term

(a) TO HAVE AND TO HOLD the Leased Premises for and during the term sixty-five (65) months (the "Term") to be computed from the 1st day of October, 2021 and to be fully complete and ended on the 28th day of February, 2027, unless otherwise terminated.

Delay in Occupancy

(b) If the Leased Premises or any part thereof are not ready for occupancy on the date of commencement of the Term (which shall mean that the Landlord has delivered possession of the Leased Premises to Tenant with all Tenant Improvements and Landlord's Work complete, in good condition and repair, and ready for normal business operations (hereinafter referred to as "Ready for Occupancy"), no part of the "Rent" (as hereinafter defined) or only a proportionate part thereof, in the event that the Tenant shall occupy a part of the Leased Premises, shall be payable for the period prior to the date when the entire Leased Premises are Ready for Occupancy and the full Rent shall accrue only after such last mentioned date. The Tenant agrees to accept any such abatement of Rent in full settlement of all claims, which the Tenant might otherwise have by reason of the Leased Premises not being Ready for Occupancy on the date of commencement of the Term. Notwithstanding the foregoing, provided that when the Landlord has completed construction of such part of the Leased Premises as it is obliged hereunder to construct (including the Landlord's Work), the Tenant shall not be entitled to any abatement of Rent for any delay in occupancy due to the Tenant's failure or delay to provide plans or to complete any special installations or other work required for its purposes or due to any other reason, nor shall the Tenant be entitled to any abatement of Rent for any delay in occupancy if the Landlord has been unable to complete construction of the Leased Premises by reason of such failure or delay by the Tenant. Notification by Landlord as to the date the Leased Premises were Ready for Occupancy and such construction as the Landlord is obliged to complete is substantially completed, or as to the date upon which the same would have been Ready for Occupancy and completed respectively but for the failure or delay of the Tenant, shall be conclusive and binding on the Tenant and Rent in full shall accrue and become payable from the date set. Notwithstanding any delay in occupancy, the expiration date of this Lease shall remain unchanged. In no event, shall Landlord be liable to Tenant for any incidental, special or consequential damages,

including, but not limited to, loss of opportunities, loss of business or loss of profit, no matter what theory the claim is based on, including contract, tort, strict liability of statute, in the event that Landlord fails to deliver the Leased Premises to Tenant on any date specified in this Lease. Notwithstanding the foregoing, if Landlord does not deliver the Leased Premises in Ready for Occupancy condition by March 31, 2022 for any reason other than a delay caused by Tenant, this Lease may be terminated by Tenant by written notice to Landlord, and if so terminated: (a) the Security Deposit and Prepaid Rent shall be returned to Tenant, and (b) neither Landlord nor Tenant shall have any further rights, duties or obligations under this Lease, except with respect to provisions which expressly survive termination of this Lease.

Holding Over

(c) If, at the expiration of the Term or sooner termination hereof, the Tenant shall remain in possession without any further written agreement or in circumstances where a tenancy would thereby be created by implication of law or otherwise, a tenancy from year to year shall not be created by implication of law or otherwise, but the Tenant shall be deemed to be a monthly tenant only, at 150% "Basic Rent" (as hereinafter defined), payable monthly in advance plus "Additional Rent" (as hereinafter defined) and otherwise upon and subject to the same terms and conditions as herein contained, excepting provisions for renewal (if any) and leasehold improvement allowance (if any), contained herein, and nothing, including the acceptance of any Rent by the Landlord, for periods other than monthly periods, shall extend this Lease to the contrary except an agreement in writing between the Landlord and the Tenant and the Tenant hereby authorizes the Landlord to apply any monies received from the Tenant in payment of such monthly Rent. In the event of any unauthorized holding over, Tenant shall indemnify, defend and hold Landlord harmless from and against all claims for damages (and reimburse Landlord upon demand for any reasonable sums paid in settlement of any such claims) by any other Tenant or prospective Tenant to whom Landlord may have leased all or any part of the Leased Premises effective before or after the expiration of the Lease Term and by any broker claiming any commission or fee in respect of any such lease or offer to lease.

Fixturation Period and Early Access

(d) Landlord shall make the Leased Premises available to Tenant at least fifteen (15) days prior to the Commencement Date for the sole purpose of permitting Tenant to install fixtures, furniture, equipment, telecommunication wiring and other personal property ("Fixturation Period"). Tenant hereby assumes all risk of loss or damage to its fixtures, furniture, equipment, or other personal property which are placed or installed in the Leased Premises during the Fixturation Period. Except for the obligation to pay Basic Rent and Additional Rent, all other terms of this Lease shall govern Tenant's use of the Leased Premises during the Fixturation Period. Tenant's use of the Leased Premises during the Fixturation Period shall not affect the Lease Expiration date. During the Fixturation Period, Tenant shall not interfere with any work Landlord is obligated to perform in the Leased Premises under this Lease. It shall be Tenant's responsibility to ensure that such interference does not occur.

Options to Renew

(e) Tenant shall have the option or options to renew, if any, described in the attached Schedule "P".

Tenant Access

(f) Tenant shall have access to the Leased Premises 24-hours per day, seven days per week, 365 days per year, subject to Landlord's right to close or deny access to the building when needed for maintenance and repair activities or in an emergency. Landlord shall provide forty-one (41) access cards, codes or keys to Tenant for access to the Project, Building and Leased Premises at no charge to Tenant on the Commencement Date. Tenant shall be responsible for the cost of replacing any access cards or keys issued to Tenant by Landlord.

3. RENT

Basic Rent

(a) See Schedule "G".

Additional Rent

(b) The Tenant shall, without deduction or right of offset, except as provided for in this Lease, pay to the Landlord yearly and every year during the Term as additional rental (hereinafter called "Additional Rent"):

(i) the amounts of any Taxes payable by the Tenant to the Landlord pursuant to the provisions of Schedule "C" attached hereto; and

(ii) the amounts required to be paid to the Landlord pursuant to the provisions of Schedule "D" attached hereto.

Payment

(c) Additional Rent shall be paid and adjusted with reference to a fiscal period of twelve (12) calendar months ("Fiscal Period"), which shall be a calendar year unless the Landlord shall from time to time have selected a Fiscal Period which is not a calendar year by written notice to the Tenant. The Landlord shall advise the Tenant in writing of its estimate of the Additional Rent to be payable by the Tenant during the Fiscal Period (or broken portion of the Fiscal Period, as the case may be, if applicable at the commencement or end of the Term or because of a change in Fiscal Period) which commenced upon the commencement date of the Term and for each succeeding Fiscal Period or broken portion thereof which commences during the Term. Such estimate shall, in every case, be a reasonable estimate and, if requested by the Tenant, shall be accompanied by reasonable particulars of the manner in which it was calculated. The Additional Rent payable by the Tenant shall be paid in equal monthly installments in advance at the same time as payment of Basic Rent is due hereunder based on the Landlord's estimate as aforesaid. From time to time, the Landlord may re estimate, on a reasonable basis, the amount of Additional Rent for any Fiscal Period or broken portion thereof, in which case the Landlord shall advise the Tenant in writing of such re-estimate and fix new equal monthly installments for the remaining balance of such Fiscal Period or broken portion thereof. After the end of each such Fiscal Period or broken portion thereof the Landlord shall submit to the Tenant a statement of the actual Additional Rent payable in respect of such Fiscal Period or broken portion thereof and a calculation of the amounts by which the Additional Rent payable by the Tenant exceeds or is less than (as the case may be) the aggregate installments paid by the Tenant on account of Additional Rent for such Fiscal Period. Within thirty (30) days after the submission of such statement either the Tenant shall pay to the Landlord any amount by which the amount found payable by the Tenant with respect to such Fiscal Period or broken portion thereof exceeds the aggregate monthly payments made by it on account thereof during such Fiscal Period or broken portion thereof, or the Landlord shall pay to the Tenant any amount by which the amount found payable as aforesaid is less than the aggregate of such monthly payments.

Accrual of Rent

(d) Basic Rent and Additional Rent (herein collectively called "Rent") shall be considered as accruing from day to day, and Rent for an irregular period of less than one year or less than one calendar month shall be apportioned and adjusted by the Landlord for the Fiscal Periods of the Landlord in which the tenancy created hereby commences and expires. Where the calculation of Additional Rent for a period cannot be made until after the termination of this Lease, the obligation of the Tenant to pay Additional Rent shall survive the termination hereof for a period of up to six (6) calendar months and Additional Rent for such period shall be payable by the Tenant upon thirty (30) days written notice by the Landlord. In the event that Landlord shall fail to invoice Tenant for any Additional Rent pursuant to this section within six (6) calendar months following the expiration or termination of this Lease, then Landlord shall be deemed to have waived its right to collect such Additional Rent. If the Term commences or expires on any day other than the first or

the last day of a month, Rent for such fraction of a month shall be apportioned and adjusted as aforesaid and paid by the Tenant on the commencement date of the Term.

Recovery of Rent

(e) Rent and any other amounts required to be paid by the Tenant to the Landlord under this Lease shall be deemed to be and be treated as rent and payable and recoverable as rent, and the Landlord shall have all rights against the Tenant for Default in any payment of rent and other amounts as in the case of arrears in rent.

Limitations

(f) The information set out in statements, documents or other writings setting out the amount of Additional Rent submitted to the Tenant under or pursuant to this Lease shall be binding on the Tenant and deemed to be accepted by it and shall not be subject to amendment for any reason unless the Tenant gives written notice to the Landlord within sixty (60) days of the Landlord's submission of such statement, document or other writing identifying the statement, document, or writing and setting out in reasonable detail the reason why such statement, document, or writing should not be binding on the Tenant.

Late Fee

(g) All rent is due and payable on the first day of each month. Rent is delinquent after the tenth (10th) day of the month. A 10% late fee is assessed on the eleventh (11th) day of the month. All late fees shall be considered an item of Additional Rent.

4. SECURITY DEPOSIT

Security Deposit

The Landlord shall recognize the Tenant's security deposit upon execution of this Lease by the Tenant for the sum of forty-two thousand nine hundred ninety dollars and twenty-three cents (\$42,990.23) as a deposit to the Landlord to stand as security for the payment by the Tenant of any and all present and future debts and liabilities of the Tenant to the Landlord and for the performance by the Tenant of all of its obligations arising under or in connection with this Lease (the "Debts, Liabilities and Obligations"). Tenant shall not apply the security deposit as rent. At all times Tenant shall maintain a security deposit with Landlord in an amount equal to one hundred ten percent (110%) of the last month's rent for the Leased Premises. Landlord shall bill Tenant for any such additional security deposit as required. The Landlord shall not be required to keep the deposit separate from its general funds. In the event of the Landlord disposing of its interest in this Lease, the Landlord shall credit the deposit to its successor and thereupon shall have no liability to the Tenant to repay the security deposit to the Tenant. Subject to the foregoing and to the Tenant not being in Default under this Lease, the Landlord shall repay the security deposit to the Tenant without interest at the end of the Term or sooner termination of the Lease provided that all Debts, Liabilities and Obligations of the Tenant to the Landlord are paid and performed in full, failing which the Landlord may on notice to the Tenant elect to retain all or a portion of the security deposit and to apply it in reduction of the Debts, Liabilities and Obligations and the Tenant shall remain fully liable to the Landlord for payment and performance of the remaining Debts, Liabilities and Obligations. Tenant shall be responsible to restore the Leased Premises to their condition as of the Commencement Date for this Lease (reasonable wear and tear, damage by casualty, and repairs which are Landlord's obligation excepted), including repair of holes in walls, removal of signage, re-painting of the Leased Premises if Tenant utilized paint that is not consisting with building standards and cleaning of the flooring as needed. Landlord will refund Tenant's security deposit, less any offsets as set forth in this paragraph, approximately thirty (30) days after Tenant's tenancy has terminated and Tenant has vacated, returned keys and removed any and all personal property from the Leased Premises, including all computer and telecommunications cabling from floor, wall and ceiling areas, unless Landlord expressly provides in writing that such property may remain in the Leased Premises.

5. GENERAL COVENANTS

Landlord's Covenant

- (a) The Landlord covenants with the Tenant:
- (i) for quiet enjoyment; and
 - (ii) to observe and perform all the covenants and obligations of the Landlord herein.

Tenant's Covenant

- (b) The Tenant covenants with the Landlord:
- (i) to pay Rent; and
 - (ii) to observe and perform all the covenants and obligations of the Tenant herein.

6. Use

Use

The Tenant covenants with the Landlord:

(a) not to use the Leased Premises for any purpose other than for the conduct of the Tenant's business which is general office, research and development, minor repair of returned products use and uses ancillary thereto.

Waste, Nuisance, Etc.

