

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 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, \$0.005 par value per share	SSTI	Nasdaq Capital Market

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

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES NO

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, based on a closing price of \$48.77 per share of the Registrant's common stock as reported on the Nasdaq Capital Market on June 30, 2021 was \$561,021,062

The number of shares of Registrant's common stock outstanding as of March 23, 2022 was 12,141,632

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Definitive Proxy Statement relating to the Annual Meeting of Stockholders, scheduled to be held on June 22, 2022, are incorporated by reference into Part III of this Report. Such Proxy Statement will be filed with the Securities and Exchange Commission no later than 120 days following the end of the Registrant's fiscal year ended December 31, 2021.

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SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements that involve substantial risks and uncertainties. The forward-looking statements are contained principally in the sections of this Annual Report on Form 10-K entitled “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business,” but are also contained elsewhere in this Annual Report on Form 10-K. Often, you can identify forward-looking statements by the words “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “might,” “objective,” “ongoing,” “plan,” “predict,” “project,” “potential,” “should,” “will,” or “would,” or the negative of these terms, or other comparable terminology intended to identify statements about the future. Forward-looking statements include statements about:

- our ability to continue to increase revenues, secure customer renewals and expand coverage areas of existing public safety customers;
- our ability to continue to add new customers for our public safety and security solutions;
- our ability to grow both domestically and internationally;
- our ability to effectively manage or sustain our growth;
- our ability to maintain, increase or strengthen awareness of our solutions;
- our ability to achieve and maintain service level agreement standards in our customer contracts;
- our ability to increase revenues, which has been impacted by supply chain disruptions and delays;
- future revenues, hiring plans, expenses, capital expenditures, capital requirements and stock performance;
- our ability to service outstanding debt, if any, and satisfy covenants associated with outstanding debt facilities;
- our ability to attract and retain qualified employees and key personnel and further expand our overall headcount;
- our ability to comply with new or modified laws and regulations that currently apply or become applicable to our business both in the United States and internationally; and
- our ability to maintain, protect and enhance our intellectual property.

We caution you that the foregoing list may not contain all of the forward-looking statements made in this Annual Report on Form 10-K.

These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from the information expressed or implied by these forward-looking statements. Although we believe that we have a reasonable basis for each forward-looking statement contained in this Annual Report on Form 10-K, we caution you that these statements are based on a combination of facts and factors currently known by us and our expectations of the future, about which we cannot be certain. You should refer to the “Risk Factors” section of this Annual Report on Form 10-K for a discussion of important factors that may cause our actual results to differ materially from those expressed or implied by our forward-looking statements. As a result of these factors, we cannot assure you that the forward-looking statements in this Annual Report on Form 10-K will prove to be accurate. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. You should read this Annual Report on Form 10-K and the documents that we reference in this Annual Report on Form 10-K completely and with the understanding that our actual future results may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements.

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.
- 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 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.
- 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 recently 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.
- 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.
- 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.

•Systems and Organizations Controls 2 ("SOC2") and Criminal Justice Information Services ("CJIS") requirements could potentially cause obligations that we are not able to completely perform which could adversely affect our reputation and sales, as well as the availability of our solutions in certain markets.

Item 1. BUSINESS

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 gunshot detection solutions are trusted by law enforcement agencies in over 125 cities as of December 31, 2021. Our patrol management software, ShotSpotter Connect, uses artificial intelligence-driven analysis to help strategically plan directed patrols and have consistent use of tactics to deter a broad set of crime types. Our security solutions, ShotSpotter SecureCampus, and ShotSpotter SiteSecure, are designed to help law enforcement and security personnel serving universities, corporate campuses, big-box retail, malls and key infrastructure or transportation centers mitigate risk and enhance security by notifying authorities of potential outdoor gunfire incidents, 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. In 2019, we created a new technology innovation unit, ShotSpotter Labs, to expand our efforts supporting innovative uses of our technology to help protect wildlife and the environment.

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 December 31, 2021, ShotSpotter Respond, ShotSpotter SecureCampus and ShotSpotter SiteSecure had coverage areas under contract for 911 square miles, of which 881 square miles had gone live. Coverage areas under contract included over 125 cities and 14 campuses/sites across the United States, South Africa and the Bahamas, including three of the ten largest cities in the United States. Most of our revenues are attributable to customers based in the United States.

Since our founding 26 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.

Industry Background: The Public Safety Gap

Local police departments are challenged to serve and protect in an increasingly transparent fashion without unintentionally over-policing and under serving their communities. This mandate must be met while facing municipal budget pressures and community activist calls to defund the police while violent crime is on a measurable uptick and case closure rates are at all-time lows. There are three distinct problems associated with the public safety gap, which are discussed below.

The Violent Crime Problem

The majority of urban gunfire goes unreported. A 2016 report published by The Brookings Institute analyzing data collected from ShotSpotter Respond and our customers suggests that approximately 80% of the gunshots detected by our public safety solution are not reported to 911 by residents. Even in the instances when 911 calls are made, the information reported by the caller is often incomplete or inaccurate as to the time and location of the gunshot. Furthermore, in many cases it is often difficult for the caller to authenticate the incident as gunfire. In addition, we believe that in communities plagued by gun violence, there is often a lack of trust between the community's residents and its police force, which can exacerbate the underreporting of gunfire and create a vicious cycle of underreporting, lack of response and increased mistrust due to continued unaddressed gun violence in the community. When gunfire is not reported or is reported inaccurately, law enforcement and medical personnel cannot address injuries nor effectively investigate and solve related crimes or prevent future incidents.

The communities in which gun violence occurs suffer significant economic loss. A 2017 report by the Urban Institute, which studied the effect of gun violence in Minneapolis, Minnesota, Oakland, California and Washington, D.C., noted that the perceived risk of gun violence imposed heavy social, psychological and monetary damages in communities, including fewer jobs and lower economic vitality. The study concluded:

- In Minneapolis, each additional gun homicide in a given year was statistically correlated with 80 fewer jobs.
- In Oakland, every additional gun homicide in a given year was statistically associated with five fewer job opportunities in contracting businesses in the next year.
- In Washington, D.C., every additional gun homicide in a given year was statistically associated with two fewer retail and service establishments the next year.

In addition, several studies have suggested that property values are inversely correlated with violent crime. For example, the Center for American Progress conducted a study of changes in homicide incidents and housing prices in Boston, Seattle, Chicago, Philadelphia, and Milwaukee, and found that a reduction in a given year of one homicide in a ZIP code caused a 1.5% increase in housing values in that same ZIP code the following year.

Gut-based Patrolling Problem

Agencies face a resource deficit and need more efficient ways to patrol and prevent crime. Most departments use old patrolling methods that are non data-driven, have limited visibility to officer activity and no controls to reduce over-policing. We believe the category is ripe for AI-based automation for more efficient and effective patrolling done in a way that better engages the community and reduces crime.

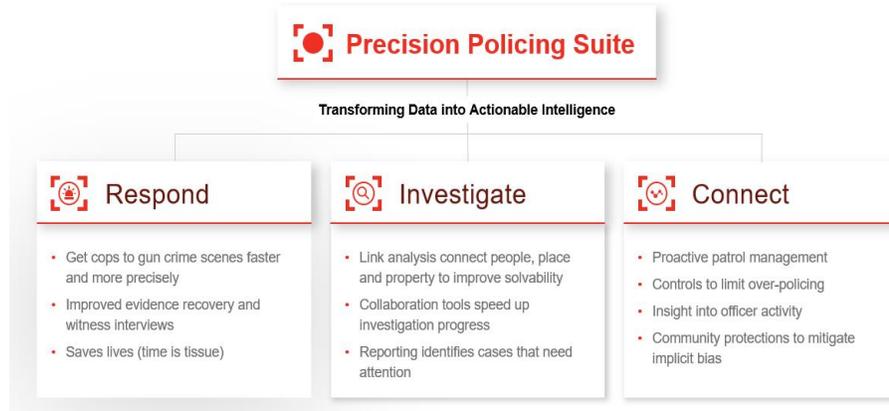
Low Case Closure/Victim Resolution Problem

According to a report published by Statista Research Group in 2020, homicide clearance rates in the United States averaged 61% in 2020. Too many suspects do not face the consequences and are free to commit additional crimes while victims and their families suffer without closure. Police use a mix of manual, homegrown and limited function record management system ('RMS') modules for case management. To solve cases, detectives must access multiple, siloed sources of data with limited automation tools for analytical support or collaboration. We believe investigative case management can significantly benefit from greater automation to improve clearance rates and solves cases faster.

Our Vision

We see a world where data is converted into actionable intelligence thereby enabling police departments to implement modern 21st century policing practices. These practices can help police be more efficient directing law enforcement interventions toward the few that commit crimes and more effective in building community trust and engagement while co-producing public safety outcomes. We believe the ShotSpotter Precision Policing Suite of

Solutions can be a valuable set of tools in implementing 21st century policing practices. Our solutions include ShotSpotter Respond, ShotSpotter Connect and ShotSpotter Investigate which launched in July 2021.



ShotSpotter Respond

ShotSpotter Respond, our acoustic gunshot detection technology offered as a public safety solution, serves cities and municipalities seeking to identify, locate and deter persistent, localized gun violence by incorporating a real-time gunshot detection system into their policing systems. ShotSpotter Respond is used by local police departments and a version of ShotSpotter Respond, branded as SiteSecure and SecureCampus is used by security personnel in the protection of critical assets such as colleges, universities and commercial campuses.

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 an impulsive sound is detected by our sensors, our system precisely locates where the incident occurred, and if it determines there is a possibility the sound was caused by gunfire, sends its data for 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 an internet-connected computer or 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 report of the gunfire incident.

Specialized Gunshot Detection Software

The heart of our gunshot detection solutions is our sophisticated and specialized software. Our software analyzes audio signals for potential gunshots detected by our intelligent sensors. Our sensor filters out ambient background noise, such as traffic or wind, and looks for impulsive sounds characteristic of gunfire. If the sensor detects such an impulse, it extracts pulse features of the soundwave, such as sharpness, strength, duration, rise time and decay time.

Then, the sensor sends these features to our cloud servers as part of a data packet that includes the location coordinates of the reporting sensor and the precise time of arrival and angle of arrival of the sound.

When the data reaches our cloud servers, our software assesses whether three or more of our outdoor sensors detected the same sound impulse and, if so, finds the location coordinates of the sound source based on the time of arrival and the angle of arrival of the sound using the technique of multilateration. The accuracy of the coordinates derived from our proprietary software is significantly improved when, as is typically the case, more than three sensors participate. We deploy our sensor arrays such that, on average, six to eight sensors participate in the detection of a gunshot.

After the software determines the location of the sound source, our machine classifier algorithms analyze the pulse features to filter out sounds that are unlikely to be gunfire. Our algorithms consider pulse features, the distance from the sound source, pattern matching and other heuristic methods to evaluate and classify the sound. The machine classifier algorithm is periodically trained and validated against our large database of known gunfire and other community sounds that are impulsive in nature. We continue to add new data to our machine learning database from the incidents reviewed by our incident review specialists in our IRC process. Incidents that are determined by the machine classifier algorithms to be obviously non-gunfire are filtered out and not presented for human classification.

All incidents not filtered by our machine classifier algorithms are sent to the incident review specialists in our IRC for analysis and human classification. Along with confirming an incident is potentially gunfire, our incident review specialists also annotate the alerts with additional information that may be helpful to first responders, such as the possibility of multiple shooters or use of a high-capacity or fully automatic weapon. Incident notifications are sent when the incident is confirmed as gunfire by one of our incident review specialists. Alerts are delivered using push notifications to our mobile, desktop or browser applications, email, or SMS text messages. The time from a report of an outdoor trigger-pull to a notification being sent to our customers is typically 45 seconds or less.



Intelligent and Ruggedized Sensors

Our rugged gunshot detection sensor is an intelligent, internet-enabled device that is specially built to ignore ambient noise and respond to impulsive sounds, accurately time-stamping their arrival times. Advanced digital signal processing algorithms filter out background sounds such as traffic, and extract pulse features from the audio signal

that, along with the time and angle of arrival of the sound, are sent to our servers where algorithms compute the location of the sound source.

The sensors do not have the ability to live stream audio. Sounds captured by the secure sensors are cached and permanently deleted within 30 hours. When a sensor is triggered by an impulsive sound, the “incident” that is created includes a recording including no more than one second before the incident and one second after the incident. This audio snippet is preserved indefinitely for potential evidentiary use.

Our sensors are designed and tested against international standards for installation in unprotected outdoor environments. Special consideration is given to minimize the sound of wind, rain and hail, which could otherwise limit the range of detection and produce false results. Environmental condition tests performed on the sensors include temperature cycling, temperature soak, shock, vibration, and salt, fog and moisture ingress protection.

We typically design and deploy arrays of 20 to 25 sensors per square mile taking into consideration the unique acoustic environment in which we are deploying. The cumulative experience of deploying in various cities with different acoustic properties has provided a distinct advantage in tailoring our sensor arrays to perform at high levels. We have full telemetry to each sensor that provides detailed data to our system to monitor each sensor’s health and availability. Sensor firmware is maintained with over-the-air updates. Because we design our networks with a certain amount of redundancy to ensure durability, in our sensor arrays, multiple sensors can be offline at any given time without affecting the overall performance of the system.

Incident Review Center- Classification

Our IRC operates 24 hours a day, seven days a week, 365 days a year. When a loud impulsive sound triggers enough of our outdoor sensors that an incident is detected and located, audio from the incident is sent to our IRC via secure, high-speed network connections for real-time confirmation. Within seconds of an incident, one of our incident review specialists analyzes audio data and recordings of the potential gunfire. When gunfire is confirmed, our IRC team sends an alert directly to emergency dispatch centers and field personnel through a computer or mobile device with access to the Internet. This process typically takes less than 45 seconds from the report of the gunfire incident. Alerts include:

- the precise location of gunfire, including both latitude/longitude and approximate street address;
- the number and exact time of shots fired;
- if detectable, the involvement of multiple shooters; and
- if detectable, the use of fully automatic or high-capacity weapons.

Our IRC operates primarily out of our principal facilities in Newark, California and Washington, DC and receives audio from incidents detected by our outdoor sensors regardless of where such incidents occur. Although our IRC normally operates from our offices, our trained personnel can perform IRC functions from any location that has a high-speed internet connection. During the COVID-19 pandemic, which continues worldwide, IRC personnel have performed their job function from our IRC facilities and/or remote locations.

Gunshot Detection Alerts

Our alerts are delivered in the following forms:

Real-Time Alerts

Our IRC sends real-time notifications of outdoor gunfire incidents to the ShotSpotter Dispatch application, which is specifically designed for emergency communications centers, dispatch centers, and other public safety answering points.

The ShotSpotter Respond alert received by the ShotSpotter Dispatch application includes a unique identification number (Respond ID number), a precise time and date of the gunfire (trigger time), approximate street address of the gunfire, number of shots and police district and beat identification. One of our incident review specialists may add

other contextual information related to the incident such as the possibility of multiple shooters, or high-capacity or fully automatic weapons.

The 911 dispatcher may add their own notes relating to the incident in which case the notes are time- and date-stamped and indicate the operator’s identification. A comprehensive audit trail of all changes to the incident is maintained that includes the time the alert was received and acknowledged by the dispatcher. These data may be used to measure KPIs by dispatch personnel.

ShotSpotter Respond

We also offer a robust Respond application for use by patrol officers and security personnel that is available on iPhone or Android mobile devices and computers installed in patrol vehicles. This application allows field personnel to directly receive alerts of outdoor gunshots and related critical information. The alert includes a unique identification number (Respond ID number), a precise time and date of the gunfire (trigger time), nearest street address to the location of the gunfire, number of shots and police district and beat identification. One of our incident review specialists may add other contextual information related to the incident such as the possibility of multiple shooters, or high-capacity or fully automatic weapons. In addition, the dispatcher may add their own notes. The alert also includes an audio snippet of the incident.



Mobile Device Support-Apple iOS and Android-phones/tablets and watches

Related Applications and Services

ShotSpotter Insight

All historical incident data in our database can be viewed, searched, sorted, and filtered using our ShotSpotter Insight application. The Insight application can create an investigative lead summary report that describes the specifics of a single incident as reported by the IRC staff or a multiple incident report that lists groups of such incidents. Complex filters may be defined using multiple search criteria and the filters named and saved for recurring use. Incident data may be exported for use in third-party applications such as Excel, currently the tool of choice for police department crime analysts.

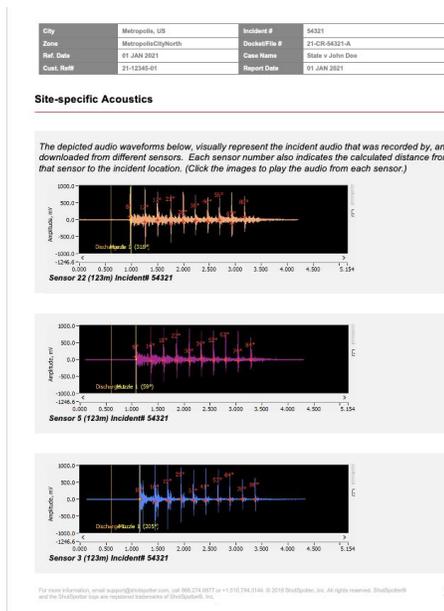
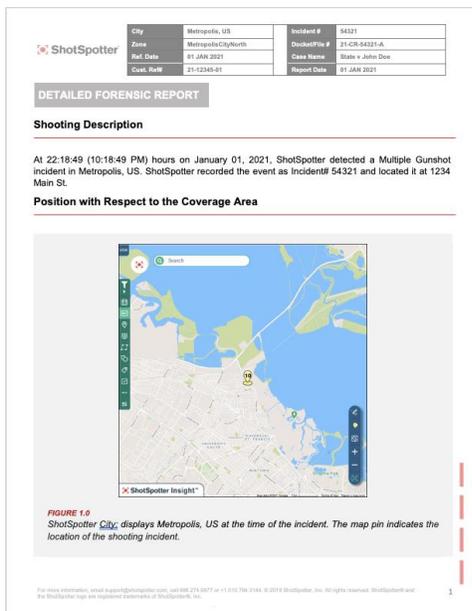
Integration Services

We believe that integrating our solutions with other tools and technologies enhances the value of our solutions to our customers. For example, our solutions can be used in connection with computer-aided dispatch systems, video surveillance cameras, National Integrated Ballistic Information Network (“NIBIN”), and automated license plate

readers used by law enforcement to improve the effectiveness of police response and investigation efforts. We continue to evaluate new technologies that may integrate with our solutions to generate additional value for our customers.

Detailed Forensic Reports and Certified Expert Witness Services

As part of our solution, we offer Detailed Forensic Reports (“DFRs”). These provide law enforcement personnel and prosecutors with comprehensive, court-admissible analysis of a shooting incident, including the gunfire audio. We also offer expert witness testimony to introduce the forensic analysis of the DFRs at trial and to provide technical expertise regarding our technology. Our forensic evidence has been admitted in over 200 criminal prosecutions throughout the United States. Our forensic analyses have been found to be admissible in numerous states, under both the Frye and Daubert expert testimony standards, including Minnesota, Nebraska, Pennsylvania, California, Missouri, New York, Colorado, Indiana, and New Jersey.



ShotSpotter Respond Results and Benefits

- Expedited Response to Gunfire.** In 2021, we issued over 250,000 gunshot alerts to our customers. In areas where gun violence is persistent, we believe most gunshots are not otherwise reported. Even when calls are made, many callers are unable to provide a location of the gunshot or other relevant details. Human response time to unfolding violence often delays calls for several minutes in circumstances where response time can be critical. By contrast, our solutions typically alert emergency dispatch centers and field personnel within 45 seconds of the report of the gunfire incident and provide an exact location, enabling them to respond faster and to a specific location. The ability to respond more quickly increases the chances of apprehending the shooter and assisting victims of violence, in addition to aiding in evidence collection.
- Prevention and Deterrence of Gun Violence.** We believe increasing the speed and accuracy of law enforcement responses to gunfire can act as a long-term deterrent that can decrease the overall prevalence of gunfire. We also believe that knowledge of the existence of our solutions may have a deterrent effect on localized gun violence. When elected officials and law enforcement have an enhanced awareness of gun violence activity and patterns, they have tools to facilitate a rapid and accurate response to gunfire incidents

and improve relations between law enforcement and these communities, potentially increasing crime reporting and community cooperation with investigations, which can result in improved public safety.

•Improved Community Relations and Collaboration. We believe that persistent gun violence limits the ability of police and other community leaders to serve their constituents and improve their communities. Many cities struggle to establish and foster a cooperative and trusting relationship between their police department and the communities they serve. Our public safety solution provides cities with the ability to react quickly to gun violence, thus providing the ability to improve their responses and residents' perception of their responses. This provides our customers with the opportunity to foster improved community relations and collaboration with their residents.

•Improved Police Officer Safety. We believe that our solutions provide additional and valuable information regarding gunshot incidents as the alerts we provide give additional insight and situational awareness, including round count, potential multiple shooters and potential use of an automatic weapon, that allow the responders to be better prepared to respond appropriately.

The below graphic demonstrates positive impact results observed at a few of our customers.



