

# Annual Report 2022



**SafetySmart™**

The SafetySmart Platform brings together four specialized software solutions and objective data to help law enforcement and civic leadership better protect their communities by ensuring the right resources are provided when and where they're needed most.



**ShotSpotter®**

The leading acoustic gunshot detection system



**CrimeTracer™**

#1 search engine for investigative leads



**CaseBuilder™**

A centralized investigation management system



**ResourceRouter™**

Resource deployment software for field staff planning



May 1, 2023

Dear Fellow Shareholders,

I am very proud to write this letter under our recently announced new brand and company name SoundThinking. Our core purpose continues to be focused on bringing to market leading technology solutions that help drive positive public safety outcomes. We also acknowledge that we have evolved into a very different company from the one started 25 years ago.

The public safety landscape has significantly changed over the past five years. The broad ecosystem faces both many new challenges and increased scrutiny. We have been intentional in expanding our suite of transformative solutions and advisory services to help our partners address those challenges. We believe our broad capabilities can empower law enforcement and civic leaders in helping them to create safer and healthier neighborhoods. In short, our ambitions have grown far beyond our invention of the acoustic gunshot detection category and it was time for our name to reflect those ambitions.

The SoundThinking corporate name represents our commitment to providing innovative technologies and solutions that assist with fast and precise response to save lives and deter criminal gunfire. Our investigation solutions help increase case closure rates and improve community confidence. And our resource deployment solution acts as a force multiplier in an environment that is experiencing declining resources and delivers rich data that can be leveraged to support community violence prevention programs. SoundThinking also embodies the sound strategic advice we offer to the overall public safety ecosystem through trusted partnerships tied to a suite of services and solutions that ultimately help to create safer neighborhoods.

The SafetySmart Platform is the **product brand** and is comprised of an integrated suite of four data-driven tools enabling law enforcement and community organizations to be



more efficient, effective, and equitable in driving positive public safety outcomes.

Designed with a holistic focus on public safety in mind, our SafetySmart platform helps ensure the right resources are allocated when and where they're needed most.

#### The SafetySmart Platform includes:

- ShotSpotter, the leading acoustic gunshot detection system that alerts police to virtually all gunfire within a city's ShotSpotter coverage area within 60 seconds, helping reduce police response times to gun incidents and save lives.
- CrimeTracer, the leading law enforcement search engine that enables investigators to search through more than 1 billion criminal justice records from across jurisdictions to generate tactical leads and quickly make intelligent connections.
- CaseBuilder, a comprehensive investigative management solution for tracking, reporting, collaborating on and clearing cases. It produces a single electronic courtroom-ready document for prosecutors to help take offenders off the streets.
- ResourceRouter, software that directs the deployment of patrol or community group resources in an objective way to maximize the impact of limited resources and improve community safety.

We believe these solutions address the demands of the market that are dealing with four powerful and long-term structural trends:

- First, the uptick in violent crime has been measurable and the economic and social costs staggering.
- Second, from a political perspective, recent local elections have had public safety as the #1 or #2 issue. The defund the police movement has seemingly withered and there is growing support at the local, federal and state level to be supportive of refunding the police while still holding them accountable to transparency and constitutional policing.



- Third, local law enforcement has been operating at significantly below their budgeted staffing levels as they grapple with the resignation and retirement of experienced officers. This is taking place within the context of a challenging recruiting environment as the policing profession has become a less attractive career option for many.
- And fourth, local law enforcement is lagging on the adoption of digital transformation solutions which would enable them being more efficient, effective and equitable in providing public service.

While the above represents real challenges, we believe the silver lining is the collective political will and budgetary resources to address these challenges are stronger and more robust than they have been in recent years. These four core trends combined with the constructive funding environment should create structural tailwinds that can support our profitable growth over the long term.

Our long-term strategic business plan builds upon the strong, trusted relationships we have secured over the years with our core buying center of public safety agency command staff. We have consistently achieved high Net Promoter Score (NPS) results which have been driven by differentiated, high-quality technology solutions combined with our unique customer on-boarding and customer success focus. The “return on our investment” in relationship capital have resulted in GAAP revenue retention of over 99% three years in a row.

We believe we can also leverage our trusted partner status to sell beyond our core dominance in the acoustic gunshot detection space to our other integrated solutions on the SafetySmart Platform. Further, we believe there are solution adjacencies that we can add onto the platform and bring additional value and impact to our customers.

Our financial performance in 2022 was the result of strong sales execution; successful customer engagement/retention management and disciplined expense control. Top line revenue increased over 39% to \$81 million from 2021. The increase was due to revenues related to our Forensic Logic acquisition and growth from 100 miles of ShotSpotter gunshot detection going live from new customers and expansions. Revenue retention was impressive at 124% in 2022 and in line with 125% in 2021.



Gross margin increased to 58% in 2022 from 56% in 2021 even with the completion of our 3G sensor replacement project. Our net income was \$6.4 million or \$0.52 per share on a fully diluted basis, in 2022 compared to a net loss of \$4.4 million or (\$0.38) per share on a fully diluted basis, in 2021. Importantly, adjusted EBITDA increased 54% to \$15.9 million in 2022, representing a 20% adjusted EBITDA margin, from \$10.9 million in 2021. We believe our excellent Net Promoter Score of 56 promotes strong viral sales trends that drive sales and marketing spend of \$0.40 to acquire and convert \$1 worth of annualized contract value in the next 12 months.

As of year-end 2022, our balance sheet remained strong with \$43.7 million of deferred revenue and \$10.5 million of cash and cash equivalents and \$31.0 million of accounts receivable. This includes investments of approximately \$4.9 million of cash on our Forensic Logic acquisition; approximately \$3.1 million of cash in share repurchases and approximately \$3.4 million on our 3G replacement project. We have no debt outstanding and approximately \$25.0 million available on a line of credit with Umpqua Bank. The board approved a \$25.0 million stock repurchase program and we expect to be in the market opportunistically repurchasing our shares at valuation levels we find attractive. Lastly, we entered 2023 with \$79.7 million in annual recurring revenue up 26% from the year prior, providing solid financial visibility into our 2023 revenue guidance.

Of course, none of this is possible without the passion and dedication present in each of our employees and for whom we strive to create a safe and inclusive work environment. SoundThinking was recently recertified as a Great Place to Work earlier this year. We are proud to report that 87% of our employees say SoundThinking is a great place to work, where people feel that they can come and be as they are to do work that matters in a mission-driven, high purpose work environment. The company also benefits from an engaged and diverse board of directors, and a set of rigorous governance practices and oversight. We continue to be inspired by and are grateful for their support and guidance.

Our future is bright, and we view the path forward not as a singular company journey but as a collective stakeholder journey that includes the customers we serve along with you, our investors. To quote a powerful African proverb, “If you want to go fast, go alone; if you want to go far, go together.”



Please take the time to read our Proxy Statement for the 2022 Annual Meeting of Stockholders along with our 2022 Annual Report.

Thank you again for all your support of our mission of making communities safer.

Sincerely,

A handwritten signature in black ink, appearing to read "R Clark", written in a cursive style.

Ralph Clark  
President and CEO

**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, 2022

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

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

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to § 240.10D-1(b).

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 \$26.91 per share of the Registrant's common stock as reported on the Nasdaq Capital Market on June 30, 2022 was \$246,884,476.

The number of shares of Registrant's common stock outstanding as of March 7, 2023 was 12,266,468.

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, 21, 2023, 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, 2022.

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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:

- 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.
- 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 in the past 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.
- The nature of our business may result in undesirable press coverage or other negative publicity, which could 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.
- Cyber-attacks, malicious internet-based activity, online and offline fraud, and other similar activities threaten the confidentiality, integrity, and availability of our sensitive information and information technology systems, and those of the third parties upon which we rely. These attacks could materially disrupt our systems and operations, supply chain, and ability to produce, sell and distribute our goods and services.
- The COVID-19 pandemic has had a material adverse effect on our business, and may have an adverse effect on our business in the future.
- 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.

## PART I.

### Item 1. BUSINESS

#### Overview

We bring the power of digital transformation to law enforcement and security personnel by providing precision-policing and security solutions. As of December 31, 2022 we had approximately 250 customers and to date have worked with approximately 2,100 agencies to help drive more efficient, effective, and equitable public safety outcomes. Our Precision Policing Platform™ includes ShotSpotter Respond™, COPLINK X, ShotSpotter Investigate™, ShotSpotter GCM™, and ShotSpotter Connect®. Our security solutions include ShotSpotter SecureCampus® and ShotSpotter SiteSecure™.

Our flagship public safety solution, ShotSpotter Respond, is the leading outdoor gunshot detection, location and alerting system. ShotSpotter Investigate and ShotSpotter GCM (case management software to help produce courtroom-ready cases) and COPLINK X (an investigative lead search tool to accelerate crime solving) provide agencies with a cloud-based investigative digital case folder and analytical and collaboration tools to improve case closure rates. Our patrol management software, ShotSpotter Connect, uses artificial intelligence-driven analysis to help strategically plan directed patrols for maximum impact across a diverse set of crime types. Our security solutions, ShotSpotter SecureCampus and ShotSpotter SiteSecure, are typically smaller-scale deployments of ShotSpotter Respond vertically marketed to universities, corporate campuses, highways and key infrastructure centers to mitigate risk and enhance security by notifying authorities of outdoor gunfire incidents, saving critical minutes for first responders to arrive. In 2019, we created a technology innovation unit, ShotSpotter Labs, to expand our efforts supporting innovative uses of our technology to help protect wildlife and the environment.

As of December 31, 2022, ShotSpotter Respond, ShotSpotter SecureCampus and ShotSpotter SiteSecure had coverage areas under contract for over 1,060 square miles, of which 980 square miles had gone live. Coverage areas under contract for ShotSpotter Respond included over 151 cities and coverage under contract for ShotSpotter SecureCampus and ShotSpotter SiteSecure included 19 campuses/sites across the United States, South Africa and the Bahamas, including some of the 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 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.

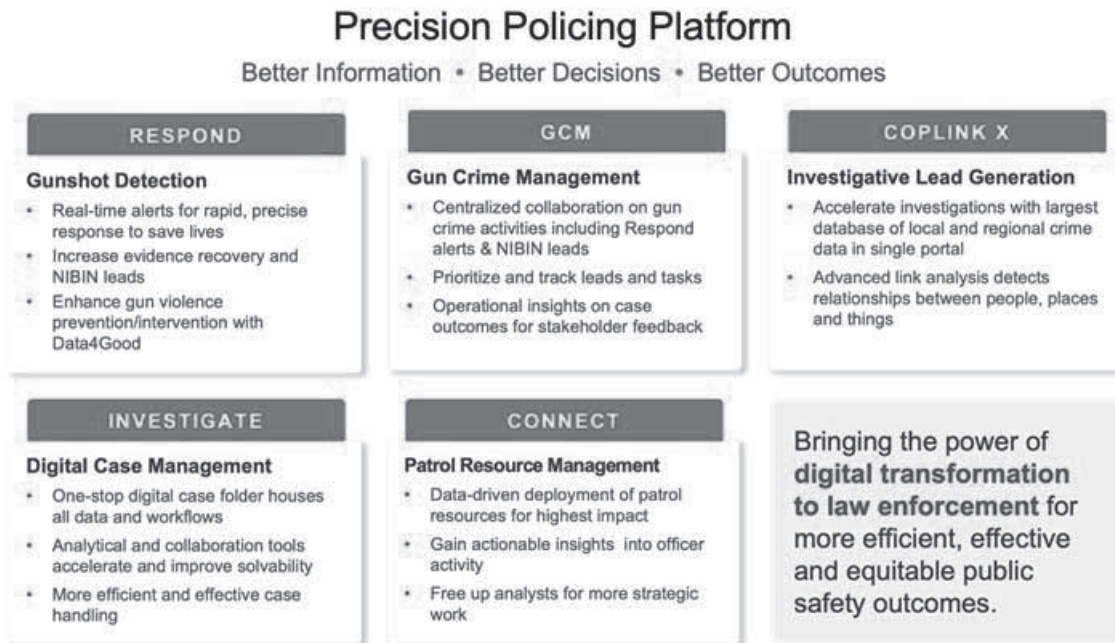
### ***Low Case Closure/Victim Resolution Problem***

According to a report published by The Marshall Project in 2022, homicide clearance rates in the United States reached a 40-year low of less than 50% in 2021. 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 precision policing

solutions include ShotSpotter Respond, ShotSpotter Connect, ShotSpotter Investigate, ShotSpotter GCM, which launched in 2022, and COPLINK X which was introduced in 2022.



### ShotSpotter Respond

ShotSpotter Respond, our acoustic gunshot detection technology 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”) that has locations in Fremont, CA and Washington, D.C. 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*

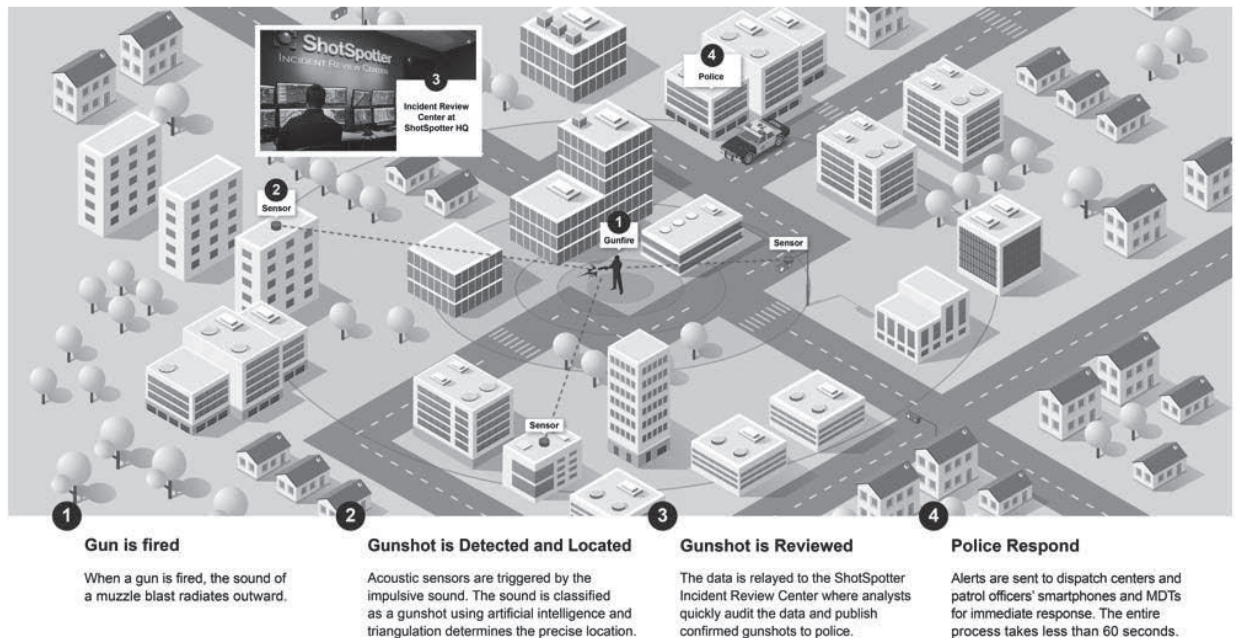
The heart of our gunshot detection solutions is our sophisticated and specialized software. Our software analyzes audio signals for potential gunshots detected by our intelligent sensors. Our sensor filters out ambient background

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 out by our machine classifier algorithms are sent to the incident review specialists in our IRC for analysis and human classification. Incident notifications are sent when the incident is confirmed as gunfire by one of our incident review specialists and may include 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. Alerts are delivered using push notifications to our mobile, desktop or browser applications and through 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 permanently deleted after 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 10 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 Centers- 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 Fremont, CA and Washington, D.C. 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, high-capacity or fully automatic weapons and vehicles.