(b) not to commit, or permit, any waste, injury or damage to the Property including the Leasehold Improvements and any trade fixture therein, any loading of the floors thereof in excess of the maximum degree of loading as determined by the Landlord acting reasonably, any nuisance therein or any use or manner of use causing annoyance to the other tenants and occupants of the Property or to the Landlord;

Insurance Risks

(c) not to do, omit or permit to be done or omitted to be done upon the Property anything which would cause to be increased the Landlord's cost of insurance or the costs of insurance of another tenant of the Property against perils as to which the Landlord or such other tenant has insured or which shall cause any policy of insurance on the Property to be subject to cancellation;

Compliance with Law

(d) to comply at its own expense with all governmental laws, regulations and requirements pertaining to the occupation and use of the Leased Premises, the condition of the Leasehold Improvements (other than the Leasehold Improvements existing prior to the date of this Lease or installed by Landlord prior to the Commencement Date, but only to the extent such Landlord installed Leasehold Improvements are out of compliance due to Tenant's specific use of the Leased Premises), trade fixtures, furniture and equipment installed by or on behalf of the Tenant therein and the making by the Tenant of any repairs, changes or improvements therein;

Environmental Compliances

- (e)
- (i) to conduct and maintain its business and operations at the Leased Premises so as to comply in all respects with common law and with all present and future applicable federal, provincial/state, local, municipal, governmental or quasi-governmental laws, by-laws, rules, regulations, licenses, orders, guidelines, directives, permits, decisions or requirements, concerning occupational or public health and safety or the environment and any order, injunction, judgement, declaration, notice or demand issued thereunder, ("Environmental Laws").
 - (ii) not to permit or suffer any substance which is hazardous or is prohibited, restricted, regulated or controlled under any Environmental Law to be present at, on or in

the Leased Premises, unless it has received the prior written consent of the Landlord which consent may be arbitrarily withheld; provided that Tenant may, without Landlord's consent, use and store within the Leased Premises reasonable quantities of customary office and cleaning supplies provided such items are stored, used, released, and disposed of in accordance with applicable Environmental Laws.

Rules & Regulations

(f) to observe and perform, and to cause its employees, invitees and others over whom Tenant can be reasonably expected to exercise control to observe and perform, the Rules and Regulations contained in Schedule "E" hereto, and such further and other reasonable rules and regulations and amendments and additions therein as may hereafter be made by the Landlord and notified in writing to the Tenant, except that no change or addition may be made that is inconsistent with this Lease unless as may be required by governmental regulation or unless the Tenant consents thereto. The imposition of such Rules and Regulations shall not create or imply any obligation of the Landlord to enforce them or create any liability of the Landlord for their non-enforcement or otherwise.

7. ASSIGNMENT AND SUBLETTING

Restriction on Transfer

(a) Except as expressly provided in this Section 7, Tenant will not, either voluntarily or by operation of law, assign or encumber this Lease or any interest herein or sublet the Leased Premises or any part thereof, or permit the use or occupancy of the Leased Premises by any party other than Tenant (any such assignment, encumbrance, sublease or the like will sometimes be referred to as a "Transfer"), without the prior written consent of Landlord, which consent Landlord will not unreasonably withhold, condition or delay. In no event may this Lease be assigned or the Leased Premises sublet to any existing tenant or occupant of the Building or to any entity that is then in lease negotiations with the Landlord. In addition, Tenant may not assign or sublet the Leased Premises, or any portion thereof, if it is in Default under the terms and conditions of this Lease, until such time as Tenant has "cured" the Default to the reasonable satisfaction of the Landlord.

Corporate and Partnership Transfers

(b) For purposes of this Section 7, if Tenant is a corporation, partnership or other entity, any transfer, assignment, encumbrance or hypothecation of more than fifty percent (50%) (individually or in the aggregate) of any stock or other ownership interest in such entity, and/or any transfer, assignment, hypothecation or encumbrance of any controlling ownership or voting interest in such entity, will be deemed a Transfer and will be subject to all of the restrictions and provisions contained in this Section 7. Notwithstanding the foregoing, the immediately preceding sentence will not apply to any transfers of stock of Tenant if Tenant is a publicly-held corporation and such stock is transferred publicly over a recognized security exchange or over-the-counter market.

Permitted Controlled Transfers

(c) Notwithstanding the provisions of this Section 7 to the contrary, Tenant may assign this Lease or sublet the Leased Premises or any portion thereof ("Permitted Transfer"), without Landlord's consent and without extending any sublease termination option to Landlord, to any parent, subsidiary or affiliate corporation which controls, is controlled by or is under common control with Tenant, or to any corporation resulting from a merger or consolidation with Tenant, or to any person or entity which acquires all or substantially all of the assets of Tenant's business as a going concern, provided that: (i) at least twenty (20) days prior to such assignment or sublease, Tenant delivers to Landlord the financial statements and other financial and background information of the assignee or sublessee described in Subsection 7(d); (ii) if an assignment, the assignee assumes, in full, the obligations of Tenant under this Lease (or if a sublease, the sublessee of a portion of the Leased Premises or Term assumes, in full, the obligations of Tenant with respect to such portion); (iii) the financial net worth of the assignee or sublessee as of the time of the proposed assignment or sublease equals or exceeds that of Tenant as of the date of execution of this Lease; (iv) Tenant remains fully liable under this Lease; and (v) the use of the Leased Premises under Section 6 remains unchanged.

Transfer Notice

(d) If Tenant desires to effect a Transfer, then at least thirty (30) days prior to the date when Tenant desires the Transfer to be effective (the "Transfer Date"), Tenant agrees to give Landlord a notice (the "Transfer Notice"), stating the name, address and business of the proposed assignee, sublessee or other transferee (sometimes referred to hereinafter as "Transferee"), reasonable information (including references) concerning the character, ownership, and financial condition of the proposed Transferee, the Transfer Date, any ownership or commercial relationship between Tenant and the proposed Transferee, and the consideration and all other material terms and conditions of the proposed Transfer, all in such factual detail as Landlord may reasonably require. If Landlord reasonably requests additional detail within ten (10) days after receipt of a Transfer Notice, the Transfer Notice will not be deemed to have been received until Landlord receives such additional detail, and Landlord may withhold consent to any Transfer until such information is provided to it.

Landlord's Options

(e) Within thirty (30) days of Landlord's receipt of any Transfer Notice, and any additional information reasonably requested by Landlord concerning the proposed Transferee's financial responsibility, Landlord will elect to do one of the following:

(i) consent to the proposed Transfer;

(ii) refuse such consent, which refusal shall be on reasonable grounds including, without limitation, those set forth in Subsection 7(f); or

(iii) subject to the terms of Section 7(i) below, terminate this Lease as to all or such portion of the Leased Premises which is proposed to be sublet or assigned and recapture all or such portion of the Leased Premises for reletting by Landlord.

Reasonable Disapproval

(f) Landlord and Tenant hereby acknowledge that Landlord's disapproval of any proposed Transfer pursuant to Subsection 7(e) will be deemed reasonably withheld if based upon any reasonable factor, including, without limitation, any or all of the following factors: (i) if the Building is less than ninety percent (90%) occupied, if the net effective rent payable by the Transferee (adjusted on a rentable square foot basis) is less than the net effective rent then being quoted by Landlord for new leases in the Building for comparable size space for a comparable period of time; (ii) the proposed Transferee is a governmental entity; (iii) the portion of the Leased Premises to be sublet or assigned is irregular in shape with inadequate means of ingress and egress; (iv) the use of the Leased Premises by the Transferee (A) is not permitted by the use provisions in Section 6 hereof, or (B) violates any exclusive use granted by Landlord to another tenant in the Building; (v) the Transfer would likely result in a significant and inappropriate increase in the use of the parking areas or Project Common Areas by the Transferee's employees or visitors, and/or significantly increase the demand upon utilities and services to be provided by Landlord to the Leased Premises; (vi) the Transferee does not have the financial capability to fulfill the obligations imposed by the Transfer and this Lease; or (vii) the Transferee is not in Landlord's reasonable opinion consistent with Landlord's desired tenant mix. In the event Landlord withholds or conditions its consent and Tenant or any proposed Transferee claims that Landlord has unreasonably withheld or delayed its consent under Subsection 7(f) or otherwise has breached or acted unreasonably under this Section 7, their sole remedies shall be a declaratory judgment and an injunction for the relief sought without any monetary damages, and Tenant hereby waives all other remedies on its own behalf and, to the extent permitted under all applicable laws, on behalf of the proposed Transferee. In any such action, each party shall bear its own attorneys' fees. Tenant shall indemnify, defend and hold harmless Landlord from any and all liability, losses, claims, damages, costs, expenses, causes of action and proceedings involving any third party or parties (including without limitation Tenant's proposed sub-tenant or assignee) who claim they were damaged by Landlord's wrongful withholding or conditioning of Landlord's consent.

Additional Conditions

(g) A condition to Landlord's consent to any Transfer of this Lease will be the delivery to Landlord of a fully executed letter of intent or proposal to such Transfer where both the Tenant and the subtenant or assignee (as applicable) have signed, then within thirty (30) days after receipt of Landlord's consent to such Transfer, a true copy of the fully executed instrument of assignment, sublease, transfer or hypothecation, and, in the case of an assignment, the delivery to Landlord of an agreement executed by the Transferee in a commercially reasonable and standard form and substance, whereby the Transferee assumes and agrees to be bound by all of the terms and provisions of this Lease and to perform all of the obligations of Tenant hereunder. As a condition for granting its consent to any assignment or sublease, Landlord may require that, upon a Default by Tenant under this Lease, the assignee or sublessee remit directly to Landlord on a monthly basis, all

monies due to Tenant by said assignee or sublessee. As a condition to Landlord's consent to any sublease, such sublease must provide that it is subject and subordinate to this Lease and to all mortgages; that Landlord may enforce the provisions of the sublease, including collection of rent; that in the event of termination of this Lease for any reason, including without limitation a voluntary surrender by Tenant, or in the event of any reentry or repossession of the Leased Premises by Landlord, Landlord may, at its option, either (i) terminate the sublease, or (ii) take over all of the right, title and interest of Tenant, as sublessor, under such sublease, in which case such sublessee will attorn to Landlord, but that nevertheless Landlord will not (1) be liable for any previous act or omission of Tenant under such sublease, (2) be subject to any defense or offset previously accrued in favor of the sublessee against Tenant, or (3) be bound by any previous modification of any sublease made without Landlord's written consent, or by any previous prepayment by sublessee of more than one month's rent.

Excess Rent

(h) If Landlord consents to any Transfer, Tenant agrees to pay to Landlord, as Additional Rent, fifty percent (50%) of all sums and other consideration payable to and for the benefit of Tenant by the Transferee on account of the Transfer in excess of the following amounts: (i) Rent and other amounts payable by Tenant under this Lease during the term of such Transfer and if such Transfer is for less than all of the Leased Premises, the amount shall be calculated on a rentable square foot basis and (ii) Tenant's out-of-pocket expenses incurred to obtain such Transfer, including, but not limited to, (1) any changes, alterations and improvements to the Leased Premises paid for by Tenant and approved by Landlord in connection with the Transfer, (2) any other leasing or subleasing concessions provided by Tenant to the Transferee (e.g. free rent, allowances, etc.), (3) any brokerage commissions paid for by Tenant in connection with the Transfer, and (4) any other out-of-pocket costs incurred by Tenant which are reasonably associated with the Transfer, as and when such sums and other consideration are due and payable by the Transferee to or for the benefit of Tenant (or, if Landlord so requires, and without any release of Tenant's liability for the same, Tenant agrees to instruct the Transferee to pay such 50% of such excess sums directly to Landlord).

Termination Rights

(i) If Tenant requests Landlord's consent to any assignment or subletting of all or a portion of the Leased Premises, Landlord will have the right, as provided in Subsection 7(e), to terminate this Lease as to all or such portion of the Leased Premises which is proposed to be sublet or assigned effective as of the date Tenant proposes to sublet or assign all or less than all of the Leased Premises. Landlord's right to terminate this Lease as to less than all of the Leased Premises proposed to be sublet or assigned will not terminate as to any future additional subletting or assignment as a result of Landlord's consent to a subletting of less than all of the Leased Premises or Landlord's failure to exercise its termination right with respect to any subletting or assignment. Landlord will exercise such termination right, if at all, by giving written notice to Tenant within ten (10) days of receipt by Landlord of the financial responsibility information required by this Section 7. Tenant understands and acknowledges that the option, as provided in this Section 7, to terminate this Lease as to all or such portion of the Leased Premises which is proposed to be sublet or assigned rather than approve the subletting or assignment of all or a portion of the Leased Premises, is a material inducement for Landlord's agreeing to lease the Leased Premises to Tenant upon the terms and conditions herein set forth. In the event of any such termination with respect to less than all of the Leased Premises, the cost of segregating the recaptured space from the balance of the Leased Premises will be paid by Tenant and Tenant's future monetary obligations under this Lease will be reduced proportionately on a square footage basis to correspond to the balance of the Leased Premises which Tenant continues to lease.

No Release

(j) No Transfer will release Tenant of Tenant's obligations under this Lease or alter the primary liability of Tenant to pay the rent and to perform all other obligations to be performed by Tenant hereunder. Upon a Default by Tenant, Landlord may require that any Transferee remit directly to Landlord on a monthly basis, all monies due Tenant by said

Transferee. However, the acceptance of rent by Landlord from any other person will not be deemed to be a waiver by Landlord of any provision hereof. Consent by Landlord to one Transfer will not be deemed consent to any subsequent Transfer. In the event of Default by any Transferee of Tenant or any successor of Tenant in the performance of any of the terms hereof, Landlord may proceed directly against Tenant without the necessity of exhausting remedies against such Transferee or successor. Landlord may consent to subsequent assignments of this Lease or sublettings or amendments or modifications to this Lease with assignees of Tenant, without notifying Tenant, or any successor of Tenant, and without obtaining its or their consent thereto and any such actions will not relieve Tenant of liability under this Lease.