1 Omaha PD statistics from NE district where ShotSpotter is deployed (2011-2019)

2 Pittsburgh.org City Crime Rates Drop Again. January 30, 2020

3 NBC WITN. January 22, 2020

4 ShotSpotter found to reduce gun violence in 2020. Fox 4. February 26, 2021

ShotSpotter Connect

Law enforcement agencies are increasingly facing challenges in maintaining a functional level of staffing due to early retirements and a more limited ability to recruit new officers. ShotSpotter Connect helps address this new reality by helping agencies make their largest cost center – patrol – more efficient and effective in reducing crime and better engaging with the community.

There are several formal methods by which police have traditionally directed their resources:

- Predictive Policing.** A police strategy that uses historical data of crime events and/or offenders to predict where future crimes may occur.
- Hot Spot Analysis.** Using clusters of past crimes to determine what areas police should patrol.
- “Gut-Based” Patrols.** A scenario where officers rely on personal intuition and prior experience to decide which areas to patrol to reduce crime occurrence.

While well intended, these options are often cited as having flaws that do not take into account the potential harm to the community. The limitations of these traditional methods include: risk assessments being subject to enforcement bias, lack of controls to limit over-policing, no guidance on tactics when officers arrive in patrol areas, limited reporting on officer activity, and limited ability to provide community transparency. The end result may leave citizens feeling over-policed and discriminated against, and not actually maximize the crime deterrent effect.

ShotSpotter Connect is a patrol management solution designed to put the community first, and the first to be built with civil liberty protections in mind to address these issues. It uses information that is less susceptible to most current crime data sources that might introduce enforcement bias. ShotSpotter Connect also gives police a new, lower-touch approach to patrolling. ShotSpotter Connect allocates patrol resources in a more efficient manner to prevent crime while using a unique approach that is designed to reduce bias, reduce over-policing, focus on identifying and addressing community issues, and promote community engagement.

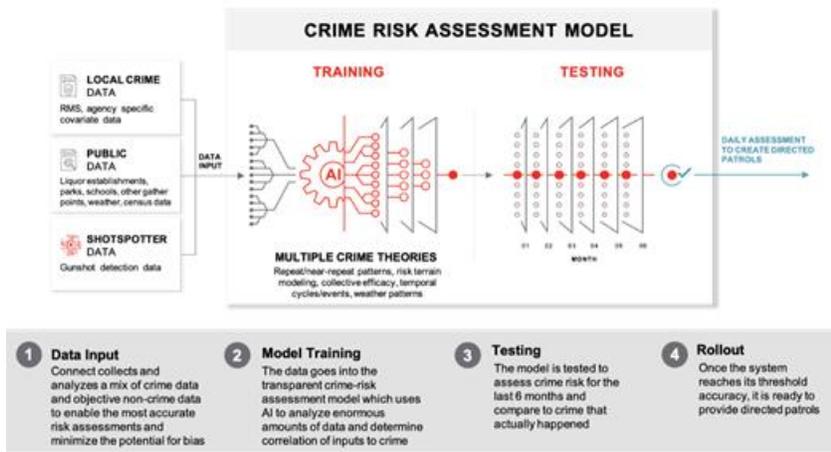


ShotSpotter Connect - directed patrol areas and initiation of patrol sessions with tactics and timer

ShotSpotter Connect uses AI-driven analysis to direct officers to patrol a location within their beat that is likely to have the highest risk for crime during their shift. A timer guides officers to patrol this area for a short period of time, often 15 minutes, to create a deterrent effect that can last for hours. ShotSpotter Connect collects time, place, and tactic data from all directed patrol sessions which can be analyzed to determine the impact on crime as well as provide a level of oversight that can be used to optimize future assignments, policies, and strategies.

The system combines carefully selected historical crime data that is less susceptible to enforcement bias ingested through the agency RMS feeds along with objective temporal, location and event-based inputs including ShotSpotter data for cities that use our ShotSpotter Respond solution, to create crime risk assessments. The system ingests multiple years' worth of agency data and is "trained" using machine learning to determine correlations across variables. The models are then tested against recent crime data to calibrate forecast accuracy. We believe these light-touch, non-enforcement tactics help agencies interact with the community in a more standardized, positive and respectful manner.

How ShotSpotter Connect™ Works



Results and Benefits:

- Directed patrol planning to maximize crime deterrence
- Non-enforcement tactics guidance by crime type
- Reports on officer activity for impact and accountability
- Better community engagement.



Impact of ShotSpotter Connect on Crime

Source: early version of ShotSpotter Connect in side-by-side test - Greensboro, NC 2015

ShotSpotter Investigate

We acquired the CrimeCenter investigative case management solution in November 2020. We reconfigured and integrated the product to create the ability to use gunfire incident data from ShotSpotter Respond to populate cases automatically and launched the solution as ShotSpotter Investigate in July 2021.

The average homicide clearance rate for the five years ending December 31, 2020 was 61% nationally. This means that in 39% of cases the suspect is not held accountable and is free to commit another crime while victims' families don't get closure. A low clearance rate is a self-perpetuating problem for a law enforcement agency. The problem starts when detectives can't quickly close cases and clear up their case load, while they continue to catch new ones. Soon they are overloaded with cases and as they attempt to juggle a high caseload they get spread too thin and then leads start to slip through the cracks and the opportunity to solve the case diminishes. In the longer term, this can create a moral problem within the investigative arm of the agency and they are exposed to losing experienced detectives. This exacerbates the low clearance rates meaning victims are denied justice and the mistrust of law enforcement increases.

The most common tools that departments use to manage, track and solve cases range from purely manual to homegrown to limited function RMS modules or a mix of these. These approaches lack robust collaboration features, have poor data security features and the inability for supervisors to track case progress. We believe there is an opportunity to bring a complete digital case management solution to the market to help improve clearance rates of all crime types and accelerate solvability under the ShotSpotter brand and sell to both our installed base and new customers.

ShotSpotter Investigate provides a complete case management solution for detectives and supervisors in local, state and federal law enforcement agencies. It has been used by the New York Police Department for years at scale by thousands of officers as an on-premises solution. The solution provides:

- **Complete Digital Case Management.** ShotSpotter Investigate addresses the challenges investigators and supervisors face in conducting and documenting investigations. It enables police to have all case-related data in one place in a digital and structured format so that it is quickly searchable and able to be used to drive analysis and reporting. We believe law enforcement agencies can use this tool to be more efficient and effective at solving crimes and close more cases to provide resolution for victims and keep offenders from committing additional crimes.
- **Analytical and Collaboration Tools.** The ability to have the system automatically show linkages between people, property, and places can identify connections more quickly and help solve case faster. Collaboration tools make investigators aware when new relevant evidence is submitted for the same or unrelated cases, and able to more easily communicate on a case across a police department or other city agency such as the district attorney's office.
- **Supervisor Reporting.** Supervisor dashboards and reports ensure they have visibility into the status of every case and are aware of roadblocks so they know when to get involved and can more easily provide updates to command staff.

How ShotSpotter Investigate Works



ShotSpotter Investigate™

- CLOUD-BASED SOLUTIONS
- SECURITY MEASURES*
- COMMUNITY INTERACTION PORTAL



Centralized Investigative Solution

Investigate provides a centralized platform for ALL investigations within an agency and allows for collaboration internally and with the community. This includes criminal cases, narcotics, professional standards, intelligence and more.



Operational Awareness and Insight

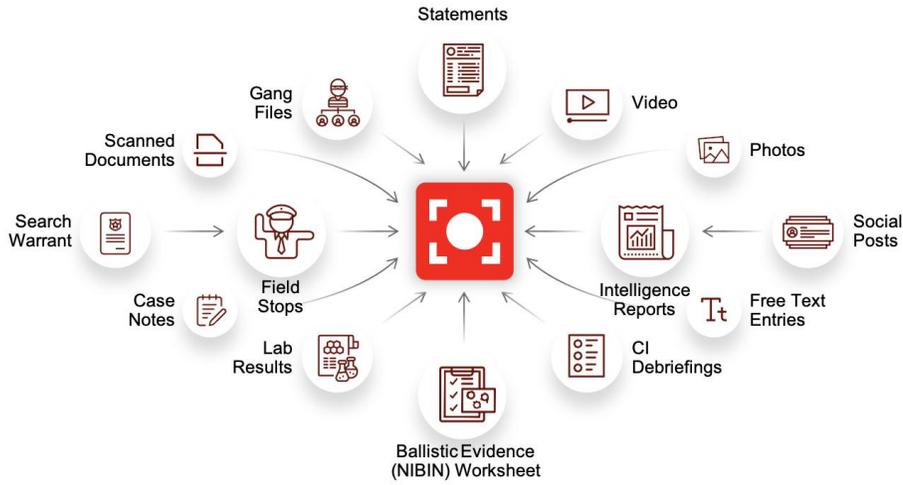
Investigate's interactive analytics give agencies greater operational insight into investigator workload, case status, and clearance rates.



Courtroom-Ready Cases

Investigate streamlines the process for hand off to prosecution packaging all evidence into a secure electronic file.

*The service is run on AWS GovCloud, which is CJIS, FedRAMP, ISO 27001, SOC2, SOC3, and DoD SRG certified; Multi-factor authorization (MFA) is mandated for all users; Compliant with CFR 28 Part 23.



Our Markets

We believe there is significant demand for advanced gunfire detection and location notification solutions that accurately and quickly report instances of gunfire, based on two primary use cases:

- Law enforcement**— for domestic and international law enforcement serving communities plagued by persistent, localized gun violence, in order to identify, locate and deter gun violence; and
- Security**— for security personnel (which may include law enforcement personnel) serving universities, corporate campuses, key infrastructure, transportation centers and other areas in which authorities desire to prepare for and mitigate risks related to an active-shooter event, and desire to provide a zone of detection coverage surrounding the respective campus or secured area.

Based on data from the 2018 the Federal Bureau of Investigation's (the "FBI") Uniform Crime Report, we estimate that the domestic market for our public safety solution consists of the approximately 1,400 cities that had four or more homicides per 100,000 residents in 2016. The Uniform Crime Report includes information reported directly to the FBI by 18,000 city, university and college, county, state, tribal and federal law enforcement agencies. We believe that four or more homicides per 100,000 residents represents a significant gun violence problem. We estimate that a customer in this market could invest an average of approximately \$400,000 per year for ShotSpotter Respond. In 2020, we also started focusing on smaller cities that may not be included in the 1,400 cities list and expects this could add another several hundred potential customers. These customers, being smaller cities, could invest on average of approximately \$50,000 to \$100,000 per year for ShotSpotter Respond.

Based on data made available by the National Center for Education Statistics and the Federal Aviation Administration, we believe that the domestic market for our security solutions includes approximately 5,000 college campuses and airports. We estimate that, on average, a customer in this market could invest approximately \$50,000-\$75,000 per year for one of our security solutions. In addition, we believe that there exists a broader market for our security solutions that include, primarily the outdoor areas of college campuses and airports outside of the United States as well as large corporate campuses, train stations and other highly-trafficked areas worldwide. In 2021, we focused more on commercial opportunities, initially targeting certain major companies and their associated locations, such as their corporate offices and potentially even parking areas for major "big-box" retailers. Investments by customer in this market for our security solutions are still being evaluated but could be similar or even greater than those made by our larger city customers.

Outside of the United States, we estimate that the market for ShotSpotter Respond includes approximately 200 cities in Central America, the Caribbean, South America and southern Africa that have at least 500,000 residents. We estimate that a customer in this market could invest an average of approximately \$1.0 million per year for our public safety solution. We estimate the average investment amounts for prospective customers based on our experience with existing customers, our anticipated demand for our solutions and the corresponding coverage areas that we expect prospective customers would elect to cover with our solutions.

We believe there is demand for ShotSpotter Connect both within our existing ShotSpotter Respond customer base and within a broader set of police departments that are not ShotSpotter customers today. We estimate that the market for our ShotSpotter Connect solution includes approximately 1,500 cities, based on cities that have a population above 25,000 people. We expect that, on average, a customer could invest approximately \$50,000-\$100,000 per year for our ShotSpotter Connect solution. We expect that ShotSpotter Connect may also be needed by thousands of potential international customers as well, who could invest over \$100,000 per year for the solution.

We also believe there is demand for a robust tool that would empower law enforcement agencies to solve more crime and close more cases. Every law enforcement agency has the duty and mandate to document and investigate alleged crimes in order to hold perpetrators accountable and provide resolution for victims. Unfortunately, the options to do this in a digitized and automated way are generally lacking. We believe ShotSpotter Investigate offers the most complete investigative case management solution on the market that has been proven to be effective with one of the leading law enforcement agencies in the country. We estimate the market for our solution consists of over nearly 3,000 local, state and federal agencies in the United States and potentially thousands internationally. We expect that, on

average, United States customers could invest approximately \$100,000 per year for our ShotSpotter Investigate solution and international customers could invest approximately \$500,000 per year.

Our Growth Strategy

We intend to drive growth in our business by continuing to build on our position and brand as the leading provider of outdoor gunshot detection, location and alerting solutions. We also plan to leverage our large and growing installed base of customers with high net promoter attributes that consider ShotSpotter a trusted partner, to grow adoption of our newer products ShotSpotter Connect and ShotSpotter Investigate not only within the installed base, but outside of it. Key elements of our strategy include:

- **Accelerate Our Acquisition of Public Safety Customers.** We believe that we continue to be in the early stages of penetrating the markets for our public safety solutions. We serve law enforcement agencies in three of the ten largest U.S. cities as ShotSpotter Respond customers. Over the last few years we expanded our direct sales force and customer success teams and added marketing lead-generation capabilities to accelerate growth in this market. Moreover, as we add new public safety customers, publicity and the number of potential references for our solutions increase, which results in our brand and our solutions becoming more well known. We intend to capitalize on this momentum to grow sales.
- **Expand ShotSpotter Respond Revenue within Our Existing Customer Base.** As customers realize the benefits of our solutions, we believe that we have a significant opportunity to increase the lifetime value of our customer relationships by expanding coverage within their communities through a “land and expand” strategy. For example, of our ShotSpotter Respond customers, approximately 43% have expanded their coverage areas from their original deployment areas by an average of almost nine square miles as of December 31, 2021. Our overall revenue retention rate was 125% for 2021 and was over 100% for each of 2020 and 2019.
- **Expand Our International Footprint.** With only two currently deployed ShotSpotter Respond customers outside of the United States in South Africa and the Bahamas, we believe that we have a significant opportunity to expand internationally. We estimate that the market outside the United States for our public safety solutions includes approximately 200 cities in the European Union, Central America, the Caribbean, South America and southern Africa that have at least 500,000 residents. In addition, we believe that there is a market for our security solution, ShotSpotter Connect and ShotSpotter Investigate outside the United States. We intend to increase our investment in our international product, sales and marketing efforts to penetrate new geographies over the coming years.
- **Drive Additional Revenue per Customer with the Development or Acquisition of New Products and Services.** We are transforming the company from a domestic acoustic gunshot detection company to a global precision policing technology solutions company. We evaluate opportunities to develop or acquire complementary products and services. For example, our acquisition of HunchLab, renamed ShotSpotter Connect, in 2018 provides an opportunity to increase our revenue per customer with a related and value-added technology that helps deter crime through strategically planned patrols. Our 2020 acquisition of LEEDS, LLC (“LEEDS”) provides entry into a comprehensive investigative case management solution. Our current approach is to leverage trusted relationships with current customers to drive initial adoption and increase revenue and lifetime value per customer.
- **Maintain Passionate Focus on Customer Success.** Given the specialized nature of our market, a key component of our strategy is to maintain our passionate focus on customer success and satisfaction. We pride ourselves on our execution of customer on-boarding as well as ongoing consulting and customer support, all of which are critical to ensure not only high customer retention rates, but new customer acquisitions. We implement our customer success initiative early in the sales process in order to ensure that we are aligned with the customer’s objectives and can positively impact their defined outcomes. We apply consultative best practices and policy development at the command staff level as well as tactical training for field patrol officers. We also consistently measure our performance with customers through an annual Net Promoter Survey. We have extremely high agency participation rates and our scores the last two years have ranked between “excellent” and “world class” according to our Survey partner benchmarks. All of our efforts are focused on driving positive measurable outcomes on gun violence reduction and prevention.

which we know leads to positive word of mouth referrals that can attract new customers and drive an increase in sales.

•**Grow Our Security Business.** We have developed our ShotSpotter SecureCampus solution for universities and other educational institutions. We have also developed ShotSpotter SiteSecure for customers such as corporations trying to safeguard their employees, customers, brand and profits, and public agencies focused on protecting citizens in venues such as train stations, airports and highways. As of December 31, 2021, we had 14 ShotSpotter SecureCampus and ShotSpotter SiteSecure customers. While we will still plan to sell to educational institutions, we are shifting our primary focus to highways and certain commercial customers.

ShotSpotter Labs

ShotSpotter Labs houses our advanced technology efforts to adapt and extend our commercial technology to address significant wildlife and environmental issues. Our current focus is on combating rhino poaching in Kruger National Park, South Africa and blast fishing that threatens coral reefs and food security in Southeast Asia. We have been able to collect revenues from philanthropic entities to cover direct and indirect costs. Innovations have made their way back into our commercial business such as the development of a solar-powered sensor from the Kruger deployment, that technology is similar to those now being used for our freeway deployment.

The use of guns to poach rhinos is a significant environmental concern in Africa where the horn of a single rhino can be worth hundreds of thousands of dollars. In the vast expanse of Kruger National Park, most poaching incidents go undetected with carcasses found days or weeks after the fact. The problem is particularly acute in that due to cumulative impact of years of poaching the rhino population is on the tipping point of becoming extinct as a species. ShotSpotter Labs is deployed in 100 square kilometers of inside the Intensified Protection Zone (IPZ) where 60% of the world's remaining rhinos live.

Since the introduction of ShotSpotter to detect, locate and alert park rangers to gunfire incidents in less than 60 seconds with precise location accuracy there have been multiple poacher apprehensions of some of the more prolific and notorious poaching syndicates within the coverage area. The ShotSpotter impact has been measurable with a 58% reduction in the rhino killed due to an estimated 50%+ interception rate within the ShotSpotter coverage area.

“ShotSpotter has allowed us to take back the night,” said Ken Maggs, Head Ranger of the Kruger National Park. “We now have an interception rate well above 50% within the coverage area, which means the poachers are literally flipping a coin when they come in.”

Fish blasting results in the destruction the coral reef habitat that may not recover for many decades if at all. Coral reefs are not only home to a myriad of marine organisms including fish but also provide significant livelihood support and form an invaluable protective barrier offshore (protecting the land from heavy storms, tsunamis, and wave action).

The potential decline in fish catch which is the protein source for approximately 1 billion coastal residents is a strategic food security issue. In addition, coral reefs form the basis of coastal and marine tourism, a valuable national income sector. It is estimated that, coral reefs around the globe provide services valued between US \$172 to \$375 billion annually. Reefs must be protected for economic sustainability and food security. Our work in the Coral Triangle also known as the Amazon Forest of the Ocean has shown some promising results. The precise detection and alerting of incidents of fish blasting provides a real time awareness to the extent of fish blasting and helps target enforcement interventions designed to deter and prevent fish blasting activities.

Customers- Revenue Model

We generate annual subscription revenues from the deployment of our public safety and security solutions on a per-square-mile basis. As of December 31, 2021, we had coverage areas under contract of 911 square miles in the aggregate, of which 881 miles have gone live, which included over 125 cities and 14 campuses and other sites across the United States, South Africa and the Bahamas, including three of the ten largest cities in the United States. Since transitioning our public safety business to the ShotSpotter Respond subscription model in 2011, we have added over 90 new ShotSpotter Respond customers, but only 14 such customers have terminated service, two of which were

terminated due to hurricane damage in 2017, and both Puerto Rico and U.S. Virgin Islands have returned as customers before the end of 2020. For the year ended December 31, 2021, our two largest customers, the City of New York and the City of Chicago accounted for 28% and 14% of the Company's revenues. For the year ended December 31, 2020, our two largest customers, the City of Chicago and the City of New York accounted for 18% and 15% of our revenues, respectively. For the year ended December 31, 2019, our two largest customers, the City of Chicago and the City of New York accounted for 20% and 14% of our revenues, respectively.

Go-To-Market

We sell our solutions through our direct sales teams. Our sales teams focus on both new customer acquisition, customer renewal, add-on sales, and coverage expansion. Our sales team identifies communities with the opportunity to benefit from our solutions, communicates with key stakeholders, navigates the challenges associated with our customers' complex funding and procurement cycles, and establishes a foundation for a successful customer relationship. In addition, our sales team works with customers to identify and procure funds from alternate sources, including state and federal government grants. Our security solutions sales efforts focus primarily on highways, and corporate campuses, national retailers, and in some cases, stadiums, arenas, and venues supporting large groups of employees and/or patrons. We intend to continue to invest in building a global sales organization as we further penetrate the market for ShotSpotter Respond and expand the customer base for our security solutions.

Marketing

Our marketing function has several focus areas, with demand generation being the largest investment. It is designed to drive a new and qualified pipeline for the sales team. The program consists of a series of targeted email, digital and offline campaigns to key personas in prospective agencies, as well as influencers, to drive interest in our Precision Policing suite of products. This effort is supplemented by a new content marketing capability to target search engine keywords that buyers are using to raise the ranking of relevant digital content the company is now producing in greater quantities to educate them on our products. The awareness efforts are supported by a team of sales development representatives who make outbound calls to further drive interest and qualify leads. Conversions from marketing leads to sales qualified opportunities continue to increase as the team has gained more experience and tested various approaches. The demand generation efforts are tracked and measured with a robust marketing technology automation platform.