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 ShotSpotter 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 and dispatch centers. 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 investigators and attorneys 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 employees have testified in over 250 cases throughout the United States. Our forensic analyses have survived dozens of challenges in numerous states, under both the Frye and Daubert standards of admissibility. The following is an example of a DFR.

#### Detailed Forensic Report:

City	Metropolis, US	Incident #	54321
Zone	MetropolisCityNorth	DocketFile #	21-CR-54321-A
Ref. Date	01 JAN 2021	Case Name	State v John Doe
Cust. Ref#	Z1-12345-01	Report Date	01 JAN 2021


**ShotSpotter**

**DETAILED FORENSIC REPORT**

**Shooting Description**

At 22:18:49 (10:18:49 PM) hours on January 01, 2021, ShotSpotter detected a Multiple Gunshot incident in Metropolis, US. ShotSpotter recorded the event as Incident# 54321 and located it at 1234 Main St.

**Position with Respect to the Coverage Area**

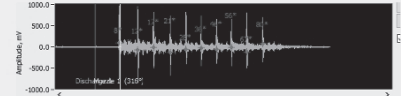


**FIGURE 1.0**  
ShotSpotter City displays Metropolis, US at the time of the incident. The map pin indicates the location of the shooting incident.


City	Metropolis, US	Incident #	54321
Zone	MetropolisCityNorth	DocketFile #	21-CR-54321-A
Ref. Date	01 JAN 2021	Case Name	State v John Doe
Cust. Ref#	Z1-12345-01	Report Date	01 JAN 2021

**Site-specific Acoustics**

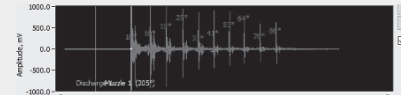
The depicted audio waveforms below, visually represent the incident audio that was recorded by, and downloaded from different sensors. Each sensor number also indicates the calculated distance from that sensor to the incident location. (Click the images to play the audio from each sensor.)



**Sensor 22 (123m) Incident# 54321**



**Sensor 5 (123m) Incident# 54321**



**Sensor 3 (123m) Incident# 54321**

For more information, email support@shotspotter.com, call 888.274.6877 or +1.510.794.3144. © 2019 ShotSpotter, Inc. All rights reserved. ShotSpotter® and the ShotSpotter logo are registered trademarks of ShotSpotter®, Inc.

### ShotSpotter Respond Results and Benefits

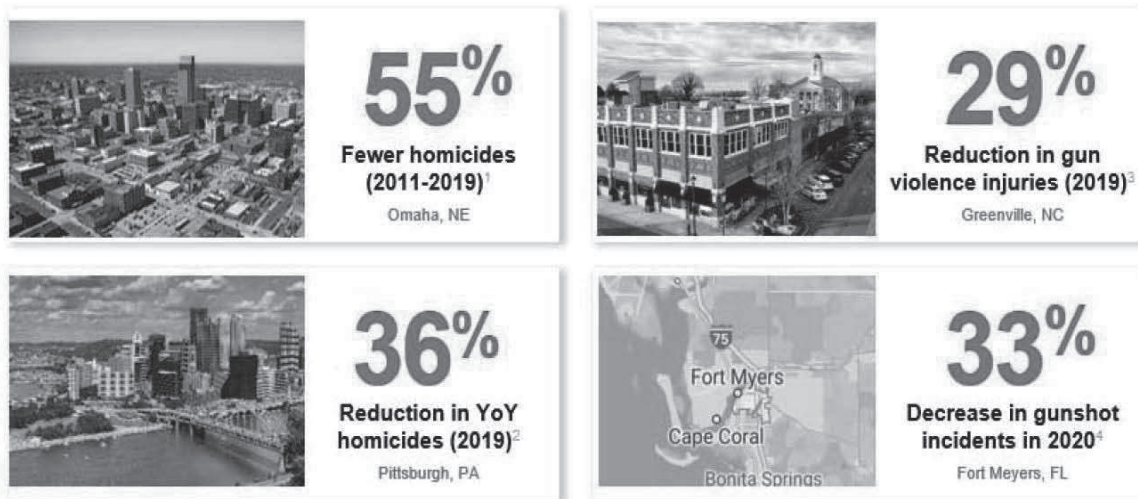
- Expedited Response to Gunfire.** In 2022, we issued over 270,000 gunshot alerts to our customers. In areas where gun violence is persistent, we believe most gunshots are not otherwise reported. Even when calls are made, many callers are unable to provide a location of the gunshot or other relevant 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.

### ***ShotSpotter Helps Save Lives***

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.

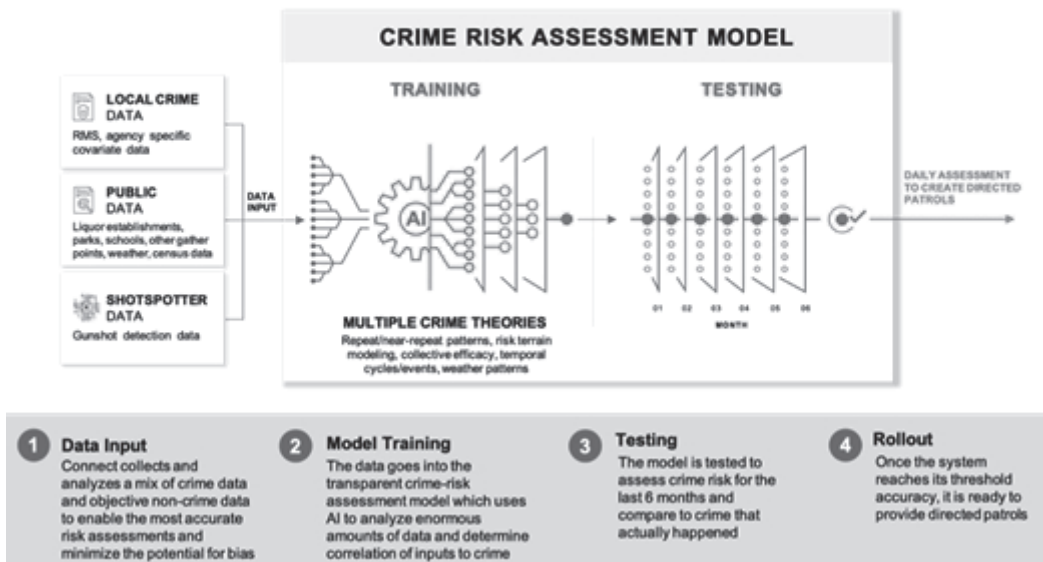
ShotSpotter Connect automates the planning of directed patrols for all serious crime data across an entire jurisdiction on a daily basis. With ShotSpotter Connect, analysts and supervisors review pre-generated directed patrol assignments that ensure officers are at the right place at the right time to maximize crime prevention while also guarding against over- and under-policing. Pre-patrol briefings provide situational awareness to officers and recommend patrol tactics, facilitating optimal outcomes even with limited staffing and resources.



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 tactical 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.

### **ShotSpotter Investigative Tools Portfolio**

ShotSpotter's investigative tools portfolio includes COPLINK X, ShotSpotter Investigate, and ShotSpotter GCM.

#### **COPLINK X**

COPLINK X is a powerful law enforcement search engine and information platform that enables law enforcement to search data from agencies across the United States using natural language speech terms and concepts. With COPLINK X, officers have instant access to information they need, enabling them to strike the right balance between crime reduction, community engagement, and personal safety. COPLINK X provides law enforcement with the abilities to:

- Search through structured and unstructured data to obtain immediate tactical leads.
- Access law enforcement data records from a centralized, user-friendly interface.
- Leverage advanced link analysis to quickly detect relationships between people, places and events.
- Link leads to reports, suspects and other entities.
- Identify crime trends to make operational and resource decisions.

COPLINK X was added to our investigative tools portfolio in January 2022 through the acquisition of Forensic Logic, LLC ("Forensic Logic").

#### **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.

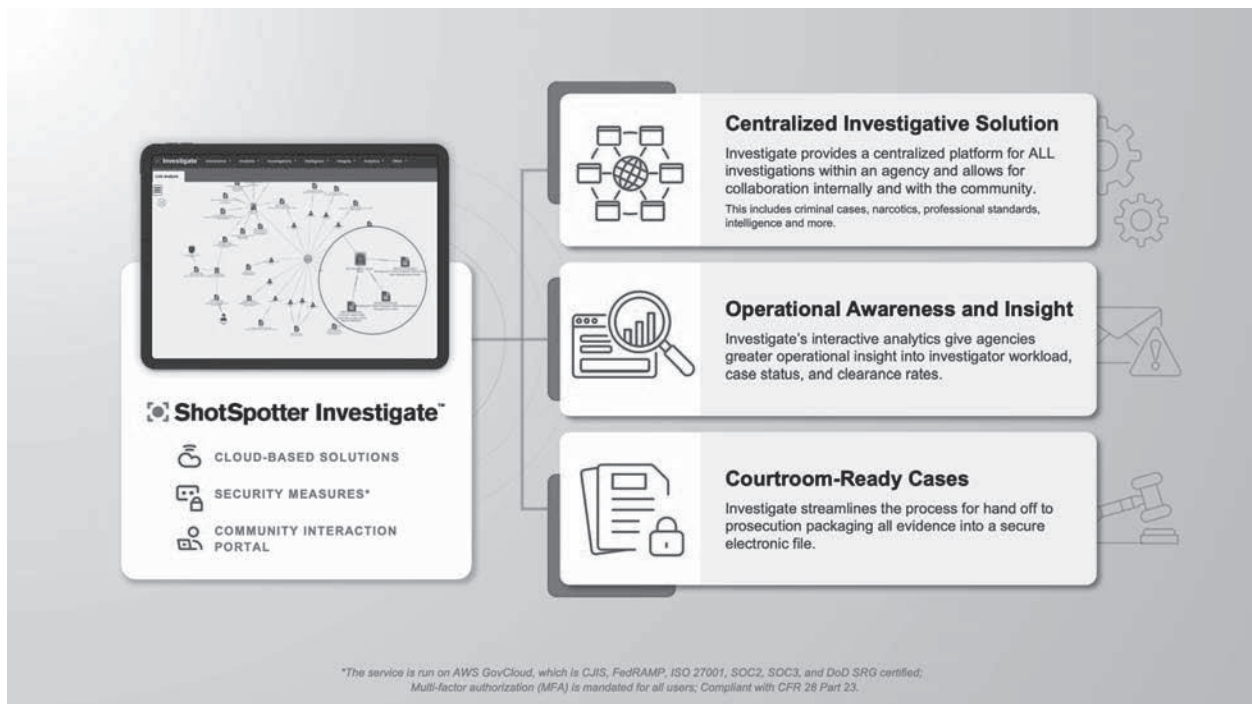
The average homicide clearance rate in the United States is less than 50% in 2021, according to a report published by The Marshall Project in 2022. This means that in more than half the cases the suspect is not held accountable and is free to commit another crime while victims' families don't get closure. 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.

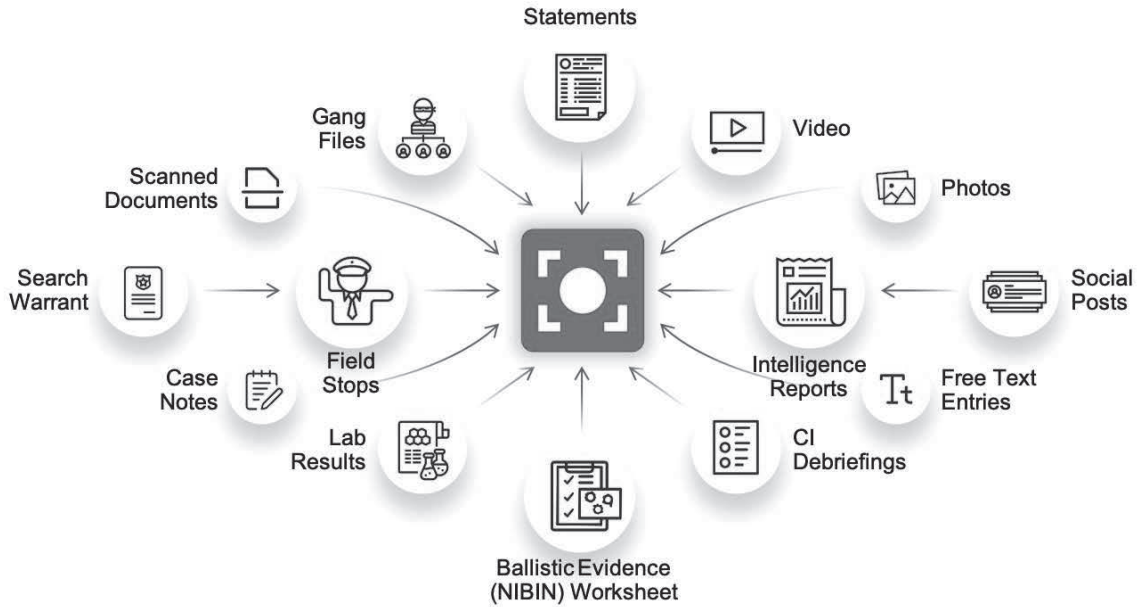
The most common tools that departments use to manage, track and solve cases range from purely manual to homegrown to limited function RMS modules or a mix of these. These approaches lack robust collaboration features, have poor data security features and the inability for supervisors to track case progress. 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 potential customers, such as prisons.

