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 June 30, 2022

OR

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

For the transition period from to

Commission File Number: 001-38107

ShotSpotter, Inc.
(Exact Name of Registrant as Specified in its Charter)

Delaware	**47-0949915**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
39300 Civic Center Dr., Suite 300 Fremont, California	**94538**
(Address of principal executive offices)	**(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	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
Emerging growth company	☒		

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

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

As of August 1, 2022 the registrant had 12,155,377 shares of common stock, $0.005 par value per share, outstanding.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

ShotSpotter, Inc.

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

	June 30, 2022 (Unaudited)	December 31, 2021
Assets		
Current assets		
Cash and cash equivalents	$ 3,426	$ 15,636
Accounts receivable and contract asset, net	27,953	16,134
Prepaid expenses and other current assets	2,199	2,504
Total current assets	33,578	34,274
Property and equipment, net	20,271	17,409
Operating lease right-of-use assets	3,692	2,323
Goodwill	23,171	2,816
Intangible assets, net	28,536	13,564
Other assets	2,714	1,918
Total assets	$ 111,962	$ 72,304
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 2,661	$ 1,587
Deferred revenue, short-term	32,858	26,235
Accrued expenses and other current liabilities	10,036	6,680
Total current liabilities	45,555	34,502
Deferred revenue, long-term	2,898	474
Other liabilities	10,648	3,513
Total liabilities	59,101	38,489
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 June 30, 2022 and December 31, 2021	—	—
Common stock: $0.005 par value; 500,000,000 shares authorized; 12,154,775 and 11,703,430 shares issued and outstanding as of June 30, 2022 and December 31, 2021, respectively	61	58
Additional paid-in capital	148,449	132,780
Accumulated deficit	(95,388)	(98,785)
Accumulated other comprehensive loss	(261)	(238)
Total stockholders' equity	52,861	33,815
Total liabilities and stockholders' equity	$ 111,962	$ 72,304

See accompanying notes to condensed consolidated financial statements.

ShotSpotter, Inc.

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

	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Revenues	$ 20,016	$ 14,624	$ 41,230	$ 29,637
Costs				
Cost of revenues	8,367	6,317	16,657	12,617
Impairment of property and equipment	—	—	—	25
Total costs	8,367	6,317	16,657	12,642
Gross profit	11,649	8,307	24,573	16,995
Operating expenses				
Sales and marketing	5,794	3,928	11,370	7,863
Research and development	2,534	1,740	5,161	3,453
General and administrative	3,555	2,812	7,844	5,683
Change in fair value of contingent consideration	(3,437)	—	(3,437)	—
Total operating expenses	8,446	8,480	20,938	16,999
Operating income (loss)	3,203	(173)	3,635	(4)
Other income (expense), net				
Interest income, net	7	9	15	20
Other expense, net	(200)	(86)	(253)	(138)
Total other income (expense), net	(193)	(77)	(238)	(118)
Income (loss) before income taxes	3,010	(250)	3,397	(122)
Provision for income taxes	—	—	—	49
Net income (loss)	$ 3,010	$ (250)	$ 3,397	$ (171)
Net income (loss) per share, basic	$ 0.25	$ (0.02)	$ 0.28	$ (0.01)
Net income (loss) per share, diluted	$ 0.24	$ (0.02)	$ 0.28	$ (0.01)
Weighted average shares used in computing adjusted net income per share, basic	12,145,993	11,627,546	12,151,450	11,606,194
Weighted average shares used in computing adjusted net income per share, diluted	12,309,701	11,627,546	12,304,767	11,606,194

See accompanying notes to condensed consolidated financial statements.

ShotSpotter, Inc.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net income (loss)	$ 3,010	$ (250)	$ 3,397	$ (171)
Other comprehensive income (loss):				
Change in foreign currency translation adjustment, net	(96)	38	(24)	21
Comprehensive income (loss)	$ 2,914	$ (212)	$ 3,373	$ (150)

See accompanying notes to condensed consolidated financial statements.

ShotSpotter, Inc.

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

	Common Stock		Additional Paid-in	Accumulated	Accumulated Other Comprehensive	Total Stockholders' Equity/
	Shares	Par Value	Capital	Deficit	Income (Loss)	(Deficit)
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 for acquisition	464,540	3	14,263	—	—	14,266
Stock-based compensation	—	—	1,855	—	—	1,855
Other comprehensive income	—	—	—	—	73	73
Net income	—	—	—	387	—	387
Balance at March 31, 2022	12,141,630	61	147,277	(98,398)	(165)	48,775
Exercise of stock options	686	—	2	—	—	2
Repurchase of common stock	(49,369)	—	(1,450)	—	—	(1,450)
Issuance of common stock from ESPP purchase	20,630	—	489	—	—	489
Issuance of common stock from RSUs vested	41,198	—	—	—	—	—
Stock-based compensation	—	—	2,131	—	—	2,131
Other comprehensive loss	—	—	—	—	(96)	(96)
Net income	—	—	—	3,010	—	3,010
Balance at June 30, 2022	12,154,775	$ 61	$ 148,449	$ (95,388)	$ (261)	$ 52,861

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

See accompanying notes to condensed consolidated financial statements.

ShotSpotter, Inc.

Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	2022	**2021**
Cash flows from operating activities:		
Net income (loss)	$ 3,397	$ (171)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation of property and equipment	3,149	2,810
Amortization of intangible assets	1,389	518
Impairment of property and equipment	—	25
Stock-based compensation	3,986	2,869
Change in fair value of contingent consideration	(3,437)	—
Provision for accounts receivable	(74)	(40)
Changes in operating assets and liabilities:		
Accounts receivable and contract asset	(11,525)	5,609
Prepaid expenses and other assets	(306)	(1,241)
Accounts payable	(160)	47
Accrued expenses and other current liabilities	(301)	(502)
Deferred revenue	3,662	(4,788)
Net cash (used in) provided by operating activities	(220)	5,136
Cash flows from investing activities:		
Purchase of property and equipment	(4,753)	(3,573)
Investment in intangible and other assets	(17)	(32)
Business acquisition, net of cash acquired	(4,618)	15
Net cash used in investing activities	(9,388)	(3,590)
Cash flows from financing activities:		
Payment of contingent consideration liability	—	(403)
Proceeds from exercise of stock options	15	577
Repurchases of common stock	(3,084)	(2,683)
Proceeds from exercise of warrants	—	8
Proceeds from employee stock purchase plan	489	462
Net cash used in financing activities	(2,580)	(2,039)
Decrease in cash, cash equivalents and restricted cash	(12,188)	(493)
Effect of exchange rate on cash and cash equivalents	(22)	17
Cash, cash equivalents and restricted cash at beginning of year	15,636	16,043
Cash, cash equivalents and restricted cash at end of period	$ 3,426	$ 15,567
Supplemental disclosure of non-cash financing activities:		
Property and equipment purchases included in accounts payable	$ 1,103	$ 498
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.

Note 1. Organization and Description of Business

ShotSpotter, Inc. (the "Company") provides precision-policing solutions for law enforcement and security personnel to help prevent and reduce gun violence and make cities, campuses and facilities safer. The Company's flagship product, ShotSpotter Respond, is the leading outdoor gunshot detection, location and alerting system trusted by over 135 cities as of June 30, 2022. ShotSpotter Connect creates crime forecasts designed to enable more precise and effective use of patrol resources to deter crime. The Company's case management solution, ShotSpotter Investigate, and search and analysis solution, COPLINK X, are cloud-based investigative platforms to help law enforcement agencies modernize every phase of an investigation and accelerate case work with easy-to-use software tools. The Company offers its solutions on a Software as a Service, ("SaaS"), subscription model to its customers. ShotSpotter Labs is the Company's effort to support innovative uses of its technology to help protect wildlife and the environment.

The Company's principal executive offices are located in Fremont, California. The Company has six 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, 2021 ("Annual Report") filed with the SEC on March 29, 2022.

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 2022 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 cash deposits 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 and other local country government agencies. The Company generally places its cash and cash equivalents with high-credit quality financial institutions. To date, the Company has not experienced any losses on its cash and cash equivalents.

Concentration of Accounts Receivable and Contract Asset – At June 30, 2022, two customers accounted for 29% and 11% of the Company's total accounts receivable, respectively. At December 31, 2021, one customer accounted for 65% of the Company's total accounts receivable.

Concentration of Revenues – For the three months ended June 30, 2022, two customers accounted for 32% and 10% of the Company's total revenues, respectively. For the three months ended June 30, 2021, two customers accounted for 30% and 14% of the Company's total revenues, respectively. For the six months ended June 30, 2022, two customers accounted for 35% and 10% of the Company's total revenues, respectively. For the six months ended June 30, 2021, two customers accounted for 32% and 14% 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.

Note 3. Revenue Related Disclosures

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Beginning balance	$ 35,508	$ 25,008	$ 26,710	$ 24,579
Deferred revenues acquired (Note 4 - Business Acquisitions)	—	—	5,382	—
New billings	20,179	9,179	44,705	24,824
Revenue recognized during the period from beginning balance	(13,361)	(10,932)	(19,549)	(18,642)
Revenue recognized during the period from new billings	(6,563)	(3,466)	(21,492)	(10,970)
Foreign currency impact	(7)	2	—	—
Ending balance	$ 35,756	$ 19,791	$ 35,756	$ 19,791

The following table presents remaining performance obligations for contractually committed revenues as of June 30, 2022 (in thousands):

2022	$	32,078
2023		41,313
2024		25,887
Thereafter		13,588
Total	$	112,866

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 June 30, 2022 and amounts under contract that will be invoiced after June 30, 2022.

During the three months ended June 30, 2022, the Company recognized revenues of $19.8 million from customers in the United States, and $0.2 million from customers in the Bahamas and South Africa. During the six months ended June 30, 2022, the Company recognized revenues of $40.7 million from customers in the United States, and $0.5 million from customers in the Bahamas and South Africa.

During the three months ended June 30, 2021, the Company recognized revenues of $14.4 million from customers in the United States, and $0.2 million from customers in the Bahamas and South Africa. During the six months ended June 30, 2021, the Company recognized revenues of $29.3 million from customers in the United States, and $0.3 million from customers in the Bahamas and South Africa.