In 2021, the team expanded its strategic communications capacity in response to assertions made by the media and certain organizations about our gunshot detection product. We refuted the media's assertions by educating them on the facts, and encouraged third parties that are familiar with ShotSpotter, including doctors, academics, community group leaders, and police agencies, to proactively state their actual experiences with the technology. In general, due to the high visibility of shootings, the media's interest in covering them, and ShotSpotter's key role in alerting police for a quick response to these events to save lives, we benefit from significant broadcast, online and print press that is generated at little to no cost. Members of the media have access to a self-serve, comprehensive media kit to easily capture video and photos that depict the service and its benefits in a compelling fashion to enhance broadcast TV segments and print/online articles. This exposure creates awareness for our solutions and lends credibility to our market leadership position.

In the areas of content and branding, we leverage our customer base to create a growing catalog of success stories, videos and articles that convey the value of our solutions to prospective customers, often with tangible examples and aggregated data on results. We continue to expand the breadth and depth of our content library that is on display primarily in the Resource Center and Results page of our website and make the information easier to find and share for prospective customers and influencers.

Research and Development

We focus our research and development efforts on enhancing our advanced signal processing and classification algorithms, updating our sensor hardware technology, reducing manufacturing costs, developing mobile, web and desktop applications, evolving our cloud-deployed back-end infrastructure and integration with "smart cities" initiatives. ShotSpotter Connect crime forecasting uses machine learning and has led to additional investment in data science resources. As of December 31, 2021, we had 44 employees in our research and development organization. In

addition, we engage in research and development activities with manufacturing partners and outsource certain activities to engineering firms to further supplement our internal team.

Competition

The markets for public safety and security solutions are highly fragmented and evolving. Whether installed in local communities, on critical infrastructure or on a campus, for a gunfire detection system to be effective, the protection zone must be comprehensive. We believe our gunshot detection solutions represent the most effective public safety and security solutions on the market.

We compete on the basis of a number of factors, including:

- product functionality, including the ability to cover broad outdoor geographic spaces;
- solution performance, including the rapid capture of multiple acoustic incidents and accuracy;
- ease of implementation, use and maintenance;
- total cost of ownership; and
- customer support and customer success initiatives.

ShotSpotter Respond Competitors

ShotSpotter Respond is unique because it provides scalable wide area gunshot detection over large and geographically diverse areas, provides immediate and precise data on gunfire, helps communities define the scope of illegal gunfire, and provides cities with detailed forensic data for investigation, prosecution and analysis. While we are not aware of any direct competitors offering wide-area solutions comparable to ShotSpotter Respond, we believe the primary competitors in the broader gunfire detection space are V5 Systems, Safety Dynamics, Inc., Wi-Fiber, Inc., Databouy, EAGL Technology, Alarm.com and Flock Safety.

Most of these other outdoor solutions on the market offer limited scope point protection, proximity sensors, or “counter-sniper systems.” These systems are designed primarily for covering small areas, or for defined military or SWAT team applications, where the target is known in advance and it is possible to put a sensor directionally toward the target. However, urban areas and critical infrastructure require a wider system of protection that can cover a large area.

We also compete with other possible uses of the limited funding available to our ShotSpotter Respond customers. Because law enforcement agencies or government entities have limited funds, they may have to choose among resources or solutions that help them to meet their overall mission such as video management systems, and other security solutions. Accordingly, we compete not only with our customers’ internal budget decisions, but with other companies vying for these limited funds. We believe that in areas with significant levels of gun activity, ShotSpotter Respond is uniquely positioned to assist customers in interrupting, detecting and preventing gun violence.

ShotSpotter SiteSecure and ShotSpotter Secure Campus Competitors

Our security solutions operate in a highly competitive environment. In addition to other gunfire detection companies, we may face competition from companies offering alternative security technologies, such as video surveillance, access control, alarm and lighting systems. The direct competitors for security solutions include the Alarm.com, Safety Dynamics Inc., V5 Systems, EAGL, Wi-fiber, AmberBox, Inc and Flock Safety. We believe none of our security solutions competitors is able to offer the comprehensive outdoor coverage we offer.

ShotSpotter Connect Competitors

ShotSpotter Connect operates in a developing and potentially competitive environment. The direct competitors to our Connect solution include Geolitica, Inc. and may include CAD providers and other third-party solutions providers, such as CentralSquare Technologies, Mark 43, Genetec, Inc., and Motorola Solutions, Inc. In addition, we may face competition from companies offering alternative solutions as well as solutions developed internally by our customers.

Case Management Solution Competitors

There are many competitors in the market for investigative case management. The direct competitors include companies offering a case management module as part of their RMS such as Mark43, Tyler, and Soma Global. There are several purpose-built case management solutions such as Kaseware and CaseClosed. Also, many agencies use manual or homegrown methods. We believe that our solutions are superior in terms of comprehensiveness of functionality, analytical and collaboration tools, workflow process and proven effectiveness at scale. We also believe the market suffers from a lack of awareness and understanding of what is available from vendors for this type of solution and that our brand and feature-rich application has the potential to capture a sizeable piece of the market over time.

Cybersecurity

We have a robust Cyber Response Plan in place which provides a documented framework for handling high severity security incidents and facilitates coordination across multiple parts of our company. We continually enhance and improve our prevention, detection and recovery capabilities to combat cybersecurity threats. However, the threat landscape is constantly changing. As such, risk remains where a cyberattack could cause damage, loss of data or protracted downtime to us.

Intellectual Property

Our future success and competitive position depend in part on our ability to protect our intellectual property and proprietary technologies. To safeguard these rights, we rely on a combination of patent, trademark, copyright and trade secret laws, and contractual protections in the United States and other jurisdictions.

As of December 31, 2021, we had 37 issued patents, 33 in the United States, and one each in Israel, Brazil Mexico, and 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 also license software from third parties for integration into our offerings, including open source software and other software available on commercially reasonable terms.

Facilities

Our principal facilities consist of office space for our corporate headquarters in Fremont, California, as of December 31, 2021. We also have offices in Washington, DC and Newark, New Jersey.

We lease our facilities and do not own any real property. We may procure additional space as we add employees and expand geographically. We believe that our facilities are adequate to meet our needs for the immediate future and that should it be needed, suitable additional space will be available to accommodate expansion of our operations. Although most of our employees operate from our offices, normally they can perform their functions from any location. In response to the COVID-19 pandemic, most of our personnel have performed their job function entirely from home.

Human Capital

Our values encourage us to be genuine, innovative, engaged and exceptional. They are built on the foundation that our people and the way we treat one another promote creativity, innovation and productivity, which spur the Company's success. We are continually investing in our global workforce to further drive diversity and inclusion, provide fair and competitive pay and benefits to support our employees' well-being, and to foster the growth and development of all employees. As of December 31, 2021, we employed 167 people, all of whom were based in the United States. Our total attrition rate in 2021 was less than 17%. We have not experienced work stoppages and believe our employee relations are good.

Diversity, Equity and Inclusion

Our vision is to advance diversity, equity and inclusion across the company. We recognize that everyone deserves respect and equal treatment, regardless of gender, race, ethnicity, age, disability, sexual orientation, gender identity, cultural background or religious belief. As of December 31, 2021, women represent 31% of our employees, and underrepresented minorities, defined as those who identify as Black/African American, Hispanic/Latinx, Native American, Pacific Islander and/or two or more races, represent 47% of our employees.

In order to create products that solve challenging problems for people all over the world, we need employees who can bring diverse perspectives and life experiences. We have a three-pronged strategy to grow our diversity over time by (1) attracting diverse talent and ensuring fair hiring through inclusive and strategic recruitment practices, (2) creating an inclusive workplace environment for employees, and (3) joining forces with our customers, partners and peers to drive industry progress.

Therefore, we are committed to bringing more women and underrepresented and underserved groups into technology careers. We employ inclusive recruitment practices to source diverse candidates and mitigate potential bias.

We have invested in analysis and transparency to demonstrate our commitment to equity and inclusion through fair compensation and opportunity for professional advancement. We define pay parity as ensuring that employees in the same job and location are paid fairly regardless of their gender or ethnicity. We make efforts to ensure our employees receive access to advanced opportunities within the company.

Board Composition and Refreshment

As stated in our Corporate Governance Guidelines, our Board of Directors values diversity and recognizes the importance of having unique and complementary backgrounds and perspectives in the board room. The Board endeavors to bring together diverse skills, professional experience, perspectives, age, race, ethnicity, gender, and cultural backgrounds that reflect our customer base and the citizens served by our customers, and to guide us in a way that reflects the best interests of all of our stockholders. There are currently nine members on our Board, which will decrease to seven on the date of our 2022 annual meeting of stockholders, as a result of the previously-announced retirements of Thomas Groos and Randall Hawks from the Board. As of December 31, 2021, women represented 33% of our Board members and underrepresented minorities represented 56% of our Board.

Compensation, Benefits and Well-being

We strive to offer fair, competitive compensation and benefits that support our employees' overall well-being. To ensure alignment with our short- and long-term objectives, our compensation programs for all employees include base pay, short-term incentives, and opportunities for long-term incentives, including equity incentives offered under our employee equity incentive plans and employee stock purchase program. Our well-being and benefit programs focus on four key pillars: physical, emotional, financial and community health. We offer a wide array of benefits including comprehensive health and welfare insurance, paid time-off and leave, and we sponsor a 401(k) plan to provide defined contribution retirement benefits.

In response to the COVID-19 pandemic, we implemented significant changes that we determined were in the best interest of our employees as well as the communities in which we operate. This includes having the vast majority of our employees work from home, while implementing additional safety measures for employees continuing critical on-site work. We also provide flexible work hours and up to 20 additional working days per calendar year of paid time off for employees who cannot work due to circumstances related to COVID-19. We have also provided a work-from-home fund to assist employees in that transition and added several company-wide paid days to help employees balance their work and life responsibilities. Finally, we obtained and provided personal protective equipment to our employees to help protect them during this uncertain time, while continuing our business activities.

Growth and Development

Career development is a primary reason new hires decide to join ShotSpotter. We actively foster a learning culture where employees are empowered to drive their career progression, supporting professional development and

providing on-demand learning platforms. Our development programs play a critical role in engaging and retaining our employees as these programs offer opportunities to continually enhance their skills for a variety of career opportunities across the Company.

Segment and Geographic Information

We operate as a single operating and reportable segment. Information about segment reporting and long-lived assets is set forth in Note 2 of our Notes to Consolidated Financial Statements included in “Part II, Item 8. Financial Statements and Supplementary Data” of this Annual Report on Form 10-K. Total revenues generated outside the United States were derived from our customers located in South Africa and the Bahamas and were \$0.9 million in the year ended December 31, 2021, and \$0.7 million and \$1.0 million, in the years ended December 31, 2020 and 2019, respectively. Substantially all of our non-monetary long-lived assets are located in the United States. For a discussion of risks related to our international operations, see the risk factors set forth in Part I, Item 1A of this Annual Report on Form 10-K.

Corporate Information

We were formed as ShotSpotter, Inc., a California corporation, in 2001 and reincorporated as ShotSpotter, Inc., a Delaware corporation, in 2004. We also do business as “SST” pursuant to a registered trade name.

Our principal executive offices are located at 39300 Civic Center Drive, Fremont, California 94538 and our telephone number is (510) 794-3100. Our website address is www.shotspotter.com. The information contained on, or that can be accessed through, our website is not incorporated by reference into this Annual Report on Form 10-K, and you should not consider any information contained on, or that can be accessed through, our website as part of this Annual Report on Form 10-K.

ShotSpotter, the ShotSpotter logo, ShotSpotter Connect, ShotSpotter Respond, ShotSpotter SecureCampus, ShotSpotter SiteSecure, ShotSpotter Labs, ShotSpotter Investigate and other trade names, trademarks or service marks of ShotSpotter appearing in this Annual Report on Form 10-K are the property of ShotSpotter, Inc. Trade names, trademarks and service marks of other companies appearing in this Annual Report on Form 10-K are the property of their respective holders.

Where You Can Find More Information

You can read our SEC filings, including this Annual Report on Form 10-K, over the internet at the SEC’s website at www.sec.gov.

We are subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and we are required to file reports, proxy statements and other information with the SEC. We also maintain a website at www.shotspotter.com, at which you may access these materials, free of charge, as reasonably practicable after they are electronically filed with, or furnished to, the SEC. We are not, however, including the information contained on our website, or information that may be accessed through links on our website, as part of, or incorporating such information by reference into, this Annual Report on Form 10-K.

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 Annual Report on Form 10-K as well as our other publicly available filings with the SEC.

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 work-from-home policies 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 December 31, 2021. 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 2022, 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;
- 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 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, including the impact of new variants with varying degree of resistance to vaccines;
- governmental, business and individuals’ actions that have been and continue to be taken in response to the pandemic;
- the impact of the pandemic 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 its 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.

The COVID-19 pandemic has impacted our supply chain, which could adversely impact 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:

- accelerate our acquisition of new customers;
- further sell expansions of coverage areas to our existing customers;
- expand our international footprint;
- expand into new vertical markets, such as precision policing, and security solutions;
- increase awareness of the benefits that our solutions offer;
- maintain our competitive and technology leadership position; and
- 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:

- the expansion or contraction of our customer base;
- the renewal or nonrenewal of subscription agreements with, and expansion of coverage areas by, existing customers;
- the size, timing, terms and deployment schedules of our sales to both existing and new customers;
- 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;
- changes in our customers' and potential customers' budgets;
- our ability to control costs, including our operating expenses;
- our ability to hire, train and maintain our direct sales force;
- the timing of satisfying revenues recognition criteria in connection with initial deployment and renewals;
- fluctuations in our effective tax rate;
- the impact of the COVID-19 pandemic on business operations and economic conditions;
- the concentration of our revenue in a small number of large contracts with the potential for fluctuations and delays; and
- 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 are 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 three 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 recently and may not achieve or maintain profitability in the future.

We reached our first full year of net income in 2019 and had net income in 2020 as well; prior to that, we posted a net loss in each year since inception. We had a net loss of \$4.4 million for the year ended December 31, 2021 and as of December 31, 2021, we had an accumulated deficit of \$98.8 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:

- sales and marketing, including a significant expansion of our sales organization, both domestically and internationally;
- research and development related to our solutions, including investments in our engineering and technical teams;
- acquisition of complementary technologies or businesses, such as our acquisition of HunchLab technology in October 2018 and our acquisition of LEEDS in November 2020 and our acquisition of Forensic Logic, LLC ("Forensic Logic") in January 2022;
- continued international expansion of our business; and
- 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 us, our business and results of operations, including our 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:

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

We are continually improving our security, compliance, and processes. Our general processes are based on the NIST-800-53 standard with some aspects also being controlled by CJIS. In 2022, we will formally audit our processes in a SOC2 type II audit. These initiatives will require fiscal and time investments. Failure to obtain a SOC2 Type 2 audit report or to be compliant with the CJIS standard could adversely affect our reputation and sales, as well as the availability of our solutions in certain markets.

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" have increased in recent years. 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 or earnings as a result of the COVID-19 pandemic does exist; however, we do not know whether additional stimulus 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 or earnings 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 May 2021 report by the MacArthur Center for Justice appears to argue 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, which 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, in July 2021, VICE Media, LLC (“VICE”) falsely accused us of illegal behavior, which has had a material adverse effect on our business. We are pursuing a defamation lawsuit against VICE, but the outcome of that litigation cannot be assured.

The role of our solutions and our personnel in criminal prosecutions or other court proceedings may result in unfavorable judicial rulings that generate negative publicity or otherwise adversely impact new sales or renewals or expansions of coverage areas by existing customers, which would adversely impact our financial results and future prospects. For instance, a court ruling limiting or excluding evidence related to information gathered through our systems or to the operation of our systems in a judicial proceeding could harm public perceptions of our business and solutions.

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, inflation, financial and credit market fluctuations, political deadlock, natural catastrophes, warfare, geopolitical tensions, such as Russia's recent incursion into Ukraine, 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 by 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:

- our ability to continue to offer high-quality, innovative and accurate precision policing solutions;
- 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;
- our ability to maintain high customer satisfaction, including meeting our service level agreements standards;
- the perceived value and quality of our solutions;
- differences in opinion regarding the metrics that measure the success of our solutions;
- our ability to successfully communicate the unique value proposition of our solutions;
- our ability to provide high-quality customer support;
- any misuse or perceived misuse of our solutions;
- interruptions, delays or attacks on our platform;
- litigation- or regulation-related developments; and
- 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 to 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, certain of 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 December 31, 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 our 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. In December 2021, we obtained a waiver for the financial covenant tied to our profitability. 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 and Forensic Logic in January 2022 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, Forensic Logic 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 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 our data or data of our customers is otherwise compromised, 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 proprietary, confidential, and sensitive data, such as gunfire incident data, including date, time, address and GPS coordinates, occurring in our customer's coverage area. Additionally, 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, malicious internet-based activity, and online and offline fraud are prevalent and continue to increase generally, and providers of cloud-based services have been targeted. Threats to our information systems and data, and those of third parties upon which we rely, come from a variety of sources. In addition to traditional computer "hackers," threat actors, personnel (such as through theft or misuse), sophisticated nation-states and nation-state-supported actors also engage in attacks. We and the third parties upon which we rely may be subject to a variety of evolving threats, including but not limited to social-engineering attacks (including through phishing attacks), malicious code (such as viruses and worms), malware (including as a result of advanced persistent threat intrusions), denial-of-service attacks (such as credential stuffing), personnel misconduct or error, and supply-chain attacks. Ransomware attacks are becoming increasingly prevalent and severe and can lead to significant interruptions in our operations, loss of data and income, reputational harm, and diversions of funds. Extortion payments may alleviate the negative impact of a ransomware attack, but we may be unwilling or unable to make such payments due to, for example, applicable laws or regulations prohibiting such payments.

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 information. 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 and significant costs. 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. Our contracts may not contain limitations of liability, and even where they do, there can be no assurance that limitations of liability in our contracts are sufficient to protect us from liabilities, damages, or claims related to our data privacy and security incidents.

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, and 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 89% of our installed ShotSpotter sensors use fourth-generation Long-Term Evolution (“LTE”) wireless technology and 11% 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 \$4.0 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 in our supply from our sole 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 one of our contract manufacturers 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 each of our contract manufacturers 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.

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 or Forensic Logic platforms or computer-aided dispatch systems. The functionality and popularity of our solutions depend, in part, on our ability to integrate our solutions into 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;
- currency control regulations, which might restrict or prohibit our conversion of other currencies into U.S. dollars;
- restrictions on the transfer of funds;
- deterioration of political relations between the United States and other countries; and
- 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 a loud impulsive sound, it creates what we refer to as 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, they 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, the California Privacy Rights Act, or CPRA, will 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 and Colorado have similarly enacted comprehensive privacy laws, the Consumer Data Protection Act and the Colorado Privacy Act, which are similar to 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 South Africa, Europe, Brazil and Japan – have become 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 foreign 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 December 31, 2021, we had federal net operating loss carryforwards ("NOLs") of approximately \$80.4 million, of which \$73.5 million will begin to expire in 2027, 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, 2021, we also had state NOLs of approximately \$50.1 million, which will expire, if not utilized, between 2022 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 the 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 December 31, 2021, we had 37 issued patents directed to our technologies, 33 in the United States, one each in Israel, Brazil, Mexico, and 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. We may also engage in litigation in response to public-records requests or subpoenas that seek our intellectual property. 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 or other legal proceedings in which we participate, 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;
- general economic conditions in the United States and abroad;
- 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; and
- negative publicity, including false information, regarding our solutions.

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 of 1933, as amended (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 December 31, 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. While the Delaware courts have determined that such choice of forum provisions are facially valid and several state trial courts have enforced such provisions and required that suits asserting Securities Act claims be filed in federal court, there is no guarantee that courts of appeal will affirm the enforceability of such provisions and a stockholder may nevertheless seek to bring a claim in a venue other than those designated in the exclusive forum provisions. In such instance, we would expect to vigorously assert the validity and enforceability of the exclusive forum provisions of our certificate of incorporation. This may require significant additional costs associated with resolving such action in other jurisdictions and there can be no assurance that the provisions will be enforced by a court in those other jurisdictions. If a court were to find either exclusive forum provision in our certificate of incorporation to be inapplicable or unenforceable in an action, we may incur further significant additional costs associated with litigating Securities Act claims in state court, or both state and federal court, which could seriously harm our business, financial condition, results of operations, and prospects.

Item 1B. UNRESOLVED STAFF COMMENTS

Not Applicable.

Item 2. PROPERTIES

Our principal facilities consist of office space for our corporate headquarters in Fremont, California. We also have offices in Washington D.C. and Newark, New Jersey.

We lease our facilities and do not own any real property. We may procure additional space as we add employees and expand geographically. We believe that our facilities are adequate to meet our needs for the immediate future and that should it be needed, suitable additional space will be available to accommodate expansion of our operations.