Administrative & Attorneys' Fees

(k) If Tenant effects a Transfer or requests the consent of Landlord to any Transfer (whether or not such Transfer is consummated), then, upon demand, Tenant agrees to pay Landlord a non-refundable administrative fee of Two Hundred Fifty Dollars (\$260.00), plus any reasonable attorneys' and paralegal fees incurred by Landlord in connection with such Transfer or request for consent (whether attributable to Landlord's in-house attorneys or paralegals or otherwise) up to a maximum of \$2,600. Acceptance of the Two Hundred Fifty Dollar (\$260.00) administrative fee and/or reimbursement of Landlord's attorneys' and paralegal fees will in no event obligate Landlord to consent to any proposed Transfer.

Marketing

(l) Landlord acknowledges and agrees that Tenant may market the Leased Premises for subletting or assignment in typical publications or websites; provided that no such marketing shall affect the terms and conditions of this Section 7. For the sake of clarity, Tenant shall not be allowed to install signs on the Property marketing the Leased Premises for subletting or assignment.

8. REPAIR & DAMAGE

Landlord Repairs to Building & Property

(a) The Landlord covenants with the Tenant to keep in a good and reasonable state of repair and decoration:

(i) those portions of the Property consisting of the entrance, lobbies, stairways, corridors, landscaped areas, parking areas, and other facilities from time to time provided for use in common by the Tenant and other tenants of the Building or Property, and the exterior portions (including foundations and roofs) of all buildings and structures from time to time forming part of the Property and affecting its general appearance; and

(ii) the Building (other than the Leased Premises and premises of other tenants) including the systems for interior climate control and plumbing, the elevators and escalators (if any), entrances, lobbies, stairways corridors and washrooms from time to time provided for use in common by the Tenant and other tenants of the Building or Property and the systems provided for use in common by the Tenant and other tenants of the Building or Property and the systems as provided for bringing utilities to the Leased Premises.

Landlord Repairs to the Leased Premises

(b) The Landlord covenants with the Tenant to repair, so far as reasonably feasible, and as expeditiously as reasonably feasible, defects in standard demising walls or in structural elements, exterior walls of the Building, suspended ceiling, electrical and mechanical installation standard to the Building installed by the Landlord in the Leased Premises (if and to the extent that such defects are sufficient to impair the Tenant's use of the Leased Premises while using them in a manner consistent with this Lease) and "Insured Damage" (as herein defined). The Landlord shall in no event be required to make repairs to Leasehold Improvements made by the Tenant, or by the Landlord on behalf of the Tenant or another tenant or to make repairs to wear and tear within the Leased Premises.

Tenant's Repairs

c) The Tenant covenants with the Landlord to repair, maintain and keep at the Tenant's own costs, except insofar as the obligation to repair rests upon the Landlord pursuant to this Section 8, the Leased Premises, including Leasehold Improvements in good and substantial repair, reasonable wear and tear excepted, provided that this obligation shall not extend to structural elements or to exterior glass or to repairs which the Landlord would be required to make under this Section 8 but for the exclusion therefrom of defects not sufficient to impair the Tenant's use of the Leased Premises while using them in a manner consistent with this Lease.

The Landlord may enter the Leased Premises at all reasonable times upon prior written notice to view the condition thereof and the Tenant covenants with the Landlord to repair, maintain and keep the Leased Premises in good and substantial repair according to notice in writing, reasonable wear and tear excepted. If the Tenant shall fail to repair as aforesaid after reasonable notice to do so, the Landlord may effect the repairs and the Tenant shall pay the reasonable cost thereof to the Landlord on demand. The Tenant covenants with the Landlord that the Tenant will at the expiration of the Term or sooner termination thereof peaceably surrender the Leased Premises and appurtenances in good and substantial repair and condition, reasonable wear and tear and casualty excepted. Above standard office fixtures such as supplemental air-conditioning, dishwashers, garbage disposals, kitchen water heaters, are the sole responsibility of Tenant to maintain and replace.

Indemnification

(d) If any part of the Property becomes out of repair, damaged or destroyed through the negligence of, or misuse by, the Tenant or its employees, agents, invitees or others under its control, the Tenant shall pay the Landlord on demand the expense of repairs or replacements, including the Landlord's reasonable administration charge thereof, necessitated by such negligence or misuse.

**Damage &
Destruction**

(e) It is agreed between the Landlord and the Tenant that:

(i) In the event of damage to the Property or to any part thereof, if the damage is such that the Leased Premises or any substantial part thereof is rendered not reasonably capable of use and occupancy by the Tenant for the purposes of its business for any period of time in excess often (10) days, then

(ii)

(A) unless the damage was caused by the fault or negligence of the Tenant or its employees, agents, invitees or others under its control, from the date of occurrence of the damage and until the Leased Premises are again reasonably capable for use and occupancy as aforesaid, the Rent payable pursuant to this Lease shall abate from time to time in proportion to the part or parts of the Leased Premises not reasonably capable of such use and occupancy, and

(B) unless this Lease is terminated as hereinafter provided, the Landlord or the Tenant as the case may be (according to the nature of the damage and their respective obligations to repair as provided in subparagraphs (a), (b) and (c) of this Section 8) shall repair such damage with all reasonable diligence, but to the extent that any part of the Leased Premises is not reasonably capable of such use and occupancy by reason of damage which the Tenant is obligated to repair hereunder, any abatement of Rent to which the Tenant would otherwise be entitled hereunder shall not extend later than the time by which, in the reasonable opinion of the Landlord, repairs by the Tenant ought to have been completed with reasonable diligence, and

(iii) if the Leased Premises are substantially damaged or destroyed by any cause and if in the reasonable opinion of the Landlord given in writing within thirty (30) days of the occurrence the damage cannot reasonably be repaired within one hundred eighty (180) days after the occurrence thereof, then the Lease shall terminate, in which event neither the Landlord nor the Tenant shall be bound to repair as provided in subparagraphs (a), (b) and (c) of this Section 8, and the Tenant shall instead deliver up possession of the Leased Premises to the Landlord with reasonable expedition and Rent shall be apportioned and paid to the date of the occurrence; and

(iv) if premises, whether of the Tenant, or other tenants of the Property comprising in the aggregate half or more of the total number of square feet of rentable office area in the Property on half or more of the total number of square feet of rentable office area in the Building (as determined by the Landlord) or portions of the Property which affect access of services essential thereto, are substantially damaged or destroyed by any cause and if in the reasonable opinion of the Landlord the damage cannot reasonably be repaired within one hundred eighty (180) days after the occurrence thereof, then the Landlord may, by written notice to the Tenant given within thirty (30) days after the occurrence of such damage or destruction, terminate this Lease, in which event neither the Landlord nor the Tenant shall be bound to repair as provided in subparagraphs (a), (b) and (c) of this Section 8, and the Tenant shall instead deliver up possession of the Leased Premises to the Landlord with reasonable expedition but in any event within sixty (60) days after delivery of such notice of termination, and Rent shall be apportioned and paid to the date upon which possession is so delivered up (but subject to any abatement to which the Tenant may be entitled under subparagraph (e) of this Section 8).

9. INSURANCE AND LIABILITY

Landlord's Insurance

(a) The Landlord shall take out and keep in force during the Term insurance with respect to the Property except for the "Leasehold Improvements" (as hereinafter defined) in the Leased Premises. The insurance to be maintained by the Landlord shall be in respect of perils and to amounts and on terms and conditions which from time to time are insurable at a reasonable premium and which are normally insured by reasonable prudent owners of properties similar to the Property, all as from time to time determined at reasonable intervals by insurance advisors selected by the Landlord, and whose opinion shall be conclusive. Unless and until the insurance advisors shall state that any such perils are not customarily insured against by owners of properties similar to the Property, the perils to be insured against by the Landlord shall include, without limitation, public liability, boilers and machinery, fire and extended perils and may include, at the option of the Landlord, losses suffered by the Landlord in its capacity as Landlord through business interruption. The insurance to be maintained by the Landlord shall contain a waiver by the insurer of any rights of subrogation or indemnity or any other claim over which the insurer might otherwise be entitled against the Tenant or the agents or employees of the Tenant.

Tenant's Insurance

(a) The Tenant shall take out and keep in force during the Term:

(i) comprehensive general public liability insurance all on an occurrence basis with respect to the business carried on in or from the Leased Premises and the Tenant's use and occupancy of the Leased Premises and of any other part of the Property, with coverage for any one occurrence or claim of not less than Two Million Dollars (\$2,000,000) or such other amount as the Landlord may reasonably require upon not less than one (1) month notice at any time during the Term, which insurance shall include the Landlord as an additional insured and shall protect the Landlord in respect of claims by the Tenant as if the Landlord were separately insured and worker's compensation insurance as required by law;

(ii) insurance in respect of fire and such other perils as are from time to time in the usual extended coverage endorsement covering the Leasehold Improvements, trade fixtures, and the furniture and equipment in the Leased Premises for not less than 80% of the full replacement cost thereof, and which insurance shall include the Landlord as a loss payee as the Landlord's interest may appear;

(iii) insurance against such other perils and in such amounts as the Landlord may from time to time reasonably require upon not less than ninety (90) days written notice, such requirement to be made on the basis that the required insurance is customary at the time for prudent tenants of properties similar to the Property.

All insurance required to be maintained by the Tenant shall be on terms and with insurers satisfactory to the Landlord, which approval shall not be unreasonably withheld, conditioned or delayed. Landlord hereby approves Tenant's current insurer. Each policy shall contain a waiver by the insurer of any rights of subrogation or indemnity or any other claim over to which the insurer might otherwise be entitled against the Landlord or the agents or employees of the Landlord, and the policy will not lapse to be canceled, except after not less than thirty (30) days' written notice to the Landlord of the intended change, lapse or cancellation. The Tenant shall furnish to the Landlord, if and whenever requested by it, certificates or other evidence acceptable to the Landlord as to the insurance from time to time effected by the Tenant and if renewal or continuation in force, together with evidence as to the method of determination of full replacement cost of the Tenant's Leasehold Improvements, trade fixtures, furniture and equipment, and if the Landlord reasonably concludes that the full replacement cost has been underestimated, the Tenant shall forthwith arrange for any consequent increase in coverage required under subparagraph (b). If the Tenant shall fail to take out, renew and keep in force such insurance, or if the evidences submitted to the Landlord are unacceptable to the Landlord (or no such evidences are submitted within a reasonable period after request therefore by the Landlord), then the Landlord may give to the Tenant written notice requiring compliance with this subparagraph, and specifying the respects in which the Tenant is not then in compliance with this subparagraph. If the Tenant does not within five (5) days provide appropriate evidence of compliance with this subparagraph, the Landlord may (but shall not be obligated to) obtain some or all of the additional coverage or other insurance which the Tenant shall have failed to obtain, without prejudice to any other rights of the Landlord under this Lease or otherwise, and the Tenant shall pay all premiums and other reasonable expenses incurred by the Landlord to the Landlord on demand.

**Limitation of
Landlord's Liability**

(c) The Tenant agrees that the Landlord shall not be liable for any bodily injury or death of, or loss or damage to any property belonging to, the Tenant or its employees, invitees or licensees or any other person in, on or about the Property unless resulting from the actual willful misconduct or gross negligence of the Landlord or its own employees, agents or contractors. In no event shall the Landlord be liable for any damage which is caused by steam, water, rain or snow or other thing which may leak into, issue or flow from any part of the Property or from the pipes or plumbing works, including the sprinkler system (if any) therein or from any other place or for any damage caused by or attributable to the condition or arrangement of any electric or other wiring or of sprinkler heads (if any) or for any damage caused by anything done or omitted by any other tenant. In no event, including without limitation, any event, termination, dispute, alleged breach, occurrence or circumstance arising out of or relating to this Agreement or the transactions or relationships of the parties contemplated hereunder, shall Landlord be liable for any incidental, special or consequential damages, including, but not limited to, loss of use, loss of data, loss of business or loss of profits, no matter what theory the claim is based on, including contract, tort, strict liability or statute. This limitation of liability shall survive the termination of this Lease.

**Indemnity of
Landlord**

(d) Except with respect to claims or liabilities in respect of any damage which is Insured Damage to the extent of the cost of repairing such Insured Damage, the Tenant agrees to indemnify and save harmless the Landlord in respect of:

(i) all claims for bodily injury or death, property damage or other loss or damage arising from the conduct of any work or any act or omission of the Tenant or any assignee, subtenant, agent, employee, contractor, invitee or licensee of the Tenant, and in respect of all costs, expenses and liabilities incurred by the Landlord in connection with or arising out of all such claims, including the expenses of any action or proceeding pertaining thereto; and

(ii) any loss, cost, (including, without limitation, reasonable lawyers' fees and disbursements), expense, or damage suffered by the Landlord arising from any breach by the Tenant of any of its covenants and obligations under this Lease.

**Definition of
"Insured Damaged"**

(e) For purpose of this Lease, "Insured Damage" means that part of any damage occurring to the Property of which the entire cost of repair (or the entire cost of repair other than a deductible amount properly collectible by the Landlord as part of the Additional Rent) is actually recovered by the Landlord under a policy or policies of insurance from time to time effected by the Landlord pursuant to subparagraph (a). Where an applicable policy of insurance contains an exclusion for damages recoverable from a third party, claims as to which the exclusion applies shall be considered to constitute Insured Damage only if the Landlord successfully recovers from the third party.