During the three months ended June 30, 2022, the Company recognized revenues of $17.8 million from monthly subscription, maintenance and support services, and $2.2 million from professional software development services. During the six months ended June 30, 2022, the Company recognized revenues of $36.9 million from monthly subscription, maintenance and support services, and $4.3 million from professional software development services.

During the three months ended June 30, 2021, the Company recognized revenues of $13.6 million from monthly subscription, maintenance and support services, and $1.0 million from professional software development services. During the six months ended June 30, 2021, the Company recognized revenues of $26.9 million from monthly subscription, maintenance and support services, and $2.7 million from professional software development services.

Note 4. Business Acquisitions

In October 2021, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts from Customers*. ASU 2021-08 aimed to improve the accounting for acquired revenue contracts with customers in a business combination by addressing diversity in practice and inconsistency related to recognition of an acquired contract liability and the effect of payment terms on subsequent revenue recognized by the acquirer. These amendments were effective prospectively for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company early adopted this ASU effective January 1, 2022.

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

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

Cash and cash equivalents	$	303
Accounts receivable and contract asset, net		220
Property and equipment, net		200
Operating lease right-of-use asset		1,893
Software technology		7,140
Tradename		1,000
Customer relationships		8,200
Goodwill		20,355
Other asset		186
Accrued expenses and other current liabilities		(635)
Operating lease liabilities		(1,893)
Deferred revenue		(5,382)
Total estimated consideration	$	31,587

The purchase price allocation above is final except for measure period adjustments which may be required in the future following purchase price adjustments related to working capital true-up. 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 six months ended June 30, 2022 and the remainder was incurred during the year ended December 31, 2021. There were no acquisition-related expenses in the three months ended June 30, 2022.

The unaudited pro forma combined revenue and net loss have been prepared as if the Company had acquired Forensic Logic on January 1, 2021. The unaudited pro forma financial information has been derived from the consolidated statements of operations of the Company and Forensic Logic for the respective periods. The historical financial information has been adjusted in the unaudited combined pro forma information based upon currently available information and certain estimates and assumptions. The actual effect of the transactions ultimately may differ from the pro forma adjustments included herein. However, management believes that the assumptions used to prepare the pro forma adjustments provide a reasonable basis for presenting the significant effects of the transactions as currently contemplated and that the pro forma adjustments are factually supportable, give appropriate effect to the expected impact of events that are directly attributable to the transactions, and reflect those items expected to have a continuing impact on the Company. The unaudited pro forma financial information is for informational purposes only and is not necessarily indicative of the results of operations that would have been achieved if the acquisition had taken place on January 1, 2021.

The unaudited pro forma combined revenue and net loss for the three months ended June 30, 2021 would have been $16.3 million and $1.1 million, respectively. The unaudited pro forma combined revenue and net loss for the six months ended June 30, 2021 would have been $32.7 million and $2.2 million, respectively.

Note 5. Fair Value Measurements

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

In November 2020, using a Monte Carlo Simulation approach, the Company estimated the fair value of the contingent consideration liability classified within Level III of the fair value hierarchy at the acquisition date of LEEDS LLC, (“LEEDS”) to be $0.2 million. During the fourth quarter of fiscal 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. There have been no changes in the assumptions or fair value of the LEEDS contingent consideration liability during the three and six months ended June 30, 2022.

In January 2022, using a Monte Carlo Simulation approach, the Company estimated the fair value of the contingent consideration liability classified within Level III of the fair value hierarchy at the acquisition of Forensic Logic to be $12.4 million. During the three months ended June 30, 2022, the fair value of the contingent consideration was decreased by $3.4 million based upon revised estimated 2022 and 2023 revenue targets, representing an adjustment to the most likely outcome expected for the liability.

The changes in the fair value of contingent consideration liability for the six months ended June 30, 2022 and 2021 are as follows (in thousands):

	Six Months Ended June 30,	
	2022	2021
Beginning balance	$ 1,500	$ 573
Payment of contingent consideration liability	—	(403)
Contingent consideration - Forensic Logic (Note 4 - Business Acquisitions)	12,400	—
Change in fair value of contingent consideration	(3,437)	—
Ending balance	$ 10,463	$ 170

There were no transfers into or out of Level III during the six months ended June 30, 2022 and 2021. As of June 30, 2022, contingent consideration of $2.8 million is included in Accrued expenses and other current liabilities in the condensed consolidated balance sheet as it is forecasted that the achievement of milestones will occur within the next 12 months, and $7.6 million is included in Other liabilities in the condensed consolidated balance sheet.

Note 6. Goodwill

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

	June 30, 2022	December 31, 2021
Beginning balance	$ 2,816	$ 2,811
Acquisition of Forensic Logic (see Note 4—Business Acquisitions)	20,355	—
Change during the period	—	5
Ending balance	$ 23,171	$ 2,816

Note 7. Intangible Assets, net

Intangible assets consist of the following (in thousands):

	June 30, 2022		
	Gross	Accumulated Amortization	Net
Customer relationships	$ 22,770	$ (1,937)	$ 20,833
Patents	1,235	(1,108)	127
Software technology	7,140	(508)	6,632
Tradename	1,000	(56)	944
Total intangible assets, net	$ 32,145	$ (3,609)	$ 28,536

	December 31, 2021		
	Gross	Accumulated Amortization	Net
Customer relationships	$ 14,570	$ (1,131)	$ 13,439
Patents	1,214	(1,089)	125
Total intangible assets, net	$ 15,784	$ (2,220)	$ 13,564

Intangible amortization expense was approximately $0.7 million and $1.4 million for the three and six months ended June 30, 2022, respectively. Intangible amortization expense was approximately $0.3 million and $0.5 million for the three and six months ended June 30, 2021, respectively.