Item 3. LEGAL PROCEEDINGS

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 us and employees as defendants. The amended complaint alleges conspiracy to violate the Plaintiff's civil rights, denial of the right to a fair trial, and malicious prosecution. The Plaintiff claims that we 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. We believe that the Plaintiff's claims are without merit and are disputing them vigorously.

On October 12, 2021, we 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. We are seeking more than \$200 million in compensatory damages and \$100 million in punitive damages.

We may become subject to legal proceedings, as well as demands and claims that arise in the normal course of our business, including claims of alleged infringement of third-party patents and other intellectual property rights, breach of contract, employment law violations, and other matters and matters involving requests for information from us or our customers under federal or state law. Such claims, even if not meritorious, could result in the expenditure of significant financial and management resources. We make a provision for a liability relating to legal matters when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed and adjusted to include the impacts of negotiations, estimated settlements, legal rulings, advice of legal counsel, and other information and events pertaining to a particular matter.

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

Item 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II

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

Market Information of Common Stock

Our common stock has been listed on the Nasdaq Capital Market under the symbol "SSTI" since June 7, 2017. Prior to that date, there was no public trading market for our common stock.

On March 23, 2022, the last reported sale price of our common stock as reported on the Nasdaq Capital Market was \$27.87 per share. As of March 23, 2022, we had approximately 71 holders of record of our common stock. The actual number of stockholders is greater than this number of record holders, and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers and other nominees. This number of holders of record also does not include stockholders whose shares may be held in trust by other entities.

Dividend Policy

We have never declared or paid any dividends on our capital stock. We currently intend to retain all available funds and any future earnings for the operation and expansion of our business and, therefore, we do not anticipate declaring or paying cash dividends in the foreseeable future. The payment of dividends will be at the discretion of our board of directors and will depend on our results of operations, capital requirements, financial condition, prospects, contractual arrangements, any limitations on payment of dividends present in our future debt agreements, and other factors that our board of directors may deem relevant.

Sale of Unregistered Securities and Use of Proceeds

(a) Unregistered Sales of Equity Securities

Not applicable.

(b) Issuer Purchases of Equity Securities

Not applicable.

(c) Use of Proceeds from Public Offering of Common Stock

Our initial public offering of common stock (the "IPO") was effected through a Registration Statement on Form S-1 (File No. 333-217603), which was declared effective on June 6, 2017. There has been no material change in the planned use of proceeds from our IPO as described in our final prospectus filed with the SEC pursuant to Rule 424(b) and other periodic reports previously filed with the SEC.

We used \$13.7 million of the net proceeds from our IPO to repay outstanding indebtedness of \$13.5 million, including early termination fees of \$0.2 million, during the quarter ending September 30, 2017. On October 3, 2018, we used \$1.7 million of our IPO proceeds to fund the acquisition of HunchLab. On November 24, 2020, we used \$14.6 million of our IPO proceeds to fund the acquisition of LEEDS.

Securities Authorized for Issuance under Equity Compensation Plans

Information about securities authorized for issuance under our equity compensation plan is incorporated herein by reference to Item 12 of Part III of this Annual Report on Form 10-K.

Item 6. [Reserved]

Item 7. 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 consolidated financial statements and accompanying notes included in this Annual Report on Form 10-K. This Annual Report on Form 10-K contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). 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 I, Item 1A of this Annual Report on Form 10-K 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 evidence 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 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 December 31, 2021, we had ShotSpotter Respond, ShotSpotter SecureCampus and ShotSpotter SiteSecure coverage areas under contract for 911 square miles, of which 881 square miles had gone live. Coverage areas under contract included over 125 cities and 14 campuses/sites across the United States, South Africa

and the Bahamas, including three of the ten largest cities in the United States. Most of our revenues are attributable to customers based 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 majority of our revenues for the foreseeable future. ShotSpotter Labs projects are generally conducted in coordination with a sponsoring charitable organization and 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 and introduce 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 26 years ago, ShotSpotter has been and continues to be a purpose-led company. We are a mission-driven organization that focuses on improving public safety outcomes. We accomplish this by earning the trust of law enforcement and providing them solutions to help 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 that typically range from one to three 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 Part I, Item 1A, *Risk Factors*, included in this Annual Report on Form 10-K.

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 portion of the components required by our solutions are 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” in Part I, Item 1A, *Risk Factors*, and the subsection titled, “Impact of COVID-19 and Social Unrest on our Business” below included in this Annual Report on Form 10-K.

We generated revenues of \$58.2 million, \$45.7 million and \$40.8 million for the years ended December 31, 2021, 2020, and 2019, respectively, representing year-over-year increases of 27% and 12%. For the years ended December 31, 2021, 2020, and 2019, revenues from ShotSpotter Respond represented approximately 82%, 94% and 96% of total revenues, respectively. Our two current largest customers, the City of New York and the City of Chicago, each accounted for 28% and 14%, respectively, of our total revenues for the year ended December 31, 2021. The City of Chicago and the City of New York, each accounted for 18% and 15%, respectively, of our total revenues for the year ended December 31, 2020. The City of Chicago and the City of New York, each accounted for 20% and 14%,

respectively, of our total revenues for the year ended December 31, 2019. Substantially all of our revenues for the years ended December 31, 2021, 2020, and 2019 were derived from customers within the United States (including Puerto Rico and the U.S. Virgin Islands).

We had a net loss of \$4.4 million for the year ended December 31, 2021, net income of \$1.2 million for the year ended December 31, 2020, and net income of \$1.8 million for the year ended December 31, 2019. Our accumulated deficit was \$98.8 million and \$94.4 million as of December 31, 2021 and 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 subsection 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 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 skill sets to properly develop, market, sell or service these new products depending on the categories they represent.

In January 2022, we acquired Forensic Logic LLC ("Forensic Logic"), a leading provider of cloud-based data services to U.S. law enforcement and public safety to enable powering the industry's most advanced search and analysis technology. We believe combining lead generation from Forensic Logic with our ShotSpotter Investigate case management can accelerate crime solving and improve clearance rates.

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.

Key Business Metrics

	2021	December 31, 2020	2019
Revenue retention rate	125 %	107 %	111 %
Sales and marketing spend per \$1.00 of new annualized contract value	\$ 0.37	\$ 0.51	\$ 0.43
Net new "go-live" square miles	101	49	82
Net new "go-live" cities	11	10	6
Annual recurring revenue ("ARR") (in millions)	\$ 63.2	\$ 46.3	\$ 42.9

Revenue Retention Rate

We calculate our revenue retention rate annually by dividing the (a) total revenues for such year from those customers who were customers during the corresponding prior year by (b) the total revenues from all customers in the corresponding prior year. For the purposes of calculating our revenue retention rate, we count as customers all entities with which we had contracts in the applicable year. Revenue retention rate for any given period does not include revenues attributable to customers first acquired during such period. We focus on our revenue retention rate because we believe that this metric provides insight into revenues related to and retention of existing customers. If our revenue retention rate for a year exceeds 100%, as it did in the years presented above, this indicates a low churn and means that the revenues retained during the year, including from customer expansions, more than offset the revenues that we lost from customers that did not renew their contracts during the year. As further evidence of our low churn, since transitioning our public safety business to the ShotSpotter Respond model in 2011, we have added over 90 new ShotSpotter Respond customers, but only 14 customers have terminated service, two of which were terminated due to hurricane damage in 2017, and both Puerto Rico and U.S. Virgin Islands have returned as customers before the end of 2020.

Sales and Marketing Spend per \$1.00 of New Annualized Contract Value

We calculate sales and marketing spend annually as the total sales and marketing expense during a year divided by the first 12 months of contract value for contracts entered into during the same year. We use this metric to measure the efficiency of our sales and marketing efforts in acquiring customers, renewing customer contracts and expanding their coverage areas.

Net New "Go-Live" Miles

Net new "go-live" square miles represent the square miles 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 square miles that ceased to be "live" during the year due to customer cancellations. New square miles include deployed square miles that may have been sold, or booked, in prior years. We focus on net new "go-live" square miles as a key business metric to measure our operational performance and inform strategic decisions.

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.

Annual Recurring Revenue ("ARR")

We calculate our ARR for a year based on the expected GAAP revenue for the year from contracts that are in effect on January 1st of such year, assuming all such contracts that are due for renewal during the year renew as expected on or near their renewal date, and including contracts executed during the year after January 1st, but for which GAAP revenue recognition starts January 1st of the year.

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 the future.

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, 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.

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 in business disruptions and global supply chain issues;
- the duration and scope of the challenges created by the 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 depending on the contract term. 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 ShotSpotter Respond, 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 ShotSpotter Connect, 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 contract 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 original 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 the contract term, then the remaining setup fees, if any, are immediately recognized.

With the acquisition of LEEDS, we also generate revenues through the sale of (i) a software license to our proprietary software technology and related maintenance and support services 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 and impairment of property and equipment. 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 that include 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 year ended December 31, 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 only, but we accelerated these plans and began to replace sensors in certain geographic areas starting in the second half of 2020 to optimize personnel utilization since new deployments were limited as a result of pandemic-related restrictions. 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.

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 have costs relating to revenues generated through the sale of proprietary software licenses and related maintenance and support services and professional software development services. Costs of these professional services include employee compensation costs that 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. Consultants, 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 duration of the COVID-19 pandemic with associated shelter-in-place orders, remote work policies and travel bans, our sales and marketing expense decreased. As travel increased in 2021 compared to 2020, our sales and marketing expenses increased in absolute dollars due to the 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 services.

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 artificial intelligence 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, than 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 assess 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 record 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

The following table sets forth our consolidated statements of operations data for the years ended December 31, 2021 and 2020 (in thousands):

	2021	As a % of Revenues	2020	As a % of Revenues	Change	
	\$	100 %	\$	100 %	\$	%
Revenues	58,155	100 %	45,734	100 %	12,421	27 %
Costs						
Cost of revenues	25,611	44 %	18,525	41 %	7,086	38 %
Impairment of property and equipment	25	—	234	—	(209)	(89 %)
Total costs	25,636	44 %	18,759	41 %	6,877	37 %
Gross profit	32,519	56 %	26,975	59 %	5,544	21 %
Operating expenses:						
Sales and marketing	15,479	27 %	10,328	23 %	5,151	50 %
Research and development	7,035	12 %	5,614	12 %	1,421	25 %
General and administrative	14,074	24 %	9,740	21 %	4,334	44 %
Total operating expenses	36,588	63 %	25,682	56 %	10,906	42 %
Income (loss) from operations	(4,069)	(7 %)	1,293	3 %	(5,362)	(415 %)
Other expense, net	(306)	(1 %)	(158)	—	(148)	94 %
Provision (benefit) from income taxes	56	—	(90)	—	146	(162 %)
Net income (loss)	<u>\$ (4,431)</u>	<u>(8 %)</u>	<u>\$ 1,225</u>	<u>3 %</u>	<u>\$ (5,656)</u>	<u>(462 %)</u>

Revenues

The increase of \$12.4 million was primarily attributable to new customers and expansions of existing customer coverage areas and contributions from the acquisition of LEEDS, which was completed on November 24, 2020. We went live with 101 net new square miles during the year ended December 31, 2021.

Costs

The increase in costs of \$6.9 million was due primarily to a \$4.5 million increase in overall personnel-related costs related to professional services, a \$2.2 million increase in personnel costs related to non-professional services customers, an increase of \$0.5 million in third-party labor costs, and a \$0.3 million increase in depreciation expense. These increases were offset by a \$0.2 million decrease in product and equipment costs related to customer projects, a decrease of \$0.2 million in telecommunications fees, and a \$0.2 million decrease in impairment costs related to customer systems.

Gross Profit

Gross profit as a percentage of revenues decreased compared with the prior year primarily as a result of decreased margins from LEEDS, due to our incurring costs in the fourth quarter for which revenue will be recognized in the first quarter of 2022 per the contract terms.

Operating Expenses*Sales and Marketing Expense*

The increase in sales and marketing expense of \$5.2 million was primarily due to a \$1.9 million increase in commissions expense related to professional services, a \$1.5 million increase in personnel costs primarily due to a full year of professional services headcount expense, a \$0.9 million increase in amortization of the customer relationship intangible asset, a \$0.6 million increase in trade show and conference expenses, a \$0.2 million increase in travel expenses and a \$0.1 million increase in other expenses. As the acquisition of LEEDS occurred in November 2020, we incurred a full year of related costs in 2021 compared to slightly more than one month in 2020.

Research and Development Expense

The increase in research and development expense of \$1.4 million was primarily due to an increase of \$1.3 million in personnel related expenses, and an increase of \$0.1 million in outside consulting fees.

General and Administrative Expense

The increase of \$4.3 million was due primarily to an increase of \$1.3 million in legal and litigation costs, a \$1.3 million increase in contingent consideration expense related to the estimated 2022 LEEDS earnout, a \$0.4 million increase in public relations costs, a \$0.4 million increase in consulting and outside services expense primarily

associated with acquisition-related services, a \$0.4 million increase in personnel expense, a \$0.2 million increase in recruiting costs, a \$0.2 million increase in insurance costs and a \$0.1 million increase in other costs.

Other Income (Expense), Net

The decrease of \$0.1 million was due primarily to a decrease in interest income as interest rates have decreased over the year.

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 years ended December 31, 2021 and 2020, our provision (benefit) for income taxes related to foreign income taxes only.

Comparison of Years Ended December 31, 2020 and 2019

The following table sets forth our consolidated statements of operations data for the years ended December 31, 2020 and 2019 (in thousands):

	2020	As a % of Revenues	2019	As a % of Revenues	Change \$	%
Revenues	\$ 45,734	100 %	\$ 40,752	100 %	\$ 4,982	12 %
Costs						
Cost of revenues	18,525	41 %	16,409	40 %	2,116	13 %
Impairment of property and equipment	234	—	—	—	234	—
Total costs	18,759	41 %	16,409	40 %	2,350	14 %
Gross profit	26,975	59 %	24,343	60 %	2,632	11 %
Operating expenses:						
Sales and marketing	10,328	23 %	9,989	25 %	339	3 %
Research and development	5,614	12 %	5,344	13 %	270	5 %
General and administrative	9,740	21 %	7,415	18 %	2,325	31 %
Total operating expenses	25,682	56 %	22,748	56 %	2,934	13 %
Income from operations	1,293	3 %	1,595	4 %	(302)	(19 %)
Other income (expense), net	(158)	—	162	—	(320)	(198 %)
Benefit from income taxes	(90)	—	(41)	—	49	120 %
Net income	<u>\$ 1,225</u>	<u>3 %</u>	<u>\$ 1,798</u>	<u>4 %</u>	<u>\$ (573)</u>	<u>(32 %)</u>

Revenues

The increase of \$5.0 million was primarily attributable to new customers and expansions of existing customer coverage areas, LEEDS' revenue contribution for a partial quarter, partially offset by a normal rate of customer attrition. We went live with 49 net new square miles during the year ended December 31, 2020.

Costs

The increase of \$2.4 million was due primarily to a \$2.0 million increase in overall personnel-related costs, including a partial quarter of costs related to LEEDS. The increase also includes a reallocation of certain resources as we formalized our customer success organization. There was also a \$0.4 million increase in depreciation expense, a \$0.2 million increase in repairs and maintenance costs, as well as a \$0.2 million write-off related to sensor assets due to customer attrition. These increases are partially offset by a \$0.4 million decrease in costs related to ShotSpotter Labs projects, for which revenues and costs vary depending on the phase of the projects.

Operating Expenses

Sales and Marketing Expense

The increase in sales and marketing expense of \$0.3 million was primarily due to a \$0.8 million increase in personnel costs, and \$0.3 million increase in other costs including commissions expense and amortization of the customer relationship intangible asset related to LEEDS, partially offset by \$0.8 million decrease in travel costs due to limited travel during the COVID-19 pandemic.

Research and Development Expense

The increase in research and development expense of \$0.3 million was primarily due to an increase in personnel and LEEDS-related expenses offset by a reduction in outside consulting fees.

General and Administrative Expense

The increase of \$2.3 million was due primarily to a \$1.0 million increase in personnel costs, \$0.6 million increase in acquisition-related expenses, \$0.4 million increase in legal and professional fees, and \$0.3 million increase in insurance costs.

Other Income (Expense), Net

The decrease of \$0.3 million was due primarily to a decrease in interest income as interest rates significantly decreased during the year ended December 31, 2020.

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 years ended December 31, 2020 and 2019, our income tax benefits relate to foreign income 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 \$15.6 million as of December 31, 2021. We also have a \$20.0 million credit facility, of which no amounts were outstanding as of December 31, 2021. In December 2021, we obtained a waiver for the financial covenant tied to our profitability.

In March 2019, we issued and sold 250,000 shares of our common stock in an underwritten public offering, for which we received net proceeds of \$10.6 million after deducting offering expenses.

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. We believe that we will meet longer term expected future working capital and capital expenditure requirements, through a combination of cash flows from operating activities, available cash balances and our available credit facility. Our future capital requirements may vary materially from those currently planned and will depend on many factors, including our rate of revenues 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. We may also seek additional capital to fund our operations, 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.

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. Our expected material cash requirements are similar to our historical uses of cash as well as in connection with contingent earnouts, our stock repurchase program and repayment of any outstanding debt obligations under our credit facility, each as described below.

On November 24, 2020, we completed the acquisition of LEEDS for a purchase consideration of \$21.6 million in cash, subject to working capital adjustments, and the issuance of 63,901 shares of ShotSpotter common stock worth \$2.0 million. The purchase consideration also included a contingent earnout payable based on LEEDS' revenues generated during the years ended December 31, 2021 and 2022. The earnout for 2021 was not earned, but we estimate a contingent earnout of \$1.5 million to be paid in 2023 based on 2022 forecasted revenues.

On October 3, 2018, we acquired certain technology, referred to as HunchLab, and related assets from Azavea Inc. The purchase consideration totaled \$2.5 million, consisting of \$1.7 million in cash and a contingent earnout payable in cash for up to \$750,000 based on HunchLab's revenues generated over the three-year period following the acquisition date. In January 2020, we paid \$0.3 million based on revenues generated over the first year of the contingent earnout period. In February 2021, we paid the remaining \$0.4 million of the contingent earnout based on revenues generated over the second year of the contingent earnout period.

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 year ended December 31, 2021, we repurchased 95,151 shares of our common stock at an average price of \$37.82 per share for \$3.6 million. During the year ended December 31, 2020, we repurchased 74,520 shares of our common stock at an average price of \$21.65 per share for \$1.6 million. These repurchases were made in open market transactions using cash on hand, and all of the shares repurchased were retired.

Credit Facility

On September 27, 2018, we entered into the Umpqua Credit Agreement for \$10.0 million, which was amended in August 2020 to increase the size of our available loan facility to \$20.0 million, which allows us to borrow up to \$20.0 million under a revolving loan facility. We intend to use the revolving loan facility for general working capital purposes.

Cash Flows

Comparison of Years Ended December 31, 2021, 2020 and 2019

The following table presents a summary of our cash flows for the years ended December 31, 2021, 2020 and 2019:

	2021	Year Ended December 31, 2020 (in thousands)	2019
Net cash provided by (used in):			
Operating activities	\$ 9,822	\$ 11,209	\$ 13,692
Investing activities	(7,884)	(18,758)	(4,909)
Financing activities	(2,266)	(956)	5,482
Net change in cash and cash equivalents	<u>\$ (328)</u>	<u>\$ (8,505)</u>	<u>\$ 14,265</u>

As of December 31, 2021, 2020 and 2019, \$1.0 million, \$1.3 million and \$0.8 million in cash was held by our consolidated foreign subsidiaries.

Operating Activities

Our net income (loss) 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.

The net cash provided by operating activities of \$9.8 million in the year ended December 31, 2021 was primarily driven by decreased deferred revenue and increased collections of accounts receivable driven by new customer contracts.

The net cash provided by operating activities of \$11.2 million in the year ended December 31, 2020 was primarily driven by collections of accounts receivable driven by new customer contracts and expansions of existing customer coverage.

The net cash provided by operating activities of \$13.7 million in the year ended December 31, 2019 was primarily driven by decreased deferred revenue and increased collections of accounts receivable driven by new customer contracts and expansions of existing customer coverage.

Investing Activities

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

Investing activities used \$7.9 million, \$18.8 million, and \$4.9 million in the years ended December 31, 2021, 2020 and 2019, respectively. We completed our acquisition of LEEDS for approximately \$14.6 million in cash, net of \$7.0 million cash acquired at closing during the year ended December 31, 2020. The remaining use of cash was primarily for property and equipment expenditures to install our solutions in customer coverage areas.

Financing Activities

Cash generated by financing activities includes proceeds from our secondary offering in 2019, net proceeds from the exercise of stock options and warrants, proceeds from the employee stock purchase plan ("ESPP") purchases, offset by payment for repurchases of our common stock, payment of indebtedness, and debt issuance and financing costs.

Financing activities used \$2.3 million in cash during the year ended December 31, 2021. This was primarily due to \$3.6 million in payments for repurchases of our common stock, \$0.4 million in payments for contingent consideration, partially offset by \$0.9 million in proceeds from the exercise of options and \$0.8 million in proceeds from ESPP purchases.

Financing activities used \$1.0 million in cash during the year ended December 31, 2020, primarily for \$1.6 million in payments for repurchases of our common stock and a \$0.3 million payment for HunchLab's contingent consideration, partially offset by \$0.7 million proceeds from ESPP purchases and \$0.3 million in proceeds from the exercise of options and warrants.

