

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2023

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

SoundThinking, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
39300 Civic Center Dr., Suite 300
Fremont, California
(Address of principal executive offices)

47-0949915
(I.R.S. Employer
Identification No.)

94538
(Zip Code)

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

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

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

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

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

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

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

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

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

As of May 5, 2023 the registrant had 12,245,301 shares of common stock, \$0.005 par value per share, outstanding.

Table of Contents

	Page
PART I.	
	<u>FINANCIAL INFORMATION</u>
Item 1.	<u>Condensed Consolidated Financial Statements</u> 2
	<u>Condensed Consolidated Balance Sheets</u> 2
	<u>Condensed Consolidated Statements of Operations</u> 3
	<u>Condensed Consolidated Statements of Comprehensive Income (Loss)</u> 4
	<u>Condensed Consolidated Statements of Stockholders' Equity</u> 5
	<u>Condensed Consolidated Statements of Cash Flows</u> 6
	<u>Notes to Condensed Consolidated Financial Statements</u> 7
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 16
Item 3.	<u>Qualitative and Quantitative Disclosures About Market Risk</u> 26
Item 4.	<u>Controls and Procedures</u> 26
PART II.	
	<u>OTHER INFORMATION</u>
Item 1A.	<u>Risk Factors</u> 27
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 56
Item 6.	<u>Exhibits</u> 56
	<u>Exhibit Index</u> 57
	<u>Signatures</u> 58

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

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

	March 31, 2023 Unaudited	December 31, 2022
Assets		
Current assets		
Cash and cash equivalents	\$ 5,075	\$ 10,479
Accounts receivable and contract asset, net	26,721	30,957
Prepaid expenses and other current assets	3,474	3,225
Total current assets	35,270	44,661
Property and equipment, net	22,361	21,988
Operating lease right-of-use assets	3,012	3,240
Goodwill	22,971	22,971
Intangible assets, net	26,671	27,318
Other assets	2,807	2,570
Total assets	<u>\$ 113,092</u>	<u>\$ 122,748</u>
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 2,520	\$ 1,633
Deferred revenue, short-term	35,620	41,907
Accrued expenses and other current liabilities	6,649	9,965
Total current liabilities	44,789	53,505
Deferred revenue, long-term	1,839	1,813
Deferred tax liability	685	685
Other liabilities	5,550	5,800
Total liabilities	52,863	61,803
Commitments and contingencies (Note 14)		
Stockholders' equity		
Preferred stock: \$0.005 par value; 20,000,000 shares authorized; no shares issued and outstanding as of March 31, 2023 and December 31, 2022, respectively	—	—
Common stock: \$0.005 par value; 500,000,000 shares authorized; 12,243,780 and 12,243,929 shares issued and outstanding as of March 31, 2023 and December 31, 2022, respectively	62	62
Additional paid-in capital	154,664	153,573
Accumulated deficit	(94,190)	(92,400)
Accumulated other comprehensive loss	(307)	(290)
Total stockholders' equity	60,229	60,945
Total liabilities and stockholders' equity	<u>\$ 113,092</u>	<u>\$ 122,748</u>

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2023	2022
Revenues	\$ 20,620	\$ 21,214
Costs		
Cost of revenues	9,243	8,290
Impairment of property and equipment	72	—
Total costs	9,315	8,290
Gross profit	11,305	12,924
Operating expenses		
Sales and marketing	5,848	5,576
Research and development	2,653	2,627
General and administrative	4,616	4,289
Change in fair value of contingent consideration	(6)	—
Total operating expenses	13,111	12,492
Operating income (loss)	(1,806)	432
Other income (expense), net		
Interest income, net	54	8
Other expense, net	(38)	(53)
Total other income (expense), net	16	(45)
Income (loss) before income taxes	(1,790)	387
Provision for income taxes	—	—
Net income (loss)	\$ (1,790)	\$ 387
Net income (loss) per share, basic	\$ (0.15)	\$ 0.03
Net income (loss) per share, diluted	\$ (0.15)	\$ 0.03
Weighted-average shares used in computing net income (loss) per share, basic	12,252,517	12,156,968
Weighted-average shares used in computing net income (loss) per share, diluted	12,252,517	12,315,806

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2023	2022
Net income (loss)	\$ (1,790)	\$ 387
Other comprehensive income (loss):		
Change in foreign currency translation adjustment, net of taxes	(17)	73
Comprehensive income (loss)	<u>\$ (1,807)</u>	<u>\$ 460</u>

See accompanying notes to condensed consolidated financial statements.

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

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Par Value				
Balance at January 1, 2023	12,243,929	\$ 62	\$ 153,573	\$ (92,400)	\$ (290)	\$ 60,945
Exercise of stock options	10,063	—	127	—	—	127
Repurchase of common stock	(35,369)	—	(1,256)	—	—	(1,256)
Issuance of common stock from RSUs vested	25,157	—	—	—	—	—
Stock-based compensation	—	—	2,220	—	—	2,220
Foreign currency translation loss	—	—	—	—	(17)	(17)
Net loss	—	—	—	(1,790)	—	(1,790)
Balance at March 31, 2023	<u>12,243,780</u>	<u>\$ 62</u>	<u>\$ 154,664</u>	<u>\$ (94,190)</u>	<u>\$ (307)</u>	<u>\$ 60,229</u>

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Par Value				
Balance at January 1, 2022	11,703,430	\$ 58	\$ 132,780	\$ (98,785)	\$ (238)	\$ 33,815
Exercise of stock options	8,528	—	13	—	—	13
Repurchase of common stock	(57,623)	—	(1,634)	—	—	(1,634)
Issuance of common stock from RSUs vested	22,755	—	—	—	—	—
Issuance of common stock from acquisition	464,540	3	14,263	—	—	14,266
Stock-based compensation	—	—	1,855	—	—	1,855
Foreign currency translation loss	—	—	—	—	73	73
Net income	—	—	—	387	—	387
Balance at March 31, 2022	<u>12,141,630</u>	<u>\$ 61</u>	<u>\$ 147,277</u>	<u>\$ (98,398)</u>	<u>\$ (165)</u>	<u>\$ 48,775</u>