10. EVENTS OF DEFAULT AND REMEDIES

Events of Default & Remedies

(a) In the event of the happening of any one of the following events (each a "Default"):

(i) the Tenant shall have failed to pay an installment of Basic Rent or of Additional Rent or any other amount payable hereunder when due, and such failure shall be continuing for a period of more than ten (10) days after the date Tenant receives written notice from Landlord that such installment or amount was due; provided, however, that after the second failure to pay any sum required to be paid hereunder, such failure shall be deemed to automatically constitute a Default without any obligation on Landlord to provide any additional written notice.

(ii) there shall be a default of or with any condition, covenant, agreement or other obligation on the part of the Tenant to be kept, observed or performed hereunder (other than a condition, covenant, agreement or other obligation to pay Basic Rent, Additional Rent or any other amount of money) and such default shall be continuing for a period of more than fifteen (15) days after written notice by the Landlord to the Tenant specifying the default and requiring that it discontinue;

(iii) if any policy of insurance upon the Property or any part thereof from time to time effected by the Landlord shall be canceled or about to be canceled by the insurer by reason of the use or occupation of the Leased Premises by the Tenant or any assignee, subtenant or licensee of the Tenant or anyone permitted by the Tenant to be upon the Leased Premises and the Tenant after receipt of notice in writing from the Landlord shall have failed to take such immediate steps in respect of such use or occupation as shall enable the Landlord to reinstate or avoid cancellation (as the case may be) of such policy of insurance;

(iv) the Leased Premises shall, without the prior written consent of the Landlord, be used by any other persons than the Tenant or its permitted assigns or subtenants or for any purpose other than that for which they were leased or occupied or by any persons whose occupancy is prohibited by this Lease;

(v) the Leased Premises shall be vacated or abandoned, or remain unoccupied without the prior written consent of the Landlord for thirty (30) consecutive days or more while capable of being occupied (provided that the Tenant shall not be deemed to have abandoned or vacated the Leased Premises if either (a) the vacating or abandoning is due to a governmental mandate, stay-at-home order or other reason not within Tenant's reasonable control or (b) Tenant provides Landlord with reasonable advance notice prior to vacating or abandoning and, at the time of vacating or abandoning the Leased Premises, (i) Tenant has made reasonable arrangements with Landlord for the security of the Leased Premises for the period of such vacating or abandoning, and (ii) Tenant continues during the balance of the Term to satisfy and perform all of Tenant's obligations under this lease as they come due);

(vi) the balance of the Term of this Lease or any of the goods and chattels of the Tenant located in Leased Premises, shall at anytime be seized in execution of attachment, or

(vii) the Tenant shall make any assignment for the benefit of creditors or become bankrupt or insolvent or take the benefit of any statute for bankrupt or insolvent debtors or, if a corporation, shall take any steps or suffer any order to be made for its winding-up or other termination of its corporate existence; or a trustee, receiver or receiver-manager or agent or other like person shall be appointed of any of the assets of the Tenant.

Notwithstanding the foregoing, if the nature of Tenant's Default pursuant to Section 10(a) is such that it cannot be cured by the payment of money and reasonably requires more than 15 days to cure, then Tenant shall not be deemed to be in Default if Tenant commences such cure within said 15-day period and thereafter diligently prosecutes the same to completion.

**Payment of Rent,
etc. on Termination**

(b) The Landlord shall have the following rights and remedies all of which are cumulative and not alternative and not to the exclusion of any other or additional rights and remedies in law or equity available to the Landlord by statute or otherwise:

(i) to remedy or attempt to remedy any Default of the Tenant, and in doing so to make any payments due or alleged to be due by the Tenant to third parties and to enter upon the Leased Premises to do any work or other thing therein, and in such event all reasonable expenses of the Landlord in remedying or attempting to remedy such Default shall be payable by the Tenant to the Landlord on demand;

(ii) with respect to unpaid overdue rent, to the payment by the Tenant of the Rent and of interest (which said interest shall be deemed included herein in the term "Rent") thereon at a rate equal to ten percent (10%) of the total unpaid amount each month until paid in full;

(iii) to terminate this Lease forthwith. In the event that Landlord shall elect to so terminate this Lease then Landlord may recover from Tenant:

(A) the worth at the time of award of any unpaid rent which had been earned at the time of such termination; plus

(B) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

(C) the worth at the time of award of the amount by which the unpaid rent for the balance of the Term after the time of award exceeds the amount of such rental loss that Tenant proves could be reasonably avoided; plus

(D) the worth at the time of award of any abated rent in connection with this Lease or any subsequent extension of the Lease; plus

(E) any other amount necessary to compensate Landlord for all the damages proximately caused by Tenant's failure to perform the Tenant obligations under this Lease. As used in subparagraphs 10(b)(iii)(A) and (B) above, the "worth at the time of award" is computed by allowing interest at the maximum rate permitted by law per annum. As used in subparagraph 10(b)(iii)(C) above, the "worth at the time of award" is computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%).

(iv) to enter the Leased Premises as agent of the Tenant and as such agent to re-let them and to receive the rent therefor and as the agent of the Tenant to take possession of any furniture or other property thereon and upon giving ten (10) days' written notice to the Tenant to store the same at the expenses and risk of the Tenant or to sell or otherwise dispose of the same at public or private sale without further notice and to apply the proceeds thereof and any rent derived from reletting the Leased Premises upon account of the Rent due and to become due under this Lease and the Tenant shall be liable to the Landlord for the deficiency if any.

(v) to maintain Tenant's rights to possession and continue said Lease in full force and effect, whether or not Tenant shall have abandoned the Leased Premises. In such event, Landlord shall be entitled to enforce all of its rights and remedies under this Lease, including the right to recover Rent as it becomes due under the terms of the Lease.

Tenant to Pay On Demand

(c) The Tenant shall pay to the Landlord on demand all costs and expenses, including actual lawyers' fees and costs incurred by the Landlord in enforcing any of the obligations of the Tenant under this Lease. Such costs shall include but not be limited to a fee of \$100.00 for service of pay or quit notice and a fee of \$50.00 for NSF checks in addition to all late fees associated with payments.

Landlord Default

(d) In the event Landlord fails to cure, or promptly commence and diligently pursue the cure of, any breach or failure by Landlord to comply with any of Landlord's obligations under this Lease within a commercially reasonable period after Tenant furnishes Landlord with written notice of such failure, then Tenant shall have the right (but not the obligation) to perform such obligation on Landlord's account and Landlord shall reimburse Tenant upon demand for the amount expended by Tenant in performing such obligation (including but not limited to reasonable attorneys' fees and costs of collection). Notwithstanding the foregoing to the contrary, Tenant shall have no right to repair, modify, or alter any building systems.

11. ADDITIONAL PROVISIONS

**Relocation of
Leased Premises**

(a) The Landlord shall have the right at any time upon six (6) months' written notice (the "Notice of Relocation") to relocate the Tenant at Landlord's sole cost and expense, to other premises in the Property (the "Relocated Premises") and the following terms and conditions shall be applicable:

(i) the Relocated Premises (which term shall mean the Leased Premises after relocation) shall contain approximately the same as, or greater rentable area than, the Leased Premises, shall have the same or better fit up, layout, view, and finish and shall be fully completed and ready for Tenant's occupancy prior to any such relocation;

(ii) Basic Rent and "Tenant's Proportionate Share" (as hereinafter defined) of Additional Rent for the Relocated Premises shall be no greater than the Basic Rent and Tenant's Proportionate Share of Additional Rent for the Leased Premises, notwithstanding the Relocated Premises may contain a greater rentable area;

(iii) Landlord shall pay for all costs necessary to prepare the Relocated Premises for Tenant's occupancy, including any hard and soft costs of all tenant improvements required to satisfy the terms and conditions of this Section 11(a) and shall reimburse Tenant or pay directly for Tenant's reasonable costs of relocation, including without limitation, the costs of uninstalling and reinstalling equipment and furniture and the costs of printing new stationary, business cards and notifying others about the change of address, with Landlord's total liability under this paragraph limited to \$58,125. Landlord shall provide Tenant with said allowance within thirty (30) business days of Landlord's receipt of receipts evidencing costs expended;

(iv) Such relocation shall be made during evenings, weekends or otherwise so as to incur the least inconvenience to Tenant;

(v) all other terms and conditions of the Lease shall apply to the Relocated Premises except as are inconsistent with the terms and conditions of this subparagraph;

(vi) Notwithstanding the provisions of Sections 11(a) to the contrary, Landlord will have no right to exercise right to relocate the Tenant under this Section 11(a) during the initial term of this Lease.

Subordination & Attornment

(b) This Lease and all rights of the Tenant hereunder are subject and subordinate to all underlying leases and charges, or mortgages now or hereafter existing (including charges, and mortgages by way of debenture, note, bond, deeds of trust and mortgage and all instruments supplemental thereto) which may now or hereafter affect the Property or any part thereof and to all renewal, modifications, considerations, replacements and extensions thereof provided the lessor, chargee, mortgagee, or trustee agrees to accept this Lease if not in Default and to provide Tenant a non disturbance agreement on standard forms; and in recognition of the foregoing the Tenant agrees that it will, whenever requested, attorn to such lessor, chargee, mortgagee as a tenant upon all the terms of this Lease. The Tenant agrees to execute within ten (10) days after requested by the Landlord or by the holder of any such lease, charge, or mortgage a commercially reasonable and standard instrument of subordination or attornment, as the case may be as may be required of it.

Certificates

(c) The Tenant agrees that it shall within ten (10) days after requested by the Landlord from time to time execute and deliver to the Landlord, and if required by the Landlord, to any lessor, chargee or mortgagee (including any trustee) or other person designated by the Landlord, an acknowledgment in writing as to the then status of this Lease, including as to whether it is in full force and effect, is modified or unmodified, confirming the Basic Rent and Additional Rent payable hereunder and the state of accounts between Landlord and the Tenant, the existence or non-existence of Defaults, and any other factual matters pertaining to this Lease to Tenant's knowledge as to which the Landlord shall reasonably request an acknowledgment.

Tenant's

(d) Except as provided herein, Tenant acknowledges that Landlord makes no express or implied representations or warranties of any kind regarding the fitness or appropriateness

Compliances with Govt Ordinances, Regulations Laws of the Leased Premises for Tenant's proposed use. As of the delivery of the Leased Premises in Ready for Occupancy condition, Tenant takes the Leased Premises in an "as-is" condition with regard to all applicable zoning, parking, use and any other relevant hereto as though the said provision or provisions had never been included, and further, that the captions appearing for the provisions of this Lease have been inserted as a matter of convenience and for reference only and in no way define, limit or enlarge the scope or meaning of this Lease or any provision hereof.

Extent of Lease Obligation (o) This Agreement and everything herein contained shall inure to the benefit of and be binding upon the respective heirs, executors, administrators, successors, assigns and other legal representatives, as the case may be, of each and every of the parties hereto, subject to the granting of consent by the Landlord to any assignment or sublease, and every reference herein to any party hereto shall include the heirs, executors, administrators, successors, assigns and other legal representatives of such party, and where there is more than one tenant or there is a male or female party the provision hereof shall be read with all grammatical changes thereby rendered necessary and all covenants shall be deemed joint and several.

Prior Use & Occupancy Prior to Term (p) If the Tenant shall for any reason use or occupy the Leased Premises in any way prior to the commencement of the Term without there being an existing lease between the Landlord and Tenant under which the Tenant has occupied the Leased Premises, then during such prior use or occupancy, the Tenant shall be a Tenant of the Landlord and shall be subject to the same covenants and agreements in this Lease *mutatis mutandis*.

Alterations, Additions, and Improvements (q) Tenant will not make or allow to be made any alterations, additions, or improvements in or to the Leased Premises without the written consent of Landlord before performance: such consent will not be unreasonably withheld, but Landlord may impose, as a condition of such consent such requirements as Landlord in its reasonable discretion may deem reasonable or desirable including, without limiting the generality of foregoing, requirements as to the manner in which, the time or times at which and the contractor by whom such work shall be done. Such alterations, additions, or improvements when made to the Leased Premises by Tenant shall be surrendered to Landlord and become the property of Landlord upon termination in any manner of this Lease, but this clause shall not apply to moveable non-attached fixtures or furniture of Tenant. Provided however, Landlord may, at the time Landlord approves any such alterations, additions, or improvements, send written notice to Tenant that Landlord will require Tenant to remove such alterations, additions, or improvements, which were placed in or on the Leased Premises by Tenant and which are designated in said notice upon expiration or earlier termination of this Lease and shall repair any damage occasioned by such and the removal and, in default thereof Landlord, may effect said removals and repairs at Tenant's expense. All work with respect to alterations, additions, and improvements must be done in good and workmanlike manner and diligently prosecuted to completion to the end that the improvements on the Leased Premises shall at all times be a complete unit except during the period of work. Any such alterations, additions, and improvements shall be performed and done strictly in accordance with the laws and ordinances relating thereto, and with the requirements of all carriers of insurance on the Leased Premises and the Board of Underwriters, Fire Rating Bureau, or similar organization. Subject to Landlord's obligation to obtain a certificate of occupancy for the Leased Premises following completion of Landlord's Work, Tenant shall obtain at its sole cost and expense all required licenses and permits. In performing the work of any such alterations, additions or improvements, Tenant shall have the work performed in such a manner so as not to obstruct the access to the Building of any other tenant. Before commencing any such work or construction in or about the Leased Premises, Tenant shall notify Landlord in writing of the expected date of commencement thereof. Landlord shall have the right at any time and from time to time to post and maintain on the Leased Premises such notices as Landlord deems necessary to

protect the Leased Premises and Landlord from the liens of mechanics, laborers, materialmen, suppliers or vendors. If any mechanic lien is filed against the Leased Premises or the real estate of which the Leased Premises form a part, which lien concerns the Tenant and/or the Leased Premises, Tenant shall cause same to be discharged within ten (10) days after the date Tenant is notified that the lien is filed by Tenant paying or bonding over said lien. Notwithstanding the foregoing, Tenant shall be allowed to make non structural alterations, which are decorative in nature, up to \$5,000, without Landlord's consent.