Financing activities provided \$5.5 million in cash during the year ended December 31, 2019 from \$10.8 million in net proceeds from the issuance of common stock upon our secondary offering, \$0.9 million proceeds from ESPP purchases, and \$0.5 million in proceeds from the exercise of options and warrants, partially offset by \$6.7 million in payments for repurchases of our common stock.

Off-Balance Sheet Arrangements

As of December 31, 2021, we did not have any relationships, material commitments or obligations 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 Estimates

Our consolidated financial statements are prepared in accordance with United States 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 and evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ from these estimates. Our most critical accounting policies are summarized below. See Note 2, *Summary of Significant Accounting Policies*, to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for a description of our other significant accounting policies.

Revenue Recognition

Revenue Recognition – Gunshot Detection Services

We generate substantially all of our revenues from the sale of gunshot detection subscription services, in which gunshot data generated by company-owned sensors and software is sold to our customers through a cloud-based hosting application for a specified contract period. Typically, the initial contract period is one to three years in length. The subscription contract is generally noncancelable without cause. Generally, these service arrangements do not provide the customer with the right to take possession of the hardware or software supporting the subscription service at any time. A small portion of our revenues are generated from the delivery of setup services to install company-owned sensors in the customer's coverage area and other services including training and licenses to integrate with third-party applications.

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. We generally invoice subscription service renewals for 100% of the total contract value when the renewal contract is executed. For the public safety solution, the pricing model is based on a per-square-mile basis. For security solutions, the pricing model is on a customized-site basis. As a result of the process for invoicing contracts and renewals upon execution, cash flows from operations and accounts receivable can fluctuate due to timing of contract execution and timing of deployment.

We recognize revenues upon the satisfaction of performance obligations. At contract inception, we assess the services promised in our contracts with customers and identify a performance obligation for each promise to transfer a good or service (or bundle of services) to the customer that is distinct. To identify the performance obligations, we consider all of the services promised in the contract regardless of whether they are explicitly stated or are implied by customary business practices. We determined that the subscription services, training, and licenses to integrate with third-party applications are each distinct services that represent separate performance obligations. The setup activities are not distinct from the subscription service and are combined into the subscription service performance obligation. However, setup fees may provide a material right to the customer that has influence over the customers' decision to

renew. All setup fees are assessed on a quantitative and qualitative basis to determine whether they represent a distinct performance obligation. The total contract value is allocated to each performance obligation identified based on the standalone selling price of the service and any discounts are allocated pro-rata to the identified performance obligations. For contracts that have an original duration of one year or less, we use the practical expedient applicable to such contracts and do not consider the time value of money. We believe revenue recognition for gunshot detection services is subject to uncertainty because of the timing of renewal contracts or work orders.

Revenues from subscription services are recognized ratably, on a straight-line basis, over the term of the subscription. Revenues from material rights are recognized ratably over the period in which they are determined to provide a material right to the customer, which is generally three years. Revenues from training and licenses to integrate with third-party applications are recognized upon delivery which generally occurs when the subscription service is operational and ready to go live.

Subscription renewal fees are recognized ratably over the term of the renewal, which is typically one year. While most 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 services may continue to be provided for a period of time until the renewal process is completed. Once the renewal is complete, we recognize subscription revenues for the period between the expiration of the original 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, the remaining fees from material rights, if any, are immediately recognized.

Revenue Recognition – Software License, Maintenance and Support, and Professional Services

With the acquisition of LEEDS, we also generate revenues from the sale of (i) a software license and related maintenance and support services of our proprietary software technology and (ii) professional software development services to a single customer, through a sales channel intermediary. We have been serving this customer for more than ten years. 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

We recognize revenue from the license of our software license and related maintenance and support services revenues upon the satisfaction of performance obligations. We determined that the term-based software license should be combined with the maintenance and support services as a single performance obligation. The nature of the maintenance and support services, inclusive of our obligation to provide additional, unspecified software functionality over the license term, in allowing this single customer to be flexible in utilizing the customized software to respond to the changing regulatory environment, are critical to the customer's ability to derive benefit and value from the license. Contractually, we provide continuous access to the software, maintenance and support services, helpdesk and technical support over the contract term, hence a time-elapsed method is used to recognize revenue. Revenues from the software license and maintenance and support services are recognized ratably over the term of the contract because our obligation to provide the license and related support services is uniform over the license term. We generally invoice for these services a month in arrears. If a customer does not renew prior to the contract term expiring, we stop recognizing subscription revenues at the end of the current contract term, even though services may continue to be provided for a period of time until the renewal process is completed. Once the renewal is complete, we recognize the revenues for the period between the expiration of the original contract term and the completion of the renewal process in the month in which the renewal is executed.

Professional services revenue consists of fees typically associated with the design, development and testing of product feature enhancements requested by the customer. The customer procures additional development services as needed, and generally based upon annual development plans negotiated by and between the customer and us. Professional services do not result in significant customization of the maintenance and support services and are considered distinct services. All, and any part of the output, of our professional services towards such product feature enhancements, belong to the customer. Accordingly, we satisfy the performance obligations over time as the performance of work typically creates or enhances an asset that the customer controls as the asset is created or enhanced. As these product feature enhancements each have a fixed contract fee, we recognize revenue over time proportionally as work is performed, based on cumulative resource costs incurred as a percentage of total forecast

costs for the project. Management uses significant judgement in making these estimates, which affect the timing of revenue recognition, including how much revenue to recognize in each period, and in estimating the timing of revenue recognition for remaining performance obligations. The contract price and billing schedule are stated in each work order and we generally invoice in monthly installments upon the commencement of each work order.

Stock-Based Compensation — We recognize stock-based compensation expense for equity awards granted to our employees, directors, and consultants that can be settled in shares of our common stock. Stock-based compensation expense is based on the grant date fair value estimate for each award as determined by our board of directors. We recognize these compensation costs on a straight-line basis over the requisite service period of the award.

Restricted stock unit awards are valued using the grant date market closing price of our common stock as traded on the Nasdaq Capital Market .

We estimate the fair value of stock option awards at the date of grant using the Black-Scholes option pricing model, which was developed for use in estimating the value of traded options that have no vesting restrictions and are freely transferable. The fair values generated by the model may not be indicative of the actual fair values of our awards as it does not consider other factors important to those stock-based payment awards, such as continued employment, periodic vesting requirements and limited transferability.

Business Acquisition — We allocate the fair value of purchase consideration to the tangible assets acquired, liabilities assumed and intangible assets acquired based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. When determining the fair values of assets acquired and liabilities assumed, management makes significant estimates and assumptions, especially with respect to intangible assets. Critical estimates in valuing such intangible assets include, but not limited to, future expected cash flows from customer relationships and developed technology and discount rates.

Goodwill — Goodwill represents the excess of amounts paid over the fair value of net assets acquired from a business acquisition. Goodwill is tested for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis (October 1) and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. These events or circumstances could include a significant change in the business climate, legal factors, operating performance indicators, competition, or sale or disposition of a significant portion of a reporting unit. Application of the goodwill impairment test requires judgment, including the identification of reporting units and determination of the fair value of each reporting unit. We have concluded there is only one reporting unit for purposes of performing the goodwill impairment test. The fair value of each reporting unit is estimated primarily through the use of a discounted cash flow methodology. This analysis requires significant judgments, and may include estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for our business, estimation of the useful life over which cash flows will occur, and determination of our weighted-average cost of capital. The estimates used to calculate the fair value of a reporting unit change from year to year based on operating results, market conditions, and other factors. Changes in these estimates and assumptions could materially affect the determination of fair value and goodwill impairment. We performed our annual test for goodwill impairment as of October 1, 2021 and concluded that no impairment charge was necessary.

Item 7A. 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.

Interest Rate Risk

We are exposed to interest rate risk in the ordinary course of our business. Our cash includes cash in readily available checking and money market accounts. These securities are not dependent on interest rate fluctuations that may cause the principal amount of these assets to fluctuate.

We had cash and cash equivalents of \$15.6 million as of December 31, 2021, which consists entirely of bank deposits.

We do not enter into investments for trading or speculative purposes and have not used any derivative financial instruments to manage our interest rate risk exposure.

Foreign Currency Exchange Risk

We have foreign currency risks related to our revenues and operating expenses denominated in currencies other than our functional currency, the U.S. dollar, principally the South African Rand. Movements in foreign currencies in which we transact business could significantly affect future net earnings. However, if the average value of the South African Rand had been 10% higher relative to the U.S. dollar during 2021, 2020 or 2019, it would not have resulted in a significant impact to our results of operations for the years ended December 31, 2021, 2020 or 2019. To date, we have not engaged in any hedging strategies. As our international operations grow, we will continue to reassess our approach to manage our risk relating to fluctuations in foreign currency rate.

Inflation Risk

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of ShotSpotter, Inc.:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of ShotSpotter, Inc. (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows, for each of the three years in the period ended December 31, 2021, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

/s/ Baker Tilly US, LLP

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

Minneapolis, Minnesota
March 28, 2022

ShotSpotter, Inc.

Consolidated Balance Sheets
(In thousands, except share and per share data)

	December 31,	
	2021	2020
Assets		
Current assets		
Cash and cash equivalents	\$ 15,636	\$ 16,043
Accounts receivable and contract asset, net	16,134	12,921
Prepaid expenses and other current assets	2,504	2,172
Total current assets	34,274	31,136
Property and equipment, net	17,409	15,346
Operating lease right-of-use assets	2,323	882
Goodwill	2,816	2,811
Intangible assets, net	13,564	14,540
Other assets	1,918	1,605
Total assets	\$ 72,304	\$ 66,320
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 1,587	\$ 1,192
Deferred revenue, short-term	26,235	24,174
Accrued expenses and other current liabilities	6,680	5,613
Total current liabilities	34,502	30,979
Deferred revenue, long-term	474	405
Other liabilities	3,513	631
Total liabilities	38,489	32,015
Commitments and contingencies (Note 19)		
Stockholders' equity		
Preferred stock: \$0.005 par value; 20,000,000 shares authorized; no shares issued and outstanding as of December 31, 2021 and 2020	—	—
Common stock: \$0.005 par value; 500,000,000 shares authorized; 11,703,430 and 11,538,998 shares issued and outstanding as of December 31, 2021 and 2020, respectively	58	58
Additional paid-in capital	132,780	128,771
Accumulated deficit	(98,785)	(94,354)
Accumulated other comprehensive loss	(238)	(170)
Total stockholders' equity	33,815	34,305
Total liabilities and stockholders' equity	\$ 72,304	\$ 66,320

See accompanying notes to consolidated financial statements.

ShotSpotter, Inc.

Consolidated Statements of Operations
(In thousands, except share and per share data)

	2021		Year Ended December 31, 2020		2019	
Revenues	\$	58,155	\$	45,734	\$	40,752
Costs						
Cost of revenues		25,611		18,525		16,409
Impairment of property and equipment		25		234		—
Total costs		25,636		18,759		16,409
Gross profit		32,519		26,975		24,343
Operating expenses						
Sales and marketing		15,479		10,328		9,989
Research and development		7,035		5,614		5,344
General and administrative		14,074		9,740		7,415
Total operating expenses		36,588		25,682		22,748
Operating income (loss)		(4,069)		1,293		1,595
Other income (expense), net						
Interest income (expense), net		38		113		440
Other expense, net		(344)		(271)		(278)
Total other income (expense), net		(306)		(158)		162
(Loss) income before income taxes		(4,375)		1,135		1,757
Provision (benefit) for income taxes		56		(90)		(41)
Net (loss) income	\$	(4,431)	\$	1,225	\$	1,798
Net (loss) income per share, basic	\$	(0.38)	\$	0.11	\$	0.16
Net (loss) income per share, diluted	\$	(0.38)	\$	0.10	\$	0.15
Weighted average shares used in computing adjusted net (loss) income per share, basic		11,647,558		11,408,757		11,302,780
Weighted average shares used in computing adjusted net (loss) income per share, diluted		11,647,558		11,730,294		11,846,348

See accompanying notes to consolidated financial statements.

ShotSpotter, Inc.

Consolidated Statements of Comprehensive Income (Loss)
(In thousands)

	Year Ended December 31,		
	2021	2020	2019
Net income (loss)	\$ (4,431)	\$ 1,225	\$ 1,798
Other comprehensive income (loss):			
Change in foreign currency translation adjustment	(68)	(36)	15
Comprehensive income (loss)	<u>\$ (4,499)</u>	<u>\$ 1,189</u>	<u>\$ 1,813</u>

See accompanying notes to consolidated financial statements.

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

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity/ (Deficit)
	Shares	Par Value				
Balance at December 31, 2018	10,864,722	\$ 55	\$ 114,618	\$ (97,377)	\$ (149)	\$ 17,147
Exercise of stock options	307,365	2	452	—	—	454
Issuance of common stock in connection with exercise of warrants	26,098	—	71	—	—	71
Issuance of common stock upon secondary offering, net of costs	250,000	1	10,553	—	—	10,554
Repurchase of common stock and retirement	(257,824)	(2)	(6,716)	—	—	(6,718)
Issuance of common stock from ESPP purchases	65,639	1	872	—	—	873
Issuance of common stock from RSU's vested	58,150	—	—	—	—	—
Stock-based compensation	—	—	3,057	—	—	3,057
Foreign currency translation gain	—	—	—	—	15	15
Net income	—	—	—	1,798	—	1,798
Balance at December 31, 2019	11,314,150	57	122,907	(95,579)	(134)	27,251
Exercise of stock options	96,456	1	313	—	—	314
Issuance of common stock in connection with exercise of warrants	46,939	—	—	—	—	—
Repurchase of common stock	(74,520)	—	(1,615)	—	—	(1,615)
Issuance of common stock from ESPP purchases	37,102	—	704	—	—	704
Issuance of common stock from RSU's vested	54,970	—	—	—	—	—
Issuance of common stock from acquisition	63,901	—	2,000	—	—	2,000
Stock-based compensation	—	—	4,462	—	—	4,462
Foreign currency translation loss	—	—	—	—	(36)	(36)
Net income	—	—	—	1,225	—	1,225
Balance at December 31, 2020	11,538,998	58	128,771	(94,354)	(170)	34,305
Exercise of stock options	97,702	—	898	—	—	898
Issuance of common stock in connection with exercise of warrants	50,716	—	8	—	—	8
Repurchase of common stock	(95,151)	—	(3,601)	—	—	(3,601)
Issuance of common stock from ESPP purchases	30,193	—	832	—	—	832
Issuance of common stock from RSU's vested	80,972	—	—	—	—	—
Stock-based compensation	—	—	5,872	—	—	5,872
Foreign currency translation loss	—	—	—	—	(68)	(68)
Net loss	—	—	—	(4,431)	—	(4,431)
Balance at December 31, 2021	<u>11,703,430</u>	<u>\$ 58</u>	<u>\$ 132,780</u>	<u>\$ (98,785)</u>	<u>\$ (238)</u>	<u>\$ 33,815</u>

See accompanying notes to consolidated financial statements.

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

	2021	Year Ended December 31,		2019
		2020		
Cash flows from operating activities:				
Net income (loss)	\$	(4,431)	\$ 1,225	\$ 1,798
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation of property and equipment		5,795	5,399	4,894
Amortization of intangible assets		1,032	187	88
Impairment of property and equipment		25	234	—
Stock-based compensation		5,872	4,462	3,057
Loss on disposal of property and equipment		—	3	—
Provision for accounts receivable		—	74	—
Changes in operating assets and liabilities:				
Accounts receivable and contract asset		(3,213)	1,953	1,383
Prepaid expenses and other assets		(673)	(321)	(192)
Accounts payable		354	(190)	(243)
Accrued expenses and other current liabilities		2,918	575	108
Deferred revenue		2,143	(2,392)	2,799
Net cash provided by operating activities		9,822	11,209	13,692
Cash flows from investing activities:				
Purchase of property and equipment		(7,840)	(4,059)	(4,823)
Investment in intangible and other assets		(59)	(72)	(86)
Business acquisition, net of cash acquired		15	(14,627)	—
Net cash used in investing activities		(7,884)	(18,758)	(4,909)
Cash flows from financing activities:				
Payment of contingent consideration liability		(403)	(347)	—
Payment of line of credit costs		—	(12)	—
Proceeds from issuance of common stock upon secondary offering		—	—	11,247
Payments of secondary offering costs		—	—	(445)
Proceeds from exercise of stock options		898	314	454
Repurchases of common stock		(3,601)	(1,615)	(6,718)
Proceeds from exercise of warrants		8	—	71
Proceeds from employee stock purchase plan		832	704	873
Net cash provided by (used in) financing activities		(2,266)	(956)	5,482
Increase (decrease) in cash, cash equivalents and restricted cash		(328)	(8,505)	14,265
Effect of exchange rate on cash and cash equivalents		(79)	(2)	7
Cash, cash equivalents and restricted cash at beginning of year		16,043	24,550	10,278
Cash, cash equivalents and restricted cash at end of year	\$	15,636	\$ 16,043	\$ 24,550
Supplemental cash flow disclosures:				
Cash paid for income taxes	\$	—	\$ —	\$ 51
Supplemental disclosure of non-cash financing activities:				
Property and equipment purchases included in accounts payable	\$	563	\$ 522	\$ 311
Estimated fair value of contingent consideration	\$	1,330	\$ 170	\$ —
Fair value of common stock issued as consideration for business acquisition	\$	—	\$ 2,000	\$ —

See accompanying notes to consolidated financial statements.

ShotSpotter, Inc.
Notes to 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 over 125 cities at December 31, 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 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 financial reporting. The consolidated financial statements include the results of the Company and its wholly-owned subsidiaries. In the opinion of management, the accompanying 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 year ended December 31, 2021, but are not necessarily indicative of the results of operations or cash flows to be anticipated for any future period. The Company has evaluated subsequent events occurring after the date of the consolidated financial statements for events requiring recording or disclosure in the consolidated financial statements. All significant intercompany transactions have been eliminated during consolidation.

Use of Estimates

The preparation of 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 and goodwill, 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.

Revenue Recognition – Gunshot Detection Services

The Company generates substantially all of its revenues from the sale of gunshot detection subscription services, in which gunshot data generated by Company-owned sensors and software is sold to customers through a cloud-based hosting application for a specified contract period. Typically, the initial contract period is one to three years in length. The subscription contract is generally noncancelable without cause. Generally, these service arrangements do not provide the customer with the right to take possession of the hardware or software supporting the subscription service at any time. A small portion of the Company's revenues are generated from the delivery of setup services to install Company-owned sensors in the customer's coverage area and other services including training and a license to integrate with third-party applications.

The Company generally invoices 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. The Company generally invoices subscription service renewals for 100% of the total contract value when the renewal contract is executed. For the public safety solution, the pricing model is based on a per-square-mile basis. For security solutions, the pricing model is on a customized-site basis. As a result of the process for invoicing contracts and renewals upon execution, cash flows from operations and accounts receivable can fluctuate due to timing of contract execution and timing of deployment.

The Company recognizes revenues upon the satisfaction of performance obligations. At contract inception, the Company assesses the services promised in its contracts with customers and identifies a performance obligation for each promise to transfer to the customer a good or service (or bundle of services) that is distinct. To identify the performance obligations, the Company considers all of the services promised in the contract regardless of whether they are explicitly stated or are implied by customary business practices. The Company determined that the subscription services, training, and licenses to integrate with third-party applications are each distinct and represent separate performance obligations. The setup activities are not distinct from the subscription service and are combined into the subscription service performance obligation. However, setup fees may provide a material right to the customer that has influence over the customer's decision to renew. All setup fees are assessed on a quantitative and qualitative basis to determine whether they represent a distinct performance obligation. The total contract value is allocated to each performance obligation identified based on the standalone selling price of the service. Discounts are allocated pro-rata to the identified performance obligations. For contracts that have an original duration of one year or less, the Company uses the practical expedient applicable to such contracts and does not consider the time value of money.

Revenues from subscription services are recognized ratably, on a straight-line basis, over the term of the subscription. Revenues from material rights are recognized ratably over the period in which they are determined to provide a material right to the customer, which is generally three years. Revenues from training and licenses to integrate with third-party applications are recognized upon delivery which generally occurs when the subscription service is operational and ready to go live.

Subscription renewal fees are recognized ratably over the term of the renewal, which is typically one year. While most 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, the Company stops recognizing subscription revenues at the end of the current contract term, even though services may continue to be provided for a period of time until the renewal process is completed. Once the renewal is complete, the Company recognizes 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, then the remaining fees from material rights, if any, are immediately recognized.

The Company capitalizes certain incremental costs of obtaining a contract, which includes sales commissions. As there are not commensurate commissions earned on renewals of the subscription services, the Company capitalizes commissions related to subscription services provided under both the initial contract and renewal periods and amortizes the capitalized commissions on a straight-line basis over the customer life, which is determined to be five years. For commissions that are earned on renewal contracts with an original duration of one year or less, the Company uses the practical expedient applicable to such commissions and recognizes the commissions immediately as expense

instead of capitalizing. Amortization of capitalized commissions was \$0.7 million, \$0.6 million and \$0.5 million for the years ended December 31, 2021, 2020 and 2019, respectively.