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-premise 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 cases 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 GCM (Gun Crime Management)

ShotSpotter GCM is a first-of-its-kind digital case management solution that focuses specifically on gun crime and was launched in June 2022. This is a new offering subset of ShotSpotter Investigate focused on gun violence. The solution automates the process by which key information is inputted, captured and used to identify associated gun crime cases leading to the identification of persons of interest. The solution also supports streamlined collaboration and generation of operational insights that we believe enables detectives and investigative supervisors to solve gun crime more efficiently and effectively.

### 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 Federal Bureau of Investigation's (the "FBI") 2018 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 2021, we also started focusing on smaller cities that may not be included in the 1,400 cities list and expect this could add another several hundred potential customers. We believe these smaller cities could invest an 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 started to focus 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 customers in this market for our security solutions continue to be 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 up to 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 potential international customers as well, who could invest over \$100,000 per year for the solution.

We 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, ShotSpotter Investigate, ShotSpotter GCM and COPLINK X 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, 2022. Our overall revenue retention rate was 124% for 2022, 125% for 2021 and was 107% for 2020.



- **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 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 in 2018, renamed ShotSpotter Connect, 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") provided entry into a comprehensive investigative case management solution, with our ShotSpotter Investigate solution. Our 2022 acquisition of Forensic Logic added investigative lead generation and search and analysis technology to our investigative tools portfolio. 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 on highways. As of December 31, 2022, we had 19 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 Labs to detect and locate gunfire incidents and alert park rangers 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 number of rhinos 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.

### **Customer Revenue Model**

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. ShotSpotter Connect, ShotSpotter Investigate, ShotSpotter GCM and COPLINK X are also sold on a subscription basis generally customized based on the number of sworn officers in a particular city. As of December 31, 2022, we had ShotSpotter Respond, Shotspotter SecureCampus and ShotSpotter SiteSecure coverage areas under contract of over 1,060 square miles in the aggregate, of which 980 miles have gone live. Coverage areas under contract for ShotSpotter Respond included over 151 cities and coverage areas under contract for ShotSpotter SecureCampus and ShotSpotter SiteSecure included 19 campuses/sites across the United States, South Africa and the Bahamas, including some of the largest cities in the United States. For the year ended December 31, 2022, our two largest customers, the City of New York and the City of Chicago accounted for 30% and 10% of our revenues, respectively. 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 our revenues, respectively. 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. Delivery of ShotSpotter Investigate in the City of New York will add additional professional services requirements and revenue.

### **Go-To-Market**

We sell our solutions through our direct sales teams, and starting in 2022, two reseller organizations. 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. The two reseller organizations focus on COPLINK X sales efforts and university security sales. 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 each product in our Precision Policing Platform. 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 suite of products. This effort is supplemented by content marketing 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 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 2021, we expanded our strategic communications capacity in response to false assertions made by certain media outlets and other organizations about our gunshot detection product.

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, 2022, we had 56 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 SecureCampus 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.

### ***COPLINK X competitors***

COPLINK X has a few direct competitors and also competes with a few alternative approaches to develop investigative leads. Direct competitors include Lexis Nexis Accurant Virtual Crime Center, Peregrine, and Finder Software Solutions. Alternative approaches to law enforcement data sharing include federal government-built applications like the FBI's National Data Exchange ("N-DEx") System, and the Navy's NCIS Law Enforcement Information Exchange ("LInX"). Both of these platforms are available to U.S. law enforcement agencies at little to no cost. An additional alternative to develop investigative leads is using the law enforcement agency's existing Record Management System ("RMS") search function. We believe COPLINK X is uniquely positioned due to its comprehensive and regularly enhanced features and functions, and our large private Criminal Justice Information Standard data set which we believe to be the largest available. Further, COPLINK X is integrated with the Thomson Reuters CLEAR™ platform for CLEAR and COPLINK X subscribers, allowing access to billions of additional public data records in a seamless experience.

### ***ShotSpotter GCM 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.

## **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, 2022, we had 38 issued patents, 31 in the United States, two in Brazil, and one each in Israel, Mexico, the United Kingdom, France and Germany.

The issued patents expire on various dates from 2023 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, 2022. We also have offices in Washington, D.C., Walnut Creek, California and Tucson, Arizona.

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, 2022, we employed 213 people, all of whom were based in the United States. Our total attrition rate in 2022 was less than 18%, we have not experienced work stoppages, and we believe our employee relations are good. We have been designated a Great Place to Work® Company for the last five years.

### ***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, 2022, women represented 32% 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, represented 44% 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 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 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.

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. Our board of directors 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 seven members on our board of directors. As of December 31, 2022, 43% of our board members were women and 71% of our board members were from underrepresented communities.

### ***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.

### ***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.

### **Corporate Information**

We were formed as ShotSpotter, Inc., a California corporation, in 2001 and reincorporated as ShotSpotter, Inc., a Delaware corporation, in 2004. We have also done 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](http://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 Respond™, ShotSpotter SecureCampus™, ShotSpotter SiteSecure™, ShotSpotter Connect®, ShotSpotter Investigate™, ShotSpotter GCM™, COPLINK X, ShotSpotter Labs 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](http://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](http://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 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 macroeconomic pressures, such as inflation and rising interest rates, 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 concentration of our revenue in a small number of large contracts with the potential for fluctuations and delays; and
- general economic factors, such as inflation and rising interest rates, political conditions, both domestically and internationally, and continuing effects of the COVID-19 pandemic.

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 revenue 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 in the past and may not achieve or maintain profitability in the future.***

We had a net income of \$6.4 million for the year ended December 31, 2022 and as of December 31, 2022, we had an accumulated deficit of \$92.4 million. Although we posted net income in 2019 and 2020 as well, we had a net loss in 2021 and we had net losses prior to 2019. 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:

- higher costs to procure the sensors required for our solutions due to supply chain pressures;
- 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, our acquisition of LEEDS in November 2020 and our acquisition of 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. Rising inflation rates may result in decreased demand for our products and services and increase our operating costs. 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**

***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, geopolitical developments such as the conflict between Ukraine and Russia and other macroeconomic pressures in the United States and the global economy such as rising inflation and interest rates, supply chain constraints, labor market shortages, energy prices and recession fears, 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 periods of economic uncertainty resulting from the COVID-19 pandemic, geopolitical developments such as the conflict between Ukraine and Russia and other macroeconomic pressures in the United States and the global economy such as rising inflation and interest rates, supply chain constraints, labor market shortages, energy prices and recession fears, 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 such global events.

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 periods of economic uncertainty resulting from the COVID-19 pandemic, geopolitical developments such as the conflict between Ukraine and Russia and other macroeconomic pressures in the United States and the global economy such as rising inflation and interest rates, supply chain constraints, labor market shortages, energy prices and recession fears, 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; geopolitical developments and other macroeconomic pressures as described above; 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 the third quarter of 2022, an audit of our processes under a SOC2 Type 2 audit commenced. This audit was completed in the fourth quarter of 2022. These initiatives 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 periods of economic uncertainty resulting from the COVID-19 pandemic, geopolitical developments such as the conflict between Ukraine and Russia and other macroeconomic pressures in the United States and the global economy such as rising inflation and interest rates, supply chain constraints, labor market shortages, energy prices and recession fears, 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. 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 had been provided; 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, which could adversely affect our growth prospects and results of operations.***

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 initiated a defamation lawsuit against VICE that has since been dismissed.

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, labor market shortages, inflation, interest rates, financial and credit market fluctuations, political deadlock, natural catastrophes, warfare, geopolitical tensions, such as the ongoing military conflict between Russia and Ukraine, terrorist attacks, climate change 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.

***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.

**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 periods of economic uncertainty resulting from the COVID-19 pandemic, geopolitical developments such as the conflict between Ukraine and Russia and other macroeconomic pressures in the United States and the global economy such as rising inflation and interest rates, supply chain constraints, labor market shortages, energy prices and recession fears, 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.

Furthermore, our reliance on wireless carriers may require updates to our technology and making such updates could also result in interruptions in our service or increase our costs of operations. 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.

***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.

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, at the beginning of the COVID-19 pandemic, we implemented a work from home policy. We expect to work in a hybrid work model for the foreseeable future. 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”) and in November 2022, we amended the Umpqua Credit Agreement to, among other things, extend the maturity date from November 27, 2022 to October 15, 2024, increase the revolving credit commitment from \$20.0 million to \$25.0 million and increase the letter of credit sub-facility from \$6.0 million to \$7.5 million. During the year ended December 31, 2022, we utilized \$5.0 million of the letter of credit sub-facility related to a customer contract requirement. We had no amounts outstanding as of December 31, 2022.

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. 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 was more pronounced than usual, as our sales and marketing organization were unable to travel and meetings with our current and potential customers were 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 people continuing to work from home 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 people continuing to work from home 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 information technology systems or data, or those of third parties upon which we rely, are or were compromised, our solutions may be perceived as not being secure, our customers may be harmed and we could experience adverse consequences, including but not limited to regulatory investigations or actions; litigation; fines and penalties; disruptions of our business operations; reputational harm; loss of revenue or profits; loss of customers or sales; and other adverse consequences.***

Our operations involve the collection, receipt, store, storage processing, generation, use, transfer, disclosure, protection, disposal of, transmission, and sharing (collectively, “processing”) of proprietary, confidential, and sensitive data, including personal data, intellectual property, trade secrets and other sensitive information such as gunfire incident data, including date, time, address and GPS coordinates, occurring in our customer’s coverage area (collectively, “sensitive information”). 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.

Cyber-attacks, malicious internet-based activity, online and offline fraud, and other similar activities threaten the confidentiality, integrity, and availability of our sensitive information and information technology systems, and those of the third parties upon which we rely. Such threats are prevalent and continue to increase generally, and are increasingly difficult to detect, and come from a variety of sources, including traditional computer “hackers,” threat actors, “hacktivists,” organized criminal threat actors, personnel (such as through theft or misuse), sophisticated nation states, and nation-state-supported actors. Some actors now engage and are expected to continue to engage in cyber-attacks, including without limitation nation-state actors for geopolitical reasons and in conjunction with military conflicts and defense activities. During times of war and other major conflicts, we, the third parties upon which we rely, and our customers may be vulnerable to a heightened risk of these attacks, including retaliatory cyber-attacks, that could materially disrupt our systems and operations, supply chain, and ability to produce, sell and distribute our goods and services.

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), credential harvesting, personnel misconduct or error, and supply-chain attacks, software bugs, server malfunctions, software or hardware failures, loss of data or other information technology assets, adware, telecommunications failures, earthquakes, fires, floods, and other similar threats. In particular, 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 diversion 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. Remote work has become more common and has increased risks to our information technology systems and data, as more of our employees utilize network connections, computers and devices outside our premises or network, including working at home, while in transit and in public locations. 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. Future or past business transactions (such as acquisitions or integrations) could expose us to additional cybersecurity risks and vulnerabilities, as our systems could be negatively affected by vulnerabilities present in acquired or integrated entities' systems and technologies. Furthermore, we may discover security issues that were not found during due diligence of such acquired or integrated entities, and it may be difficult to integrate companies into our information technology environment and security program.

We rely on third-party service providers and technologies to operate critical business systems to process sensitive information in a variety of contexts, including, without limitation, cloud-based infrastructure, data center facilities, encryption and authentication technology, employee email, content delivery to customers, and other functions. We also rely on third-party service providers to provide other products, services, parts, or otherwise to operate our business. Our ability to monitor these third parties' information security practices is limited, and these third parties may not have adequate information security measures in place. If our third-party service providers experience a security incident or other interruption, we could experience adverse consequences. While we may be entitled to damages if our third-party service providers fail to satisfy their privacy or security-related obligations to us, any award may be insufficient to cover our damages, or we may be unable to recover such award.

Any of the previously identified or similar threats could cause a security incident or other interruption that could result in unauthorized, unlawful, or accidental acquisition, modification, destruction, loss, alteration, encryption, disclosure of, or access to our sensitive information or our information technology systems, or those of the third parties upon whom we rely. A security incident or other interruption could disrupt our ability (and that of third parties upon whom we rely) to provide our solutions.

We may expend significant resources or modify our business activities to try to protect against security incidents. Certain data privacy and security obligations may require us to implement and maintain specific security measures or industry-standard or reasonable security measures to protect our information technology systems and sensitive information.

While we have implemented security measures designed to protect against security incidents, there can be no assurance that these measures will be effective. We take steps to detect and remediate vulnerabilities, but we may not be able to detect and remediate all vulnerabilities because the threats and techniques used to exploit the vulnerability change frequently and are often sophisticated in nature. Therefore, such vulnerabilities could be exploited but may not be detected until after a security incident has occurred. These vulnerabilities pose material risks to our business. Further, we may experience delays in developing and deploying remedial measures designed to address any such identified vulnerabilities. Applicable data privacy and security obligations may require us to notify relevant stakeholders of security incidents. Such disclosures are costly, and the disclosure or the failure to comply with such requirements could lead to adverse consequences. For example, 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.

If we (or a third party upon whom we rely) experience a security incident or are perceived to have experienced a security incident, we may experience adverse consequences, such as government enforcement actions (for example, investigations, fines, penalties, audits, and inspections); additional reporting requirements and/or oversight; restrictions on processing sensitive information (including personal data); litigation (including class claims); indemnification obligations; negative publicity; reputational harm; monetary fund diversions; interruptions in our operations (including availability of data); financial loss; and other similar harms. Security incidents and attendant consequences may cause customers to stop using our solutions, deter new customers from using our solutions, and negatively impact our ability to grow and operate our business. Furthermore, 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, or that such coverage will pay future claims.