The following table presents future intangible asset amortization as of June 30, 2022 (in thousands):

Remainder of 2022	$	1,416
2023		2,643
2024		2,640
2025		2,595
2026		2,577
Thereafter		16,665
Total	$	28,536

Note 8. Details of Certain Condensed Consolidated Balance Sheet Accounts

Accounts receivable and contract assets (in thousands):

		June 30, 2022		December 31, 2021
Accounts receivable	$	26,286	$	16,167
Contract asset		1,667		41
Allowance for potential credit losses		—		(74)
	$	27,953	$	16,134

Prepaid expenses and other current assets (in thousands):

		June 30, 2022		December 31, 2021
Deferred commissions	$	937	$	822
Prepaid software and licenses		626		756
Prepaid insurance		—		611
Other prepaid expenses		500		198
Other		136		117
	$	2,199	$	2,504

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

		June 30, 2022		December 31, 2021
Deferred commissions	$	2,163	$	1,723
Other		551		195
	$	2,714	$	1,918

Accrued expenses and other current liabilities (in thousands):

	June 30, 2022	December 31, 2021
Personnel-related accruals	$ 4,701	$ 4,864
Royalties payable	49	47
Professional fees	476	925
Sales/ use tax payable	312	167
Contingent consideration liabilities	2,848	—
Operating lease liability	881	409
Other	769	268
	$ 10,036	$ 6,680

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

	June 30, 2022	December 31, 2021
Operating lease liabilities	$ 3,033	$ 2,013
Contingent consideration liabilities	7,615	1,500
	$ 10,648	$ 3,513

Note 9. Related Party Transactions

During the three and six months ended June 30, 2022, the Company recognized approximately $43,000 and $59,000, respectively in revenues from ShotSpotter 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. During the three and six months ended June 30, 2021, the Company recognized approximately $27,000 and $63,000, respectively, in revenues from ShotSpotter Labs projects.

Note 10. Stock Repurchase Program

During the six months ended June 30, 2022, the Company repurchased 106,992 shares of its common stock at an average price of $28.81 per share for $3.1 million, utilizing the remaining balance available for repurchase under the Company's stock repurchase program. The repurchases were made in open market transactions using cash on hand, and all of the shares repurchased were retired.

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 June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Numerator:				
Net income (loss)	$ 3,010	$ (250)	$ 3,397	$ (171)
Denominator:				
Weighted-average shares outstanding, basic	12,145,993	11,627,546	12,151,450	11,606,194
Dilutive effect of common stock equivalents	163,708	—	153,317	—
Weighted-average shares outstanding, diluted	12,309,701	11,627,546	12,304,767	11,606,194
Net income (loss) per share, basic	$ 0.25	$ (0.02)	$ 0.28	$ (0.01)
Net income (loss) per share, diluted	$ 0.24	$ (0.02)	$ 0.28	$ (0.01)
Anti-dilutive employee share-based awards, excluded	1,064,330	517,318	1,076,015	570,419

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 six months ended June 30, 2022 is as follows:

	Number of Options Outstanding	Weighted Average Exercise Price
Outstanding as of December 31, 2021	783,928	$ 28.00
Granted	489,732	$ 26.49
Exercised	(9,214)	$ 1.54
Canceled	(19,467)	$ 37.42
Outstanding as of June 30, 2022	1,244,979	$ 27.44

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 capital 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, 2022 by 585,172 shares, which was equal to 5% of the total number of shares of capital stock outstanding on December 31, 2021.

Restricted stock units:

A summary of restricted stock unit ("RSU") activities under the 2017 Plan during the six months ended June 30, 2022 is as follows:

	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value per RSU
Unvested awards outstanding as of December 31, 2021	128,810	$ 35.09
Granted	185,661	$ 26.31
Vested	(63,953)	$ 31.98
Unvested awards outstanding as of June 30, 2022	250,518	$ 29.38

2017 Employee Stock Purchase Plan

There were 20,630 shares issued under the 2017 Employee Stock Purchase Plan ("2017 ESPP") during the three and six months ended June 30, 2022. 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 our 2017 ESPP was increased on January 1, 2022 by 150,000 shares. The number of shares available for grant under the 2017 ESPP was 528,698 as of June 30, 2022.

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 June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Cost of revenues	$ 527	$ 415	$ 983	$ 807
Sales and marketing	445	412	909	783
Research and development	284	181	518	362
General and administrative	875	486	1,576	917
Total	$ 2,131	$ 1,494	$ 3,986	$ 2,869

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"). In August 2020, the Company entered into an amendment to its credit facility to increase the size of the available loan facility from $10.0 million to $20.0 million. The Company intends to use the Revolving Facility for general working capital purposes. Borrowings under the Umpqua Credit Agreement are secured by substantially all of the assets of the Company. The Umpqua Credit Agreement includes a letter of credit subfacility of up to $5.0 million. Any amounts outstanding under the letter of credit subfacility reduce the amount available for the Company to borrow under the Revolving Facility.