Revenue Recognition – Software License, Maintenance and Support, and Professional Services

With the acquisition of LEEDS, LLC (“LEEDS”), the Company also generates revenues from the sale of (i) a software license and related maintenance and support services to its proprietary software technology and (ii) professional software development services to a single customer, through a sales channel intermediary. The Company has been serving this customer for more than ten years. 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.

The Company recognizes revenue from the license of its software license and related maintenance and support services revenues upon the satisfaction of performance obligations. The Company determined that the term-based software license should be combined with the maintenance and support services as a single performance obligation. The nature of the maintenance and support services, inclusive of the Company’s obligation to provide additional, unspecified software functionality over the license term, in allowing this single customer to be flexible in utilizing the customized software to respond to the changing regulatory environment, are critical to the customer’s ability to derive benefit and value from the license. Contractually, the Company provides continuous access to the software, maintenance and support services, helpdesk and technical support over the contract term, hence a time-elapsed method is used to recognize revenue. Revenues from the software license and maintenance and support services are recognized ratably over the term of the contract because the Company’s obligation to provide the license and related support services is uniform over the license term. The Company generally invoices for these services on a monthly basis in arrears. If a customer does not renew prior to the contract term expiring, the Company stops recognizing subscription revenues at the end of the current contract term, even though services may continue to be provided for a period of time until the renewal process is completed. Once the renewal is complete, the Company recognizes the revenues for the period between the expiration of the original contract term and the completion of the renewal process in the month in which the renewal is executed.

Professional services revenue consists of fees typically associated with the design, development and testing of product feature enhancements requested by the customer. The customer procures additional development services as needed, and generally based upon annual development plans negotiated by and between the customer and the Company. Professional services do not result in significant customization of the maintenance and support services and are considered distinct services. All, and any part of the output, of the Company’s professional services towards such product feature enhancements, belong to the customer. Accordingly, the Company satisfies the performance obligations over time as the performance of work typically creates or enhances an asset that the customer controls as the asset is created or enhanced. As these product feature enhancements each have a fixed contract fee, the Company recognizes revenue over time proportionally as work is performed, based on cumulative resource costs incurred as a percentage of total forecast costs for the project. Management uses significant judgement in making these estimates, which affect the timing of revenue recognition, including how much revenue to recognize in each period, and in estimating the timing of revenue recognition for remaining performance obligations (see Note 3). The contract price and billing schedule are stated in each work order and the Company generally invoices in monthly installments upon the commencement of each work order.

Gross versus net presentation

The Company’s single software license and related service agreement was facilitated through a sales channel intermediary. The Company presents the total value of the billings to the customer as revenue (or gross) and that portion of the billings to the customer retained by the sales channel intermediary as a sales cost which is included in sales and marketing in the accompanying statement of operations, as the Company has determined that it was the principal in the arrangement. The Company’s conclusion is based on its role in controlling the goods and services consumed by the end-customer throughout the license term or development life cycle, combined with its control over the price charged to the end-user for such goods and services. The fees paid to the sales channel intermediary are expensed as incurred as it relates to a period of performance of one year, and the sales channel intermediary is paid the same rate of commission on any license term renewals or additional professional services that are sold to the customer.

Costs

Costs include the cost of revenues and charges for impairment of property and equipment. Cost of revenues related to gunshot detection services primarily includes depreciation expense associated with capitalized customer acoustic sensor networks, communication expenses, costs related to hosting the Company's service application, costs related to operating its Incident Review Center (the "IRC"), providing remote and on-site customer support and maintenance and forensic services, certain personnel and related costs of operations, stock-based compensation and allocated overhead, which includes information technology, facility and equipment depreciation costs.

Cost of revenues related to software license, maintenance and support, and professional services primarily include personnel costs of project managers, developers and analysts working on the various support tickets and work orders. Such costs are expensed as incurred as they do not create an asset owned by the Company. The Company expenses all costs as incurred for services that are not recoverable under an enforceable contract.

Advertising and Public Relations Costs

Advertising and public relations costs are expensed as incurred. Advertising and public relations costs were \$1.3 million, \$0.3 million and \$0.5 million for the years ended December 31, 2021, 2020 and 2019, respectively, and were included in sales and marketing expense in the consolidated statements of operations.

Research and Development Costs

Research and development costs are expensed as incurred and consisted primarily of salaries and benefits, consultant fees, certain facilities costs, and other direct costs associated with the continued development of the Company's solutions.

Product development costs are expensed as incurred until technological feasibility has been established, which the Company defines as the completion of all planning, designing, coding and testing activities that are necessary to establish products that meet design specifications including functions, features and technical performance requirements. The Company has determined that technological feasibility for its software products is reached shortly before they are released for sale. Costs incurred after technological feasibility is established are not significant, and accordingly the Company expenses all research and development costs when incurred.

Cash and Cash Equivalents

Cash and cash equivalents include all cash and highly liquid investments with an original maturity of three months or less.

At December 31, 2021 and 2020, the Company's cash and cash equivalents consisted of cash deposited in financial institutions.

Foreign Currency

The functional currency for the Company's foreign subsidiaries is the local currency. The assets and liabilities of the subsidiary are translated into U.S. dollars using the exchange rate as of each balance sheet date. Revenues and expenses are translated at the average exchange rates for the period. Gains and losses from translations are recognized in foreign currency translation included in accumulated other comprehensive income (loss) in the accompanying consolidated balance sheets. Foreign currency exchange gains and losses that are realized are recorded in other expense, net, in the accompanying consolidated statements of operations.

Accounts Receivable, net and Contract Asset

Accounts receivable, net consist of trade accounts receivables from the Company's customers, net of allowance for doubtful accounts if deemed necessary. Accounts receivable are recorded as the invoiced amount. Accounts receivable also consists of trade accounts receivables (net of any commissions) from the sales channel intermediary through which the Company provides software license, maintenance and support, and professional services. The Company does not require collateral or other security for accounts receivable. Contract asset consists of revenues recognized in advance of invoicing the customer. The Company does not charge interest on accounts receivable that are past due.

The Company periodically evaluates the collectability of its accounts receivable and provides an allowance for potential credit losses based on the Company's historical experience. At December 31, 2021 and 2020, the Company had a provision against accounts receivable of \$74,000. If a receivable is deemed by the Company to be uncollectible, the Company will write off the receivable to bad debt expense.

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 December 31, 2021, one customer accounted for 65% of the Company's total accounts receivable. 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 year ended December 31, 2021, two customers accounted for 28% and 14% of the Company's revenues. For the year ended December 31, 2020, two customers accounted for 18% and 15% of the Company's revenues. For the year ended December 31, 2019, two customers accounted for 20% and 14% of the Company's revenues.

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.

Business Acquisitions

The Company allocates the fair value of purchase consideration to the tangible assets acquired, liabilities assumed, and intangible assets acquired based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. When determining the fair values of assets acquired and liabilities assumed, management makes significant estimates and assumptions, especially with respect to intangible assets. Acquisition-related expenses are recognized separately from the business combination and are recognized as general and administrative expense as incurred.

Goodwill

Goodwill represents the excess of amounts paid over the fair value of net assets acquired from an acquisition. Goodwill is tested for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis (October 1) and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. These events or circumstances could include a significant change in the business climate, legal factors, operating performance indicators, competition, or sale or disposition of a significant portion of a reporting unit. The Company performed its annual test for goodwill impairment as of October 1, 2021 and concluded that no goodwill impairment charge was necessary. Since inception through December 31, 2021, the Company has not recorded any goodwill impairment.

Intangible Assets

Intangible assets consisted of acquired patents and capitalized legal fees related to obtaining patents, as well as customer relationships from the Company's acquisition of HunchLab in 2018 and LEEDS in 2020 (see Note 4, Business Acquisitions). Patent assets are stated at cost, less accumulated amortization. Customer relationships are recorded at fair value as of the date of the acquisition. Intangible assets are amortized on an attribution method, over their expected useful lives, which range from three years for patents and seven to fifteen years for customer relationships.

Property and Equipment, net

Property and equipment, net, is stated at cost, less accumulated depreciation and amortization. The Company depreciates property and equipment using the straight-line method over their estimated useful lives, ranging from three to five years. Leasehold improvements are amortized over the shorter of the asset's useful life or the remaining lease term. Costs incurred to develop software for internal use and for the Company's solutions are capitalized and amortized over such software's estimated useful life. Internally developed software costs capitalized during all periods presented have not been material. Property and equipment, net also includes software technology resulting from the Company's acquisition of HunchLab, which was recorded at fair value as of the date of the acquisition, amortized on the straight-line basis over five years.

Impairment of Long-Lived Assets

The Company annually reviews long-lived assets for impairment or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by comparing the carrying amount of the asset to the future undiscounted net cash flows which the asset is expected to generate. If such assets are determined to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the future undiscounted net cash flows arising from the assets. Assets to be disposed of are reported at the lower of their carrying amounts or fair value less cost to sell.

Royalty Expense

In 2009, the Company entered into a license agreement with a third-party relating to a patented gunshot digital imaging system that facilitates integration with certain third-party systems. The terms of the license agreement require the Company to pay a one-time fee of \$5,000 for each license sold to a customer allowing the customer to integrate their ShotSpotter service with a third-party application, such as a video management system, with a minimum annual amount due of \$75,000. In 2021, 2020, and 2019, the Company incurred only the \$75,000 minimum amount. The license agreement renews automatically on each subsequent year unless it is terminated in accordance with the agreement.

Fair Value Measurements

The Company uses a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date. The three-level hierarchy prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information. Fair value focuses on an exit price and is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The inputs or methodology used for valuing financial instruments are not necessarily an indication of the risks associated with investing in those financial instruments. The three-level hierarchy for fair value measurements is defined as follows:

Level I — Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level II — Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level III — Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

An asset's or a liability's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Stock-Based Compensation

The Company generally grants options to purchase shares of its common stock to its employees, directors and non-employees for a fixed number of shares with an exercise price equal to the fair value of the underlying shares at the grant date. All stock option grants are accounted for using the fair value method, and stock-based compensation expense is recognized ratably over the requisite service period as the underlying options vest. The Company uses the Black-Scholes option pricing model to measure the fair value of its stock options.

The Company estimated the grant date fair value of its common stock options using the following assumptions:

Expected Term— The expected term represents the period that the stock-based compensation awards are expected to be outstanding. Since the Company did not have sufficient historical information to develop reasonable expectations about future exercise behavior, the Company used the simplified method to compute expected term, which reflects the weighted-average of time-to-vesting.

Risk-Free Interest Rate— The risk-free interest rate is based on the yield on U.S. Treasury yield curve in effect at the grant date.

Expected Volatility—The expected volatility is based on the historical volatility of the Company's stock.

Dividend Yield— Expected dividend yield is based on the Company's dividend policy at the time the options were granted. The Company does not plan to pay any dividends in the foreseeable future. Consequently, it has historically used an expected dividend yield of zero.

The Company uses the market closing price of its common stock as traded on the Nasdaq Capital Market to determine fair value.

The Company generally grants unvested restricted stock unit awards to non-employee directors and executive management for a fixed number of shares and a fixed vesting schedule. The restricted stock unit awards are valued using the closing price on the date of grant and stock-based compensation is recognized ratably over the requisite service period.

Forfeitures are recognized as and when they occur.

Segment Information

The chief operating decision maker is the Company's Chief Executive Officer, who allocates resources and assesses financial performance based upon discrete financial information at the consolidated level. There are no segment managers who are held accountable by the chief operating decision maker, or anyone else, for operations, operating results and planning for levels or components below the consolidated unit level. Accordingly, the Company has determined that it operates as a single operating and reportable segment.

Income Taxes

The Company records income taxes in accordance with the liability method of accounting. Deferred taxes are recognized for the estimated taxes ultimately payable or recoverable based on enacted tax law. The Company establishes a valuation allowance to reduce the deferred tax assets when it is more likely than not that a deferred tax asset will not be realizable. Changes in tax rates are reflected in the tax provision as they occur.

In accounting for uncertainty in income taxes, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the consolidated financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. The Company recognizes interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense.

Net Income (Loss) per Share

Basic net income (loss) per share is calculated by dividing net income (loss) by the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by dividing net income (loss) by the weighted-average number of common shares and common stock equivalents outstanding during the period. Common stock equivalents are only included when their effect is dilutive. Common stock equivalents and unvested restricted stock units are potentially dilutive securities and include convertible preferred stock, warrants and outstanding stock options. These potentially dilutive securities are excluded from the computation of diluted net income (loss) per share if their inclusion would be anti-dilutive.

Recent Accounting Pronouncements Not Yet Effective

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 ("CECL") and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The guidance will be effective at the beginning of the Company's first quarter of fiscal 2023. Early adoption of the amendments is permitted. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

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 guidance will be effective at the beginning of the Company's first quarter of fiscal 2022. Early adoption of the amendments is permitted. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

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.

Note 3. Revenue Related Disclosures

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

	Year Ended December 31,	
	2021	2020
Beginning balance	\$ 24,578	\$ 26,958
New billings	60,132	42,499
Revenue recognized during the year from beginning balance	(24,480)	(18,944)
Revenue recognized during the year from new billings	(33,509)	(25,947)
Foreign currency impact	(12)	12
Ending balance	<u>\$ 26,709</u>	<u>\$ 24,578</u>

The following table presents remaining performance obligations for contractually committed revenues as of December 31, 2021 (in thousands):

2022	\$ 37,539
2023	25,081
2024	18,345
Thereafter	11,344
Total	<u>\$ 92,309</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 December 31, 2021 and amounts under contract that will be invoiced after December 31, 2021.

During the year ended December 31, 2021, the Company recognized revenues of \$57.3 million from customers in the United States, and \$0.9 million from customers in South Africa and the Bahamas. During the year ended December 31, 2020, the Company recognized revenues of \$45.0 million from customers in the United States and \$0.7 million from customers in South Africa and the Bahamas. During the year ended December 31, 2019 the Company

recognized revenues of \$39.7 million from customers in the United States and \$1.0 million from a customer in South Africa.

During the year ended December 31, 2021, the Company recognized revenues of \$54.7 million from monthly subscription, maintenance and support services, and \$3.4 million from professional software development services. During the year ended December 31, 2020, the Company recognized revenues of \$45.7 million from monthly subscription, maintenance and support services. During the year ended December 31, 2019 the Company recognized revenues of \$40.8 million from monthly subscription, maintenance and support services.

Note 4. Business Acquisitions

During the fourth quarter of 2020, the Company acquired all the membership interest interests in 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 acquisition date fair value of the contingent earnout was \$0.2 million, resulting in a total purchase consideration of \$23.8 million.

The following table summarizes the final allocation of the purchase price as of the acquisition date (in thousands):

Cash and cash equivalents	\$	7,044
Accounts receivable and contract asset, net		1,060
Property and equipment, net		161
Operating lease right-of-use asset		225
Goodwill		1,432
Customer relationship		14,410
Other asset		45
Accrued expenses and other current liabilities		(458)
Other liabilities		(98)
Total estimated consideration	\$	<u>23,821</u>

Goodwill primarily represents the value of the employee workforce as well as cash flows from future customers. The Company expects to deduct the amortization of goodwill and intangible assets for tax purposes. A portion of the amortization deduction will commence upon settlement of contingent consideration and contingent liabilities.

The Company valued the customer relationship asset using the income approach. Significant assumptions include forecasts of revenues, cost of revenues, research and development expense, sales and marketing expense, general and administrative expense and estimated customer attrition rates. The Company discounted the cash flows at seven percent, reflecting the risk profile of the asset. The customer relationship asset is being amortized over an estimated useful life of 15 years.

Acquisition-related expenses totaled \$0.2 million and \$0.6 million for the years ended December 31, 2021 and 2020, respectively, which were included in general and administrative expense in the consolidated statements of operations.

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, 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 to zero of the contingent consideration liability.

In November 2020, using a Monte Carlo Simulation approach, the Company estimated the fair value of the contingent consideration liability classified within Level III of the fair value hierarchy at the acquisition date of

LEEDS to be \$0.2 million. During the year ended December 31, 2021, the fair value of the contingent consideration was increased by \$1.3 million based upon estimated 2022 revenue targets, representing an adjustment to the most likely outcome expected for the liability.

The changes in the fair value of the contingent consideration liability are summarized below (in thousands):

	Year Ended December 31,	
	2021	2020
Beginning balance	\$ 573	\$ 750
Payment of contingent consideration liability	(403)	(347)
Change in fair value of contingent consideration	1,330	—
Contingent consideration from business combination	—	170
Ending balance	<u>\$ 1,500</u>	<u>\$ 573</u>

There were no transfers into or out of Level III during the year ended December 31, 2021 and 2020.

Note 6. Goodwill

The changes in goodwill for 2021 and 2020 are as follows (in thousands):

	Year Ended December 31,	
	2021	2020
Beginning balance	\$ 2,811	\$ 1,379
Acquisition of LEEDS (see Note 4—Business Acquisitions)	—	1,432
Change during the year	5	—
Ending balance	<u>\$ 2,816</u>	<u>\$ 2,811</u>

The Company has not recorded any goodwill impairment charges through December 31, 2021.

Note 7. Intangible Assets, net

Intangible assets as of December 31, 2021 and 2020 are as follows (in thousands):

	2021		
	Gross	Accumulated Amortization	Net
Customer relationships	\$ 14,570	\$ (1,131)	\$ 13,439
Patents	1,214	(1,089)	125
Total intangible assets, net	<u>\$ 15,784</u>	<u>\$ (2,220)</u>	<u>\$ 13,564</u>

	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 \$1.0 million, \$0.2 million and \$0.09 million for the years ended December 31, 2021, 2020 and 2019, respectively.

The following table presents future intangible asset amortization as of December 31, 2021 (in thousands):

2022	\$	1,042
2023		1,020
2024		1,016
2025		978
2026		961
Thereafter		8,547
Total	<u>\$</u>	<u>13,564</u>

Note 8. Details of Certain Consolidated Balance Sheet Accounts

Prepaid expenses and other current assets (in thousands):

	2021	December 31,		2020
Prepaid software and licenses	\$	756	\$	653
Prepaid insurance		611		561
Other prepaid expenses		198		136
Deferred commissions		822		715
Other		117		107
	<u>\$</u>	<u>2,504</u>	<u>\$</u>	<u>2,172</u>

Accounts receivable and contract asset (in thousands):

	2021	December 31,		2020
Accounts receivable	\$	16,167	\$	12,459
Contract asset		41		536
Allowance for potential credit losses		(74)		(74)
	<u>\$</u>	<u>16,134</u>	<u>\$</u>	<u>12,921</u>

Other assets (in thousands):

	2021	December 31,		2020
Deferred commissions	\$	1,723	\$	1,465
Other		195		140
	<u>\$</u>	<u>1,918</u>	<u>\$</u>	<u>1,605</u>

Property and equipment, net (in thousands):

	December 31,	
	2021	2020
Deployed equipment	\$ 35,882	\$ 31,761
Computer equipment	1,745	1,550
Software	1,314	1,314
Furniture and fixtures	295	217
Leasehold improvements	30	306
Vehicles	239	124
Construction in progress	4,818	1,506
	\$ 44,323	\$ 36,778
Accumulated depreciation and amortization	(26,914)	(21,432)
	<u>\$ 17,409</u>	<u>\$ 15,346</u>

Depreciation and amortization expense during the years ended December 31, 2021, 2020 and 2019 was \$5.8 million, \$5.4 million and \$4.9 million, respectively.

Accrued expenses and other current liabilities (in thousands):

	December 31,	
	2021	2020
Personnel-related accruals	\$ 4,864	\$ 4,217
Royalties payable	47	55
Professional fees	925	92
Sales/ use tax payable	167	46
Contingent consideration	—	403
Operating lease liability	409	484
Other	268	316
	<u>\$ 6,680</u>	<u>\$ 5,613</u>

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

	December 31,	
	2021	2020
Operating lease liabilities	\$ 2,013	\$ 461
Contingent consideration liability	1,500	170
	<u>\$ 3,513</u>	<u>\$ 631</u>

Note 9. Impairment of Property and Equipment

During the years ended December 31, 2021 and 2020, the Company recognized impairment expense of \$25,000 and \$234,000, respectively, for the impairment of property and equipment primarily related to the book value of customer assets installed at certain customers that did not renew during the year. During the year ended December 31, 2019, the Company did not recognize any impairment.

Note 10. Financing Arrangements*Credit Agreement*

On September 27, 2018, the Company entered into a Credit Agreement with Umpqua Bank (the “Umpqua Credit Agreement”), which allowed the Company to borrow up to \$10.0 million under a revolving loan facility (the “Revolving Facility”). In August 2020, the Company entered into an amendment to its credit facility to increase the size of the available loan facility from \$10.0 million to \$20.0 million. The Company intends to use the Revolving Facility for general working capital purposes. Borrowings under the Umpqua Credit Agreement are secured by substantially all of the assets of the Company. The Umpqua Credit Agreement includes a letter of credit subfacility of up to \$3.0 million. Any amounts outstanding under the letter of credit subfacility reduce the amount available for the Company to borrow under the Revolving Facility.