***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 15 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 lose our ability to share a significant agency's dataset in our COPLINK X platform, our ability to sell that product may be adversely affected.***

Agencies typically share their private CJIS data sets with us through subscription agreements. If we lose access to their data sets because of a technical problem, such as a ransomware attack, or other issues that arise through no fault of our own that makes that data set inaccessible, this may result in the loss of a customer to a competitor, subscriptions not being renewed and may make it more difficult to sell COPLINK X in that geographic region and to the federal market.

***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.

***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 stringent and evolving laws, governmental regulation contractual obligations, policies and other legal obligations, particularly related to privacy, data protection and information security. Our actual or perceived failure to comply with such obligations could lead to regulatory investigations or actions; litigation; fines and penalties; disruptions of our business operations; reputational harm; loss of revenue or profits; loss of customers or sales; and other adverse business consequences. 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.

In the ordinary course of business, we process sensitive information, including data collected by our sensors as described above, as well as other sensitive information including personal data, proprietary and confidential business data, trade secrets, and intellectual property. Accordingly, our data processing activities are subject to a variety of data privacy and security obligations, such as various laws, regulations, guidance, industry standards, external and internal privacy and security policies, contractual requirements, and other obligations relating to data privacy and security and restrictions on audio monitoring and the collection, use, storage and disclosure of personal information. In the United States, federal, state, and local governments have enacted numerous data privacy and security laws, including data breach notification laws, personal data privacy laws, consumer protection laws (e.g., Section 5 of the Federal Trade Commission Act), and other similar laws (e.g., wiretapping laws).

Various states have adopted and others are considering proposals for 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 (“CCPA”), that applies to personal information of consumers, business representatives, and employees, and requires businesses to provide specific disclosures in privacy notices and honor requests of California residents to exercise certain privacy rights. The CCPA provides for civil penalties of up to \$7,500 per violation and allows private litigants affected by certain data breaches to recover significant statutory damages. In addition, the California Privacy Rights Act of 2020 (“CPRA”) expands the CCPA’s requirements, including by adding a new right for individuals to correct their personal information and creating a new regulatory agency to implement and enforce the law. Other states, such as Virginia

and Colorado, have also passed comprehensive privacy laws, and similar laws are being considered in several other states, as well as at the federal and local levels. These developments further complicate compliance efforts, and increase legal risk and compliance costs for us, and the third parties upon whom we rely.

Outside the United States, an increasing number of laws, regulations, and industry standards may govern data privacy and security. For example, the European Union's General Data Protection Regulation ("EU GDPR"), the United Kingdom's GDPR ("UK GDPR"), and Brazil's General Data Protection Law (Lei Geral de Proteção de Dados Pessoais, or "LGPD") (Law No. 13,709/2018) impose strict requirements for processing personal data. Many 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. Additionally, we may be required, under various privacy laws and other obligations, to obtain certain consents to process personal data. Our inability or failure to do so could result in adverse consequences.

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 are also bound by contractual obligations related to data privacy and security, and our efforts to comply with such obligations may not be successful. For example, certain privacy laws, such as the GDPR and the CCPA, require our customers to impose specific contractual restrictions on their service providers. We publish privacy policies, marketing materials and other statements, such as compliance with certain certifications or self-regulatory principles, regarding data privacy and security. If these policies, materials or statements are found to be deficient, lacking in transparency, deceptive, unfair, or misrepresentative of our practices, we may be subject to investigation, enforcement actions by regulators or other adverse consequences.

Obligations related to data privacy and security are quickly changing, becoming increasingly stringent, and creating regulatory uncertainty. Additionally, these obligations may be subject to differing applications and interpretations, which may be inconsistent or conflict among jurisdictions. Preparing for and complying with these obligations requires us to devote significant resources, which may necessitate changes to our services, information technologies, systems, and practices and to those of any third parties that process personal data on our behalf. In addition, these obligations may require us to change our business model. We may at times fail (or be perceived to have failed) in our efforts to comply with our data privacy and security obligations. Moreover, despite our efforts, our personnel or third parties on whom we rely may fail to comply with such obligations, which could negatively impact our business operations.

If we or the third parties on which we rely fail, or are perceived to have failed, to address or comply with applicable data privacy and security obligations, we could face significant consequences, including but not limited to: government enforcement actions (e.g., investigations, fines, penalties, audits, inspections, and similar); litigation (including class-action claims); additional reporting requirements and/or oversight; bans on processing personal data; orders to destroy or not use personal data; and imprisonment of company officials. Any of these events could have a material adverse effect on our reputation, business, or financial condition, including but not limited to: loss of customers; interruptions or stoppages in our business operations; inability to process personal data or to operate in certain jurisdictions; limited ability to develop or commercialize our products; expenditure of time and resources to defend any claim or inquiry; adverse publicity; or substantial changes to our business model or operations.

***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, 2022, we had federal net operating loss carryforwards ("NOLs") of approximately \$67.1 million, of which \$62.2 million will begin to expire in 2028, 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, 2022, we also had state NOLs of approximately \$43.8 million, which began expiring in 2022. 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 revenue 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, 2022, we had 38 issued patents directed to our technologies, 31 in the United States, two in Brazil, one each in Israel, Mexico, the United Kingdom, France and Germany. The issued patents expire on various dates from 2023 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 and other macroeconomic pressures;
- 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 November 2022, our board of directors approved a new stock repurchase program for up to \$25 million of our common stock, none of which was utilized as of December 31, 2022. 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 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., Newark, New Jersey, Walnut Creek, California and Tucson, Arizona.

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.

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 7 2023, the last reported sale price of our common stock as reported on the Nasdaq Capital Market was \$36.45 per share. As of March 7, 2023, we had approximately 61 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**

In November 2022, our board of directors approved a new stock repurchase program for up to \$25.0 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.

We did not repurchase any common stock during the quarter ended December 31, 2022.

##### **(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 bring the power of digital transformation to law enforcement and security personnel by providing precision-policing and security solutions. As of December 31, 2022 we had approximately 250 customers and to date have worked with approximately 2,100 agencies to help drive more efficient, effective, and equitable public safety outcomes. Our Precision Policing Platform™ includes ShotSpotter Respond™, COPLINK X, ShotSpotter Investigate™, ShotSpotter GCM™, and ShotSpotter Connect®. Our security solutions include ShotSpotter SecureCampus® and ShotSpotter SiteSecure™.

Our flagship public safety solution, ShotSpotter Respond, is the leading outdoor gunshot detection, location and alerting system. ShotSpotter Investigate and ShotSpotter GCM (case management software to help produce courtroom-ready cases) and COPLINK X (an investigative lead search tool to accelerate crime solving) provide agencies with a cloud-based investigative digital case folder and analytical and collaboration tools to improve case closure rates. Our patrol management software, ShotSpotter Connect, uses artificial intelligence-driven analysis to help strategically plan directed patrols for maximum impact across a diverse set of crime types. Our security solutions, ShotSpotter SecureCampus and ShotSpotter SiteSecure, are typically smaller-scale deployments of ShotSpotter Respond vertically marketed to universities, corporate campuses, highways and key infrastructure centers to mitigate risk and enhance security by notifying authorities of outdoor gunfire incidents, saving critical minutes for first responders to arrive. In 2019, we created a technology innovation unit, ShotSpotter Labs, to expand our efforts supporting 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, ShotSpotter SiteSecure, and ShotSpotter Investigate are typically sold on a subscription basis, each with a customized deployment plan. Our ShotSpotter Connect solution, ShotSpotter GCM, an offering of ShotSpotter Investigate focused on gun violence, and COPLINK X are also sold on a subscription basis generally customized based on the number of sworn officers in a particular city. As of December 31, 2022, we had ShotSpotter Respond, ShotSpotter SecureCampus and ShotSpotter SiteSecure coverage areas under contract for over 1,060 square miles, of which 980 square miles had gone live. Coverage areas under contract for ShotSpotter Respond included over 151 cities and coverage areas under contract for ShotSpotter SecureCampus and ShotSpotter SiteSecure included 19 campuses/sites across the United States, South Africa and the Bahamas, including some of the 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 ShotSpotter Respond 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 most of our other solutions. Additionally, in early 2021, 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.

In January 2022, we acquired 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 solution, and utilizing COPLINK X, can accelerate crime solving solutions and improve clearance rates.

Since our founding over 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 solutions to help them better engage and strengthen the police-community relationships in fulfilling their sworn obligation 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. 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.

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 purchases from them are generally on a purchase order basis. 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.



We generated revenues of \$81.0 million, \$58.2 million and \$45.7 million for the years ended December 31, 2022, 2021, and 2020, respectively, representing year-over-year increases of 39% and 27%. For the years ended December 31, 2022, 2021, and 2020, revenues from ShotSpotter Respond represented approximately 69%, 82% and 94% of total revenues, respectively. Our two current largest customers, the City of New York and the City of Chicago each accounted for 30% and 10%, respectively, of our total revenues for the year ended December 31, 2022. 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. Substantially all of our revenues for the years ended December 31, 2022, 2021, and 2020 were derived from customers within the United States (including Puerto Rico and the U.S. Virgin Islands).

We had net income of \$6.4 million for the year ended December 31, 2022, net loss of \$4.4 million for the year ended December 31, 2021, and net income of \$1.2 million for the year ended December 31, 2020. Our accumulated deficit was \$92.4 million and \$98.8 million as of December 31, 2022 and 2021, respectively.

During the year ended December 31, 2022, the fair value of the contingent consideration that we recorded in connection with our acquisition of Forensic Logic, was decreased by \$9.2 million, based upon revised estimated 2022 and 2023 revenue targets that were utilized in our fair value methodology. The most significant change in the calculation used to estimate the contingent consideration was the timing of approval of contracts by a small number of significant potential customers.

We have focused on rapidly growing our business and believe that our 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. 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, the fact that our typical sales cycle is often very long and difficult to estimate accurately 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. Consistent with this strategy, we expanded our suite of solutions with the acquisitions of LEEDS and Forensic Logic.

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

	December 31,	
	2022	2021
Revenue retention rate	124%	125%
Sales and marketing spend per \$1.00 of new annualized contract value	\$ 0.40	\$ 0.37
Net new "go-live" square miles	102	101
Net new "go-live" cities	16	11
Annual recurring revenue (in millions)	\$ 79.7	\$ 63.2

### 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 120 new ShotSpotter Respond customers, but only 16 customers have terminated service, two of which were terminated due to hurricane damage in 2017, and both Puerto Rico and U.S. Virgin Islands returned as customers before the end of 2020. We expect to contract with five more former customers in 2023.

### 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" Square 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

We calculate our annual recurring revenue 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.

## Components of Results of Operations

### *Revenues*

We generate annual subscription revenues from the deployment of ShotSpotter Respond on a per-square-mile basis. Both of our security solutions, ShotSpotter SecureCampus and ShotSpotter SiteSecure, as well as ShotSpotter Investigate are typically sold on a subscription basis, each with a customized deployment plan. Our ShotSpotter Connect solution, ShotSpotter GCM and COPLINK X are also sold on a subscription basis generally customized based on the number of sworn officers in a particular city.

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.

We also generate revenues through the sale to a single customer of (i) a software license for our proprietary software technology and related maintenance and support services and (ii) professional software development services through a sales channel intermediary. The sales channel intermediary contract includes a 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.

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. For ShotSpotter SecureCampus, ShotSpotter SiteSecure and COPLINK X, we generally invoice customers 100% of the total contract value when the subscription service is operational, which is often soon after contract execution. 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, ShotSpotter GCM and COPLINK X, 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, remaining setup fees, if any, are immediately recognized.

With the acquisition of Forensic Logic, we also generate revenues from subscriptions of COPLINK X, cloud-based data services for advanced search and analysis tools. We also provide access to this technology platform to an intermediary to either be resold or combined with their own materials, software and/or services, to create an integrated solution that is provided to their end-user customers. We recognize this revenue net of margins paid to the intermediary. We recently introduced ShotSpotter GCM, an offering of ShotSpotter Investigate focused on gun

violence, and a first-of-its-kind digital case management solution that automates the process by which key information is input, captured and used to identify associated gun crime cases leading to the identification of persons of interest. We generate revenues from subscriptions for ShotSpotter GCM, with revenue recognition being similar to our Respond and COPLINK X products.

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 are generally sold on a cost-plus basis.

### ***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.

We have upgraded 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. 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.

Cost of revenues for ShotSpotter Investigate generally relate 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.

The cost of revenues for ShotSpotter GCM and COPLINK X is generally related to employee compensation costs and datacenter hosting services, both of which are relatively fixed.

### ***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, 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.

Sales and marketing expense will increase in the near-term in absolute dollars as we continue to grow our organization and 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, 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, ShotSpotter Investigate and COPLINK X. 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 in 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 and as a percentage of revenues 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, and 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 and increase our headcount. However, general and administrative expense in the first half of 2023 may be slightly lower than the comparable period in 2022 due to expected lower legal costs related to litigation that ended in 2022.

### *Change in Fair Value of Contingent Consideration*

Change in fair value of contingent consideration primarily consists of increases or decreases in our contingent consideration liabilities that were recorded following our acquisition of Forensic Logic and LEEDS. The change reflects revised revenue targets for LEEDS and Forensic Logic that were utilized in the fair value methodology to estimate the contingent liability for earnouts.

### ***Other Income (Expense), Net***

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

## Income Taxes

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

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

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. We regularly 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, 2022 and 2021 (in thousands):

	2022	As a % of Revenues	2021	As a % of Revenues	Change	
					\$	%
Revenues	\$ 81,003	100%	\$ 58,155	100%	\$ 22,848	39%
Costs						
Cost of revenues	34,218	42%	25,611	44%	8,607	34%
Impairment of property and equipment	—	—	25	—	(25)	(100%)
Total costs	34,218	42%	25,636	44%	8,582	33%
Gross profit	46,785	58%	32,519	56%	14,266	44%
Operating expenses:						
Sales and marketing	22,416	28%	15,479	27%	6,937	45%
Research and development	10,026	12%	7,035	12%	2,991	43%
General and administrative	15,750	19%	12,744	22%	3,006	24%
Change in fair value of contingent consideration	(9,154)	(11%)	1,330	2%	(10,484)	(788%)
Total operating expenses	39,038	48%	36,588	63%	2,450	7%
Operating income (loss)	7,747	10%	(4,069)	(7%)	11,816	290%
Other expense, net	(195)	0%	(306)	(1%)	111	(36%)
Provision for income taxes	1,167	1%	56	0%	1,111	1,984%
Net income (loss)	\$ 6,385	8%	\$ (4,431)	(8%)	\$ 10,816	244%

## Revenues

The increase of \$22.8 million was primarily attributable to an \$8.1 million increase in revenues from new customers and expansions of existing customer coverage areas, an \$8.1 million increase in revenue from monthly support revenue contracts, and a \$6.6 million increase in revenues from Forensic Logic, which was acquired in the first quarter of 2022. We went live with 102 net new square miles during the year ended December 31, 2022.