Schedules

(r) The provisions of the following Schedules attached hereto shall form part of this Lease as if the same were embodied herein:

- Schedule "A" - Legal Description of Property
- Schedule "B" - Plan of Leased Premises
- Schedule "C" - Taxes payable by Landlord and Tenant
- Schedule "D" - Services and Costs
- Schedule "E" - Rules and Regulations
- Schedule "F" - Leasehold Improvements
- Schedule "G" - Basic Rent
- Schedule "H" - Tenant Improvements
- Schedule "I" - Parking
- Schedule "J" - Lease Guaranty
- Schedule "K" - Tenant Information Sheet
- Schedule "L" - Signage Agreement
- Schedule "M" - License for Antenna Site
- Schedule "N" - Addendum to Lease
- Schedule "O" - Tenant Signage Forms
- Schedule "P" - Option(s) to Renew

Confidentiality

(s) Tenant shall keep confidential and shall not disclose the terms and conditions set forth in this Lease, including, without limitation, the Basic Rent and Additional Rent, the Term of the Lease and any extensions, and all other financial terms, without the prior written consent of the Landlord except: (1) to Tenant's directors, officers, partners, legal counsel, accountants, financial advisors and similar professionals and consultants to the extent that Tenant deems it necessary or appropriate in connection with the Lease transaction contemplated hereunder (and Tenant shall inform each of the foregoing parties of Tenant's obligations under this Section and shall secure the agreement of such parties to be bound by the confidentiality terms hereof) or (2) as otherwise required by law or regulation (including the SEC and other laws governing publicly traded companies). Any violation of this shall be considered a material default under the Lease.

Brokers

(t) Landlord and Tenant represent and warrant to each other that neither party has dealt with any real estate broker or agent in connection with this Lease Agreement or its negotiation except Colliers International (Procuring Broker) and Cushman & Wakefield (Listing Broker). Landlord and Tenant shall indemnify, defend, protect and hold each other harmless from and against any and all costs, expenses, claims and liabilities (including costs of suit and reasonable attorneys' fees) for any compensation, commission or fees claimed by any other real estate broker or agent in connection with this Lease or its negotiation by reason of any act of the indemnifying party.

**Certified Access Specialist
Inspection**

(u) The Leased Premises and Building have not been inspected by a Certified Access Specialist. A Certified Access Specialist (CASp) can inspect the subject premises and determine whether the subject premises comply with all of the applicable construction-related accessibility standards under state law. Although state law does not require a CASp inspection of the subject premises, the commercial property owner or lessor may not prohibit the lessee or tenant from obtaining a CASp inspection of the subject premises for the occupancy or potential occupancy of the lessee or tenant, if requested by the lessee or tenant. The parties shall mutually agree on the arrangements for the time and manner of the CASp inspection, the payment of the fee for the CASp inspection, and the cost of making any repair necessary to correct violations of construction-related accessibility standards within the premises.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK, SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereby execute this Agreement as of the date first appearing above.

LANDLORD

By: /s/ Kimberly Hartz
Name: Kimberly Hartz
Its. Chief Executive Officer
Date: 8/16/2021

TENANT

By: /s/ Alan Stewart
Name: Alan R. Stewart
Its. CFO
Date: 8/12/2021

SCHEDULE "A"
LEGAL DESCRIPTION OF PROPERTY

THE LAND SITUATED IN THE STATE OF CALIFORNIA, COUNTY OF ALAMEDA AND DESCRIBED AS FOLLOWS:

PARCEL 3, AS SHOWN ON PARCEL MAP NO. 290 IN THE CITY OF FREMONT, COUNTY OF ALAMEDA, STATE OF CALIFORNIA, FILED FOR RECORD IN THE OFFICE OF THE COUNTY RECORDER, JULY 17, 1967, IN BOOK 64, PAGE 49 OF MAPS, RECORDS OF ALAMEDA COUNTY, CALIFORNIA.

EXCEPTING THEREFROM THAT POSITION CONVEYED TO THE CITY OF FREMONT BY DEED RECORDED NOVEMBER 6, 1985, INSTRUMENT NO. 85-239062, ALAMEDA COUNTY RECORDS.

ASSESSOR'S PARCELNO. 507-0465-111-01

SCHEDULE "B"
PLAN OF LEASED PREMISES

See Schedule "H-1."

SCHEDULE "C"
TAXES PAYABLE BY LANDLORD AND TENANT

Tenant's Taxes

- (a) The Tenant covenants to pay all Tenant's Taxes (defined below), as and when the same becomes due and payable. Where any Tenant's Taxes are payable by the Landlord to the relevant taxing authorities, the Tenant covenants to pay the amount thereof to the Landlord.
- (b) The Tenant covenants to pay the Landlord the Tenant's Proportionate Share of the excess of the amount of the Landlord's Taxes in each Fiscal Period over the Landlord's Taxes in the "Base Year" (as hereinafter defined).
- (c) The Tenant covenants to pay to the Landlord the Tenant's Proportionate Share of the costs and expenses (including legal and other professional fees and interest and penalties on deferred payments) incurred in good faith by the Landlord in contesting, resisting or appealing any of the Taxes.

Landlord's Taxes

- (d) The Landlord covenants to pay all Landlord's Taxes subject to the account of Landlord's Taxes required to be made by the Tenant elsewhere in this Lease. The Landlord may appeal any official assessment or the amount of any Taxes or other taxes based on such assessment and relating to the Property. In connection with any such appeal, the Landlord may defer payment of any Taxes or other taxes, as the case may be, payable by it to the extent permitted by law, and the Tenant shall cooperate with the Landlord and provide the Landlord with all relevant information reasonably required by the Landlord in connection with any such appeal.

Possessory Interest

- (e) Landlord is a public entity. This paragraph serves as notice that the possessory interest created by this Lease may be subject to property taxation. Tenant acknowledges and agrees that: (i) any such taxes levied against Tenant shall be paid by Tenant in addition to Rent, and (ii) Landlord shall have no liability to Tenant for any such taxes.

Separate Allocation

- (f) In the event that the Landlord is unable to obtain from the taxing authorities any separate allocation of Landlord's Taxes, Tenant's Taxes or assessment as required by the Landlord to make calculations of Additional Rent under this Lease, such allocation shall be made by the Landlord acting reasonably and shall be conclusive.

Information

- (g) Whenever requested by the Landlord, the Tenant shall deliver to it receipts for payment of all the Tenant's Taxes and furnish such other information in connection therewith as the Landlord may reasonably require.

Tax Adjustment

- (h) If the Building has not been taxed as a completed and fully occupied building for the Fiscal Period, the Landlord's Taxes will be determined by the Landlord as if the Building had been taxed as a completed and fully occupied building for any such Fiscal Period.

Definition

In this Lease:

- (i) "Landlord Taxes" shall mean the aggregate of all Taxes attributed to the Property, the Rent or the Landlord in respect thereof and including, without limitation, any amounts imposed, assessed, levied or charged in substitution for or in lieu of any such Taxes, but excluding such taxes as capital gains taxes, corporate income, profit or excess profit taxes to the extent such taxes are not levied in lieu of any of the foregoing against the Property or the Landlord in respect thereof.

(j) "Taxes" shall mean all taxes, rates, duties, levies, fees, charges, local improvement rates, capital taxes, rental taxes and assessments whatsoever including fees, rents, and levies for air rights and encroachments on or over municipal property imposed, assessed, levied or charged by any school, municipal, regional, state, provincial, federal, parliamentary, or other body, corporation, authority, agency or commission provided that any such local improvement rates, assessed and paid prior to or in the Base Year shall be excluded from the Base Year and any year during the Term and provided further that "Taxes" shall not include any special utility, levies, fees or charges imposed, assessed, levied or charged which are directly associated with initial construction of the Property.

(k) "Tenant's Taxes" shall mean the aggregate of:

(i) all Taxes (whether imposed upon the Landlord or the Tenant) attributable to the personal property, trade fixtures, business, income, occupancy, or sales of the Tenant or any other occupant of the Leased Premises, and to any Leasehold Improvements or fixtures installed by or on behalf of the Tenant within the Leased Premises, and to the use by the Tenant of any of the Property; and

(ii) the amount by which Taxes (whether imposed upon the Landlord or the Tenant) are increased above the Taxes which would have otherwise been payable as a result of the Leased Premises or the Tenant or any other occupant of the Leased Premises being taxed or assessed in support of separate schools.

(l) "Tenant's Proportionate Share" shall mean 6.10% subject to adjustment as determined solely by the Landlord and notified to the Tenant in writing for physical increases or decreases in the total rentable area of the Property provided that total rentable area of the Property and the rentable area of the Leased Premises shall exclude areas designated (whether or not rented) for parking and for storage.

(m) "Base Year" as used in this Lease shall mean calendar year 2022.

SCHEDULE "D"
SERVICES AND COSTS

Interior Climate Control

1. The Landlord Covenants with the Tenant:

(a) To maintain in the Leased Premises conditions of reasonable temperature and comfort in accordance with good standards applicable to normal occupancy of premises for office purposes subject to governmental regulations during hours to be determined by the Landlord but to be at least the hours from 8:00 a.m. to 6:00 p.m. from Monday to Friday (with the exception of Saturdays, Sundays and holidays), such conditions to be maintained by means of a system for heating and cooling, filtering and circulating air; the Landlord shall have no responsibility for any inadequacy of performance of the said system if the occupancy of the Leased Premises or the electrical power or other energy consumed on the Leased Premises for all purposes exceeds reasonable amounts as determined by the Landlord or the Tenant installs partitions or other installations in locations which interfere with the proper operations of the system of interior climate control or if the window covering on exterior windows is not kept fully closed;

Janitor Service

(b) To provide janitor and cleaning services to the Leased Premises and to common areas of the Building consisting of reasonable services in accordance with the standards of similar office buildings;

Elevators, Lobbies, Etc.

(c) To keep available the following facilities for use by the Tenant and its employees and invitees in common with other persons entitled thereto:

(i) passengers and freight elevator service to each floor upon which the Leased Premises are located provided such service is installed in the Building and provided that the Landlord may prescribe the hours during which and the procedures under which freight elevator service shall be available and may limit the number of elevators providing service outside normal business hours;

(ii) moving shall be after-hours Monday-Friday or Weekends only. In the event Tenant does not abide by such rule, Tenant shall be assessed a penalty fee at the sole discretion of the Landlord;

(iii) common entrances, lobbies, stairways and corridors giving access to the Building and the Leased Premises, including such other areas from time to time which may be provided by the Landlord for common use and enjoyment within the Property;

(iv) the washrooms as the Landlord may assign from time to time which are standard to the Building, provided that the Landlord and the Tenant acknowledges that where an entire floor is leased to the Tenant or some other tenant the Tenant or such other tenant, as the case may be, may exclude others from the washroom thereon.

Electricity

2.

(a) The Landlord covenants with the Tenant to furnish electricity to the Leased Premises (except Leased Premises which have separate meters) for normal office use for lighting and for office equipment capable of operating from the circuits available to the Leased Premises and standard to the Building.

(b) The amount of electricity consumed on the Leased Premises in excess of electricity required by the Tenant for normal office use shall be as determined by the

Landlord acting reasonable or by a metering device installed by the Tenant at the Tenant's expense. The Tenant shall pay the Landlord for any such excess electricity on demand.

(c) The Tenant covenants to pay to the Landlord the Tenant's Proportionate Share of the costs of all electricity consumed on the Property (except the amounts recovered from and paid by tenants separately metered) above the costs incurred during the Base Year. This amount is included in full service gross Lease.

(d) In calculating electricity costs for any Fiscal Period, if less than one hundred percent (100%) of Building is occupied by tenants, then the amount of such electricity costs shall be deemed for the purpose of this Schedule to be increased to an amount equal to the like electricity costs which normally would be expected by the Landlord to have been incurred had such occupancy been one hundred percent (100%) during such entire period.