During the three months ended June 30, 2022, the Company utilized $5.0 million of the letter of credit subfacility for a letter of credit related to a customer contract requirement. The available loan facility as of June 30, 2022 was approximately $15.0 million. There were no borrowings outstanding as of June 30, 2022 and December 31, 2021.

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 plaintiff's civil rights, denial of the right to a fair trial, and malicious prosecution. The Plaintiff claims that ShotSpotter colluded with the City of Rochester to fabricate and create gunshot alert evidence to secure Plaintiff's conviction. On the basis of the allegations, the Plaintiff has petitioned for compensatory and punitive damages and other costs and expenses, including attorney's fees. The Company believes that the Plaintiff's claims are without merit and is disputing them vigorously.

On October 12, 2021, the Company filed a defamation lawsuit against VICE Media, LLC ("VICE"), in Delaware Superior Court. The complaint alleged that VICE intentionally misrepresented court records and targeted ShotSpotter with false accusations in order to cultivate a subversive brand that enables VICE to sell sponsored content to corporate advertisers. The lawsuit was dismissed by the prevailing judge on June 30, 2022, but the Company obtained a retraction from VICE of several false statements following the dismissal.

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

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

The COVID-19 pandemic has resulted in a substantial curtailment of business activities worldwide and is causing weakened economic conditions, both in the United States and many countries abroad. The Company understands that the ongoing COVID-19 pandemic, including the potential for periods of increases in case numbers and the emergence and spread of virus variants in communities in which we and our customers operate, may continue to have an adverse impact on its results of operations. While the ultimate economic impact of the COVID-19 pandemic is highly uncertain, the Company expects that its business and results of operations, including its revenues, earnings and cash flows from operations, may continue to be adversely impacted for the balance of 2022.

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

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, 2021, filed with the Securities and Exchange Commission ("SEC") on March 29, 2022. 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 subsection titled "Impact of COVID-19 and Social Unrest on our Business" below, as well as the section titled "Risk Factors" set forth in Part II, Item 1A of this Quarterly Report on Form 10-Q and in our other SEC filings. You should not rely upon forward-looking statements as predictions of future events. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Overview

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

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

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

We generate annual subscription revenues from the deployment of ShotSpotter Respond on a per-square-mile basis. Our security solutions, ShotSpotter SecureCampus and ShotSpotter SiteSecure, are typically sold on a subscription basis, each with a customized deployment plan. Our ShotSpotter Connect solution is also sold on a subscription basis. As of June 30, 2022, we had ShotSpotter Respond, ShotSpotter SecureCampus and ShotSpotter SiteSecure coverage areas under contract for approximately 980 square miles, of which 929 square miles had gone live. Coverage areas under contract included over 135 cities and 18 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.

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

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

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

Since our founding over 26 years ago, ShotSpotter has been and continues to be a purpose-led company. We are a mission-driven organization that focuses on improving public safety outcomes. We accomplish this by earning the trust of law enforcement and providing them solutions to help them better engage and strengthen the police-community relationships in fulfilling their sworn obligation equally to serve and protect all. Our inspiration comes from our principal founder, Dr. Bob Showen, who believes that the highest and best use of technology is to promote social good. We are committed to developing comprehensive, respectful, and engaged partnerships with law enforcement agencies, elected officials and communities focused on making a positive difference in the world.

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

We rely on a limited number of suppliers and contract manufacturers to produce components of our solutions. We have no long-term contracts with these manufacturers and purchase from them on a purchase-order basis. Our outsourced manufacturers generally procure the components directly from third-party suppliers. Although we use a limited number of suppliers and contract manufacturers, we believe that we could find alternate suppliers or manufacturers if circumstances required us to do so, in part because a 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 Item 1A, *Risk Factors*, and the subsection titled "Impact of COVID-19 and Social Unrest on our Business" included in this Quarterly Report on Form 10-Q.

We generated revenues of $20.0 million and $14.6 million for the three months ended June 30, 2022 and 2021, respectively, a year-over-year increase of 37%. Revenues from ShotSpotter Respond during the three months ended June 30, 2022 and 2021 represented approximately 67% and 79% of total revenues, respectively. Our two current largest customers, the City of New York and the City of Chicago, accounted for 32% and 10% respectively, of our total revenues for the three months ended June 30, 2022, and 30% and 14%, respectively, of our total revenues for the three months ended June 30, 2021.

We generated revenues of $41.2 million and $29.6 million for the six months ended June 30, 2022 and 2021, respectively, a year-over-year increase of 39%. Revenues from ShotSpotter Respond during the six months ended June 30, 2022 and 2021, represented approximately 65% and 77% of total revenues, respectively. Our two current largest customers, the City of New York and the City of Chicago, accounted for 35% and 10% respectively, of our total revenues for the six months ended June 30, 2022, and 32% and 14%, respectively, of our total revenues for the six months ended June 30, 2021.