## **Costs**

The increase in costs of \$8.6 million was due primarily to a \$5.1 million increase in product costs due to the increase in our customer base, the acquisition of Forensic Logic and 3G upgrades, a \$1.6 million increase in personnel costs as a result of increased headcount, a \$0.6 million increase in amortization of intangibles following our acquisition of Forensic Logic, an increase of \$0.6 million in other costs, an increase of \$0.4 million in third-party labor costs and an increase of \$0.3 million in travel costs relating to customer deployments.

## **Gross Profit**

Gross profit as a percentage of revenues increased compared with the prior year primarily as a result of our incurring costs in the fourth quarter of 2021 for which revenue was recognized in the first quarter of 2022 due to a delayed contract amendment.

## **Operating Expenses**

### *Sales and Marketing Expense*

Sales and marketing expense increased by \$6.9 million and was primarily due to a \$3.1 million increase in personnel costs, a \$1.6 million increase in consulting and commission expenses, a \$1.1 million increase in amortization of customer relationship and tradename assets related to Forensic Logic, a \$0.6 million increase in travel expenses due to continued growth in our customer base, a \$0.3 million increase in marketing and a \$0.2 million increase in other costs.

### *Research and Development Expense*

Research and development expense increased by \$3.0 million and was primarily due to increased personnel and headcount costs resulting from the Forensic Logic acquisition.

### *General and Administrative Expense*

General and administrative expense increased by \$3.0 million and was primarily due to a \$2.3 million increase in personnel costs, a \$0.2 million increase in office and occupancy costs, a \$0.1 million increase in travel costs, a \$0.2 million increase in amortization of intangible assets and a \$0.2 million increase in other costs.

### *Change in Fair Value of Contingent Consideration*

We had a \$9.2 million decrease in the fair value of the contingent consideration liability associated with our Forensic Logic acquisition during the year ended December 31, 2022, based upon revised estimated 2022 and 2023 revenue projections that were utilized in our fair value calculation methodology, due to contract delays by a small number of significant customers. The contingent consideration liability related to LEEDS increased by \$1.3 million during the year ended December 31, 2021 as the estimated 2022 LEEDS revenue projections indicated the full earnout requirement would be met.

### *Other Income (Expense), Net*

Other income (expense) did not increase materially compared with the prior 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. Our provision for income taxes increased by \$1.1 million primarily as a result of the reduction in the fair value of contingent consideration in the year ended December 31, 2022, which created an indefinite-lived deferred tax liability subject to

offset by indefinite lived tax assets (NOLs), but not completely offset, as well as state taxes payable for states without the ability to offset amounts due by net operating losses.

### ***Comparison of the Years Ended December 31, 2021 and 2020***

For discussion of our 2021 results and a comparison with 2020 results please refer to Part II, Item 7, "Management's Discussion and Analysis of Financial Conditions and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021 that was filed with the SEC on March 29, 2022 (the "2021 Form 10-K").

## **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 \$10.5 million as of December 31, 2022. We also have a \$25.0 million credit facility available and a letter of credit sub-facility of \$7.5 million, of which \$5.0 million has been utilized for a letter of credit. No amounts were outstanding as of December 31, 2022.

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 earnout payment obligations, our stock repurchase program and repayment of any outstanding debt obligations under our credit facility, each as described below.

In January 2022, we acquired Forensic Logic for purchase consideration of \$31.6 million, consisting of \$4.9 million in cash, subject to working capital adjustments, 464,540 shares of our common stock that were valued at \$14.3 million at the time of the acquisition. The purchase consideration also included an earnout of up to \$20.0 million payable in cash based on Forensic Logic's revenues generated during the years ended December 31, 2022 and 2023. The earnout for 2022 was not earned, so no amounts will be paid in respect of this earnout in 2023. Up to \$10.5 million in earnout will be payable based on Forensic Logic's revenues generated during 2023. Any earned amounts are payable within approximately 120 days after the end of 2023.

In November 2020, we completed the acquisition of LEEDS for purchase consideration of \$21.6 million in cash, subject to working capital adjustments, and the issuance of 63,901 shares of ShotSpotter common stock that were valued at \$2.0 million at the time of the acquisition. The purchase consideration also included an earnout payable based on LEEDS' revenues generated during the years ended December 31, 2021 and 2022. The earnout for 2021 was not earned, so no amounts were paid in respect of this earnout in 2022. Based on 2022 LEEDS revenues, the 2022 earnout of \$1.5 million was earned, which was paid during the first quarter of 2023.



### ***Stock Repurchase Program***

In May 2019, our board of directors approved a stock repurchase program for up to \$15 million of our common stock. During the year ended December 31, 2022, we repurchased 106,992 shares of our common stock at an average price of \$28.81 per share for \$3.1 million and used up the remaining balance under the May 2019 stock repurchase program in the third quarter ended September 30, 2022. 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. These repurchases were made in open market transactions using cash on hand, and all of the shares repurchased were retired.

In November 2022, our board of directors approved a new stock repurchase program for up to \$25.0 million of the 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.

### ***Credit Facility***

On September 27, 2018, we entered into the Umpqua Credit Agreement for \$10.0 million, which was amended in August 2020 and November 2022 to increase the size of our available loan facility to \$25.0 million, which allows us to borrow up to \$25.0 million under a revolving loan facility and increase the letter of credit sub-facility to \$7.5 million. During the year ended December 31, 2022, we utilized \$5.0 million of the letter of credit sub-facility related to a customer contract requirement. We intend to use the revolving loan facility for general working capital purposes.

### ***Cash Flows***

#### **Comparison of Years Ended December 31, 2022 and 2021**

The following table presents a summary of our cash flows for the years ended December 31, 2022 and 2021 (in thousands):

	Year Ended December 31,	
	2022	2021
Net cash provided by (used in):		
Operating activities	\$ 12,184	\$ 9,822
Investing activities	(15,539)	(7,884)
Financing activities	(1,749)	(2,266)
Net change in cash and cash equivalents	<u>\$ (5,104)</u>	<u>\$ (328)</u>

As of December 31, 2022 and 2021, \$0.9 million and \$1.0 million in cash was held by our consolidated foreign subsidiaries, respectively.

### ***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.

Net cash provided by operating activities increased \$1.9 million in the year ended December 31, 2022 compared to net cash provided in the same period of 2021, primarily due to an increase of \$9.5 million in deferred revenue and a \$6.5 million increase in cash collected from customers, offset by a \$8.7 million increase in cash paid for personnel costs, an increase of \$1.9 million in cash paid for commission expense, an increase in cash paid for other operating expenses of \$1.3 million, an increase of \$1.1 million in cash paid for consulting and third-party service providers expense and an increase in cash paid of \$1.1 million for travel expenses.

### ***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 \$15.1 million and \$7.9 million in the years ended December 31, 2022 and 2021, respectively. We completed our acquisition of Forensic Logic for approximately \$4.6 million in cash, net of \$0.3 million cash acquired at closing during the year ended December 31, 2022.

### ***Financing Activities***

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

Financing activities used \$1.7 million in cash during the year ended December 31, 2022. This was primarily due to \$3.1 million in payments for repurchases of our common stock, partially offset by approximately \$0.6 million in proceeds from the exercise of stock options and \$0.8 million in proceeds from ESPP purchases.

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 and \$0.4 million in payments for contingent consideration, partially offset by \$0.9 million in proceeds from the exercise of stock options and \$0.8 million in proceeds from ESPP purchases.

### ***Comparison of the Years Ended December 31, 2021 and 2020***

A discussion of changes in our cash flows from the year ended December 31, 2020 to the year ended December 31, 2021 can be found in Part II, Item 7, "Management's Discussion and Analysis of Financial Conditions and Results of Operations" of the 2021 Form 10-K.

### **Off-Balance Sheet Arrangements**

As of December 31, 2022, 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 and Policies**

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***

We generate annual subscription revenues from the deployment of ShotSpotter Respond on a per-square-mile basis. Our security solutions, ShotSpotter SecureCampus, ShotSpotter SiteSecure, ShotSpotter Investigate, ShotSpotter GCM and COPLINK X are typically sold on a subscription basis, each with a customized deployment plan. Our ShotSpotter Connect solution is also sold on a subscription basis.

We generate substantially all of our revenues from the sale of ShotSpotter Respond 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 and 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. For case management and search engine solutions, the pricing model is currently customized, generally tied to the number of sworn police officers in a particular city. 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*

We also generate revenues from the sale of (i) a software license and related maintenance and support services of our proprietary software technology, ShotSpotter Investigate 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 license 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.

### *Gross Versus Net Presentation*

Our single software license and related service agreement, ShotSpotter Investigate, was facilitated through a sales channel intermediary. We present 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 we have determined that we are the principal in the arrangement. Our conclusion is based on our role in controlling the goods and services consumed by the end-customer throughout the license term or development life cycle, combined with our control over the price charged to the end-user for such goods and services, and the inability of the sales channel intermediary to direct or control the services provided to the customer. 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.

### **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 Acquisitions**

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, 2022 and concluded that no impairment charge was necessary.

### **Income Taxes**

We account for income taxes under the asset and liability approach. Under this method, deferred tax assets, including those related to tax loss carryforwards and credits, and deferred tax liabilities are determined based on the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. We recognize the tax benefit for an uncertain tax position when it meets the more likely than not threshold for recognition.

A valuation allowance is recorded to reduce deferred tax assets when management cannot conclude that it is more likely than not that the deferred tax asset will be recovered. The valuation allowance is determined by assessing both positive and negative evidence to determine whether it is more likely than not that deferred tax assets are recoverable; such assessment is required on a jurisdiction-by-jurisdiction basis. Significant judgment is required in determining whether the valuation allowance should be recorded against deferred tax assets. In assessing the need for or release of a valuation allowance, we consider all available evidence including past operating results and estimates of future taxable income.

## **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 \$10.5 million as of December 31, 2022, 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 2022, 2021 or 2020, it would not have resulted in a significant impact to our results of operations for the years ended December 31, 2022, 2021 or 2020. 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, 2022 and 2021, 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, 2022, 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, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022, 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.

### **Critical Audit Matters**

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

#### **Forensic Logic, LLC Acquisition - Fair Value of Intangible Assets**

As discussed in Note 2 to the consolidated financial statements, on January 3, 2022, the Company completed the acquisition of 100% of the membership interests in Forensic Logic, LLC. The Company accounted for the Forensic Logic, LLC acquisition as a business combination. The Company allocated a portion of the purchase price to an acquired software technology and customer relationship, which were assigned acquisition-date fair values of \$7.1 million and \$8.0 million, respectively.

We identified the fair value of the software technology and customer relationship associated with the acquisition as a critical audit matter. A high degree of subjective auditor judgment was involved in evaluating certain inputs to the



relief from royalty and multi-period excess earnings methods used to determine the fair value acquired of the software technology and the customer relationships. The key input used in the relief from royalty method was the royalty rate. The key input used in the multi-period excess earnings method was the attrition assumption. There was limited observable market information and the calculated fair values of these intangible assets was sensitive to changes in these key inputs.

#### **How We Addressed the Matter in Our Audit**

The primary procedures we performed to address this critical audit matter included substantively testing, with the assistance of firm personnel with expertise in the application of fair value and valuation methodologies, the appropriateness of the inputs used in management's process for determining the fair value of the identifiable intangibles, which included the following procedures:

- Obtained management's purchase price allocation detailing fair values assigned to the acquired tangible and intangible assets and purchase consideration.
- Obtained the valuation report prepared by a valuation specialist engaged by management to assist in the purchase price allocation, including determination of fair values assigned to acquired identifiable intangible assets. We reviewed the qualifications of the specialist and tested the key inputs in the valuation methods.
- Utilized an internal valuation specialist to assist the engagement team in evaluating: the methodologies used and whether they were appropriate for determining the fair value of the assets acquired and whether such methodologies were being applied correctly, the appropriateness of the royalty rate and the attrition assumption used by independently calculating the amounts based on comparable guideline companies, comparable rates for market participants and other transactions.
- Evaluated the Company's forecasted future cash flows for the acquired assets by reviewing historical results and obtaining audit evidence for future expected customer growth as well as the reasonableness of other key assumptions used by management.
- Performed inquiries of personnel at Forensic Logic, LLC that were highly involved in the development of the forecasts to evaluate the reasonableness of revenue and margin forecasts.

#### **Forensic Logic, LLC Acquisition - Contingent Consideration**

As discussed in Note 2 to the consolidated financial statements, on January 3, 2022, the Company completed the acquisition of 100% of the membership interests in Forensic Logic, LLC. The Company accounted for the Forensic Logic, LLC acquisition as a business combination. The acquisition included contingent consideration, which had an acquisition fair value of \$12.4 million.

We identified the determination of the fair value of the contingent consideration as a critical audit matter. A high degree of subjective auditor judgment was involved in evaluating certain inputs to the Monte Carlo simulation used to determine the fair value of the contingent consideration. The key inputs used in the Monte Carlo simulation were the revenue discount rate, revenue volatility and payment discount rate. There was limited observable market information and the calculated fair value of the contingent consideration was sensitive to changes in these key inputs.

#### **How We Addressed the Matter in Our Audit**

The primary procedures we performed to address this critical audit matter included substantively testing, with the assistance of firm personnel with expertise in the application of fair value and valuation methodologies, the appropriateness of the inputs used in management's process for determining the fair value of the identifiable contingent consideration, which included the following procedures:

- Obtained management's purchase price allocation detailing fair values assigned to the acquired tangible and intangible assets and purchase consideration.