Services

3. The Landlord shall maintain and keep in repair the facilities required for the provision of the interior climate control, elevator (if installed in the Building), plumbing, and other services referred to in subparagraph (a) and (c) of paragraph 1 and subparagraph (a) of paragraph 2 of this Schedule in accordance with the standards of office buildings similar to the Building but reserves the right to stop the use of any of these facilities and the supply of the corresponding services when necessary by reason of accident or breakdown or during the making of repairs, alterations or improvements, in the reasonable judgment of the Landlord necessary or desirable to be made, until the repairs, alterations or improvements shall have been completed to the satisfaction of the Landlord.

Additional Services

4.

(a) The Landlord may (but shall not be obliged) on request of the Tenant supply services or materials to the Leased Premises and the Property which are not provided for under this Lease and which are used by the Tenant (the "Additional Services").

(b) When Additional Services are supplied or furnished by the Landlord, accounts therefor shall be rendered by the Landlord and shall be payable by the Tenant to the Landlord on demand. In the event the Landlord shall elect not to supply or furnish Additional Services, only persons with prior written approval by the Landlord (which approval shall not be unreasonably withheld) shall be permitted by Landlord or the Tenant to supply or furnish Additional Services to the Leased Premises and the supplying and furnishing shall be subject to the reasonable rules fixed by the Landlord with which the Tenant undertakes to cause compliance and to comply.

Operating Charges Payable

5.

(a) The Tenant covenants to pay to the Landlord the Tenant's Proportionate Share of the excess of the amount of the Operating Costs in each Fiscal Period over the Operating Costs in the "Base Year" (as hereinafter defined).

(b) In this Lease "Operating Costs" shall mean all costs incurred in which will be incurred by the Landlord in the maintenance, operation, administration and management of the Property including without limitation:

(i) cost of heating, ventilating and air-conditioning;

(ii) cost of water and sewer charges;

(iii) cost of insurance carried by the Landlord pursuant to paragraph 9(a) of this Lease and cost of any deductible amount paid by the Landlord in connection with each claim made by the Landlord under such insurance;

(iv) costs of building office expenses, including telephone, rent, stationery and supplies;

(v) cost of fuel;

(vi) costs of all elevator and escalator (if installed in the Building) maintenance and operation;

(vii) costs of operating staff, management staff and other administrative personnel, including salaries, wages, and fringe benefits;

(viii) cost of providing security;

(ix) cost of providing janitorial services, window cleaning, garbage and snow removal and pest control;

(x) cost of supplies and materials;

(xi) cost of decoration of common area;

(xii) cost of landscaping;

(xiii) cost of maintenance and operation of the parking areas;

(xiv) cost of consulting, and professional fees including expenses; and

(xv) cost of replacements, additions and modifications unless otherwise included under paragraph 6, and cost of repair.

(c) Notwithstanding anything to the contrary in this Lease, "Operating Costs" shall not include the following:

(i) costs of leasing commissions, tenant improvements and tenant improvement allowances, marketing costs, attorneys' fees and other costs and expenses incurred in connection with negotiations or disputes with present or prospective tenants or other occupants of the Property;

(ii) all costs that are reimbursed by the insurance carried by Landlord or another tenant of the Building or subject to award under any eminent domain proceeding;

(iii) any cost or expense incurred by reason of the remediation or clean up of any contamination of the Building, the Leased Premises, or the soils or ground water underlying the Building or the Property, by hazardous materials;

(iv) except for the cost of any improvements that would be required for compliance with the Americans with Disabilities Act (or any related disability access law), the cost of correcting any violation of Laws with the Building or the Property that existed as of the date of this Lease;

(v) advertising and promotional expenditures;

(vi) the cost of capital expenditures except as described in Section 6 below;

(vii) Landlord's general corporate overhead and general and administrative expenses not related to the Building or the Property; and reserves for future Operating Costs.

Other Terms

6. The Tenant covenants to pay to the Landlord the Tenant's Proportionate Share of the costs in respect of each Major Expenditure (as hereinafter defined) as amortized over the period of the Landlord's reasonable estimate of the economic life of the Major Expenditure, but not to exceed fifteen (15) years, using equal monthly installments of principal and interest at ten percent (10%) per annum compounded semi-annually. For the purposes hereof, "Major Expenditure" shall mean any expenditure incurred after the date of substantial completion of the Building for replacement of machinery, equipment, building elements, systems or facilities forming a part of or used in connection with the Property or for modifications, upgrades or additions to the Property or facilities used in connection therewith, provided that, in each case, such expenditures is not more than ten percent (10%) of the total Operating Costs of the immediately preceding Fiscal Period.

7. In calculating Operating Costs for any Fiscal Period including the Base Year, if less than one hundred percent (100%) of Building is occupied by tenants, then the amount of such Operating Costs shall be deemed for the purposes of this Schedule to be increased to an amount equal to the like Operating Costs which normally would be expected by the Landlord to have been incurred had such occupancy been one hundred percent (100%) during such entire period.

8. In this Lease:

(a) "Tenant's Proportionate Share" shall mean 6.10% subject to adjustment as determined solely by the Landlord and notified to the Tenant in writing for physical increases or decreases in the total rentable area of the Property provided that total rentable area of the Property and the rentable area of the Leased Premises shall exclude areas designated (whether or not rented) for parking and for storage.

(b) "Base Year" shall mean the calendar year 2022.

SCHEDULE "E"
RULES AND REGULATIONS

1. The sidewalks, entry passages, elevators (if installed in the Building) and common stairways shall not be obstructed by the Tenant or used for any other purpose than for ingress and egress to and from the Leased Premises. The Tenant will not place or allow to be placed in the Building corridors or public stairways any waste paper, dust, garbage, refuse or anything whatever.
2. The washroom plumbing fixtures and other water apparatus shall not be used for any purpose other than those for which they were constructed, and no sweepings, rubbish, rags, ashes or other substances shall be thrown therein. The expense of any damage resulting by misuse by the Tenant shall be borne by the Tenant.
3. The Tenant shall permit window cleaners to clean the windows of the Leased Premises during normal business hours.
4. No birds or animals shall be kept in or about the Property nor shall the Tenant operate or permit to be operated any musical or sound-producing instruments or device or make or permit any improper noise inside or outside the Leased Premises which may be heard outside such Leased Premises.
5. No one shall use the Leased Premises for residential purposes, or for the storage of personal effects or articles other than those required for business purposes.
6. All persons entering and leaving the Building at any time other than during normal business hours shall register in the books which may be kept by the Landlord at or near the night entrance and the Landlord will have the right to prevent any person from entering or leaving the Building or the Property unless provided with a key to the premises to which such person seeks entrance and a pass in a form to be approved by the Landlord. Any persons found in the Building at such times without such keys and passes will be subject to surveillance of the employees and agents of the Landlord.
7. No dangerous or explosive materials shall be kept or permitted to be kept in the Leased Premises.
8. The Tenant shall not and shall not permit any cooking in the Leased Premises, except that the preparation of coffee, tea, hot chocolate, food items typically prepared or microwaved in office pantries or kitchenettes, and similar items for tenants, their employees and visitors shall be permitted. The Tenant shall not install or permit the installation or use of any machine dispensing goods for sale in the Leased Premises without the prior written approval of the Landlord.
9. The Tenant shall not bring in or take out, position, construct, install or move any safe, business machine or other heavy equipment without first obtaining the prior written consent of the Landlord which will not be unreasonably withheld. In giving such consent, the Landlord shall have the right, in its sole discretion, to prescribe the weight permitted and the position thereof, and the use and design of planks, skids or platforms to distribute the weight thereof. All damage done to the Building by moving or using any such heavy equipment or other office equipment or furniture shall be repaired at the expense of the Tenant. The moving of all heavy equipment or other office equipment or furniture shall occur only at times consented to by the Landlord and the persons employed to move the same in and out of the Building must be acceptable to the Landlord. Safes and other heavy office equipment will be moved through the halls and corridors only upon steel bearing plates. No freight or bulky matter of any description will be received into the Building or carried in the elevators (if installed in the Building) except during hours approved by the Landlord.
10. The Tenant shall give the Landlord prompt notice of any accident to or any defect in the plumbing, heating, air-conditioning, ventilating, mechanical or electrical apparatus or any other part of the Building.
11. The parking of automobiles shall be subject to the charges and reasonable regulations of the Landlord. The Landlord shall not be responsible for damage to or theft of any car, its accessories or contents whether the same be the result of negligence or otherwise.

12. The Tenant shall not mark, drill into or in any way deface the walls, ceilings, partitions, floors or other parts of the Leased Premises and the Building.
13. Except with the prior written consent of the Landlord, no tenant shall use or engage any person or persons other than the janitor or janitorial contractor of the Landlord for the purpose of any cleaning of the Leased Premises.
14. If the Tenant desires any electrical or communications wiring, the Landlord reserves the right to direct qualified persons as to where and how the wires are to be introduced, and without such directions no borings or cutting for wires shall take place. No other wires or pipes of any kind shall be introduced without the prior consent of the Landlord.
15. The Tenant shall not place or cause to be placed any additional locks upon doors of the Leased Premises without the reasonable approval of the Landlord and subject to any conditions imposed by the Landlord. Additional access cards, codes or keys may be obtained from the Landlord at the cost of the Tenant. All interior locks are the sole responsibility of Tenant.
16. The Tenant shall be entitled to have its name shown upon the directory board of the building and at one of the entrance doors to the Leased Premises, all at the Tenant's expense, but the Landlord shall in its sole discretion design the style of such identification and allocate the space on the directory board for the Tenant.
17. The Tenant shall keep the sun drapes (if any) in a closed position at all times. The Tenant shall not interfere with or obstruct any perimeter heating, air-conditioning or ventilating units.
18. The Tenant shall not conduct, and shall not permit any, canvassing in the Building.
19. The Tenant shall take care of the rugs and drapes (if any) in the Leased Premises and shall arrange for the carrying-out of regular spot cleaning and shampooing of carpets and dry cleaning of drapes in a manner acceptable to the Landlord.
20. The Tenant shall permit the periodic closing of lanes, driveways and passages for the purposes of preserving the Landlord's rights over such lanes, driveways and passages.
21. The Tenant shall not place or permit to be placed any sign, advertisement, notice or other display on any part of the exterior of the Leased Premises or elsewhere if such sign, advertisement, notice or other display is visible from outside the Leased Premises without the prior written consent of the Landlord which may be arbitrarily withheld. The Tenant, upon request of the Landlord, shall immediately remove any sign, advertisement, notice or other display which the Tenant has placed or permitted to be placed which, in the opinion of the Landlord, is objectionable, and if the Tenant shall fail to do so, the Landlord may remove the same at the expense of the Tenant.
22. The Landlord shall have the right to make such other and further reasonable rules and regulations and to alter the same as in its judgment from time to time be needful for the safety, care, cleanliness and appearance of the Leased Premises and the Building and for the preservation of good order therein, and the same shall be kept and observed by the tenants, their employees and servants. The Landlord also has the right to suspend or cancel any or all of these rules and regulations herein set out.
23. Move-In-Move-Out Hours: After 5:00 p.m. M-F, anytime Saturday and Sunday. Contact Property Manager 48 hours in advance to schedule move-in or move-out. In the event Tenant does not abide by such rule, Tenant shall be assessed a penalty fee at the sole discretion of the Landlord. Tenant is required to provide Landlord with the certificate of insurance of the moving company for \$1 million dollars listing Landlord and Cushman & Wakefield U.S., Inc. as additional insured. Elevator pads required. Masonite required on floors for moving. All damage to property during moving process is the responsibility of the Tenant. Tenant must receive elevator keys and instructions prior to move-in date. To the extent that the rules and regulations conflict with the terms of the Lease, the Lease shall control in all respects.

SCHEDULE "F"
LEASEHOLD IMPROVEMENTS

**Definition of
Leasehold Improvements**

1. For the purposes of this Lease, the Term "Leasehold Improvements" includes, without limitation, all fixtures, improvements, installations, alterations and additions from time to time made, erected or installed by or on behalf of the Tenant, or any previous occupant of the Leased Premises in the Leased Premises, and by or on behalf of other tenants in other premises in the Building (including the Landlord if an occupant of the Building), including all partitions, doors and hardware however affixed, and whether or not movable, all mechanical, electrical and utility installations and all carpeting and drapes with the exception only of furniture and equipment not of the nature of fixtures.