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2023	2022
Cash flows from operating activities:		
Net income (loss)	\$ (1,790)	\$ 387
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Depreciation of property and equipment	1,771	1,487
Amortization of intangible assets	661	695
Impairment of property and equipment	72	—
Stock-based compensation	2,220	1,855
Change in fair value of contingent consideration	(6)	—
Provision for accounts receivable	25	77
Changes in operating assets and liabilities:		
Accounts receivable and contract asset, net	4,211	(4,976)
Prepaid expenses and other assets	(486)	(439)
Accounts payable	219	—
Accrued expenses and other current liabilities	(1,834)	(1,220)
Deferred revenue	(6,261)	3,417
Net cash (used in) provided by operating activities	(1,198)	1,283
Cash flows from investing activities:		
Purchase of property and equipment	(1,537)	(1,900)
Investment in intangible and other assets	(23)	(8)
Business acquisition, net of cash acquired	—	(4,618)
Net cash used in investing activities	(1,560)	(6,526)
Cash flows from financing activities:		
Payment of contingent consideration liability	(1,500)	—
Proceeds from exercise of stock options	127	13
Repurchases of common stock	(1,256)	(1,634)
Net cash used in financing activities	(2,629)	(1,621)
Change in cash, cash equivalents and restricted cash	(5,387)	(6,864)
Effect of exchange rate on cash and cash equivalents	(17)	80
Cash, cash equivalents and restricted cash at beginning of year	10,479	15,636
Cash, cash equivalents and restricted cash at end of year	<u>\$ 5,075</u>	<u>\$ 8,852</u>
Supplemental disclosure of non-cash financing activities:		
Property and equipment purchases included in accounts payable	\$ 1,074	\$ 731
Estimated fair value of contingent consideration	\$ —	\$ 12,400
Fair value of common stock issued as consideration for business acquisition	\$ —	\$ 14,266

See accompanying notes to condensed consolidated financial statements.

SoundThinking, Inc.
Notes to Condensed Consolidated Financial Statements

Note 1. Organization and Description of Business

In April 2023, ShotSpotter, Inc. changed its name to SoundThinking, Inc. (the “Company”), reflecting its broader impact on public safety through a growing set of industry-leading law enforcement tools and community-focused solutions. As part of the rebrand, the Company introduced its SafetySmart Platform™ that includes four data-driven tools including its flagship product, ShotSpotter® (formerly ShotSpotter Respond), the leading outdoor gunshot detection, location and alerting system trusted by over 155 cities and over 20 universities and corporations as of March 31, 2023. CrimeTracer™ (formerly COPLINK X) is a 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 to solve crimes. CaseBuilder™ (formerly ShotSpotter Investigate) is a one-stop investigative management system for tracking, reporting, and collaborating on cases. And ResourceRouter™ (formerly ShotSpotter Connect) directs the deployment of patrol and community anti-violence resources in an objective way to help maximize the impact of limited resources and improve community safety. The Company offers its solutions on a software-as-a-service subscription model to its customers. SoundThinking Labs supports innovative uses of the Company's technology to help protect wildlife and the environment. Additionally, we provide maintenance and support services and professional software development services to a single customer, through a sales channel intermediary.

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

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

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

The accompanying condensed consolidated financial statements and related financial information should be read in conjunction with the consolidated financial statements filed with the Company’s Annual Report on Form 10-K for the year ended December 31, 2022 (“Annual Report”) filed with the Securities and Exchange Commission on March 14, 2023.

In the opinion of management, the accompanying condensed consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, results of operations, comprehensive income (loss), stockholders’ equity and cash flows for the interim periods, but are not necessarily indicative of the results of operations or cash flows to be anticipated for the full year 2023 or any future period. The Company has evaluated subsequent events occurring after the date of the condensed consolidated financial statements for events requiring recording or disclosure in the condensed consolidated financial statements.

Use of Estimates

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

differ from those estimates and such differences could be material to the Company's financial position and results of operations.

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

Concentrations of Risk

Credit Risk – Financial instruments that potentially subject the Company to concentration of credit risk consisted primarily of cash and cash equivalents and accounts receivable from trade customers. The Company maintains its 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 March 31, 2023, the Company had \$3.8 million and \$25,000 on hand in separate respective accounts with the Company's two domestic financial institutions, for which only \$250,000 per bank is insured under FDIC limits.

Concentration of Accounts Receivable and Contract Asset – At March 31, 2023, three customers accounted for 27%, 20% and 16% of the Company's total accounts receivable and contract asset, respectively. At March 31, 2022, two customers accounted for 38% and 15% of the Company's total accounts receivable and contract asset.

Concentration of Revenues – For the three months ended March 31, 2023, two customers accounted for 27% and 10% of the Company's total revenues, respectively. For the three months ended March 31, 2022, two customers accounted for 38% and 10% of the Company's total revenues, respectively.

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

Recent Accounting Pronouncements Adopted

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 and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The guidance was effective at the beginning of the Company's first quarter of fiscal 2023. The Company adopted this ASU effective January 1, 2023. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

Note 3. Revenue Related Disclosures

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

	Three Months Ended March 31,	
	2023	2022
Beginning balance	\$ 43,721	\$ 26,709
Deferred revenues acquired (Note 4 - Business Acquisitions)	—	5,382
New billings	14,149	24,527
Revenue recognized during the year from beginning balance	(14,987)	(9,825)
Revenue recognized during the year from new billings	(5,429)	(11,292)
Foreign currency impact	5	8
Ending balance	<u>\$ 37,459</u>	<u>\$ 35,509</u>

The following table presents remaining performance obligations for contractually committed revenues as of March 31, 2023 (in thousands):

Remainder of 2023	\$	53,915
2024		37,584
2025		17,099
Thereafter		7,099
Total	<u>\$</u>	<u>115,697</u>

The timing of certain 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 March 31, 2023 and amounts under contract that will be invoiced after March 31, 2023.