- Obtained the valuation report prepared by a valuation specialist engaged by management to assist in the purchase price allocation, including determination of fair values assigned to acquired identifiable intangible assets. We reviewed the qualifications of the specialist and tested the key inputs in the valuation methods.
- Utilized an internal valuation specialist to assist the engagement team in evaluating: the methodologies used and whether they were appropriate for determining the fair value of the assets acquired and whether such methodologies were being applied correctly, the appropriateness of the revenue discount rate, revenue volatility, payment discount rate, royalty rate and attrition assumption used by independently calculating the amounts based on comparable guideline companies, comparable rates for market participants and also other transactions.
- Evaluated the Company's forecasted revenue for the acquired business by reviewing historical results and obtaining audit evidence for future expected customer growth as well as the reasonableness of other key assumptions used by management.
- Performed inquiries of personnel at Forensic Logic, LLC that were highly involved in the development of the forecasts to evaluate the reasonableness of revenue and margin forecasts.

Baker Tilly US, LLP

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

Minneapolis, Minnesota

March 14, 2023

**ShotSpotter, Inc.**

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

	December 31,	
	2022	2021
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 10,479	\$ 15,636
Accounts receivable and contract asset, net	30,957	16,134
Prepaid expenses and other current assets	3,225	2,504
Total current assets	44,661	34,274
Property and equipment, net	21,988	17,409
Operating lease right-of-use assets	3,240	2,323
Goodwill	22,971	2,816
Intangible assets, net	27,318	13,564
Other assets	2,570	1,918
Total assets	<u>\$ 122,748</u>	<u>\$ 72,304</u>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 1,633	\$ 1,587
Deferred revenue, short-term	41,907	26,235
Accrued expenses and other current liabilities	9,965	6,680
Total current liabilities	53,505	34,502
Deferred revenue, long-term	1,813	474
Deferred tax liability, long-term	685	—
Other liabilities	5,800	3,513
Total liabilities	61,803	38,489
<b>Commitments and contingencies (Note 18)</b>		
<b>Stockholders' equity</b>		
Preferred stock: \$0.005 par value; 20,000,000 shares authorized; no shares issued and outstanding as of December 31, 2022 and 2021, respectively	—	—
Common stock: \$0.005 par value; 500,000,000 shares authorized; 12,243,929 and 11,703,430 shares issued and outstanding as of December 31, 2022 and 2021, respectively	62	58
Additional paid-in capital	153,573	132,780
Accumulated deficit	(92,400)	(98,785)
Accumulated other comprehensive loss	(290)	(238)
Total stockholders' equity	60,945	33,815
Total liabilities and stockholders' equity	<u>\$ 122,748</u>	<u>\$ 72,304</u>

*See accompanying notes to consolidated financial statements.*

**ShotSpotter, Inc.**

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

	Year Ended December 31,		
	2022	2021	2020
Revenues	\$ 81,003	\$ 58,155	\$ 45,734
Costs			
Cost of revenues	34,218	25,611	18,525
Impairment of property and equipment	—	25	234
Total costs	34,218	25,636	18,759
Gross profit	46,785	32,519	26,975
Operating expenses			
Sales and marketing	22,416	15,479	10,328
Research and development	10,026	7,035	5,614
General and administrative	15,750	12,744	9,740
Change in fair value of contingent consideration	(9,154)	1,330	—
Total operating expenses	39,038	36,588	25,682
Operating income (loss)	7,747	(4,069)	1,293
Other expense, net			
Interest income, net	45	38	113
Other expense, net	(240)	(344)	(271)
Total other income (expense), net	(195)	(306)	(158)
Income (loss) before income taxes	7,552	(4,375)	1,135
Provision (benefit) for income taxes	1,167	56	(90)
Net income (loss)	<u>\$ 6,385</u>	<u>\$ (4,431)</u>	<u>\$ 1,225</u>
Net income (loss) per share, basic	<u>\$ 0.52</u>	<u>\$ (0.38)</u>	<u>\$ 0.11</u>
Net income (loss) per share, diluted	<u>\$ 0.52</u>	<u>\$ (0.38)</u>	<u>\$ 0.10</u>
Weighted-average shares used in computing net income (loss) per share, basic	12,171,609	11,647,558	11,408,757
Weighted-average shares used in computing net income (loss) per share, diluted	12,317,707	11,647,558	11,730,294

*See accompanying notes to consolidated financial statements.*

**ShotSpotter, Inc.**

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

	Year Ended December 31,		
	2022	2021	2020
Net income (loss)	\$ 6,385	\$ (4,431)	\$ 1,225
Other comprehensive loss:			
Change in foreign currency translation adjustment, net of taxes	(52)	(68)	(36)
Comprehensive income (loss)	<u>\$ 6,333</u>	<u>\$ (4,499)</u>	<u>\$ 1,189</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 Loss	Total Stockholders' Equity/ (Deficit)
	Shares	Par Value				
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
Vesting of RSUs	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
Vesting of RSUs	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	11,703,430	58	132,780	(98,785)	(238)	33,815
Exercise of stock options	41,819	1	537	—	—	538
Repurchase of common stock	(106,992)	—	(3,084)	—	—	(3,084)
Issuance of common stock from ESPP purchases	33,161	—	797	—	—	797
Vesting of RSUs	107,971	—	—	—	—	—
Issuance of common stock from acquisition	464,540	3	14,263	—	—	14,266
Stock-based compensation	—	—	8,280	—	—	8,280
Foreign currency translation loss	—	—	—	—	(52)	(52)
Net income	—	—	—	6,385	—	6,385
Balance at December 31, 2022	12,243,929	62	153,573	(92,400)	(290)	60,945

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2022	2021	2020
Cash flows from operating activities:			
Net income (loss)	\$ 6,385	\$ (4,431)	\$ 1,225
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation of property and equipment	6,400	5,795	5,399
Amortization of intangible assets	2,799	1,032	187
Impairment of property and equipment	—	25	234
Stock-based compensation	8,282	5,872	4,462
Change in fair value of contingent consideration	(9,154)	1,330	—
Deferred taxes	685	—	—
Loss on disposal of property and equipment	—	—	3
Provision for accounts receivable	(74)	—	74
Changes in operating assets and liabilities:			
Accounts receivable and contract asset	(14,530)	(3,213)	1,953
Prepaid expenses and other assets	(1,168)	(673)	(321)
Accounts payable	(18)	354	(190)
Accrued expenses and other current liabilities	947	1,588	575
Deferred revenue	11,630	2,143	(2,392)
Net cash provided by operating activities	12,184	9,822	11,209
Cash flows from investing activities:			
Purchase of property and equipment	(10,915)	(7,840)	(4,059)
Investment in intangible and other assets	(6)	(59)	(72)
Business acquisition, net of cash acquired	(4,618)	15	(14,627)
Net cash used in investing activities	(15,539)	(7,884)	(18,758)
Cash flows from financing activities:			
Payment of contingent consideration liability	—	(403)	(347)
Payment of line of credit costs	—	—	(12)
Proceeds from exercise of stock options	538	898	314
Repurchases of common stock	(3,084)	(3,601)	(1,615)
Proceeds from exercise of warrants	—	8	—
Proceeds from employee stock purchase plan	797	832	704
Net cash used in financing activities	(1,749)	(2,266)	(956)
Change in cash, cash equivalents and restricted cash	(5,104)	(328)	(8,505)
Effect of exchange rate on cash and cash equivalents	(53)	(79)	(2)
Cash, cash equivalents and restricted cash at beginning of year	15,636	16,043	24,550
Cash, cash equivalents and restricted cash at end of year	<u>\$ 10,479</u>	<u>\$ 15,636</u>	<u>\$ 16,043</u>
Supplemental cash flow disclosures:			
Supplemental disclosure of non-cash financing activities:			
Property and equipment purchases included in accounts payable	\$ 404	\$ 563	\$ 522
Estimated fair value of contingent consideration for business combination at closing	\$ 12,400	\$ —	\$ 170
Fair value of common stock issued as consideration for business acquisition	\$ 14,266	\$ —	\$ 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”) brings the power of digital transformation to law enforcement and security personnel by providing precision-policing and security solutions. As of December 31, 2022 we had approximately 250 customers and to date have worked with approximately 2,100 agencies to help drive more efficient, effective, and equitable public safety outcomes. Our Precision Policing Platform™ includes ShotSpotter Respond™, COPLINK X, ShotSpotter Investigate™, ShotSpotter GCM™, and ShotSpotter Connect®. Our security solutions include ShotSpotter SecureCampus® and ShotSpotter SiteSecure™.

The Company’s flagship public safety solution, ShotSpotter Respond, is the leading outdoor gunshot detection, location and alerting system. ShotSpotter Investigate and ShotSpotter GCM (case management software to help produce courtroom-ready cases) and COPLINK X (an investigative lead search tool to accelerate crime solving) provide agencies with a cloud-based investigative digital case folder and analytical and collaboration tools to improve case closure rates. The Company’s patrol management software, ShotSpotter Connect, uses artificial intelligence-driven analysis to help strategically plan directed patrols for maximum impact across a diverse set of crime types. The Company’s security solutions, ShotSpotter SecureCampus and ShotSpotter SiteSecure, are typically smaller-scale deployments of ShotSpotter Respond vertically marketed to universities, corporate campuses, highways and key infrastructure centers to mitigate risk and enhance security by notifying authorities of outdoor gunfire incidents, saving critical minutes for first responders to arrive. In 2019, the Company created a technology innovation unit, ShotSpotter Labs, to expand its efforts supporting 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. 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, 2022, but are not necessarily indicative of the results of operations or cash flows to be anticipated for any future period.

The consolidated financial statements include the results of the Company and its wholly-owned subsidiaries. All significant intercompany transactions have been eliminated during consolidation.

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.

*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, 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 – Subscription Services*

The Company generates annual subscription revenues from the deployment of ShotSpotter Respond on a per-square-mile basis. The Company's security solutions, ShotSpotter SecureCampus, ShotSpotter SiteSecure, ShotSpotter Investigate, ShotSpotter GCM and COPLINK X are typically sold on a subscription basis, each with a customized deployment plan. ShotSpotter's Connect solution is also sold on a subscription basis.

The Company generates a majority of its revenues from the sale of Respond 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.

For ShotSpotter Respond, 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. For ShotSpotter SecureCampus, ShotSpotter SiteSecure and COPLINK X, the Company generally invoices subscription service renewals for 100% of the total contract value when the renewal contract is executed. All fees billed in advance of services being delivered are recorded as deferred revenue.

For ShotSpotter Respond, the pricing model is based on a per-square-mile basis. For ShotSpotter SecureCampus, ShotSpotter SiteSecure and ShotSpotter Investigate, the pricing model is on a customized-site basis. For ShotSpotter Connect, ShotSpotter GCM and COPLINK X, pricing is currently customized, generally tied to the number of sworn police officers in a particular city. The Company 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 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. 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.

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 the longer of the estimated customer life or contract, which is typically three years. Revenues from training and third-party integration license fees 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 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, 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, based on the first-year fee upon booking of a new contract. These capitalized commissions are amortized on a straight-line basis over the customer life, which is determined to be five years. As there are not commensurate commissions earned on renewals of the subscription services, the Company recognizes the commissions as expense when the renewal invoice is paid instead of capitalizing them. Amortization of capitalized commissions is included in sales and marketing expense and was \$0.8 million, \$0.7 million and \$0.6 million for the years ended December 31, 2022, 2021 and 2020, respectively.

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

The Company also generates revenues from the sale of (i) a software license and related maintenance and support services to ShotSpotter Investigate, 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 a renewable license 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, allows this single customer to be flexible in utilizing the customized software to respond to its changing regulatory environment, and is critical to the customer's ability to derive benefit and value from the license. Revenues from amounts allocated to the single performance obligation consisting of 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 both continuous and 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 on premise instance and related maintenance and support service agreement was facilitated through a sales channel intermediary. The Company presents the total value of the billings to the end-user 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 determined that it is 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, and the inability of the sales channel intermediary to direct or control the services provided to the customer. 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 primarily include 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, personnel and related costs of operations, stock-based compensation and allocated overhead, which includes information

technology, facility and equipment depreciation costs. 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 \$1.5 million, \$1.3 million and \$0.3 million for the years ended December 31, 2022, 2021 and 2020, 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. The Company capitalizes the cost of technology acquired through a business combination based on the fair value of the assets acquired.

#### *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, 2022 and 2021, 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 and Contract Asset, net*

Accounts receivable, net consist of trade accounts receivables from the Company's customers, net of allowance for doubtful accounts if deemed necessary, and are recorded at 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 for amounts that the Company has the right to invoice. 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 doubtful accounts based on the Company's historical experience. At December 31, 2022 and 2021, the Company had

a provision against accounts receivable of \$0 and \$74,000, respectively. 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 deposits of cash and cash equivalents at two 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 ("FDIC") 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. As of December 31, 2022, the Company had \$9.5 million and \$6,000 on hand with each domestic financial institution for which only \$250,000 is insured under FDIC limits.

*Concentration of Accounts Receivable and Contract Asset* — At December 31, 2022, two customers accounted for 23% and 17%, respectively, of the Company's total accounts receivable. At December 31, 2021, one customer accounted for 65%, of the Company's total accounts receivable.

*Concentration of Revenues* — For the year ended December 31, 2022, two customers accounted for 30% and 10%, respectively, of the Company's revenues. For the year ended December 31, 2021, two customers accounted for 28% and 14%, respectively, of the Company's revenues. For the year ended December 31, 2020, two customers accounted for 18% and 15%, respectively, 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 (the Company has one reporting segment and tests at the company level) 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 operates as one reportable segment. It performed its annual test for goodwill impairment as of October 1, 2022 and concluded

that no goodwill impairment charge was necessary. Since inception through December 31, 2022, the Company has not recorded any goodwill impairment.

#### *Intangible Assets*

Intangible assets consist of customer relationships, software technology, tradename and acquired patents and capitalized legal fees related to obtaining patents. Patent assets are stated at cost, less accumulated amortization. Customer relationships, tradename and software technology 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, one to eight years for software technology, nine years for tradename, and seven to 15 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.

#### *Impairment of Long-Lived Assets*

The Company reviews long-lived assets for impairment 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 group to the group's future undiscounted cash flows expected to be generated from the existing service potential of the asset group for the period of time consistent with the remaining life of the group's primary asset. 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 2022, 2021, and 2020, 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 supported by little or no market data. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

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 estimates 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 of its common stock for use in the Black-Scholes option pricing model.

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.

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

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 include unvested restricted stock units, convertible preferred stock, warrants and outstanding stock options.