**Installation of Improvements &
Fixtures**

2. Prior to the commencement of the Lease, Landlord shall include in the Leased Premises the "Landlord's Work" (as hereinafter defined). The Tenant shall not make, erect, install or alter any Leasehold Improvements in the Leased Premises without having requested and obtained the Landlord's prior written approval, which shall not be unreasonably withheld, conditioned or delayed. The Landlord's approval shall not, if given, under any circumstances, be construed as a consent to the Landlord having its estate charged with the cost of work. The Landlord shall not unreasonably withhold its approval to any such request, but failure to comply with Landlord's reasonable requirements from time to time for the Building shall be considered sufficient reason for refusal. In making, erecting, installing or altering any Leasehold Improvements the Tenant shall not, without the prior written approval of the Landlord, alter or interfere with any installations which have been made by the Landlord or others and in no event shall alter or interfere with window coverings (if any) or other light control devices (if any) installed in the Building. The Tenant's request for any approval hereunder shall be in writing and accompanied by an adequate description of the contemplated work and, where appropriate, working drawings and specifications thereof. If the Tenant requires from the Landlord drawings or specifications of the Building in connection with Leasehold Improvements, the Tenant shall pay the actual cost thereof to the Landlord on demand. Any reasonable costs and expenses incurred by the Landlord in connection with the Tenant's Leasehold Improvements shall be paid by the Tenant to the Landlord upon thirty (30) days of demand. All work to be performed in the Leased Premises shall be performed by competent contractors and sub-contractors of whom the Landlord shall have approved in writing prior to commencement of any work, such approval not to be unreasonably withheld (except that the Landlord may require that the Landlord's contractors and sub-contractors be engaged for any mechanical or electrical work) and by workmen who have labor union affiliations that are compatible with these affiliations (if any) or workmen employed by the Landlord and its contractors and sub-contractors. All such work including the delivery, storage and removal of materials shall be subject to reasonable supervision of the Landlord, shall be performed in accordance with any reasonable conditions or regulations imposed by the Landlord including, without limitation, payment on demand of a reasonable fee of the Landlord for such supervision (up to a maximum of 3% of the hard costs of such Leasehold Improvements), and shall be completed in good and workmanlike manner in accordance with the description of the work approved by the Landlord and in accordance with all laws, regulations and by-laws of all regulatory authorities. All improvements constructed by Tenant shall, at the discretion of Landlord by written notice to Tenant at the time Landlord approves any such improvements, either remain the property of Landlord at the end of the Lease Term be removed by Tenant and the Leased Premises restored to its original configuration at Tenant's sole cost upon Tenant vacating the Leased Premises. Copies of required building permits or authorizations shall be obtained by the Tenant at its expense and copies shall be provided to the Landlord. No locks shall be installed on the entrance doors or in any doors in the Leased Premises that are not keyed to the Building master key system.

**Liens & Encumbrances on
Improvements & Fixtures**

3. In connection with the making, erection, installation or alteration of Improvements and all other work or installations made by or for the Tenant in the Leased Premises the Tenant shall comply with all the provisions of the mechanics' lien and other similar statutes from time to time applicable thereto (including any provision requiring or enabling the retention by way of holdback of portions of any sums payable) and, except as to any such holdback, shall promptly pay all accounts relating thereto. Landlord hereby waives any lien rights which it may otherwise have concerning Tenant's personal property, which shall include furniture, equipment, and/or supplies utilized by Tenant in its business operations, and Tenant shall have the right to remove the same at any time without Landlord's consent. The Tenant will not create any mortgage, conventional sale agreement or the encumbrance in respect of its Leasehold Improvements or, without the written consent of the Landlord, with respect to its trade fixtures nor shall the Tenant take any action as a consequence of which any such mortgage, conditional sale agreement or other encumbrance would attach to the Property or any part thereof. If and whenever any mechanics' or other lien for work, labor, services or materials supplied to or for the Tenant or for the cost of which the Tenant may be in any way liable or claims therefore shall arise or be filed or any such mortgage, conditional sale agreement or other encumbrance shall attach, the Tenant shall within twenty (20) days after submission by the Landlord of notice thereof procure the discharge thereof, including any certification of action registered in respect of any lien, by payment of giving security or in such other manner as may be required or permitted by law, and failing which the Landlord may avail itself of any of its remedies hereunder for Default to the Tenant and may make any payments or take steps or proceedings required to procure the discharge of any such liens.

4. Right to Install Supplemental HVAC. Tenant may install on the roof in a location reasonably acceptable to Landlord, and Tenant's sole cost and expense, fans and supplemental heating, ventilation and air-conditioning as necessary for the operation of Tenant's business within the Leased Premises, including any wiring and conduit necessary to connect the rooftop equipment to the Leased Premises (collectively, the "Supplemental HVAC"). Tenant shall be responsible, at Tenant's cost, to maintain and operate any such Supplemental HVAC installed at the Building. Such Supplemental HVAC shall exclusively serve the Leased Premises. Upon the termination or expiration of this Lease, and notwithstanding any other provision of this Lease to the contrary, Landlord shall have the option to require the Supplemental HVAC to remain in the Leased Premises/Building or to have Tenant remove the Supplemental HVAC and restore the Leased Premises and Building to their original condition, at Tenant's sole cost and expense.

SCHEDULE "G"
BASIC RENT

<u>Months</u>	<u>Monthly Basic Rent</u>
10/01/2021 to 2/28/2022	\$0.00
03/01/2022 to 09/30/2022	\$33,712.50
10/01/2022 to 09/30/2023	\$34,723.88
10/01/2023 to 09/30/2024	\$35,765.59
10/01/2024 to 09/30/2025	\$36,838.56
10/01/2025 to 09/30/2026	\$37,943.72
10/01/2026 to 02/28/2027	\$39,082.03

SCHEDULE "H"
TENANT IMPROVEMENTS

1. Landlord shall complete all initial improvements to the Leased Premises and shall deliver the Leased Premises with new building standard carpet and building standard paint in the configuration shown on the attached Schedule "H-1" and ready for occupancy and in compliance with all applicable laws. The floor plan, scope of work and construction details for the initial improvements to the Leased Premises (including the specific colors Landlord will use in the Leased Premises that Landlord has previously approved) shall be subject to Tenant's reasonable approval.
2. Landlord shall provide Tenant with an allowance not to exceed the amount of \$348,750.00 (the "Allowance") to be applied to the cost of Landlord's construction Landlord's Work.
3. The construction, installation and other work to be completed by Landlord pursuant to this Schedule "H" shall be referred to as "Landlord's Work."
4. Prior to commencing any work, Landlord shall submit a proposed budget to Tenant for the anticipated cost of Landlord's Work and Tenant shall have the right to approve the proposed budget (after approval, referred to as the "Approved Budget"). In the event the cost for Landlord's Work exceeds the Allowance, Landlord will invoice Tenant for the excess, with the amount due within fifteen (15) business days. In the event Landlord anticipates the cost of Landlord's Work to exceed the Allowance or the Approved Budget (as applicable), Landlord shall immediately notify Tenant and shall, at Tenant's election, cooperate with Tenant to make adjustments to the floor plan, scope of work and/or construction details to complete the Landlord's Work within the amount of the Allowance or the Approved Budget (as applicable).
5. In the event Landlord permits Tenant to enter into the Leased Premises prior to the completion of Landlord's Work, the Tenant and its contractors shall not interfere with the Landlord's Work. Notwithstanding anything in the Lease to the contrary, there shall be no delay in the commencement of the Term due to delays caused by Tenant's interference with Landlord's Work.
6. Notwithstanding the foregoing, Landlord makes no warranty regarding the existing telecommunication equipment in the Leased Premises and shall have no obligation to upgrade, install, or demolish any such telecommunication equipment.
7. Except as set forth herein, Tenant acknowledges that Landlord has made no representation and has given no warranty to Tenant regarding the fitness of the Leased Premises for Tenant's intended use. Subject to the completion of Landlord's Work, Tenant takes the Leased Premises in an "as is" condition with regard to all applicable zoning, parking, use and any other relevant ordinances, regulations or laws, and Tenant is solely responsible for investigating and determining whether its proposed use is appropriate for the Leased Premises.

/s/ Alan Stewart

Tenant

/s/ Kimberly Hartz

Landlord

SCHEDULE "H-1"
LANDLORD'S WORK

- (1) Confirm or add power drops for all cable/phone outlets.
- (2) Change out all lighting with contemporary fixture solution.
- (3) New paint and floor coverings. Use big standard samples for #2 & #3.

In general thought out.

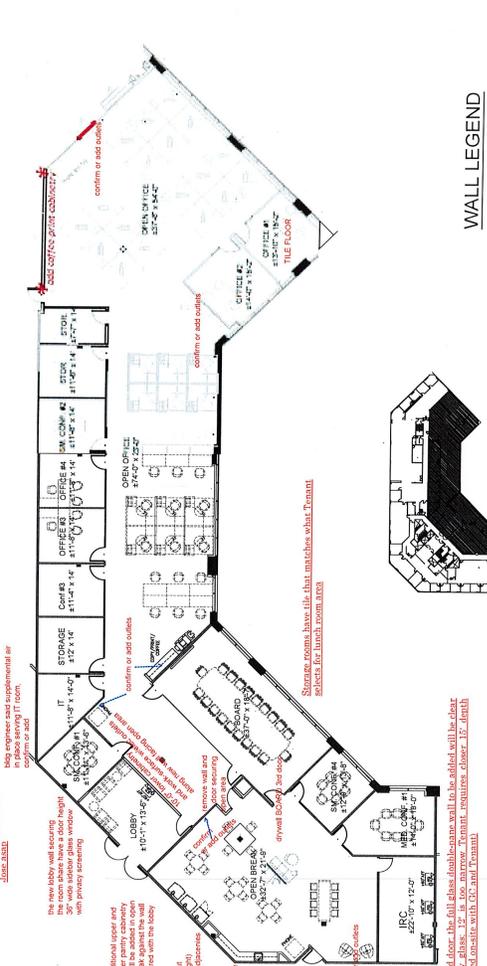
IT room adjacent to floor 3000. Confirm with IT room. Key engineer assess supplemental air in place serving IT room.

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Additional upper and lower doors shall be added to open up the lobby area. Confirm with the lobby.

Use old columns where possible but all new frangibles/bone doors shall have supplemental air provided for the new glass partitions.

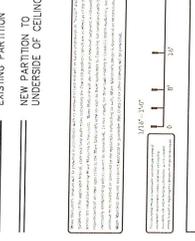
IRC max remains second floor, the full glass double pane wall to be added will be clear not tinted and no bronze glass. If it is too narrow, Transm. requires clear. IRC finish translucent translucent finished ceiling with 60 and Transm.

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Storage rooms have the flat matches what Transm. select for lunch room area.

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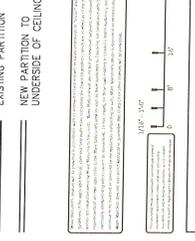
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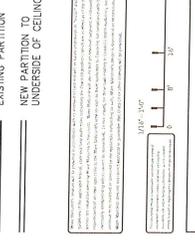
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39000 CIVIC CENTER DRIVE, FREEMONT, CA
540234005000
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Private Offices: 4
Workstations (less 3+ days) 6x6: 30
Benching (less < 3 days) 5x5: 12
Board Conf Room: 1
Meeting Room: 1
Conference Room: 4
Phone Booth (SST) puts in: 4
Soft Mtg space (SST) puts in: XYZ

Private Offices: 4
Workstations (less 3+ days) 6x6: 30
Benching (less < 3 days) 5x5: 12
Board Conf Room: 1
Meeting Room: 1
Conference Room: 4
Phone Booth (SST) puts in: 4
Soft Mtg space (SST) puts in: XYZ

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SCHEDULE "I"
PARKING

Grant of Parking Rights

1. So long as this Lease is in effect and provided Tenant is not in Default hereunder, Landlord grants to Tenant and Tenant's Authorized Users a license to use forty-one (41) unreserved parking spaces at no cost for the entire term (including any extension terms) of the Lease.

As consideration for the use of such parking spaces, Tenant agrees to pay to Landlord or, at Landlord's election, directly to Landlord's parking operator, as Additional Rent under this Lease, the parking rate set forth of \$0.00 for the entire term (including any extension terms) of the Lease. Tenant agrees that all parking charges will be payable on a monthly basis concurrently with each monthly payment of Monthly Base Rent. Tenant agrees to submit to Landlord or, at Landlord's election, directly to Landlord's parking operator with a copy to Landlord, written notice in a form reasonably specified by Landlord containing the names and telephone numbers of those persons who are authorized by Tenant to use Tenant's parking spaces on a monthly basis ("Tenant's Authorized Users") and shall use its best efforts to identify each vehicle of Tenant's Authorized Users by make, model and license number. Tenant agrees to deliver such notice prior to the beginning of the Term of this Lease and to periodically update such notice as well as upon specific request by Landlord or Landlord's parking operator to reflect changes to Tenant's Authorized Users of their vehicles.

Visitor Parking

2. So long as this Lease is in effect, Tenant's visitors and guests will be entitled to use those specific parking areas which are designated for short term visitor parking and which are located within the surface parking area(s), if any, and/or within the parking structure(s) which serve the Building. Visitor parking will be made available at a charge to Tenant's visitors and guests, with the rate being established by Landlord in its discretion from time to time. Tenant, at its sole cost and expense, may elect to validate such parking for its visitors and guests. All such visitor parking will be on a non-exclusive, in common basis with all other visitors and guests of the Project.

Use of Parking Spaces

3. Tenant will not use or allow any of Tenant's Authorized Users to use any parking spaces which have been specifically assigned by Landlord to other tenants or occupants or for other uses such as visitor parking or which have been designated by any governmental entity as being restricted to certain uses. Tenant will not be entitled to increase or reduce its parking privileges applicable to the Leased Premises during the Term of the Lease except as follows: If at any time Tenant desires to increase or reduce the number of parking spaces allocated to it under the terms of this Lease, Tenant must notify Landlord in writing of such desire and Landlord will have the right, in its sole and absolute discretion, to either (a) approve such requested increase in the number of parking spaces allocated to Tenant (with an appropriate increase to the Additional Rent payable to Tenant for such additional spaces based on the then prevailing parking rates), (b) approve such requested decrease in the number of parking spaces allocated to Tenant (with an appropriate reduction in the Additional Rent payable by Tenant for such eliminated parking spaces based on the then prevailing parking rates), or (c) disapprove such requested increase or decrease in the number of parking spaces allocated to Tenant. Promptly following receipt of Tenant's written request, Landlord will provide Tenant with written notice of its decision including a statement of any adjustments to the Additional Rent payable by Tenant for parking under Lease, if applicable. No parking stalls will be allocated to Tenant with respect to any space leased by Tenant under the Lease which consists of less than the full incremental amounts of rentable square footage, if any, required for parking stalls.