During the three months ended March 31, 2023, the Company recognized revenues of \$20.2 million from customers in the United States, and \$0.4 million from customers in the Bahamas and South Africa. During the three months ended March 31, 2022, the Company recognized revenues of \$20.8 million from customers in the United States, and \$0.4 million from customers in the Bahamas and South Africa.

During the three months ended March 31, 2023, the Company recognized revenues of \$19.5 million from monthly subscription, maintenance and support services, and \$1.1 million from professional software development services. During the three months ended March 31, 2022, the Company recognized revenues of \$19.0 million from monthly subscription, maintenance and support services, and \$2.2 million from professional software development services.

Note 4. Business Acquisition

During the first quarter of 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 \$14.3 million in the form of 464,540 shares of the Company’s common stock based on the closing price on the date of acquisition. The purchase consideration also included a contingent earnout payable based on Forensic Logic’s revenues generated during 2022 and 2023. The acquisition date fair value of the contingent earnout was \$12.4 million, resulting in a total purchase consideration of \$31.6 million.

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

Cash and cash equivalents	\$	303
Accounts receivable and contract asset, net		220
Property and equipment, net		200
Operating lease right-of-use assets		1,893
Software technology		7,140
Tradenname		1,000
Customer relationships		8,400
Goodwill		20,155
Other assets		186
Accrued expenses and other current liabilities		(635)
Operating lease liabilities		(1,893)
Deferred revenue		(5,382)
Total estimated consideration	<u>\$</u>	<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 \$0.6 million, of which \$0.1 million is included in general and administrative expense for the three months ended March 31, 2022.

Note 5. Fair Value Measurements

In November 2020, using a Monte Carlo Simulation approach, and Level III of the fair value hierarchy established by Accounting Standards Codification (“ASC”) 820-10-35-37, the Company estimated the fair value of the contingent consideration liability associated with its acquisition of LEEDS LLC (“LEEDS”) to be \$0.2 millions as of the acquisition date. During the fourth quarter of 2021, the fair value of the contingent consideration was increased by \$1.3 million based upon estimated 2022 revenue targets, representing an adjustment to the most likely outcome expected for the liability. During the three months ended March 31, 2023, the Company paid the \$1.5 million LEEDS contingent consideration balance.

In January 2022, using a Monte Carlo Simulation approach and Level III of the fair value hierarchy established by ASC 820-10-35-37, the Company estimated the fair value of the contingent consideration liability associated with its acquisition of Forensic Logic to be \$12.4 million as of the acquisition date. During the year ended December 31, 2022, and the first quarter of 2023, 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.

The changes in the fair value of contingent consideration liabilities for the quarters ended March 31 are as follows (in thousands):

	Three Months Ended March 31,	
	2023	2022
Beginning balance	\$ 4,746	\$ 1,500
Payment of contingent consideration liability	(1,500)	—
Change in fair value of contingent consideration	(6)	12,400
Ending balance	<u>\$ 3,241</u>	<u>\$ 13,900</u>

There were no transfers into or out of Level III during the three months ended March 31, 2023 and 2022. As of March 31, 2023, contingent consideration of \$3.2 million is included in Other liabilities in the condensed consolidated balance sheet.

Note 6. Goodwill

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

	March 31,	December 31,
	2023	2022
Beginning balance	\$ 22,971	\$ 2,816
Acquisition of Forensic Logic (Note 4—Business Acquisitions)	—	20,155
Change during the period	—	—
Ending balance	<u>\$ 22,971</u>	<u>\$ 22,971</u>

Note 7. Intangible Assets, net

Intangible assets consist of the following (in thousands):

	March 31, 2023		
	Gross	Accumulated Amortization	Net
Customer relationships	\$ 22,970	\$ (3,167)	\$ 19,803
Acquired software technology	7,140	(1,234)	5,906
Patents	1,241	(1,140)	101
Tradename	1,000	(139)	861
Total intangible assets, net	<u>\$ 32,351</u>	<u>\$ (5,680)</u>	<u>\$ 26,671</u>

	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>

Intangible amortization expense was approximately \$0.7 million for each of the three months ended March 31, 2023 and 2022, respectively.

The following table presents future intangible asset amortization as of March 31, 2023 (in thousands):

Remainder of 2023	\$ 2,275
2024	3,035
2025	2,527
2026	2,493
2027	2,483
Thereafter	13,858
Total	<u>\$ 26,671</u>

Note 8. Details of Certain Condensed Consolidated Balance Sheet Accounts

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

	March 31, 2023	December 31, 2022
Accounts receivable	\$ 22,384	\$ 28,790
Contract asset	4,362	2,167
Allowance for credit losses	(25)	—
	<u>\$ 26,721</u>	<u>\$ 30,957</u>

Prepaid expenses and other current assets (in thousands):

	March 31, 2023	December 31, 2022
Deferred commissions	\$ 1,064	\$ 1,040
Prepaid software and licenses	1,057	647
Other prepaid expenses	509	236
Prepaid insurance	357	724
Short-term deposits	398	363
Other	89	215
	<u>\$ 3,474</u>	<u>\$ 3,225</u>

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

	March 31, 2023	December 31, 2022
Deferred commissions	\$ 2,673	\$ 2,552
Other	134	18
	<u>\$ 2,807</u>	<u>\$ 2,570</u>

Accrued expenses and other current liabilities (in thousands):

	March 31, 2023	December 31, 2022
Personnel-related accruals	\$ 4,454	\$ 5,971
Contingent consideration liability	-	1,500
Operating lease liabilities	924	868
Professional fees	337	441
Income tax payable	385	385
Sales/use tax payable	114	257
Other	435	543
	<u>\$ 6,649</u>	<u>\$ 9,965</u>

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

	March 31, 2023	December 31, 2022
Contingent consideration liability	\$ 3,241	\$ 3,246
Operating lease liabilities	2,309	2,554
	<u>\$ 5,550</u>	<u>\$ 5,800</u>

Note 9. Related Party Transactions

There were no related party transactions in the three months ended March 31, 2023. During the three months ended March 31, 2022, the Company recognized approximately \$16,000 in revenues from SoundThinking Labs projects with charitable organizations that have received donations from one of the Company's former directors and from one of the Company's significant stockholders.