### *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 is effective at the beginning of the Company's first quarter of fiscal 2023. Early adoption of the amendments is permitted. The Company



determined its accounts receivable and contract asset are within the scope of CECL and does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

#### *Recent Accounting Pronouncements Adopted*

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740)*, simplifying the accounting for income taxes by removing certain exceptions to the general principles. The guidance was effective at the beginning of the Company's first quarter of fiscal 2022. The adoption of this ASU did not have a material impact on the Company's 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. The Company early adopted this ASU effective January 1, 2022.

### **Note 3. Revenue Related Disclosures**

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

	<b>Year Ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Beginning balance	\$ 26,709	\$ 24,578
Deferred revenues acquired (Note 4 - Business Acquisitions)	5,382	—
New billings	91,453	60,132
Revenue recognized during the year from beginning balance	(31,180)	(24,480)
Revenue recognized during the year from new billings	(48,643)	(33,509)
Foreign currency impact	(1)	(12)
Ending balance	<u>\$ 43,720</u>	<u>\$ 26,709</u>

The following table presents remaining performance obligations for contractually committed revenues as of December 31, 2022 (in thousands):

2023	\$ 65,317
2024	35,368
2025	15,420
Thereafter	6,938
Total	<u>\$ 123,043</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, 2022 and amounts under contract that will be invoiced after December 31, 2022.

During the year ended December 31, 2022, the Company recognized revenues of \$80.2 million from customers in the United States, and \$0.8 million from customers in South Africa and the Bahamas. 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, 2022, the Company recognized revenues of \$75.4 million from monthly subscription, maintenance and support services, and \$5.6 million from professional software development services. 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.

#### Note 4. Business Acquisition

On January 3, 2022, the Company completed the acquisition of 100% of the membership interests in Forensic Logic, LLC (“Forensic Logic”) for purchase consideration of \$4.9 million in cash, subject to working capital adjustments, and 464,540 shares of ShotSpotter common stock with a fair value of \$14.3 million based on the closing price on the date of acquisition. The purchase consideration also included a contingent consideration agreement based on forecasted 2022 and 2023 Forensic Logic revenues. If 2022 Forensic Logic revenues exceeded \$7.0 million, the contingent consideration payable would be \$3.75 million up to a maximum of \$9.5 million. An additional amount up to \$10.5 million in contingent consideration may be payable based on Forensic Logic’s revenues generated during 2023. Any amounts due are payable within approximately 120 days after the end of 2022 and 2023. The estimated fair value of the contingent consideration on the date of acquisition was \$12.4 million, resulting in a total estimated purchase consideration of \$31.6 million. The acquisition enabled the Company to broaden its suite of precision-policing solutions and cloud-based investigative platforms to offer its customers.

The following table summarizes the assignment of fair value to the identified assets and liabilities recorded as of the acquisition date, January 3, 2022 (in thousands):

Cash and cash equivalents	\$	303
Accounts receivable and contract asset, net		220
Property and equipment, net		200
Operating lease right-of-use asset		1,893
Software technology		7,140
Tradename		1,000
Customer relationships		8,400
Goodwill		20,155
Other asset		186
Accrued expenses and other current liabilities		(635)
Operating lease liabilities		(1,893)
Deferred revenue		(5,382)
Total estimated consideration	\$	<u>31,587</u>

Goodwill primarily represents the value of cash flows from future customers and the employee workforce. 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 liabilities. The Company valued the intangible assets using income-based approaches. Significant assumptions included forecasts of revenues, cost of revenues, research and development expense, sales and marketing expense, general and administrative expense, technology lives, royalty rates, working capital rates, customer attrition rates and other estimates. The Company discounted the cash flows at 24%, reflecting the risk profile of the assets.

Acquisition-related expenses totaled \$0.1 million and \$0.2 million for the year ended December 31, 2022 and 2021, respectively, and are included in general and administrative expense.

The results of Forensic Logic have been included in the consolidated financial statements since the date of the acquisition. Forensic Logic’s consolidated revenue included in the consolidated financial statements since the acquisition date was \$6.6 million. The Company has not disclosed net income or loss since the acquisition date as the business was integrated into the consolidated Company’s operations and therefore it was impracticable to determine this amount.

The unaudited pro forma combined revenue and net loss have been prepared as if the Company had acquired Forensic Logic on January 1, 2021. The unaudited pro forma financial information has been derived from the consolidated statements of operations of the Company and Forensic Logic for the respective periods. The historical financial information has been adjusted in the unaudited combined pro forma information based upon currently available information and certain estimates and assumptions. The actual effect of the transactions ultimately may differ from the pro forma adjustments included herein. However, management believes that the assumptions used to prepare

the pro forma adjustments provide a reasonable basis for presenting the significant effects of the transactions as currently contemplated and that the pro forma adjustments are factually supportable, give appropriate effect to the expected impact of events that are directly attributable to the transactions, and reflect those items expected to have a continuing impact on the Company. The unaudited pro forma financial information is for informational purposes only and is not necessarily indicative of the results of operations that would have been achieved if the acquisition had taken place on January 1, 2021.

The unaudited pro forma combined revenue and net loss for the year ended December 31, 2021 would have been \$64.5 million and \$7.7 million, respectively.

#### 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., to satisfy all its obligations under the contingent consideration arrangement.

In November 2020, upon the closing of the acquisition of Leeds, the Company recognized a contingent consideration liability of \$0.2 million. The Leeds contingent consideration liability was valued using a Monte Carlo Simulation approach. The Company classified the Leeds contingent consideration liability within Level III of the fair value hierarchy. 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 for the expected settlement of the liability. There have been no changes in the assumptions or fair value of the LEEDS contingent consideration liability during the year ended December 31, 2022.

In January 2022, upon the closing of the acquisition of Forensic Logic, the Company recognized a contingent consideration liability of \$12.4 million. The Forensic Logic contingent consideration liability was valued using a Monte Carlo Simulation approach with asset and revenue volatility of 60.0% and 28.0%, respectively. The Company classified the Forensic Logic contingent consideration liability within Level III of the fair value hierarchy. During the year ended December 31, 2022, the fair value of the contingent consideration was decreased by \$9.2 million, based upon revised estimated 2022 and 2023 revenue targets due to delays in certain expected contracts by a small number of significant potential customers, representing an adjustment to the most likely outcome for the expected settlement of the liability and using a Monte Carlo Simulation approach with asset and revenue volatility of 60.0% and 22.9%, respectively.

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

	Year Ended December 31,	
	2022	2021
Beginning balance	\$ 1,500	\$ 573
Payment of contingent consideration liability	—	(403)
Acquisition of Forensic Logic (Note 4 - Business Acquisition)	12,400	—
Change in fair value of contingent consideration	(9,154)	1,330
Ending balance	\$ 4,746	\$ 1,500

There were no transfers into or out of Level III during the year ended December 31, 2022 and 2021.

## Note 6. Goodwill

The changes in goodwill for 2022 and 2021 are as follows (in thousands):

	Year Ended December 31,	
	2022	2021
Beginning balance	\$ 2,816	\$ 2,811
Acquisition of Forensic Logic (Note 4—Business Acquisition)	20,155	—
Change during the period	—	5
Ending balance	<u>\$ 22,971</u>	<u>\$ 2,816</u>

The Company has not recorded any goodwill impairment charges through December 31, 2022.

## Note 7. Intangible Assets, net

Intangible assets as of December 31, 2022 and 2021 are as follows (in thousands):

	December 31, 2022		
	Gross	Accumulated Amortization	Net
Customer relationships	\$ 22,970	\$ (2,760)	\$ 20,210
Acquired software technology	7,140	(1,015)	6,125
Patents	1,227	(1,133)	94
Tradename	1,000	(111)	889
Total intangible assets, net	<u>\$ 32,337</u>	<u>\$ (5,019)</u>	<u>\$ 27,318</u>

	December 31, 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>

Intangible amortization expense was \$2.8 million, \$1.0 million and \$0.2 million for the years ended December 31, 2022, 2021 and 2020, respectively.

The following table presents future intangible asset amortization as of December 31, 2022 (in thousands):

2023	\$ 2,657
2024	2,649
2025	2,633
2026	2,594
2027	2,594
Thereafter	14,191
Total	<u>\$ 27,318</u>

## Note 8. Details of Certain Consolidated Balance Sheet Accounts

### Prepaid expenses and other current assets (in thousands):

	December 31,	
	2022	2021
Deferred commissions	\$ 1,040	\$ 822
Prepaid insurance	724	611
Prepaid software and licenses	647	756
Other prepaid expenses	236	198
Short-term deposits	363	—
Other	215	117
	<u>\$ 3,225</u>	<u>\$ 2,504</u>

### Accounts receivable and contract asset, net (in thousands):

	December 31,	
	2022	2021
Accounts receivable	\$ 28,790	\$ 16,167
Contract asset	2,167	41
Allowance for doubtful accounts	—	(74)
	<u>\$ 30,957</u>	<u>\$ 16,134</u>

### Other assets (in thousands):

	December 31,	
	2022	2021
Deferred commissions	\$ 2,552	\$ 1,723
Other	18	195
	<u>\$ 2,570</u>	<u>\$ 1,918</u>

### Property and equipment, net (in thousands):

	December 31,	
	2022	2021
Deployed equipment	\$ 44,700	\$ 35,882
Construction in progress	5,267	4,818
Computer equipment	2,359	1,745
Software	1,314	1,314
Furniture and fixtures	472	295
Leasehold improvements	934	30
Vehicles	258	239
	55,304	44,323
Accumulated depreciation and amortization	(33,316)	(26,914)
	<u>\$ 21,988</u>	<u>\$ 17,409</u>

Depreciation and amortization expense during the years ended December 31, 2022, 2021 and 2020 was \$6.4 million, \$5.8 million and \$5.4 million, respectively.

**Accrued expenses and other current liabilities (in thousands):**

	December 31,	
	2022	2021
Personnel-related accruals	\$ 5,971	\$ 4,864
Contingent consideration liabilities	1,500	—
Operating lease liabilities	868	409
Professional fees	441	925
Income tax payable	385	23
Sales/use tax payable	257	167
Other	543	292
	<u>\$ 9,965</u>	<u>\$ 6,680</u>

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

	December 31,	
	2022	2021
Operating lease liabilities	\$ 2,554	\$ 2,013
Contingent consideration liabilities	3,246	1,500
	<u>\$ 5,800</u>	<u>\$ 3,513</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, 2022, the Company did not recognize any impairment of property and equipment.

**Note 10. Financing Arrangements**

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”).

On November 23, 2022, the Company entered into a Fifth Amendment to the Umpqua Credit Agreement (the “Amendment”), which amends the terms of the Umpqua Credit Agreement, dated as of September 27, 2018, as amended (as amended by the Amendment, the “Credit Agreement”), to, among other things, (1) extend the maturity date from November 27, 2022 to October 15, 2024, (2) increase the revolving credit commitment from \$20.0 million to \$25.0 million, (3) increase the letter of credit sub-facility from \$6.0 million to \$7.5 million, (4) remove the minimum profitability covenants and (5) replace the LIBOR index rate with a Term Secured Overnight Financing Rate (“SOFR”) index rate.

The Company intends to use the Revolving Facility for general working capital purposes. Borrowings under the Credit Agreement are secured by substantially all of the assets of the Company. Any amounts outstanding under the letter of credit sub-facility reduce the amount available for the Company to borrow under the Revolving Facility.

Under the Credit Agreement, the Company has the option to select an interest rate based on 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 SOFR rate as of such date of determination plus 1.0% per annum or (2) a SOFR rate, which can be for a period of 30, 90 or 180 days at the Company’s option and is equal to the SOFR rate as published by CME Group Benchmark Administration Limited, in each case plus 2.0% per annum. Any letters of credit issued under the Credit Agreement

will be subject to a fronting fee of 2.0% per annum. Borrowings under the Credit Agreement may be repaid and reborrowed at any time prior to termination of the Credit Agreement.

The Company is subject to certain financial covenants in the Credit Agreement, which include: (1) maintaining a ratio of consolidated funded debt, excluding the amount of any unsecured convertible notes issued by the Company, to consolidated earnings before income tax, depreciation and amortization (“Consolidated EBITDA”) of not greater than 3.00 to 1.00 measured at the end of each fiscal quarter and (2) maintaining a ratio of Consolidated EBITDA to interest charges of at least 2.00 to 1.00 measured at the end of each fiscal quarter. The Company was in compliance with its covenants as of December 31, 2022.

The Credit Agreement contains 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.

There were no borrowings outstanding as of December 31, 2022 and 2021.

#### Note 11. Related Party Transactions

During the year ended December 31, 2022, 2021 and 2020, the Company recognized \$0.08 million, \$0.1 million and \$0.2 million in revenues, respectively, 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.

#### Note 12. Income Taxes

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

	Year Ended December 31,		
	2022	2021	2020
Domestic	\$ 7,583	\$ (4,280)	\$ 1,562
Foreign	(31)	(95)	(427)
Net income (loss) before income tax	<u>\$ 7,552</u>	<u>\$ (4,375)</u>	<u>\$ 1,135</u>

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

	Year Ended December 31,		
	2022	2021	2020
Current:			
Federal	\$ —	\$ —	\$ —
State	455	—	—
Foreign	27	6	(7)
Total	482	6	(7)
Deferred:			
Federal	316	—	—
State	369	—	—
Foreign	—	50	(83)
Total	685	50	(83)
Total provision (benefit) for income tax	<u>\$ 1,167</u>	<u>\$ 56</u>	<u>\$ (90)</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):

	December 31,		
	2022	2021	2020
Income tax (benefit) at statutory rate	\$ 1,545	\$ (919)	\$ 240
Change in valuation allowance	(388)	1,288	(165)
Indefinite-lived asset (goodwill)	(642)	—	—
State tax	239	(288)	(37)
Change in deferred	415	(27)	8
Stock-based compensation	111	62	(11)
Research and development credits	(271)	(160)	(103)
Foreign rate differential	43	7	(40)
Other	115	93	18
Total	<u>\$ 1,167</u>	<u>\$ 56</u>	<u>\$ (90)</u>

Temporary differences that gave rise to significant portions of the Company's deferred tax assets and liabilities as of December 31, 2022 and 2021 were as follows (in thousands):

	Year Ended December 31,	
	2022	2021
Deferred tax assets:		
Net operating losses	\$ 17,255	\$ 19,920
Research and development credits	2,917	2,557
Accruals and reserves	5,914	2,605
Deferred revenue and contract costs	625	140
Gross deferred tax assets	26,711	25,222
Valuation allowance	(25,343)	(24,955)
Net deferred tax assets	1,368	267
Deferred tax liabilities:		
Fixed assets and intangibles	(2,053)	(267)
Total deferred tax assets (liabilities), net	<u>\$ (685)</u>	<u>\$ —</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 \$25.3 million and \$25.0 million was required as of December 31, 2022 and 2021, respectively.