For the three months ended June 30, 2022 and 2021, revenues generated within the United States (including Puerto Rico and the U.S. Virgin Islands) accounted for $19.8 million and $14.4 million, respectively, or 99% of total revenues for both periods.

For the six months ended June 30, 2022 and 2021, revenues generated within the United States (including Puerto Rico and the U.S. Virgin Islands) accounted for $40.7 million and $29.3 million, respectively, or 99% of total revenues for both periods.

We had net income (loss) of $3.0 million and $(0.03) million for the three months ended June 30, 2022 and 2021, respectively, and net income (loss) of $3.4 million and $(0.02) million for the six months ended June 30, 2022 and 2021, respectively. Our accumulated deficit was $95.4 million and $98.8 million at June 30, 2022 and December 31, 2021, respectively.

During the three months ended June 30, 2022, the fair value of the contingent consideration, which we recorded on the acquisition of Forensic Logic, was decreased by $3.4 million based upon revised estimated 2022 and 2023 revenue targets that were utilized in our fair value methodology.

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. The challenges we are facing in this regard as a result of the COVID-19 pandemic are summarized in the subsection below entitled “Impact of COVID-19 and Social Unrest on our Business.” Other challenges we face in this regard include our target customers not having access to adequate funding sources, the fact that contracting with government entities can be complex, expensive, and time-consuming, and the fact that our typical sales cycle is often very long, difficult to estimate accurately and can be costly, and the fact that negative publicity about our company can and has caused current and potential future customers to evaluate the sales of our solutions more than in the past. We expect international sales cycles to be even longer than our domestic sales cycles. To combat these challenges, we invest in research and development, increase awareness of our solutions, invest in new sales and marketing campaigns, often in different languages for international sales, and hire additional sales representatives to drive sales to continue to maintain our position as a market leader. In addition, we believe that entering into strategic partnerships with other service providers to cities and municipalities offers another potential avenue for expansion.

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

Key Business Metrics

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net new “go-live” cities	3*	2	11*	8

* We went live with four and twelve new cities for three and six months ended June 30, 2022. The net go live numbers above reflect the loss of one city, with a contract value of less than $18,000 per annum.

Net New “Go-Live” Cities

Net new “go-live” cities represent the number of cities covered by deployments of our gunshot detection solutions that were formally approved by customers during the year, both from initial and expanded customer deployments, net of cities that ceased to be “live” during the year due to customer cancellations. New cities include deployed coverage areas that may have been sold, or booked, in a prior period. We focus on net new “go-live” cities as a key business metric to measure our operational performance and market penetration. During the three and six months ended June 30, 2022, we also went live with one pilot project that is not included in the table above.

Impact of COVID-19 and Social Unrest on our Business

The COVID-19 pandemic resulted in a substantial curtailment of business activities worldwide and caused ongoing economic uncertainty, both in the United States and many countries abroad. We expect that the evolving COVID-19 pandemic, including the potential for periods of increases in case numbers and the emergence and spread of virus variants in communities in which we and our customers operate, may continue to have an adverse impact on our results of operations. While the ultimate economic impact of the COVID-19 pandemic is highly uncertain, we expect that our business and results of operations, including our revenues, earnings and cash flows from operations, may continue to be adversely impacted in the future.

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

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

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

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

Components of Results of Operations

Presentation of Financial Statements

Our 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 Respond, we generally invoice customers for 50% of the total contract value when the contract is fully executed and for the remaining 50% when the subscription service is operational and ready to go live – that is, when the customer has acknowledged the completion of all the deliverables in the signed customer acceptance form. For COPLINK X, we generally invoice customers 100% of the total contract value when the subscription service is operational. All fees billed in advance of services being delivered are recorded as deferred revenue. The timing of when new miles go live can be uncertain and, as a result, can have a significant impact on the levels of revenues and deferred revenue from quarter to quarter. For ShotSpotter Respond, our pricing model is based on a per-square-mile basis. For ShotSpotter SecureCampus, ShotSpotter SiteSecure and ShotSpotter Investigate, our pricing model is on a customized-site basis. For ShotSpotter Connect, pricing is currently customized, generally tied to the number of sworn police officers in a particular city. We may also offer discounts or other incentives in conjunction with all ShotSpotter sales in an effort to introduce the product, accelerate sales or extend renewals for a longer contract term. As a result of our process for invoicing contracts and renewals upon execution, our cash flow from operations and accounts receivable can fluctuate due to timing of contract execution and timing of deployment.

We generally invoice subscription service renewals for 100% of the total contract value when the renewal contract is executed. Renewal fees are recognized ratably over the term of the renewal, which is typically one year. While most of our customers elect to renew their agreements, in some cases, they may not be able to obtain the proper approvals or funding to complete the renewal prior to expiration. For these customers, we stop recognizing subscription revenues at the end of the current contract term, even though we may continue to provide services for a period of time until the renewal process is completed. Once the renewal is complete, we then recognize subscription revenues for the period between the expiration of the original term of the agreement and the completion of the renewal process in the month in which the renewal is executed. If a customer declines to renew its subscription prior to the end of the contract term, then the remaining setup fees, if any, are immediately recognized.

With the acquisition of LEEDS, we generate ShotSpotter Investigate 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.