Note 10. Stock Repurchase Program

During the three months ended March 31, 2023, the Company repurchased 35,369 shares of its common stock at an average price of \$35.43 per share for \$1.3 million, under the Company's 2022 stock repurchase program. During the three months ended March 31, 2022, the Company repurchased 57,623 shares of its common stock at an average price of \$28.34 per share for \$1.6 million, under the Company's 2019 stock repurchase program.

Note 11. Net Income (Loss) per Share

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

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

	Three Months Ended March 31,	
	2023	2022
Numerator:		
Net income (loss)	\$ (1,790)	\$ 387
Denominator:		
Weighted-average shares outstanding, basic	12,252,517	12,156,968
Weighted-average shares outstanding, diluted	12,252,517	12,315,806
Net income (loss) per share, basic	\$ (0.15)	\$ 0.03
Net income (loss) per share, diluted	\$ (0.15)	\$ 0.03

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:

	Three Months Ended March 31,	
	2023	2022
Options to purchase common stock	1,461,481	952,776
Unvested restricted stock units	337,259	222,869
Total	<u>1,798,740</u>	<u>1,175,645</u>

Note 12. Equity Incentive Plans*Stock options:*

A summary of option activities under the 2005 Stock Plan, as amended in January 2010 and November 2012 (the "2005 Plan") and 2017 Equity Incentive Plan (the "2017 Plan") during the three months ended March 31, 2023 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, 2022	1,256,056	\$ 28.20		
Granted	240,084	\$ 32.89	\$ 19.69	
Exercised	(10,063)	\$ 12.65		\$ 226
Canceled	(24,596)	\$ 29.18		
Outstanding at March 31, 2023	<u>1,461,481</u>	\$ 29.06		

Under an "evergreen" provision, the number of shares of common stock reserved for issuance under the 2017 Plan will automatically increase on January 1 of each year, beginning on January 1, 2018 and ending on and including January 1, 2027, by 5% of the total number of shares of the Company's common stock outstanding on December 31 of the preceding calendar year or a lesser number of shares determined by the Board. In accordance with the evergreen provision,

the number of shares of common stock reserved for issuance under the 2017 Plan was increased on January 1, 2023 by 612,196 shares, which was equal to 5% of the total number of shares of common stock outstanding on December 31, 2022.

Restricted stock units:

A summary of restricted stock unit ("RSU") activities under the 2017 Plan during the three months ended March 31, 2023 is as follows:

	Number of RSUs	Weighted Average Grant Date Fair Value per RSU	Aggregate Fair Value of RSUs Vested (in thousands)
Unvested RSUs at December 31, 2022	223,821	\$ 29.21	
Granted	148,784	\$ 32.89	
Vested	(25,157)	\$ 30.74	\$ 918
Forfeited	(10,189)	\$ 28.08	
Unvested RSUs at March 31, 2023	337,259	\$ 30.76	

2017 Employee Stock Purchase Plan

There were no shares issued under the 2017 Employee Stock Purchase Plan ("2017 ESPP") during the three months ended March 31, 2023. The 2017 ESPP contains an "evergreen" provision that provides for an automatic annual share increase on January 1 of each year, in an amount equal to the lesser of (1) 2% of the total number of shares of common stock outstanding on December 31st of the preceding calendar year, (2) 150,000 shares or (3) such number of shares as determined by the Board. In accordance with the evergreen provision, the number of shares of common stock reserved for issuance under the 2017 ESPP was increased on January 1, 2023 by 150,000 shares. The number of shares available for grant under the 2017 ESPP was 666,167 as of March 31, 2023.

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

	Three Months Ended March 31,	
	2023	2022
Cost of revenues	\$ 474	\$ 456
Sales and marketing	439	463
Research and development	295	234
General and administrative	1,012	702
Total	\$ 2,220	\$ 1,855

Note 13. Financing Arrangements

Credit Agreement

On September 27, 2018, the Company entered into a Credit Agreement with Umpqua Bank (the "Umpqua Credit Agreement"), which allowed the Company to borrow up to \$10.0 million under a revolving loan facility (the "Revolving Facility"). 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 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 index rate.

Any amounts outstanding under the letter of credit sub-facility reduce the amount available for the Company to borrow under the Revolving Facility. The available loan facility as of March 31, 2023 and December 31, 2022 was \$25.0 million and \$20.0 million, respectively. There were no borrowings outstanding as of March 31, 2023 and December 31, 2022.

Note 14. Commitments and Contingencies*Contingencies*

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

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.