Borrowings under the Umpqua Credit Agreement bear interest, at the Company’s option, at a rate equal to either (1) a base rate, which fluctuates daily and is the greater of (a) the prime rate in effect as of any date of determination and (b) the daily LIBOR rate as of such date of determination plus 1.0% per annum, or (2) a LIBOR rate, which can be for a period of 30, 60 or 90 days at the Company’s option and is equal to the published rate in the Wall Street Journal for such 30-, 60- or 90-day period two business days prior to the commencement of such period, in each case plus 2.0% per annum. The Company will be required to repay all amounts outstanding under the Umpqua Credit Agreement on September 27, 2022 or earlier if the Umpqua Credit Agreement is terminated prior to such date. The Umpqua Credit Agreement also includes an uncommitted incremental facility provision that would allow the Company, subject to satisfaction of certain conditions, including approval by Umpqua Bank, to increase the Revolving Facility up to a total of \$25.0 million.

Under the Umpqua Credit Agreement, the Company is subject to various negative covenants that limit, subject to certain exclusions, the Company’s ability to incur indebtedness, make loans, invest in or secure the obligations of other parties, pay or declare dividends, make distributions with respect to the Company’s securities, redeem

outstanding shares of the Company's 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 Company 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. The Company is also required to maintain certain financial covenants tied to its leverage, interest charges and profitability. In December 2021, the Company obtained a waiver for the financial covenant tied to its profitability

There were no borrowings outstanding as of December 31, 2021 and 2020.

Note 11. Related Party Transactions

During the year ended December 31, 2021, the Company recognized \$0.1 million in revenues, from ShotSpotter Labs projects with charitable organizations that have received donations from one of the Company's directors and one of the Company's significant shareholders. During the year ended December 31, 2020 and 2019, the Company recognized \$0.2 million and \$0.6 million, respectively, in revenues from ShotSpotter Labs.

Note 12. Income Taxes

The domestic and foreign components of net income (loss) before income tax expense were as follows (in thousands):

	Year Ended December 31,		
	2021	2020	2019
Domestic	\$ (4,280)	\$ 1,562	\$ 1,743
Foreign	(95)	(427)	14
Net income (loss) before income tax	<u>\$ (4,375)</u>	<u>\$ 1,135</u>	<u>\$ 1,757</u>

The provision (benefit) for income tax consists of the following (in thousands):

	Year Ended December 31,		
	2021	2020	2019
Current:			
Federal	\$ —	\$ —	\$ —
State	—	—	—
Foreign	6	(7)	7
Total	6	(7)	7
Deferred:			
Federal	—	—	—
State	—	—	—
Foreign	50	(83)	(48)
Total	50	(83)	(48)
Total income tax expense (benefit)	<u>\$ 56</u>	<u>\$ (90)</u>	<u>\$ (41)</u>

A reconciliation of income taxes at the statutory federal income tax rate to income tax expense (benefit) included in the accompanying consolidated statements of operations is as follows (in thousands):

	2021	December 31, 2020	2019
Income tax at statutory rate	\$ (919)	\$ 240	\$ 369
Change in valuation allowance	1,288	(165)	(17)
State tax	(288)	(37)	(133)
Stock-based compensation	62	(11)	(420)
Research and development credit	(160)	(103)	(82)
Foreign rate differential	7	(40)	(43)
Other	66	26	285
Total	<u>\$ 56</u>	<u>\$ (90)</u>	<u>\$ (41)</u>

Temporary differences that gave rise to significant portions of the Company's deferred tax assets and liabilities as of December 31, 2021 and 2020 were as follows (in thousands):

	Year Ended December 31,	
	2021	2020
Deferred tax assets:		
Net operating losses	\$ 19,920	\$ 20,265
Credits	2,557	2,292
Accruals and reserves	2,605	1,648
Deferred revenue and contract costs	140	296
Gross deferred tax assets	25,222	24,501
Valuation allowance	(24,955)	(23,667)
Net deferred tax assets	267	834
Deferred tax liabilities:		
Fixed assets and intangibles	(267)	(785)
Total deferred tax assets (liabilities), net	<u>\$ —</u>	<u>\$ 49</u>

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. The Company regularly assesses the likelihood that the deferred tax assets will be recovered from future taxable income. The Company considers 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 the Company's assessment of all available evidence, including the previous three years of U.S.-based taxable income and loss after permanent items, estimates of future profitability, and the Company's overall prospects of future business, the Company determined that it is more likely than not that the Company will not be able to realize a portion of the deferred tax assets in the future. The Company will continue to assess the potential realization of deferred tax assets on an annual basis, or an interim basis if circumstances warrant. If the Company's actual results and updated projections vary significantly from the projections used as a basis for this determination, the Company may need to change the valuation allowance against the gross deferred tax assets. Management determined that a valuation allowance of \$25.0 million and \$23.7 million was required as of December 31, 2021 and 2020, respectively.

The federal and state loss carryforwards begin to expire in 2027 and 2022, respectively, unless previously utilized. At December 31, 2021 and 2020, the Company had available net operating loss carryforwards of approximately \$78.4 million and \$80.4 million, respectively, for federal income tax purposes, of which \$73.5 million were generated before 2018 and will begin to expire in 2027. The remaining net operating losses of \$4.9 million can be carried forward indefinitely under the Tax Cuts and Jobs Act. The Company continually monitors all positive and negative evidence regarding the realization of its deferred tax assets and may record assets when it becomes more likely than not, than they will be realized, which may impact the expense or benefit from income taxes.

At December 31, 2021 and 2020, the net operating losses for state purposes are \$50.1 million and \$51.1 million, respectively, and will begin to expire in 2022 if not utilized.

As of December 31, 2021, the Company had available for carryover, research and experimental credits of approximately \$1.4 million for federal income tax purposes and \$1.4 million for state income tax purposes, which are available to reduce future income taxes. The federal research and experimental tax credits will begin to expire, if not utilized, in 2027. The California research and experimental tax credits carry forward indefinitely until utilized.

Section 382 of the Internal Revenue Code of 1986 (the "Code"), as amended, and similar California regulations impose substantial restrictions on the utilization of net operating losses and tax credits in the event of an "ownership change" of a corporation. Accordingly, the Company's ability to utilize net operating losses and credit carryforwards may be limited as the result of such an "ownership change" as defined in the Code.

Uncertain Tax Positions

The Company applied FASB ASC 740-10-50, Accounting for Uncertainty in Income Tax, which prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained.

A reconciliation of the beginning and ending amounts of unrecognized uncertain tax positions is as follows (in thousands):

Balance as of December 31, 2019	\$	772
Increases for current year tax positions		70
Increases for prior year tax positions		17
Balance as of December 31, 2020		859
Increases for current year tax positions		87
Increases for prior year tax positions		8
Balance as of December 31, 2021	\$	<u>954</u>

Of the total unrecognized tax benefits at December 31, 2021, no amount will impact the Company's effective tax rate. The Company does not anticipate that there will be a substantial change in unrecognized tax benefits within the next 12 months.

The Company recognizes interest and penalties related to unrecognized tax positions within the income tax expense line in the accompanying consolidated statements of operations. There were no accrued interest and penalties associated with uncertain tax positions as of December 31, 2021 or December 31, 2020.

The Company files federal and state income tax returns in the U.S, certain U.S. territories, and certain foreign jurisdictions. The statutes of limitations remain open for 2006 through 2021 in U.S. for federal and state purposes in the U.S. and certain U.S. territories. Years beyond the normal statutes of limitations remain open to audit by tax authorities due to tax attributes generated in earlier years which are being carried forward and may be audited in subsequent years when utilized.

Note 13. Capital Stock

Common Stock

The Company is authorized to issue 500,000,000 shares of common stock with a par value of \$0.005 per share. At December 31, 2021 and 2020, there were 11,703,430 and 11,538,998 shares of common stock issued and outstanding, respectively. Holders of common stock have voting rights equal to one vote per share of common stock held and are entitled to receive any dividends as may be declared from time to time by the Board.

At December 31, 2021, shares of common stock reserved for future issuance were as follows:

	December 31, 2021
Options outstanding	783,928
Shares available for future grant	1,661,956
Unvested restricted stock units	128,810
Total	<u>2,574,694</u>

Preferred Stock

The Company is authorized to issue 20,000,000 shares of preferred stock, with a par value of \$0.005. At December 31, 2021 and 2020, there was no preferred stock issued or outstanding.

Stock Repurchase Program

In May 2019, the Company's board of directors adopted a stock repurchase program for up to \$15 million of our common stock. Although the board of directors has authorized the stock repurchase program, it does not obligate the Company 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.

During the year ended December 31, 2021, the Company repurchased 95,151 shares of its common stock at an average price of \$37.82 per share for \$3.6 million. During the year ended December 31, 2020, the Company repurchased 74,520 shares of its common stock at an average price of \$21.65 per share for \$1.6 million. The repurchases were made in open market transactions using cash on hand, and all of the shares repurchased were retired.

Note 14. Net Income (Loss) per Share

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

	Year Ended December 31,		
	2021	2020	2019
Numerator:			
Net income (loss)	\$ (4,431)	\$ 1,225	\$ 1,798
Denominator:			
Weighted-average shares outstanding, basic	11,647,558	11,408,757	11,302,780
Weighted-average shares outstanding, diluted	11,647,558	11,730,294	11,846,348
Net income (loss) per share, basic	\$ (0.38)	\$ 0.11	\$ 0.16
Net income (loss) per share, diluted	\$ (0.38)	\$ 0.10	\$ 0.15

The following potentially dilutive shares outstanding at the end of the periods presented were excluded in the calculation of diluted net income (loss) per share as the effect would have been anti-dilutive:

	Year Ended December 31,		
	2021	2020	2019
Options to purchase common stock	783,928	573,340	269,202
Unvested restricted stock units	128,810	101,255	54,620
Total	<u>912,738</u>	<u>674,595</u>	<u>323,822</u>

Note 15. Common Stock Warrants

At December 31, 2021 and 2020, the Company had the following common stock warrants issued and outstanding:

Warrant Class	Shares		Issuance Date	Price per Share	Expiration Date
	2021	2020			
Common stock warrant	—	50,716	February 2014	\$ 0.1700	February 2021

The outstanding warrants for 50,716 shares were exercised in February 2021 on a cash basis and converted into 50,716 shares of common stock.

Note 16. Equity Incentive Plans

In February 2005, the Company adopted the 2005 Stock Plan, as amended in January 2010 and November 2012 (the “2005 Plan”). Under the 2005 Plan provisions, the Company was authorized to grant incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock units, and shares of restricted stock.

In May 2017, the Board and the Company’s stockholders approved the 2017 Equity Incentive Plan (the “2017 Plan”). As a result of the adoption of the 2017 Plan, no further grants may be made under the 2005 Plan. The 2017 Plan provides for the issuance of stock options, restricted stock units and other awards to employees, directors and consultants of the Company. The 2017 Plan included an evergreen provision which provides for the number of shares of common stock reserved for issuance under the 2017 Plan to automatically increase on January 1 of each year by the lesser of (1) 5% of the number of shares of the Company’s common stock outstanding on December 31st of the preceding calendar year or (2) such number of shares as determined by the board of directors. The Company's board of directors did not authorize the automatic increase to the 2017 Plan on January 1, for the year ended December 31, 2021.

The following table summarizes the activity of shares available for grant under the 2017 Equity Incentive Plan:

Shares available for grant at December 31, 2020	1,814,379
Increase in accordance with the evergreen provision	—
Options issued during the year	(111,489)
Canceled during the year	43,101
RSUs granted	(84,035)
Shares available for grant at December 31, 2021	<u>1,661,956</u>

Stock Options

Incentive stock options may only be granted to Company employees and may only be granted with an exercise price not less than the fair value of the common stock, or not less than 110% of fair value when the grant is issued to a person who, at the time of grant, owns stock representing more than 10% of the voting power of all classes of stock. Non-statutory stock options may be granted to Company employees, directors and consultants, and may be granted at a price per share not less than fair value on the date of the grant.

Options granted under the 2005 Plan and 2017 Plan generally vest over four years and expire no later than 10 years from the grant date. The 2005 Plan and 2017 Plan grants the Board discretion to determine when the options granted will become exercisable. The 2005 Plan and 2017 Plan allows for the exercise of unvested options with repurchase rights over the restricted common stock issued. At December 31, 2021, 2020, and 2019, there were no unvested options resulting from early exercises.

The fair value of stock option grants is set forth below and was determined using the Black-Scholes option pricing model with the following assumptions:

	Year Ended December 31,		
	2021	2020	2019
Fair value of common stock	\$31.12-\$48.05	\$23.49-\$34.07	\$20.07-\$44.95
Expected term (in years)	6	6	6
Risk-free interest rate	0.45%-1.62%	0.36%-0.83%	1.71%-2.49%
Expected volatility	65%-67%	64%-68%	64%-67%
Expected dividend yield	—	—	—

A summary of stock option activities during 2021, 2020 and 2019 is as follows:

	Number of Options Outstanding	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value per Option	Aggregate Intrinsic Value Exercised (in thousands)
Outstanding at December 31, 2018	820,186	\$ 8.44		
Granted	138,200	\$ 35.76	\$ 21.86	
Exercised	(307,365)	\$ 1.47		\$ 12,117
Canceled	(33,528)	\$ 24.80		
Outstanding at December 31, 2019	617,493	\$ 17.13		
Granted	347,095	\$ 32.14	\$ 19.15	
Exercised	(96,456)	\$ 3.25		\$ 2,257
Canceled	(54,890)	\$ 26.07		
Outstanding at December 31, 2020	813,242	\$ 24.58		
Granted	111,489	\$ 39.00	\$ 23.32	
Exercised	(97,702)	\$ 9.20		\$ 3,064
Canceled	(43,101)	\$ 35.84		
Outstanding at December 31, 2021	<u>783,928</u>	\$ 28.00		

Additional information for stock options at December 31, 2021 were as follows:

	Number of Options	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)	Weighted Average Remaining Contractual term (in years)
Outstanding at December 31, 2021	783,928	28.00	\$ 4,524	7.30
Exercisable at December 31, 2021	453,000	23.17	\$ 4,362	6.37

At December 31, 2021, total unrecognized stock-based compensation cost related to unvested stock options was \$6.5 million, which will be recognized ratably over a weighted-average period of 2.6 years.

No income tax benefits from stock-based compensation arrangements have been recognized in the consolidated statements of operations.

Restricted Stock Units

The Company grants restricted stock units (“RSU”) under the 2017 Plan to executive management and its non-employee directors. RSUs granted to executive management generally vest over four years. RSUs granted to non-employee directors generally vest annually. A new non-employee director will receive an initial grant upon joining the board of directors and all directors will receive new annual grants at each annual meeting of shareholders.

The following table summarizes the activity of RSU awards:

	Number of RSUs	Weighted Average Grant Date Fair Value per RSU	Aggregate Fair Value of RSUs Vested (in thousands)
Unvested RSUs at December 31, 2018	110,764	\$ 19.58	
Granted	62,382	\$ 44.05	
Vested	(58,150)	\$ 24.75	\$ 2,610
Unvested RSUs at December 31, 2019	114,996	\$ 30.24	
Granted	91,759	\$ 31.75	
Vested	(54,970)	\$ 32.12	\$ 1,766
Forfeited	(10,277)	\$ 41.50	
Unvested RSUs at December 31, 2020	141,508	\$ 29.67	
Granted	84,035	\$ 37.86	
Vested	(80,972)	\$ 29.22	\$ 3,078
Forfeited	(15,761)	\$ 31.38	
Unvested RSUs at December 31, 2021	<u>128,810</u>	\$ 35.09	

At December 31, 2021, total unrecognized stock-based compensation cost related to RSUs was \$3.8 million, which will be recognized ratably over a weighted-average period of 2.4 years.

2017 Employee Stock Purchase Plan

In May 2017, the Board and the Company’s stockholders adopted the 2017 Employee Stock Purchase Plan (“2017 ESPP”). The 2017 ESPP permits the maximum discounted purchase price permitted under U.S. tax rules, including a “lookback”, which allows eligible employees to purchase shares of the Company’s common stock at a 15% discount to the lesser of the fair market value of common stock at the beginning and end of the offering period.

The 2017 ESPP initial offering period, which began in June 2017, ran for approximately 24 months in length, and contained four 6-month purchase periods. Subsequent offering periods generally run for six months each. An employee’s purchase rights terminate immediately upon termination of employment or other withdrawal from the 2017 ESPP. No participant will have the right to purchase shares of common stock in an amount that has a fair market value of more than \$25,000 determined as of the first day of the applicable purchase period, for each calendar year.

The 2017 ESPP contains a provision which provides for an automatic annual share increase on January 1 of each year, in an amount equal to the lesser of (1) 2% of the total number of shares of common stock outstanding on December 31st of the preceding calendar year, (2) 150,000 shares or (3) such number of shares as determined by the board of directors. The Company’s board of directors did not authorize the automatic increase to the 2017 ESPP plan on January 1, for the year ended December 31, 2021.

The following table summarizes the activity of shares available under the 2017 ESPP:

Shares available for grant at December 31, 2020	429,521
Increase in accordance with the evergreen provision	—
Issued during the year	(30,193)
Shares available for grant at December 31, 2021	<u>399,328</u>

The Company accounts for employee stock purchases made under its 2017 ESPP using the estimated grant date fair value of accounting in accordance with ASC 718, *Stock Compensation*. The Company values ESPP shares using the Black-Scholes model.

Total stock-based compensation expense is recorded in the consolidated statements of operations and was allocated as follows (in thousands):

	Year Ended December 31,					
	2021		2020		2019	
Cost of revenues	\$	1,567	\$	1,093	\$	670
Sales and marketing		1,612		1,268		955
Research and development		734		580		365
General and administrative		1,959		1,521		1,067
Total	\$	<u>5,872</u>	\$	<u>4,462</u>	\$	<u>3,057</u>

Stock-based compensation expense is recognized over the award's expected vesting schedule. Forfeitures are recognized as and when they occur.

Note 17. Benefit Plan

The Company sponsors a 401(k) plan to provide defined contribution retirement benefits for all eligible employees. Participants may contribute a portion of their compensation to the plan, subject to the limitations under the Internal Revenue Code. The Company is allowed to make 401(k) matching contributions as defined in the plan and as approved by the Board. The Company matched 50% of employee contributions made during 2021 up to a maximum of 2% of compensation; the match will be deposited to the employees' 401(k) accounts in 2022. During the years ended December 31, 2021, 2020, and 2019, the Company recorded \$0.3 million, \$0.2 million, and \$0.2 million, respectively, of matching contribution expense. These matching contributions are subject to additional vesting criteria.

Note 18. Leases

The Company leases its principal executive offices in Fremont, California, under a non-cancelable operating lease which expires on February 28, 2027. This lease does not have significant rent escalation holidays, concessions, leasehold improvement incentives, contingent rent provisions or other build-out clauses. The lease contains an option to extend the term for an additional period of up to five years subject to certain terms and conditions. The lease includes both lease (e.g., fixed monthly rent payments) and non-lease components (e.g., common-area or other maintenance costs) which are accounted for as a single lease component as the Company elected the practical expedient to group lease and non-lease components for all leases. Upon lease commencement on October 1, 2021, the Company recognized an operating lease right-of-use asset of \$2.0 million and a corresponding lease liability of \$2.0 million, using a discount rate of 3.00%, which reflects the Company's incremental borrowing rate for a similar asset and similar term as of the date of commencement.

In April 2020, the Company executed a lease agreement for office space in Washington, DC, under a non-cancelable operating lease that expires in November 2025. This lease does not have significant rent escalation holidays, concessions, leasehold improvement incentives, or other build-out clauses. Further, the lease does not contain contingent rent provisions. The lease contains an option to extend the term for an additional five years subject to certain terms and conditions. This lease includes both lease components (e.g., fixed payments including rent, taxes, parking, and insurance costs) and non-lease components (e.g., common-area or other maintenance costs), which are accounted for as a single lease component as the Company has elected the practical expedient to group lease and non-lease components for all leases. Upon lease commencement on May 1, 2020, the Company recognized an operating lease right-of-use asset of \$0.5 million and a corresponding lease liability of \$0.5 million, using a discount rate of 3.85%, which reflects the Company's incremental borrowing rate for a similar asset and similar term as of the date of commencement.

In November 2020, as part of the LEEDS acquisition, the Company acquired the non-cancelable operating lease of LEEDS' office in Newark, New Jersey, which expires in July 2022. This lease does not have significant rent escalation holidays, concessions, leasehold improvement incentives, or other build-out clauses. Further, the lease does not contain contingent rent provisions or renewal options. This lease includes both lease (e.g., fixed monthly rent payments) and non-lease components (e.g., common-area or other maintenance costs) which are accounted for as a single lease component as the Company has elected the practical expedient to group lease and non-lease components for all leases. In measuring the lease liability upon acquisition, the Company used a discount rate of 5% which reflects the Company's incremental borrowing rate for a similar asset and similar term as of the date of acquisition.

The operating lease cost recognized for the year ended December 31, 2021, 2020 and 2019, was \$0.6 million \$0.4 million and \$0.3 million, respectively.

Supplemental information related to the operating leases as follows (in thousands):

	December 31,	
	2021	2020
Assets		
Operating lease right-of-use assets	\$ 2,323	\$ 882
Liabilities		
Lease liabilities (short-term) (presented within Accrued expenses and other current liabilities)	\$ 409	\$ 484
Lease liabilities (long-term) (presented within Other liabilities)	2,013	461
Total operating lease liabilities	<u>\$ 2,422</u>	<u>\$ 945</u>

	Year Ended December 31,	
	2021	2020
Cash paid for amounts included in the measurement of lease liabilities (presented within Operating cash flows)	<u>\$ 553</u>	<u>\$ 386</u>

Maturities of the lease liabilities at December 31, 2021 are as follows (in thousands):

2022	\$ 508
2023	523
2024	538
2025	545
2026	499
Total lease payments, undiscounted	2,613
Less: imputed interest	(191)
Total	<u>\$ 2,422</u>

Note 19. 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 defendants. 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 are 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 its 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.