With the acquisition of Forensic Logic, we also generate revenues from subscriptions for COPLINK X, cloud-based data services for advanced search and analysis tools, with revenue recognition being similar to our Respond products. We also provide access to this technology platform to an intermediary to either be resold or combined with their own materials, software and/or services, to create an integrated solution that is provided to their end-user customers. We recognize this revenue net of margins paid to the intermediary. We recently introduced ShotSpotter GCM™ (Gun Crime Management), a first-of-its-kind digital case management solution that automates the process by which key information is inputted, captured and used to identify associated gun crime cases leading to the identification of persons of interest. We generate revenues from subscriptions for GCM, with revenue recognition being similar to our Respond and COPLINK X products.

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

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

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

Costs

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

Impairment of property and equipment is primarily attributable to our write-off of the remaining book value of sensor networks related to customers lost during the three and six months ended June 30, 2021. There was no impairment recorded in the three and six months ended June 30, 2022.

We are upgrading our sensors that use third-generation (“3G”) cellular communications to the fourth-generation Long-Term Evolution wireless technology, which will increase our cost of revenues. By June 30, 2022, we had already upgraded over 85 percent of our 3G sensors. We expect to complete all required upgrades by the end of 2022. Additionally, we are and may continue to re-use and re-deploy some of the old 3G sensors, or components within them that have a remaining serviceable life where it makes sense to do so.

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

Cost of revenues for ShotSpotter Investigate generally relate to revenues generated through the sale of proprietary software licenses and related maintenance and support services and professional software development services. Costs of these professional services include employee compensation costs that are relatively fixed, third-party contractor costs, allocated facility costs and overhead, and the costs of billable expenses such as travel and lodging. The unpredictability of the timing of entering into significant professional services agreements may cause significant fluctuations in our costs which, in turn, may impact our quarterly financial results.

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

Operating Expenses

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

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

Sales and Marketing

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

During the duration of the COVID-19 pandemic with associated remote work policies and reduced travel, our sales and marketing expense decreased. As travel has increased in 2022 compared to 2021, our sales and marketing expenses have increased in absolute dollars due to the growth in our sales and marketing organization. This growth has included adding sales and/or marketing personnel and expanding our marketing and strategic communications activities to continue to generate additional leads. Sales and marketing expense may fluctuate from quarter to quarter based on the timing of commission expense, marketing campaigns and tradeshows.

Research and Development

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

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

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

In the near term, we expect our research and development expenses to increase in absolute dollars 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, consisted primarily of interest income and local and franchise tax expenses.

Income Taxes

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

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

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

Results of Operations

Comparison of Three Months Ended June 30, 2022 and 2021

The following table sets forth our selected condensed consolidated statements of operations data for the three months ended June 30, 2022 and 2021 (in thousands):

	2022	As a % of Revenues	2021	As a % of Revenues	Change $	Change %
Revenues	$ 20,016	100 %	$ 14,624	100 %	$ 5,392	37 %
Costs						
Cost of revenues	8,367	42 %	6,317	43 %	2,050	32 %
Total costs	8,367	42 %	6,317	43 %	2,050	32 %
Gross profit	11,649	58 %	8,307	57 %	3,342	40 %
Operating expenses:						
Sales and marketing	5,794	29 %	3,928	27 %	1,866	48 %
Research and development	2,534	13 %	1,740	12 %	794	46 %
General and administrative	3,555	18 %	2,812	19 %	743	26 %
Contingent consideration	(3,437)	(17 %)	—	—	(3,437)	—
Total operating expenses	8,446	42 %	8,480	58 %	(34)	—
Operating income (loss)	3,203	16 %	(173)	(1 %)	3,376	1,951 %
Other expense, net	(193)	(1 %)	(77)	—	(116)	151 %
Net income (loss)	$ 3,010	15 %	$ (250)	(2 %)	$ 3,260	1,304 %

Revenues

The increase in revenues of $5.4 million was primarily attributable to a $2.0 million increase in revenue from new customers and expansions of existing customer coverage areas, a $1.8 million increase in revenues from monthly support revenue contracts, and a $1.6 million increase in revenues from Forensic Logic, which we acquired in the first quarter of 2022. We went live in four new Respond cities, secured three new security customers and expanded in six current customer sites

Costs

The increase in cost of revenues of $2.1 million was due primarily to a $1.2 million increase in products costs due to the increase in our customer base, a $0.5 million increase in personnel costs as a result of increased headcount due to continued growth and the acquisition of Forensic Logic in January 2022, a $0.2 million increase in third-party labor costs, a $0.1 million increase in travel costs relating to customer deployments, and a $0.1 million increase in amortization of intangibles following our acquisition of Forensic Logic.

Operating Expenses

Sales and Marketing Expense

Sales and marketing expense increased by $1.9 million and was primarily due to a $1.3 million increase in salaries, commissions and other personnel costs, a $0.3 million increase in amortization expense related to customer relationship and tradename assets, and a $0.2 million increase in travel costs due to continued growth in our customer base.

Research and Development Expense

Research and development expense increased by $0.8 million and was primarily due to increased personnel and headcount costs.