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

You should read the following discussion and analysis of our financial condition and results of operations together with our unaudited condensed consolidated financial statements and accompanying notes included in this Quarterly Report on Form 10-Q and the financial statements and accompanying notes and other financial information in the Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022, filed with the Securities and Exchange Commission ("SEC") on March 14, 2023. This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "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 section titled "Risk Factors" set forth in Part II, Item 1A of this Quarterly Report on Form 10-Q and in our other SEC filings. You should not rely upon forward-looking statements as predictions of future events. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Overview

We are a leading public safety technology company that combines data driven solutions and strategic advisory services for law enforcement and civic leadership. In April 2023, we changed the company name ShotSpotter, Inc. to SoundThinking, Inc., reflecting our broader impact on public safety through a growing set of industry-leading law enforcement tools and community-focused solutions. As part of the rebrand, we introduced our SafetySmart Platform™ that includes four data-driven tools including our flagship product, ShotSpotter (formerly ShotSpotter Respond), our alerting system trusted by over 155 cities and over 20 universities and corporations as of March 31, 2023. CrimeTracer™ (formerly COPLINK X), a 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 to solve cases. CaseBuilder™ (formerly ShotSpotter Investigate), a one-stop investigative management system for tracking, reporting, and collaborating on cases. And ResourceRouter™ (formerly ShotSpotter Connect), which directs the deployment of patrol and community anti-violence resources in an objective way to help maximize the impact of limited resources and improve community safety. We offer our solutions on a software-as-a-service subscription model to our customers. SoundThinking Labs supports innovative uses of the Company's technology to help protect wildlife and the environment.

Our gunshot detection solution consists 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 on a per-square-mile basis. Our security solutions, ShotSpotter for Highways, ShotSpotter for Campus and ShotSpotter for Corporate, and CaseBuilder are typically sold on a subscription basis, each with a customized deployment plan. Our ResourceRouter solution is also sold on a subscription basis. As of March 31, 2023, we had ShotSpotter coverage areas under contract for approximately 1,100 square miles, of which 1,034 square miles had gone live. Coverage areas under contract included over 155 cities and 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 revenue is attributable to customers based in the United States.

A relatively new source of revenue for gunshot detection services comes from smaller law enforcement agencies. In 2020, we added new pricing programs for Tier 4 and 5 law enforcement agencies (those with fewer than 100 sworn officers). This allows 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 have found that these customer sales cycles are shorter than traditional sales cycles and open up a new and sizeable portion of the market for the company. In addition, some gunshot detection-based revenue comes from SoundThinking Labs projects. These 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, SoundThinking Labs projects will normally produce gross margins significantly lower than most of our other solutions. Additionally, while we intend to continue to devote resources to increase sales of our non-gunshot detection solutions, we expect that revenues from ShotSpotter-based-products will continue to comprise a majority of our revenues for the foreseeable future.

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

In January 2022, we acquired Forensic Logic, LLC (“Forensic Logic”), a leading provider of cloud-based data services to U.S. law enforcement and public safety agencies to enable powering the industry’s most advanced search and analysis technology. We believe combining lead generation from Forensic Logic’s CrimeTracer solution (formerly COPLINK X) with our CaseBuilder case management solution can accelerate crime solving solutions and improve clearance rates.

Since our founding over 26 years ago, we have been 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 equally 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. For a discussion of the risks associated with our sales cycle, see risks entitled “Our sales cycle can be lengthy, time-consuming and costly, and our inability to successfully complete sales could harm our business” and “Because we generally recognize our subscription revenues ratably over the term of our contract with a customer, fluctuations in sales will not be fully reflected in our operating results until future periods” in Part II, Item 1A, *Risk Factors*, included in this Quarterly Report on Form 10-Q.

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

We generated revenues of \$20.6 million and \$21.2 million for the three months ended March 31, 2023 and 2022, respectively. Revenues from sales of ShotSpotter during the three months ended March 31, 2023 and 2022 represented approximately 71% and 63% of total revenues, respectively. Our two current largest customers, the City of New York and the City of Chicago, accounted for 27% and 10% of our total revenues for the three months ended March 31, 2023, respectively, and 38% and 10% of our total revenues for the three months ended March 31, 2022, respectively.

For the three months ended March 31, 2023 and 2022, revenues generated within the United States (including Puerto Rico and the U.S. Virgin Islands) accounted for \$20.2 million and \$20.8 million, respectively, or 98% of total revenues for both periods.

We had net income (loss) of \$(1.8) million and \$0.4 million for the three months ended March 31, 2023 and 2022, respectively. Our accumulated deficit was \$94.2 million and \$92.4 million at March 31, 2023 and December 31, 2022, respectively.

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. Other challenges we face in this regard include our target customers not having access to adequate funding sources, the fact that contracting with government entities can be complex, expensive, and time-consuming, the fact that our typical sales cycle is often very long and difficult to estimate accurately, especially due to the changes in business cycles, funding and customer budget setting processes that have occurred through the pandemic that are continuing and periods of social unrest, 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 to existing customers, such as ResourceRouter and CrimeTracer, and gaining new customers for SoundThinking 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 our 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 SoundThinking 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 and the use of third-party integrations and consultants. Moreover, we anticipate that different political and regulatory considerations that vary across different jurisdictions could extend or make more difficult to predict the length of what is already a lengthy sales cycle.

Net New “Go-Live” Cities

Net new “go-live” cities represent the number of cities covered by deployments of our gunshot detection ShotSpotter solution 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 period 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. Our net new “go-live” cities in the first quarter of 2023 and 2022 were as follows:

	Three Months Ended March 31,	
	2023	2022
Net new “go-live” cities	6	8

Components of Results of Operations

Presentation of Financial Statements

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

Revenues

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

For ShotSpotter sales to cities, 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 CrimeTracer, 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, our pricing model is based on a per-square-mile basis. For ShotSpotter for Highways, ShotSpotter for Campus and ShotSpotter for Corporate, contracts are priced on a customized-site basis. For ResourceRouter and CrimeTracer, pricing is generally tied to the number of sworn police officers in a particular agency. We may also offer discounts or other incentives in conjunction with all 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 recognize the ratable 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 LEEDS, we generate revenues through the sale of (i) maintenance and support services and (ii) professional software development services to a single customer, through a sales channel intermediary. The sales channel intermediary contract includes an annual, renewable subscription for software and related maintenance and support services. The contract also provides for the procurement of professional services, such as for software development and testing for product feature enhancements, by executing supplementary work orders. Using its technology, CaseBuilder

is our case management solution that helps automate investigative work and improve case clearance rates for which pricing is generally based on the number of sworn police officers in a particular agency.