Note 20. Subsequent Events

Subsequent to the year-end through March 16, 2022, the Company purchased 57,623 shares of its common stock at an average price of \$28.34 per share for \$1.6 million. The repurchases were made in open market transactions using cash on hand, and all of the shares repurchased were retired.

On January 3, 2022, the Company acquired 100% of the member interests in Forensic Logic, LLC, the premier provider to law enforcement of network search technology and cloud-based information services, for a purchase consideration of \$5.0 million in cash, subject to working capital adjustments, \$15.0 million of the Company's common stock and additional contingent consideration. The contingent consideration is an earnout agreement for 2022 and 2023. Up to \$9.5 million in contingent earnout will be payable based on Forensic Logic's revenues generated during 2022. An additional amount up to \$10.5 million contingent earnout will be payable based on Forensic Logic's revenues during 2023. The amounts will be determined and paid within approximately 90 days after the end of 2022 and 2023, respectively.

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

None.

Item 9A. 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 Rules 13-a-15(e) and 15d-15(e) under the Exchange Act) 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 December 31, 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. We are in the process of integrating internal controls at LEEDS into our control structure. We consider the ongoing integration of LEEDS to represent a material change in our internal control over financial reporting. 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 December 31, 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.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) and Rule 15d-15(f) of the Exchange Act. Internal control over financial reporting consists of policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) are designed and operated to provide reasonable assurance regarding the reliability of our financial reporting and our process for the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements. Our management evaluated the effectiveness of our internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework (2013). Based on the results of our evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2021.

Item 9B. OTHER INFORMATION

None.

Item 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

PART III.

We will file a definitive Proxy Statement for our Annual Meeting (our “Proxy Statement”) with the SEC, pursuant to Regulation 14A, not later than 120 days after the end of our fiscal year. Accordingly, certain information required by Part III has been omitted under General Instruction G(3) to Form 10-K. Only those sections of the Proxy Statement that specifically address the items set forth herein are incorporated by reference.

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item 10 is incorporated herein by reference to the sections of our Proxy Statement under the captions “Information Regarding the Board of Directors and Corporate Governance”, “Executive Officers”.

Item 11. EXECUTIVE COMPENSATION

The information required by this Item 11 is incorporated herein by reference to the sections of our Proxy Statement under the caption “Executive and Director Compensation”.

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

The information required by this Item 12 is incorporated herein by reference to the sections of our Proxy Statement under the caption “Security Ownership of Certain Owners and Management”.

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

The information required by this Item 13 is incorporated herein by reference to the sections of our Proxy Statement under the captions “Transactions with Related Persons and Indemnification”, “Information Regarding the Board of Directors and Corporate Governance”.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item 14 is incorporated herein by reference to the section of our Proxy Statement under the caption “Principal Accountant Fees and Services”.

PART IV.

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Consolidated Financial Statements

We have filed the consolidated financial statements listed in the Index to Consolidated Financial Statements, Schedules, and Exhibits included in Part II, Item 8, "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

(a)(2) Financial Statements Schedules

All financial statements schedules have been omitted because they are not applicable, not material, or the required information is shown in the Index to Consolidated Financial Statements included in Part II, Item 8, "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

(a)(3) Exhibits

See the Exhibit Index below in this Annual Report on Form 10-K. The exhibits listed in the Exhibit Index below are filed or incorporated by reference as part of this Annual Report on Form 10-K.

Item 16. FORM 10-K SUMMARY

None.

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	
4.1	Form of Common Stock Certificate	S-1/A	333-217603	4.1	May 19, 2017	
4.2	Investors' Rights Agreement, by and among ShotSpotter, Inc. and the investors listed on Exhibit A thereto, dated July 12, 2012	S-1	333-217603	4.2	May 2, 2017	
4.3	Form of Warrant to purchase shares of Series B-1 Preferred Stock issued to certain stockholders in connection with the sale of Series B-1 Preferred Stock in February 2014	S-1	333-217603	4.6	May 2, 2017	
4.4	Form of Warrant to Purchase Shares of Common Stock issued to Roth Capital Partners, LLC in June 2017	10-Q	001-38107	10.1	August 14, 2017	
4.5	Description of Capital Stock	10-K	001-38107	4.5	March 13, 2020	
10.1(#)	ShotSpotter, Inc. Amended and Restated 2005 Stock Plan	S-1	333-217603	10.1	May 2, 2017	
10.2(#)	Forms of Option Agreement and Option Grant Notice under the Amended and Restated 2005 Stock Plan	S-1	333-217603	10.2	May 2, 2017	
10.3(#)	ShotSpotter, Inc. 2017 Equity Incentive Plan	S-1/A	333-217603	10.3	May 19, 2017	
10.4(#)	Forms of Option Agreement and Option Grant Notice under the 2017 Equity Incentive Plan	S-1/A	333-217603	10.4	May 19, 2017	
10.5(#)	Form of Restricted Stock Unit Grant Notice and Restricted Stock Unit Restricted Terms and Conditions under the 2017 Equity Incentive Plan	S-1/A	333-217603	10.5	May 19, 2017	
10.6(#)	ShotSpotter, Inc. 2017 Employee Stock Purchase Plan	S-1/A	333-217603	10.6	May 19, 2017	
10.7(#)	Form of Restricted Stock Unit Grant Notice for Directors	10-Q	001-38107	10.6	August 14, 2017	
10.8(#)	Form of Indemnification Agreement by and between ShotSpotter, Inc. and each director and executive officer	S-1	333-217603	10.7	May 2, 2017	
10.9(#)	Offer Letter between ShotSpotter, Inc. and Ralph A. Clark, dated March 13, 2017	S-1	333-217603	10.8	May 2, 2017	
10.10(#)	Offer Letter between ShotSpotter, Inc. and Alan R. Stewart, dated March 13, 2017	S-1	333-217603	10.9	May 2, 2017	

10.11(#)	Offer Letter between ShotSpotter, Inc. and Paul S. Ames, dated March 13, 2017	S-1	333-217603	10.11	May 2, 2017	
10.12(#)	Offer Letter between ShotSpotter, Inc. and Gary T. Bunyard, dated March 13, 2017	S-1	333-217603	10.12	May 2, 2017	
10.13(#)	Offer Letter between ShotSpotter, Inc. and Sam Klepper, dated March 2, 2018	10-Q	001-38107	10.1	May 10, 2018	
10.14(#)	Offer Letter between ShotSpotter, Inc. and Nasim Golzadeh, dated February 20, 2019	10-K	001-38107	10.16	March 4, 2019	
10.15	Lease Agreement between Washington Township Health Care District and ShotSpotter, Inc., dated August 16, 2021	10-Q	001-38107	10.1	November 15, 2021	
10.16	Credit Agreement between Umpqua Bank and ShotSpotter, Inc., dated September 27, 2018	10-Q	001-38107	10.1	November 14, 2018	
10.17	First Amendment to Credit Agreement between Umpqua Bank and ShotSpotter, Inc., dated May 21, 2019	8-K	001-38107	10.1	May 24, 2019	
10.18	Second Amendment to Credit Agreement between Umpqua Bank and ShotSpotter, Inc., dated August 14, 2020	8-K	001-38107	10.1	August 19, 2020	
10.19	Amended and Restated Nonemployee Director Compensation Policy, dated February 17, 2022					X
21.1	List of Subsidiaries					X
23.1	Consent of Baker Tilly US, LLP, Independent Registered Public Accounting Firm for ShotSpotter, Inc.					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 Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
32.2*	Certification of 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	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

Indicates management contract or compensatory plan.

* Furnished herewith and not deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act (whether made before or after the date of the Form 10-K), irrespective of any general incorporation language contained in such filing.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

SHOTSPOTTER, INC.

Date: March 28, 2022

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

Date: March 28, 2022

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

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Ralph A. Clark and Alan R. Stewart, jointly and severally, his or her attorneys-in-fact, each with the power of substitution, for him or her in any and all capacities, to sign any amendments to this report, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Ralph A. Clark Ralph A. Clark	President, Chief Executive Officer, and a Director (Principal Executive Officer)	March 28, 2022
/s/ Alan R. Stewart Alan R. Stewart	Chief Financial Officer (Principal Financial and Accounting Officer)	March 28, 2022
/s/ Pascal Levensohn Pascal Levensohn	Director	March 28, 2022
/s/ Thomas T. Groos Thomas T. Groos	Director	March 28, 2022
/s/ Ruby Sharma Ruby Sharma	Director	March 28, 2022
/s/ Randall Hawks, Jr. Randall Hawks, Jr.	Director	March 28, 2022
/s/ Marc Morial Marc Morial	Director	March 28, 2022
/s/ William J. Bratton William J. Bratton	Director	March 28, 2022
/s/ Deborah Elam Deborah Elam	Director	March 28, 2022
/s/ Roberta Jacobson Roberta Jacobson	Director	March 28, 2022

SHOTSPOTTER, INC.

AMENDED AND RESTATED NONEMPLOYEE DIRECTOR COMPENSATION POLICY

ADOPTED BY THE BOARD OF DIRECTORS: FEBRUARY 17, 2022

1. GENERAL

This ShotSpotter, Inc. Amended and Restated Nonemployee Director Compensation Policy (the “*Policy*”) is designed to provide for the compensation of each member of the board of directors (the “*Board*”) of ShotSpotter, Inc. (the “*Company*”) who is not an employee of the Company or any of its subsidiaries (each, a “*Nonemployee Director*”). The Policy is effective as of February 17, 2022 and will continue in effect until its termination by the Board. The Policy replaces and supersedes any and all compensation policies or programs previously established or maintained by the Company with respect to Nonemployee Directors; provided, however, that any options or restricted stock units (“*RSUs*”) outstanding on such effective date shall not be affected by this Policy and shall continue to be governed by the grant notice, agreement and equity incentive plan relating to such options or RSUs.

2. ADMINISTRATION

The Board, or any committee to whom the Board delegates the requisite authority, will administer the Policy. The Board (or such committee) will have the sole discretion and authority to administer, interpret, amend and terminate the Policy, and the decisions of the Board (or such committee) will be final and binding on all persons having an interest in the Policy.

3. ELIGIBILITY

Each Nonemployee Director will be eligible to receive the compensation set forth in the Policy in accordance with the terms of the Policy. Such compensation will be paid or granted, as applicable, automatically and without further action of the Board or any Board committee to each Nonemployee Director.

4. ANNUAL CASH COMPENSATION

(a) **Cash Retainers.** Each Nonemployee Director is eligible to receive cash retainers at the applicable rates set forth in the following table for each full year of service as (i) a chairperson and/or member of the Board and (ii) a chairperson of a committee of the Board (“*Committee*”):

	Role	Annual Retainer Rate
Board	Chair	\$65,000
	Member (not Chair)	\$40,000
Audit Committee	Chair	\$15,000
	Member (not Chair)	\$7,000
Compensation Committee	Chair	\$10,000
	Member (not Chair)	\$5,000
Nominating and Corporate Governance Committee	Chair	\$7,500
	Member (not Chair)	\$3,000

Each Nonemployee Director will be eligible to receive each type of retainer set forth in the table above that is applicable to such Nonemployee Director. Retainer payments will be made quarterly in arrears on or before the last business day of each calendar quarter and will be pro-rated for partial quarters of service based on the number of days served in the quarter divided by the number of days in the quarter. Retainer payments for the quarter in which the 2022 annual meeting of stockholders occurs will also be pro-rated for the change in retainer amounts to take effect as of the date of such meeting.

(b) Ability to Take Cash Compensation as RSUs.

(i) Election.

(A) 2022 Cash Compensation. Prior to March 31, 2022, each Nonemployee Director may elect to receive 100% of the annual cash compensation set forth in Section 4(a) for the second, third and fourth quarters of 2022 as RSUs under the Company's 2017 Equity Incentive Plan or any successor equity incentive plan (the "**Plan**") for that number of shares equal to (x) the projected cash compensation for such Nonemployee Director for such quarters as determined pursuant to Section 4(a) above based on Board and Committee membership as of April 1, 2022 divided by (y) the closing price of the Company's common stock on the date of grant, rounded down to the nearest whole share; provided, however, that the number of shares subject to any Optional RSU Grant (as defined below) may be reduced to the extent necessary to ensure that the Company's compensation of Nonemployee Directors does not exceed the limit set forth in Section 3(e) of the Plan.

(B) Cash Compensation for 2023 and Future Years. Prior to the start of each fiscal year (commencing with 2023), each Nonemployee Director may elect to receive 100% of the annual cash compensation set forth in Section 4(a) for that next fiscal year as RSUs under the Plan for that number of shares equal to (x) the projected annual cash compensation for such Nonemployee Director for the fiscal year as determined pursuant to Section 4(a) above based on Board and Committee membership as of the first day of such fiscal year divided by (y) the closing price of the Company's common stock on the date of grant, rounded down to the nearest whole share; provided, however, that the number of shares subject to any Optional RSU Grant (as defined below) may be reduced to the extent necessary to ensure that the Company's compensation of Nonemployee Directors does not exceed the limit set forth in Section 3(e) of the Plan.

Any RSU grant made pursuant to Clause (A) or (B) above is referred to herein as an "**Optional RSU Grant**". A Nonemployee Director may only elect to receive an Optional RSU Grant during a period in which the Company is not in a quarterly or special blackout period and the Nonemployee Director is not aware of any material non-public information. Any election to receive an Optional RSU Grant must be submitted to the Company's Chief Financial Officer in writing and will be irrevocable for the applicable fiscal year, and will be subject to such rules, conditions and procedures as shall be determined by the Board or the Compensation Committee, in its sole discretion. Each Optional RSU Grant will be subject to the terms of this Section 4(b), the Plan, and the applicable award agreement in the form adopted from time to time by the Board or its Compensation Committee.

(ii) Grant Date. The grant date for an Optional RSU Grant will be April 15, 2022 in the case of an election made pursuant to clause (A) and January 1 of the applicable fiscal year in the case of an election made pursuant to clause (B); provided, however, that in the event the grant date for the Optional RSU Grant is not a trading day on the Nasdaq Stock Market LLC, then the grant date shall be the next trading day.

(iii) Vesting. Each Optional RSU Grant will vest in equal increments on the last trading day in each fiscal quarter occurring during the period covered by the election, provided in each case that the holder remains a Nonemployee Director on such vesting date. Optional RSU Grants will not be subject to accelerated vesting in connection with a Change in Control (as defined in the Plan).

(iv) **Changes in Cash Compensation Amount.** In the event a Nonemployee Director were to become entitled to a greater annual cash compensation amount (either as a result of an increase in the cash compensation amounts approved by the Board or a new Committee membership or role), such Nonemployee Director will be entitled to receive the difference paid in cash pursuant to the terms above. There would be no effect upon the Optional RSU Grant in the event a Nonemployee Director would have otherwise been entitled to a lesser amount of cash compensation than that which was used to calculate the Optional RSU Grant as a result of a decrease in the cash compensation amounts approved by the Board or a decreased Committee membership or role.

5. RSU AWARDS

(a) **Initial Awards.** Each Nonemployee Director elected to the Board after this Policy is adopted, other than at an annual meeting of stockholders (a “*New Director*”), will be eligible to receive an RSU award (an “*Initial Award*”) based on the dollar amounts set forth in the following table, multiplied by a fraction, the numerator of which is the number of days that will elapse between and including the date of his or her appointment and the first anniversary of the previous annual meeting of stockholders, and the denominator of which is 365:

	Role	Dollar Value of Initial Award
Board	Chair	\$150,000, subject to reduction as provided below
	Member (not Chair)	\$125,000

If a New Director is appointed as the chairperson of the Board and the chairperson of any Committee(s) in connection with his or her initial election to the Board, the dollar value of his or her Initial Award in respect of being chairperson of the Board will be decreased by the cash retainer amount(s) applicable to the chairperson role(s) of such Committee(s) (e.g., if the chairperson of the Board is also the chairperson of the Compensation Committee, the dollar value of the Initial Award for the New Director associated with serving on as the chairperson of the Board will be reduced from \$150,000 to \$140,000). The date of grant of Initial Awards will be the effective date of such New Director’s appointment to the Board or, if such date is within a closed trading window under the Company’s Policy Regarding Stock Trading by Officers, Directors and Other Designated Employees, the next business day on which the trading window is open.

(b) **Annual Awards.** On the date of each annual meeting of stockholders, each Nonemployee Director in office immediately after such meeting will be eligible to receive an RSU award (an “*Annual Award*”) for service as a Nonemployee Director based on the dollar amounts set forth in the following table:

	Role	Dollar Value of Annual Award
Board	Chair	\$150,000, subject to reduction as provided below
	Member (not Chair)	\$125,000

If, on the date of grant of an Annual Award, any Nonemployee Director is serving as the chairperson of the Board and also the chairperson of any Committee(s), the dollar value of his or her Annual Award in respect of being chairperson of the Board will be decreased by the cash retainer amount(s) applicable to the chairperson role(s) of such Committee(s) (e.g., if the chairperson of the Board is also the chairperson of the Compensation Committee, the dollar value of the Annual Award associated with serving on as the chairperson of the Board will be reduced from \$150,000 to \$140,000). The date of grant of Annual Awards will be the date of the applicable annual meeting of stockholders.

(c) **Number of Shares Subject to RSU Awards.** The number of shares subject to an Initial Award or Annual Award (either, an “*RSU Award*”) will be equal to (i) the applicable dollar amount determined pursuant

to Section 5(a) or 5(b) above, divided by (ii) the closing price of the Company's common stock on the date of grant, rounded down to the nearest whole share; provided, however, that the number of shares subject to any RSU Award may be reduced to the extent necessary to ensure that the Company's compensation of Nonemployee Directors does not exceed the limit set forth in Section 3(e) of the Plan.

(d) Other Terms of RSU Awards. Each RSU Award will be granted under the Plan and will be subject to the terms of the Plan, the applicable award agreement and this Policy. Each RSU Award will vest on the earlier of (i) the first anniversary of the date of grant and (ii) the date of the next annual meeting of stockholders. In addition, the vesting of all RSU Awards will accelerate in full upon a Change in Control (as defined in the Plan) or immediately prior to the effectiveness of a Nonemployee Director's resignation or removal (and contingent upon the effectiveness of a Change in Control) in the event that the Nonemployee Director is required to resign his or her position as a Nonemployee Director as a condition of the Change in Control or the Nonemployee Director is removed from his or her position as a Nonemployee Director in connection with the Change in Control. Vesting will cease upon the termination of the Nonemployee Director's service as a member of the Board and any RSUs subject to such RSU Award that are unvested on the date of such termination will be automatically forfeited by such Nonemployee Director on such date.

6. EXPENSES

Each Nonemployee Director will be eligible for reimbursement from the Company for all reasonable out-of-pocket expenses incurred in connection with attending in-person meetings of the Board or any Committee. To the extent that any taxable reimbursements are provided to any Nonemployee Director, they will be provided in accordance with Section 409A of the Internal Revenue Code of 1986, including, but not limited to, the following provisions: (i) the amount of any such expenses eligible for reimbursement during such individual's taxable year may not affect the expenses eligible for reimbursement in any other taxable year; (ii) the reimbursement of an eligible expense must be made no later than the last day of such individual's taxable year that immediately follows the taxable year in which the expense was incurred; and (iii) the right to any reimbursement may not be subject to liquidation or exchange for another benefit.

List of Subsidiaries of ShotSpotter, Inc.

Company Name	Jurisdiction
ShotSpotter (Pty.) Ltd.	South Africa
LEEDS, LLC	United States of America

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Forms S-8 (File Nos. 333-237217, 333-226053 and 333-218712) and Form S-3 (File No. 333-226052) of ShotSpotter, Inc. of our report dated March 29, 2021, relating to the consolidated financial statements, which appears in this annual report on Form 10-K for the year ended December 31, 2021.

/s/ Baker Tilly US, LLP (formerly known as Baker Tilly Virchow Krause, LLP)

Minneapolis, Minnesota
March 28, 2022

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Ralph A. Clark, certify that:

1. I have reviewed this Annual Report on Form 10-K 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 officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 28, 2022

/s/ Ralph A. Clark

Ralph A. Clark
Chief Executive Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Alan Stewart, certify that:

1. I have reviewed this Annual Report on Form 10-K 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 officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 28, 2022

/s/ Alan Stewart

Alan Stewart
Chief Financial Officer

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

I, Ralph A. Clark, certify pursuant to 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), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K of ShotSpotter, Inc. for the year ended December 31, 2021, fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act and that information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of ShotSpotter, Inc.

Date: March 28, 2022

/s/ Ralph A. Clark

Ralph A. Clark
Chief Executive Officer

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

I, Alan Stewart, certify pursuant to 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), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K of ShotSpotter, Inc. for the year ended December 31, 2021, fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act and that information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of ShotSpotter, Inc.

Date: March 28, 2022

/s/ Alan Stewart

Alan Stewart

Chief Financial Officer