General Provisions

4. Landlord reserves the right to set and increase monthly fees and/or daily and hourly rates for parking privileges from time to time during the Term of the Lease, provided that Tenant shall have the use of the unreserved parking spaces described above without additional cost. Subject to the rights granted to Tenant under this Schedule, Landlord may assign any unreserved and unassigned parking spaces and/or make all or any portion of such spaces reserved, if Landlord reasonably determines that it is necessary for orderly and efficient parking or for any other reasonable reason. Failure to pay the rent for any particular parking may be treated by Landlord as a default under this Lease and, in addition to all other remedies available to Landlord under the Lease, at law or in equity, Landlord may elect to recapture such parking spaces for the balance of the Term of this Lease if Tenant does not cure such failure within the applicable period.

In such event, Tenant and Tenant's Authorized Users will be deemed visitors for purposes of parking space use and will be entitled to use only those parking areas specifically designated for visitors parking subject to all provisions of this Lease applicable to such visitor parking use. Tenant's parking rights and privileges described herein are personal to Tenant and may not be assigned or transferred, or otherwise conveyed, without Landlord's prior written consent, which consent Landlord may withhold in its sole and absolute discretion, except pursuant to a Permitted Transfer. In any event, under no circumstances may Tenant's parking rights and privileges be transferred, assigned or otherwise conveyed separate and apart from Tenant's interest in this Lease.

Cooperation with Traffic Mitigation Measures

5. Tenant agrees to use its reasonable, good faith efforts to cooperate in commercially reasonable traffic mitigation programs which may be undertaken by Landlord independently, or in cooperation with local municipalities or governmental agencies or other property owners in the vicinity of the Building. Such programs may include, but will not be limited to, carpools, vanpools and other ridesharing programs, public and private transit, flexible work hours, preferential assigned parking programs and programs to coordinate tenants within the Project with existing or proposed traffic mitigation programs.

Parking Rules and Regulations

6. The following rules and regulations govern the use of the parking facilities which serve the Building. Tenant will be bound by such rules and regulations and agrees to cause its employees, subtenants, assignees, contractors, suppliers, customers and invitees to observe the same:

(a) Tenant will not permit or allow any vehicles that belong to or are controlled by Tenant or Tenant's employees, subtenants, customers or invitees to be loaded, unloaded or parking or parked in areas other than those designated by Landlord for such activities. No vehicles are to be left in the parking areas overnight (unless Landlord is notified by Tenant and provided Landlord consents, such consent not to be unreasonably withheld, conditioned or delayed, and the Tenant and vehicle owner assumes the risk when leaving such vehicles in the parking areas overnight and shall hold Landlord and its owners, employees, and agents harmless from any and all liability with respect to such vehicles) and no vehicles are to be parked in the parking areas other than normally sized passenger automobiles, motorcycles and pick-up trucks. No extended term storage of vehicles is permitted.

(b) Vehicles must be parked entirely within painted stall lines of a single parking stall.

(c) All directional signs and arrows must be observed.

(d) The speed limit within all parking areas shall be five (5) miles per hour.

- (e) Parking is prohibited: in areas not striped for parking; in aisles or on ramps; where "NO PARKING" signs are posted; in cross-hatched areas; and in such other areas as may be designated from time to time by Landlord or Landlord's parking operator.
- (f) Landlord reserves the right, without cost or liability to Landlord, to tow any vehicle if such vehicle's audio theft alarm system remains engaged for an unreasonable period of time.
- (g) Washing, waxing, cleaning, or servicing of any vehicle in any area not specifically reserved for such purpose is prohibited.
- (h) Landlord may refuse to permit any person to park in the parking facilities who violates these rules with unreasonable frequency, and any violation of these rules shall subject the violator's car to removal, at such owner's expense. Tenant agrees to use its best efforts to acquaint its employees, subtenants, assignees, contractors, suppliers, customers and invitees with these parking provisions, rules and regulations.
- (i) Parking stickers, access cards, or any other device or form of identification supplied by Landlord as a condition of use of the parking facilities shall remain the property of Landlord and shall be provided to Tenant at no additional cost, except that Landlord shall be entitled to charge a reasonable fee for replacing any lost parking stickers, access cards, or other identification. Parking identification devices, if utilized by Landlord, must be displayed as requested and may not be mutilated in any manner. The serial number of the parking identification device may not be obliterated. Parking Identification devices, if any, are not transferable and any device in the possession of an unauthorized holder will be void. Landlord reserves the right to refuse the sale of monthly stickers or other parking identification devices to any of Tenant's agents, employees or representatives who willfully refuse to comply with these rules and regulations and all unpasted city, state, or federal ordinances, laws or agreements.
- (j) Loss or theft of parking identification devices or access cards must be reported to the management office in the Project immediately, and a lost or stolen report must be filed by the Tenant or user of such parking identification device or access card at the time. Landlord has the right to exclude any vehicle from the parking facilities that does not have a parking identification device or valid access card. Any parking identification device or access card which is reported lost or stolen and which is subsequently found in the possession of an unauthorized person will be confiscated and the illegal holder will be subject to prosecution.
- (k) All damage or loss claimed to be the responsibility of Landlord must be reported, itemized in writing and delivered to the management office located within the Project within ten (10) business days after any claimed damage or loss occurs. Any claim not so made is waived. Landlord is not responsible for damage by water or fire, or for the acts or omissions of others, or for articles left in vehicles. In any event, the total liability of Landlord, if any, is limited to Two Hundred Fifty Dollars (\$250.00) for all damages or loss to any car. Landlord is not responsible for loss of use.
- (l) The parking operators, managers or attendants are not authorized to make or allow any exceptions to these rules and regulations, without the express written consent of Landlord. Any exceptions to these rules and regulations made by the parking operators, managers or attendants without the express written consent of Landlord will not be deemed to have been approved by Landlord.
- (m) Landlord reserves the right, without cost or liability to Landlord, to tow any vehicles which are used or parked in violation of these rules and regulations.

(n) Landlord reserves the right from time to time to modify and/or adopt such other reasonable and non-discriminatory rules and regulations for the parking facilities as it deems reasonably necessary for the operation of the parking facilities.

SCHEDULE "J"

LEASE GUARANTY

Not applicable.

SCHEDULE "K"
TENANT INFORMATION SHEET

Company Name: Shotspotter, Inc.

Type of Business: Software

Number of Employees: 170

Property Address:

Suite Number:

City, State, Zip:

Business Phone:

Business Fax:

Main Contact: Alan Stewart/Laura Golden

Accounting Contact: Alan Stewart

Emergency After-Hours Name: Laura Golden

Emergency After-Hours Address:

Emergency After-Hours Phone:

Alarm System: Yes No

*Please supply Washington Township Health Care District with own code.

SCHEDULE "L"
SIGNAGE AGREEMENT

Not applicable.

SCHEDULE "M"
LICENSE FOR ANTENNA SITE

Not applicable.

SCHEDULE "N"
ADDENDUM TO LEASE

Not applicable.

SCHEDULE "O"
TENANT SIGNAGE FORMS

Not applicable.

SIGNAGE "P"
OPTION(S) TO RENEW

1. Option(s) to Renew. Tenant shall have the right, to be exercised as hereinafter provided, to extend the term of this Lease ("Renewal Option") for up to one (1) period(s) of sixty (60) months (the "Renewal Term") upon the following terms and conditions and subject to the limitations set forth below.

2. No Event of Default. At the respective times hereinafter set forth for the exercise of each Renewal Option and at the time of the commencement of each Renewal Term, as a condition to Tenant's exercise of the applicable Renewal Option, this Lease shall be in full force and effect and there shall be no uncured Default under this Lease, but Landlord shall have the right, at its sole discretion, to waive any such condition regarding a Default.

3. Fair Market Rent.

a. The Leased Premises shall be leased to Tenant on an "as is" basis on the same terms, covenants and conditions contained in this Lease, except that the Basic Rent for the Leased Premises for the first year of the Renewal Term shall be adjusted to be the greater of the Basic Rent for in effect on the last day of the expiring term or the fair market rent as reasonably determined herein. Basic Rent for the Renewal Term shall increase by three percent (3%) on each anniversary of the commencement of the applicable Renewal Term.

b. The term "fair market rent" shall mean, with respect to the Leased Premises, rent for premises comparable in size, quality and location and comparably fitted up, and for a term comparable to the term such space would be leased to Tenant during such Renewal Term.

c. Landlord and Tenant shall begin to negotiate the fair market rent for the Renewal Term one (1) year prior to the commencement of the Renewal Term. If the Landlord and Tenant cannot agree upon a rate within thirty (30) days thereafter (the "Renewal Rent Determination Period"), then Tenant may elect one of the following two options: (i) not to exercise the Renewal Option; or (ii) exercise the Renewal Option and refer the matter to resolution by arbitration according to the process described in subsection (d) below. If Tenant fails to elect one of the two options above in writing by the 5:00 p.m. on the last date of the Renewal Rent Determination Period, Tenant shall be conclusively determined to have elected not to exercise the Renewal Option.

d. In the event the Tenant elects option (ii) pursuant to subsection (c) above, then within five (5) days of the end of the Renewal Rent Determination Period, each party shall deliver to the other party a notice specifying the name, address, and professional qualifications of the person designated to act as arbitrator on its behalf. The two (2) arbitrators so selected shall select a third arbitrator no later than ten (10) days after the Renewal Rent Determination Period. If the party receiving a request for arbitration fails to appoint its arbitrator within the time above specified, or if the two (2) arbitrators so selected cannot agree on the selection of the third arbitrator within the time above specified, then either party, on behalf of both parties, may request such appointment of such second or third arbitrator, as the case may be, by application to any Judge of the District Court of the County of Alameda, State of California. The decision of the arbitrators so chosen shall be given within a period of fifteen (15) days after the appointment of such third arbitrator. No discovery shall be permitted in the arbitration except that all parties shall make available to the arbitrators such information as may be reasonably requested by such arbitrators. Acting independently of each other and without consultation with each other, each of said three arbitrators, within fifteen (15) days after appointment of the third arbitrator, and his or her acceptance of such appointment, shall make their appraisal and submit to Landlord and Tenant a written report and appraisal setting forth the appraiser's opinion as to the fair market rent of the Leased Premises. The two appraisals of all of the appraisals reported by the three appraisers that are closest in amount shall be averaged (or if the appraisal is less than one of the other appraisals and more than the other appraisal by the same amount, all three appraisals shall be averaged). Such averaged amount shall be the fair market rent. All arbitrators appointed by or on behalf of either party or appointed by the Presiding Judge of the Superior Court of Alameda County shall be in all respects impartial and disinterested.

e. Each party shall pay the fees and expenses of the arbitrator appointed by or on behalf of such party and the fees and expenses of the third arbitrator shall be borne equally by both parties. Landlord and Tenant shall then execute an amendment recognizing the fair market rent for the Renewal Term.

f. All arbitrators appointed by or on behalf of either party or appointed pursuant to the provisions hereof shall be real estate appraisers or brokers with not less than three (3) years of experience in the appraisal of improved commercial real estate in or around Fremont, California. Landlord and Tenant may select as their arbitrators a current broker of record, provided such broker satisfies the experience requirement described in this paragraph. The third arbitrator must be in all respects impartial and disinterested.

4. Exercise of Options. Tenant shall exercise its right to extend the Term of this Lease for any Renewal Term set forth in this Schedule "P", if at all, by notifying Landlord, in writing, of its election to exercise the right to renew and extend the term of this Lease not less than twelve (12) months and not more than fifteen (15) months prior to the expiration of the initial Term or applicable Renewal Term.

CERTIFICATION OF PERIODIC REPORT UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Ralph A. Clark, certify that:

1. I have reviewed this Form 10-Q of ShotSpotter, Inc.;
 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
 4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
 5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.
-

November 12, 2021

/s/ Ralph A. Clark

Ralph A. Clark

President and Chief Executive Officer

(Principal Executive Officer)

CERTIFICATION OF PERIODIC REPORT UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Alan R. Stewart, certify that:

1. I have reviewed this Form 10-Q of ShotSpotter, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 12, 2021

/s/ Alan R. Stewart

Alan R. Stewart

Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the “Exchange Act”) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), I, Ralph A. Clark, President and Chief Executive Officer of ShotSpotter, Inc. (the “Company”), and Alan R. Stewart, Chief Financial Officer of the Company, each hereby certifies, to the best of his knowledge:

- (1) The Company’s Quarterly Report on Form 10-Q for the period ended September 30, 2021 to which this Certification is attached as Exhibit 32.1 (the “Periodic Report”), fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and
- (2) The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 12, 2021

/s/ Ralph A. Clark

Ralph A. Clark
President and Chief Executive Officer

/s/ Alan R. Stewart

Alan R. Stewart
Chief Financial Officer