With the acquisition of Forensic Logic, we also generate revenues from subscriptions of CrimeTracer, 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 also generate revenues from CaseBuilder Crime Gun (formerly ShotSpotter GCM™), 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. Subscriptions for CaseBuilder Crime Gun recognize revenue similar to our ShotSpotter and CrimeTracer 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.

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

We anticipate that, due to rising costs due to inflation, our customers may still face budget shortfalls due to the increased expenditures our customers have had to endure and delays in their ability to approve proposals for contracts as a result of changes in business cycles, funding and customer budget setting processes.

Costs

Costs include the cost of revenues and impairment of property and equipment. For ShotSpotter solutions, 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.

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.

For revenues generated through the sale of proprietary software licenses and related maintenance and support services and professional software development services, cost of revenues generally 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 cost of revenues for CrimeTracer 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.

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

We are investing in engineering resources to support further development of ResourceRouter, CaseBuilder and CrimeTracer. 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 SoundThinking Labs projects and initiatives. The initial focus of these efforts is to develop innovative sensor applications as well as to test and expand the functionality of our outdoor sensors in challenging environmental conditions.

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

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

General and Administrative

General and administrative expenses primarily consist of personnel-related costs attributable to our executive, finance, and administrative personnel, legal, litigation, strategic communications, accounting and other professional services fees, 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, support our operations as a public company, cover increased legal, litigation and strategic communications costs, and increase our headcount.

Other Income (Expense), Net

Other income (expense), net, consists 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

Comparison of Three Months Ended March 31, 2023 and 2022

The following table sets forth our selected condensed consolidated statements of operations data for the three months ended March 31, 2023 and 2022 (in thousands):

	2023	As a % of Revenues	2022	As a % of Revenues	Change	
	\$	100 %	\$	100 %	\$	%
Revenues	20,620	100 %	21,214	100 %	(594)	-3 %
Costs						
Cost of revenues	9,243	45 %	8,290	39 %	953	11 %
Impairment of property and equipment	72	—	—	—	—	—
Total costs	9,315	45 %	8,290	39 %	1,025	12 %
Gross profit	11,305	55 %	12,924	61 %	(1,619)	(13 %)
Operating expenses:						
Sales and marketing	5,848	28 %	5,576	26 %	272	5 %
Research and development	2,653	13 %	2,627	12 %	26	1 %
General and administrative	4,616	22 %	4,289	20 %	327	8 %
Change in fair value of contingent consideration	(6)	—	—	—	—	—
Total operating expenses	13,111	64 %	12,492	59 %	619	5 %
Operating income (loss)	(1,806)	(9 %)	432	2 %	(2,238)	(518 %)
Other income (expense), net	16	—	(45)	—	61	136 %
Provision for income taxes	—	—	—	—	—	—
Net income (loss)	\$ (1,790)	(9 %)	\$ 387	2 %	\$ (2,177)	(563 %)

Revenues

The decrease in revenues of \$0.6 million was primarily attributable to a \$2.4 million decrease in revenues from monthly support contracts due to a delayed amendment of a contract from late 2021 into January 2022, which supplemented revenues for the first quarter of 2022. This revenue decrease was offset by a \$1.4 million increase in revenues from new customers and expansion of existing customer coverage areas and a \$0.4 million increase in revenues from CrimeTracer. We went live in six new ShotSpotter cities and expanded in eight current customer sites during the three months ended March 31, 2023.

Costs

The increase in cost of revenues of \$1.0 million was due primarily to an increase in product costs due to the increase in our customer base and an increase in personnel costs.

Sales and Marketing Expense

Sales and marketing expense increased by \$0.3 million, primarily due to a \$0.6 million increase in salaries, commissions and other personnel costs and a \$0.2 million increase in marketing activities, offset by a \$0.5 million decrease in commission costs associated with the decreased monthly support contract revenue.

Research and Development Expense

Research and development expense remained flat compared to the prior-year period.

General and Administrative Expense

General and administrative expense increased by \$0.3 million and was due primarily to a \$0.6 million increase in personnel-related costs, offset by a \$0.3 million reduction in legal fees.

Other Income (Expense), Net

The increase in other expense, net was due primarily to increased interest income due to rising interest rates.

Income Taxes

Our income taxes are based on the amount of our taxable income and enacted federal, state and foreign tax rates, adjusted for allowable credits, deductions and the valuations allowance against deferred tax assets, as applicable. There was no provision for income taxes recorded in the three months ended March 31, 2023 and 2022.

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 \$5.1 million and accounts receivable of \$22.4 million as of March 31, 2023. Our available loan facility at March 31, 2023 was \$25.0 million, and as of March 31, 2023, no amounts were outstanding on our loan facility.

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 despite our negative working capital, the costs to perform the short-term deferred revenue is relatively low compared to the balance of \$37.5 million. However, should additional working capital be needed, we can utilize our unused loan facility which was renewed on November 27, 2022. 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 revenue growth, the timing and extent of spending on sales and marketing, the expansion of sales and marketing activities, the timing of new product introductions, market acceptance of our products and overall economic conditions. 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. Additionally, there is no guarantee debt or equity financing will be available to us on terms that are favorable to us, or at all.

Use of Funds

Our historical uses of cash have primarily consisted of cash used for operating activities, such as expansion of our sales and marketing operations, research and development activities and other working capital needs, and cash used in investing activities, such as property and equipment expenditures to install infrastructure in customer cities in order to deliver our solutions. Our expected material cash requirements are similar to our historical uses of cash as well as in connection with contingent earnouts, our stock repurchase program and repayment of any outstanding debt obligations under our credit facility, each as described below.

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 was valued at \$14.3 million at the time of acquisition. The purchase consideration also included a contingent earnout payable up to \$20.0 million based on Forensic Logic's revenues generated during the years ended December 31, 2022 and 2023. The earnout for 2022 was not earned, therefore 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 will be payable within approximately 120 days after the end of 2023.