At December 31, 2022 and 2021, the Company had available net operating loss carryforwards of approximately \$67.1 million and \$78.4 million, respectively, for federal income tax purposes, of which \$62.2 million were generated before 2018 and will begin to expire in 2028. The remaining net operating losses of \$4.9 million can be carried forward indefinitely under the Tax Cuts and Jobs Act ("TCJA"). 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, 2022 and 2021, the net operating losses for state purposes are \$43.8 million and \$49.7 million, respectively, and will begin to expire in 2023 if not utilized.

As of December 31, 2022, the Company had available for carryover, research and experimental credits of approximately \$1.7 million for federal income tax purposes and \$1.6 million for California 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.

As of December 31, 2022, the Company had temporary book over tax basis differences from indefinite-lived assets (goodwill), of which 80 percent was offset by the existing net operating losses with indefinite carryforward period and deductible temporary differences that are scheduled to reverse into net operating losses with indefinite carryforward period for federal purposes and for states that conform to the federal net operating loss provisions under TCJA. The remaining book over tax basis difference from indefinite-lived assets that was not offset by indefinite-lived net operating losses resulted in a deferred tax liability of \$0.7 million as of December 31, 2022.

#### *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, 2020	\$	859
Increases for current year tax positions		87
Increases for prior year tax positions		8
Balance as of December 31, 2021		954
Increases for current year tax positions		140
Decreases for prior year tax positions		(11)
Balance as of December 31, 2022	\$	<u>1,083</u>

Of the total unrecognized tax benefits at December 31, 2022, no amount will impact the Company's effective tax rate because the uncertain amounts have a valuation allowance recorded against them. 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, 2022 and 2021.

The Company files federal and state income tax returns in the United States, certain United States territories, and certain foreign jurisdictions. The statutes of limitations remain open for 2008 through 2022 for federal and state purposes in the United States, 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, 2022 and 2021, there were 12,243,929 and 11,703,430 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, 2022, shares of common stock reserved for future issuance were as follows:

Options outstanding	1,256,056
Shares available for future grant	1,527,374
Unvested restricted stock units	223,821
Total	<u>3,007,251</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, 2022 and 2021, 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. During the year ended December 31, 2022, the Company repurchased 106,992 shares of its common stock at an average price of \$28.81 per share for \$3.1 million and used up the remaining balance under the stock repurchase program authorized in May 2019 in the third quarter ended September 30, 2022. 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. The repurchases were made in open market transactions using cash on hand, and all of the shares repurchased were retired.

In November 2022, the Company's board of directors approved a new stock repurchase program for up to \$25.0 million of the Company's 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.

### 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,		
	2022	2021	2020
<b>Numerator:</b>			
Net income (loss)	\$ 6,385	\$ (4,431)	\$ 1,225
<b>Denominator:</b>			
Weighted-average shares outstanding, basic	12,171,609	11,647,558	11,408,757
Weighted-average shares outstanding, diluted	12,317,707	11,647,558	11,730,294
Net income (loss) per share, basic	\$ 0.52	\$ (0.38)	\$ 0.11
Net income (loss) per share, diluted	\$ 0.52	\$ (0.38)	\$ 0.10

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,		
	2022	2021	2020
Options to purchase common stock	1,015,497	783,928	573,340
Unvested restricted stock units	97,275	128,810	101,255
Total	<u>1,112,772</u>	<u>912,738</u>	<u>674,595</u>

### Note 15. 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 ("RSUs"), 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, RSUs and other awards to employees, directors and consultants of the Company. The 2017 Plan includes an evergreen provision that 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 31<sup>st</sup> of the preceding calendar year or (2) such number of shares as determined by the board of directors.

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

Shares available for grant at December 31, 2021	1,661,956
Increase in accordance with the evergreen provision	585,172
Options issued during the year	(557,218)
Canceled during the year	43,271
RSUs granted	(205,807)
Shares available for grant at December 31, 2022	<u>1,527,374</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 of directors discretion to determine when the options granted will become exercisable.

Compensation expense for stock options is based upon the estimated fair value of the awards. The fair value of stock option grants is determined using the Black-Scholes option pricing model which requires the use of certain assumed inputs. The assumed inputs used to determine the fair value of stock options granted for the years ended December 31, 2022, 2021, and 2020 are set forth below:

	Year Ended December 31,		
	2022	2021	2020
Fair value of common stock	\$16.30-\$37.00	\$31.12-\$48.05	\$23.49-\$34.07
Expected term (in years)	6	6	6
Risk-free interest rate	1.54%-4.18%	0.45%-1.62%	0.36%-0.83%
Expected volatility	63%-64%	65%-67%	64%-68%
Expected dividend yield	—	—	—

A summary of stock option activities during 2022, 2021 and 2020 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, 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	783,928	\$ 28.00		
Granted	557,218	\$ 27.40	\$ 16.30	
Exercised	(41,819)	\$ 12.88		\$ 778
Canceled	(43,271)	\$ 28.85		
Outstanding at December 31, 2022	<u>1,256,056</u>	\$ 28.20		

Additional information for stock options at December 31, 2022 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, 2022	1,256,056	28.20	\$ 8,652	7.60
Exercisable at December 31, 2022	615,261	27.04	\$ 5,396	6.38

At December 31, 2022, total unrecognized stock-based compensation cost related to unvested stock options was \$10.5 million, which will be recognized ratably over a weighted-average period of 2.8 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 RSUs under the 2017 Plan to executive management and its non-employee directors. RSUs granted to executive management generally vest over four years, while 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 non-employee directors receive new annual grants at each annual meeting of stockholders. Compensation expense for RSUs is based upon the estimated fair value of the awards on the date of grant.

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, 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	128,810	\$ 35.09	
Granted	205,807	\$ 26.90	
Vested	(107,971)	\$ 31.88	\$ 3,129
Forfeited	(2,825)	\$ 26.50	
Unvested RSUs at December 31, 2022	<u>223,821</u>	\$ 29.21	

At December 31, 2022, total unrecognized stock-based compensation cost related to RSUs was \$5.7 million, which will be recognized ratably over a weighted-average period of 2.6 years.

During the year ended December 31, 2022, the Company modified RSUs to accelerate vesting for two individuals in respect of 5,849 RSUs and cancelled the award of another individual in respect of 1,887 RSUs. The Company accounted for these as modifications of those awards and recognized net incremental compensation expense of \$0.01 million.

The incremental compensation cost is measured as the excess of the fair value of the modified award over the fair value of the original award immediately before its terms were modified and recognized as compensation expense on the date of modification for vested awards

### 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 31<sup>st</sup> 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 authorized the automatic increase to the 2017 ESPP plan on January 1, 2022 for the year ended December 31, 2022.

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

Shares available for grant at December 31, 2021	399,328
Increase in accordance with the evergreen provision	150,000
Issued during the year	(33,161)
Shares available for grant at December 31, 2022	<u>516,167</u>

#### *Stock-Based Compensation Expense*

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

	Year Ended December 31,		
	2022	2021	2020
Cost of revenues	\$ 1,992	\$ 1,567	\$ 1,093
Sales and marketing	1,754	1,612	1,268
Research and development	1,082	734	580
General and administrative	3,454	1,959	1,521
Total	<u>\$ 8,282</u>	<u>\$ 5,872</u>	<u>\$ 4,462</u>

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

#### **Note 16. 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 of directors. The Company matched 50% of employee contributions made during 2022 up to a maximum of 2% of compensation; the match will be deposited to the employees' 401(k) accounts in 2023. During the years ended December 31, 2022, 2021, and 2020, the Company recorded \$0.3 million, \$0.3 million, and \$0.2 million, respectively, of matching contribution expense. These matching contributions are subject to additional vesting criteria.

#### **Note 17. Leases**

The Company leases its principal executive offices in Fremont, California, under a non-cancelable operating lease which expires in February 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 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. 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 January 2022, as part of the Forensic Logic acquisition, the Company acquired the non-cancelable operating leases of Forensic Logic's offices in Walnut Creek, California and Tucson, Arizona, which expire in June 2025 and February 2026, respectively. Neither lease has significant rent escalation holidays, concessions, leasehold improvement incentives, or other build-out clauses. Each lease contains an option to extend the term for an additional period of five years subject to certain terms and conditions. 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 3.25% 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 years ended December 31, 2022, 2021 and 2020, was \$1.0 million \$0.6 million and \$0.4 million, respectively.

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

	December 31,	
	2022	2021
<b>Assets</b>		
Operating lease right-of-use assets	\$ 3,240	\$ 2,323
<b>Liabilities</b>		
Lease liabilities (short-term) <i>(presented within Accrued expenses and other current liabilities)</i>	\$ 868	\$ 409
Lease liabilities (long-term) <i>(presented within Other liabilities)</i>	2,554	2,013
Total operating lease liabilities	\$ 3,422	\$ 2,422
<b>Year Ended December 31,</b>		
	2022	2021
Cash paid for amounts included in the measurement of lease liabilities <i>(presented within Operating cash flows)</i>	\$ 941	\$ 553

Maturities of the lease liabilities at December 31, 2022 are as follows (in thousands):

2023	\$ 1,041
2024	1,078
2025	946
2026	506
2027	39
Total lease payments, undiscounted	3,610
Less: imputed interest	(188)
Total	\$ 3,422

## **Note 18. 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. The lawsuit was dismissed by the prevailing judge on June 30, 2022, but the Company obtained a retraction from VICE of several false statements following the dismissal.

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 19. Subsequent Events**

Management evaluated subsequent events through March 14, 2023, which was the date the financial statements were available to be issued, and determined that there are no subsequent events to be reported.



**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 13a-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, 2022, 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 January 2022, we completed the acquisition of Forensic Logic. We continue to integrate internal controls at Forensic Logic into our control structure. With the exception of these changes, there were no changes in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) during the quarter ended December 31, 2022 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, 2022.

**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.

We have adopted a code of business conduct and ethics that applies to our directors, officers and employees. This code of ethics is published on our website at [www.shotspotter.com](http://www.shotspotter.com). If we ever were to amend or waive any provision of our code of ethics that applies to the Company’s principal executive officer, principal financial officer, principal accounting officer or any person performing similar functions, we intend to satisfy our disclosure obligations, if any, with respect to any such waiver or amendment by posting such information on our website set forth above rather than by filing a Current Report on Form 8-K.

#### **Item 11. EXECUTIVE COMPENSATION**

The information required by this Item 11 is incorporated herein by reference to the sections of our Proxy Statement.

#### **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.

#### **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.

#### **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.

## **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	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
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	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 Gary T. Bunyard, dated March 13, 2017	S-1	333-217603	10.12	May 2, 2017	
10.12(#)	Offer Letter between ShotSpotter, Inc. and Nasim Golzadeh, dated February 20, 2019	10-K	001-38107	10.16	March 4, 2019	
10.13	Lease Agreement between Washington Township Health Care District and ShotSpotter, Inc., dated August 16, 2021	10-Q	001-38107	10.1	November 15, 2021	

10.14	Credit Agreement between Umpqua Bank and ShotSpotter, Inc., dated September 27, 2018	10-Q	001-38107	10.1	November 14, 2018	
10.15	First Amendment to Credit Agreement between Umpqua Bank and ShotSpotter, Inc., dated May 21, 2019	8-K	001-38107	10.1	May 24, 2019	
10.16	Second Amendment to Credit Agreement between Umpqua Bank and ShotSpotter, Inc., dated August 14, 2020	8-K	001-38107	10.1	August 19, 2020	
10.17	Third Amendment to Credit Agreement between Umpqua Bank and ShotSpotter Inc. dated May 19, 2022.	10-Q	001-38107	10.1	November 9, 2022	
10.18	Fourth Amendment to Credit Agreement between Umpqua Bank and ShotSpotter, Inc. dated September 26, 2022.	10-Q	001-38107	10.2	November 9, 2022	
10.19	Fifth Amendment to Credit Agreement between Umpqua Bank and ShotSpotter, Inc. dated November 23, 2022.	8-K	001-38107	10.1	November 23, 2022	
10.20	Amended and Restated Nonemployee Director Compensation Policy, dated February 14, 2023					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 14, 2023

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

Date: March 14, 2023

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
<u>/s/ Ralph A. Clark</u> Ralph A. Clark	President, Chief Executive Officer, and a Director (Principal Executive Officer)	March 14, 2023
<u>/s/ Alan R. Stewart</u> Alan R. Stewart	Chief Financial Officer (Principal Financial and Accounting Officer)	March 14, 2023
<u>/s/ Pascal Levensohn</u> Pascal Levensohn	Director	March 14, 2023
<u>/s/ Ruby Sharma</u> Ruby Sharma	Director	March 14, 2023
<u>/s/ Marc Morial</u> Marc Morial	Director	March 14, 2023
<u>/s/ William J. Bratton</u> William J. Bratton	Director	March 14, 2023
<u>/s/ Deborah Elam</u> Deborah Elam	Director	March 14, 2023
<u>/s/ Roberta Jacobson</u> Roberta Jacobson	Director	March 14, 2023



SoundThinking, Inc. (Nasdaq: SSTI) is a leading public safety technology company that combines transformative solutions and strategic advisory services for law enforcement and civic leadership. We are trusted by more than 250 customers and 2,000 agencies to drive more efficient, effective, and equitable public safety outcomes, making communities healthier. Our SafetySmart™ platform includes ShotSpotter®,


the leading acoustic gunshot detection system, CrimeTracer™, the foremost law enforcement search engine, CaseBuilder™, a one-stop investigation management system, and ResourceRouter™, software that directs patrol and community anti-violence resources to help maximize their impact. SoundThinking has been designated a Great Place to Work® Company.


## SoundThinking Inc.


39300 Civic Center Dr. Suite 300  
Fremont, CA 94538


1.888.274.6877  
[info@soundthinking.com](mailto:info@soundthinking.com)  
[www.soundthinking.com](http://www.soundthinking.com)

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