On November 24, 2020, we completed the acquisition of LEEDS for a purchase consideration of \$21.6 million in cash, subject to working capital adjustments, and the issuance of 63,901 shares of our common stock that were valued at \$2.0 million at the time of acquisition. The purchase consideration also included a contingent earnout payable based on LEEDS' revenues generated during the years ended December 31, 2021 and 2022. The earnout for 2022 was earned, and an earnout of \$1.5 million was paid in the three months ended March 31, 2023.

Stock Repurchase Program

In November 2022, we announced that our board of directors had approved a stock repurchase program (the "2022 Repurchase Program") for up to \$25.0 million of our common stock. The shares could be repurchased from time to time in open market transactions, in privately negotiated transactions or by other methods in accordance with federal securities laws. The actual timing, number and value of shares repurchased under the program will be determined by management in its discretion and will depend on a number of factors, including the market price of our common stock, general market and economic conditions and applicable legal requirements. The stock repurchase program does not obligate us to purchase any particular amount of common stock and may be suspended or discontinued at any time.

During the three months ended March 31, 2023, we repurchased 35,369 shares of our common stock at an average price of \$35.43 per share for approximately \$1.3 million, under the 2022 Repurchase Program. The repurchases were made in open market transactions using cash on hand, and all of the shares repurchased were retired.

Credit Facility

In September 2018, we entered into our Umpqua Credit Agreement, initially providing for borrowing capacity of \$10.0 million. The agreement was amended in November 2022 to increase the size of our available revolving loan facility to \$25.0 million. The revolving loan facility is for general working capital purposes. Our available loan facility as of March 31, 2023 was \$25.0 million. There were no borrowings outstanding as of March 31, 2023 and December 31, 2022.

Cash Flows

Comparison of Three Months Ended March 31, 2023 and 2022

The following table presents a summary of our cash flows for the three months ended March 31, 2023 and 2022 (in thousands):

	Three Months Ended March 31,	
	2023	2022
Net cash (used in) provided by:		
Operating activities	\$ (1,198)	\$ 1,283
Investing activities	(1,560)	(6,526)
Financing activities	(2,629)	(1,621)
Net change in cash and cash equivalents	<u>\$ (5,387)</u>	<u>\$ (6,864)</u>

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 expenses, outside services fees, and sales and marketing expenses, and our ability to bill and collect in a timely manner.

We used \$1.2 million of net cash in operating activities in the three months ended March 31, 2023 compared to \$1.3 million of cash being provided during the same period of 2022, primarily due to a \$9.7 million decrease in deferred revenue, a \$1.1 million increase in payments for personnel costs, a \$0.4 million decrease in cash collected, a \$0.5 million increase in other expenses, offset by a \$9.2 million increase in accounts receivable.

Investing Activities

Our investing activities consist of business acquisition expenditures, capital expenditures to install our solutions in customer coverage areas and purchases of property and equipment.

Investing activities used \$1.6 million in the three months ended March 31, 2023. This was primarily driven by investments in property and equipment installed for new deployments for our solutions in customer coverage areas. Investing activities used \$6.5 million in the three months ended March 31, 2022 primarily driven by the acquisition of Forensic Logic for \$4.6 million as well as investments in property and equipment installed for our solutions in customer coverage areas.

Financing Activities

Cash generated by financing activities includes net proceeds from the exercise of stock options and warrants, proceeds from the employee stock purchase plan purchases offset by payments for repurchases of our common stock and contingent earnout liabilities.

Financing activities used \$2.6 million in the three months ended March 31, 2023. This was driven by the payout of \$1.5 million for the LEEDS contingent consideration and \$1.2 million in payments for repurchases of our common stock, offset by \$0.1 million in proceeds from the exercise of stock options. Financing activities used \$1.6 million during the three months ended March 31, 2022, which was driven by \$1.6 million in payments for repurchases of our common stock.

Critical Accounting Estimates

Our condensed 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 critical accounting estimates are described under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates” in our 2022 Annual Report on Form 10-K and the notes to the audited consolidated financial statements appearing in our 2022 Annual Report on Form 10-K. For the significant or material changes in our critical accounting policies during the three months ended March 31, 2023 see Note 2, *Summary of Significant Accounting Policies*, to the notes of our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

Recently Issued Accounting Pronouncements

See Note 2, *Summary of Significant Accounting Policies*, to the notes to our consolidated financial statements included in our 2022 Annual Report on Form 10-K for a summary of recently issued accounting pronouncements.

Item 3. Qualitative and Quantitative Disclosures about Market Risk

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

There were no material changes in our market risk during the three months ended March 31, 2023, compared to the market risk disclosed in the Qualitative and Quantitative Disclosures About Market Risk section of our 2022 Annual Report on Form 10-K.

Item 4. Controls and Procedures*Evaluation of Disclosure Controls and Procedures*

Our management has evaluated, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13-a-15(e) and 15d-15(e)) under the Exchange Act as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of March 31, 2023, 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

There were no changes in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) during the quarter ended March 31, 2023 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.

PART II – OTHER INFORMATION

Item 1A. RISK FACTORS

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

Summary of Risk Factors

Investing in our common stock involves risks, including those discussed in this section. 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.

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, rising interest rates, and recent and potential future disruptions in access to bank deposits and lending commitments due to bank failures, 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, rising interest rates, recent and potential future disruptions in access to bank deposits and lending commitments due to bank failures, and 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 loss of \$1.8 million for the three months ended March 31, 2023 and as of March 31, 2023, we had an accumulated deficit of \$94.2 million. Although we posted net income in 2019, 2020 and 2022, 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 has resulted in decreased demand for our products and services and has increased 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, such as inflation, rising interest rates, and recent and potential future disruption in access to bank deposits and lending commitments due to bank failures, 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.

For example, in April 2023, Brandon Johnson, who has publicly indicated his desire to end the City of Chicago's contract with us, became Chicago's Mayor. Our existing contract with the City of Chicago will remain in effect until February 2024 and we may not be able to renew or extend our contract on reasonable terms, if at all. The City of Chicago is one of our largest customers and represented 10% of our total revenues for the three months ended March 31, 2023 and 2022, and 10% of our total revenues for the year ended December 31, 2022. In addition, we are experiencing a delay in our ShotSpotter renewal with Puerto Rico, which represented 0.9% and 2.5% of our total revenues for the three months ended March 31, 2023 and 2022, respectively, and 2.6% of our total revenues for the year ended December 31, 2022. If we are unable to renew our contract with the City of Chicago or Puerto Rico, this could have a material adverse effect on our operating results.

The recent and potential future disruptions in access to bank deposits and lending commitments due to bank failures, geopolitical developments such as the conflict between Ukraine and Russia, continuing effects of the COVID-19

pandemic, 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 recent and potential future disruptions in access to bank deposits and lending commitments due to bank failures, geopolitical developments such as the conflict between Ukraine and Russia, continuing effects of the COVID-19 pandemic, 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 customers renew their annual subscriptions and expand their mileage coverage or purchase and implement our other products, such as CaseBuilder (formerly ShotSpotter Investigate) and ResourceRouter (formerly ShotSpotter Connect), drives our ability to increase our revenues. Most of our ShotSpotter 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 recent and potential future disruptions in access to bank deposits and lending commitments due to bank failures, geopolitical developments such as the conflict between Ukraine and Russia, continuing effects of the COVID-19 pandemic, 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 SoundThinking solutions and their benefits; the effectiveness of our marketing programs; the availability of funding to our customers; geopolitical developments and other macroeconomic pressures as described above; our ability to expand CaseBuilder; 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 SoundThinking 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 CaseBuilder 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 CaseBuilder 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 fourth quarter of 2022, an audit of our processes under a SOC2 Type 2 audit was completed. 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 recent and potential future disruptions in access to bank capital and lending commitments due to bank failures, geopolitical developments such as the conflict between Ukraine and Russia, continuing effects of the COVID-19 pandemic, 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 recent and potential future disruptions in access to bank deposits and lending commitments due to bank failures, 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 SoundThinking 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 recent and potential future disruptions in access to bank deposits and lending commitments due to bank failures, geopolitical developments such as the conflict between Ukraine and Russia, continuing effects of the COVID-19 pandemic, 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 SoundThinking 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 three months ended March 31, 2023, 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 March 31, 2023.

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 for Highways, ShotSpotter for Campus and ShotSpotter for Corporate. 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 SafetySmart 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 solution.

Our ShotSpotter 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 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 CrimeTracer 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 CrimeTracer 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, or issues with manufacturing facilities 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. In addition, the lead times associated with certain components are lengthy and preclude rapid changes in quantities and delivery schedules. 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 March 31, 2023, we had federal net operating loss carryforwards ("NOLs") of approximately \$66.9 million, of which \$62.0 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 March 31, 2023, we also had state NOLs of approximately \$48.3 million, which began expiring in 2023. 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 March 31, 2023, we had 33 issued patents directed to our technologies, 26 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 November 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 recent and potential future disruptions in access to bank deposits and lending commitments due to bank failures, continuing effects 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 \$25.0 million of our common stock, of which \$1.3 million was utilized as of March 31, 2023. 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 2. Unregistered Sales of Equity Securities and Use of Proceeds**(a) Unregistered Sales of Equity Securities**

None.

(b) Use of Proceeds

None.

(c) Issuer Purchases of Equity Securities

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

	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share	Total Number of Shares Purchased as part of Publicly Announced Program	Dollar Value of Shares that May Yet Be Purchased Under the Program (in thousands)
January 1, 2023 - January 31, 2023	—	—	—	\$ 25,000
February 1, 2023 - February 28, 2023	3,983	\$ 34.26	3,983	\$ 24,864
March 1, 2023 - March 31, 2023	31,386	\$ 35.58	31,386	\$ 23,747
Total	<u>35,369</u>	\$ 35.43	<u>35,369</u>	

- (1) All repurchases were made as part of our publicly announced stock repurchase program. In November 2022, we announced that our board of directors approved a stock repurchase program, under which we were authorized to repurchase up to \$25 million of our common stock. The repurchase program has no expiration date and may be modified, suspended or discontinued at any time. For further information regarding our stock repurchase program, see Note 10, Stock Repurchase Program, of the accompanying notes to the condensed consolidated financial statements.

Item 6. Exhibits

Exhibit Index

Exhibit Number	Exhibit Description	Form	Incorporated by Reference		Filing Date	Filed Herewith
			File No.	Exhibit		
3.1	Amended and Restated Certificate of Incorporation	8-K	001-38107	3.1	April 11, 2023	
3.2	Amended and Restated Bylaws	8-K	001-38107	3.2	April 11, 2023	
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1*	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document).					X
101.SCH	Inline XBRL Taxonomy Extension Schema Document					X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)					X

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SOUNDTHINKING, INC.

Date: May 12, 2023

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

Date: May 12, 2023

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

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

I, Ralph A. Clark, certify that:

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

May 12, 2023

/s/ Ralph A. Clark

Ralph A. Clark

President and Chief Executive Officer
(Principal Executive Officer)

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

I, Alan R. Stewart, certify that:

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

May 12, 2023

/s/ Alan R. Stewart

Alan R. Stewart

Chief Financial Officer

(Principal Financial and Accounting Officer)

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

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

- (1)The Company's Quarterly Report on Form 10-Q for the period ended March 31, 2023 to which this Certification is attached as Exhibit 32.1 (the "Periodic Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and
- (2)The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 12, 2023

/s/ Ralph A. Clark

Ralph A. Clark
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Alan R. Stewart

Alan R. Stewart
Chief Financial Officer
(Principal Financial and Accounting Officer)

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of SoundThinking, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.