General and Administrative Expense

General and administrative expense increased by $0.7 million and was due primarily to a $0.5 million increase in personnel-related costs and a $0.2 million increase in other costs including advertising and promotion expense.

Contingent Consideration

Contingent consideration expense decreased by $3.4 million during the three months ended June 30, 2022 based upon revised estimated 2022 and 2023 revenue targets for Forensic Logic that were utilized in the our fair value methodology, which resulted in a decrease in the fair value of the contingent consideration liability.

Other Income (Expense), Net

The increase in other expense, net was due primarily to increased state and franchise tax expense.

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 June 30, 2022 and 2021.

Comparison of Six Months Ended June 30, 2022 and 2021

The following table sets forth our selected condensed consolidated statements of operations data for the six months ended June 30, 2022 and 2021 (in thousands):

	2022	As a % of Revenues	2021	As a % of Revenues	Change $	Change %
Revenues	$ 41,230	100 %	$ 29,637	100 %	$ 11,593	39 %
Costs						
Cost of revenues	16,657	40 %	12,617	43 %	4,040	32 %
Impairment of property and equipment	—	—	25	—	(25)	(100 %)
Total costs	16,657	40 %	12,642	43 %	4,015	32 %
Gross profit	24,573	60 %	16,995	57 %	7,578	45 %
Operating expenses:						
Sales and marketing	11,370	28 %	7,863	27 %	3,507	45 %
Research and development	5,161	13 %	3,453	12 %	1,708	49 %
General and administrative	7,844	19 %	5,683	19 %	2,161	38 %
Contingent consideration	(3,437)	(8 %)	—	—	(3,437)	—
Total operating expenses	20,938	51 %	16,999	57 %	3,939	23 %
Operating income (loss)	3,635	9 %	(4)	—	3,639	90,975 %
Other expense, net	(238)	(1 %)	(118)	—	(120)	102 %
Provision (benefit) from income taxes	—	—	49	—	(49)	(100 %)
Net income	$ 3,397	8 %	$ (171)	(1 %)	$ 3,568	2,087 %

Revenue

The increase in revenues of $11.6 million was primarily attributable a $4.5 million increase in revenue from monthly support revenue contracts, a $4.0 million increase in revenues from new customers and expansions of existing customer coverage areas, and a $3.1 million increase in revenues from Forensic Logic, which was acquired in the first quarter of 2022. We went live in eight new Respond cities, secured four new security customers and expanded in eight current customer cities.

Costs

The increase in costs of $4.0 million was due primarily to a $1.9 million increase in product costs due to the increase in our customer base, a $1.2 million increase in personnel costs as a result of increased headcount due to continued growth and the acquisition of Forensic Logic in the first quarter of fiscal 2022, a $0.3 million increase in amortization of intangibles following our acquisition of Forensic Logic, an increase of $0.2 million in travel costs relating to customer deployments, an increase of $0.2 million in other costs, and an increase of $0.1 million in third-party labor costs.

Operating Expenses

Sales and Marketing Expense

Sales and marketing expense increased by $3.5 million and was primarily due to a $1.7 million increase in personnel costs, a $0.9 million increase in consulting and commission expenses, a $0.5 million increase to amortization of customer relationship and tradename assets related to Forensic Logic, a $0.2 million increase in travel costs due to continued growth in our customer base and a $0.2 million increase in marketing and other costs.

Research and Development Expense

Research and development expense increased by $1.7 million and was primarily due to increased personnel and headcount costs as a result of the Forensic Logic acquisition.

General and Administrative Expense

General and administrative expense increased by $2.1 million and was due primarily to a $0.9 million increase in personnel costs, a $0.7 million increase in legal expense, a $0.1 million increase in travel costs, a $0.1 million increase in amortization of intangibles following our acquisition of Forensic Logic and a $0.3 million increase in other costs.

Contingent Consideration

Contingent consideration expense decreased by $3.4 million during the six months ended June 30, 2022 based upon revised estimated 2022 and 2023 revenue targets for Forensic Logic that were utilized in the our fair value methodology, which resulted in a decrease in the fair value of the contingent consideration liability.

Other Income (Expense), Net

The increase in other expense, net was due primarily to increased state and franchise tax expense.

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 six months ended June 30, 2022. For the six months ended June 30, 2021, as a result of net operating loss carryforwards, our recorded income taxes consisted of foreign taxes only.

Liquidity and Capital Resources

Sources of Funds

Our operations have been financed primarily through net proceeds from the sale of equity, debt financing arrangements and cash from operating activities. Our principal source of liquidity is cash and cash equivalents totaling $3.4 million as of June 30, 2022. During the three months ended June 30, 2022, we utilized $5.0 million of our loan facility for a letter of credit related to a customer contract requirement. Our available loan facility at June 30, 2022 was approximately $15.0 million, and as of June 30, 2022, no amounts were outstanding on our loan facility. We had accounts receivable of $28.0 million as of June 30, 2022, of which we subsequently collected over $17.5 million. In December 2021, we obtained a waiver for the financial covenants tied to our profitability through June 30, 2022.

We believe our existing cash and cash equivalent balances, our available credit facility and cash flow from operations will be sufficient to meet our working capital and capital expenditure requirements for at least the next 12 months. We believe that despite our negative working capital, the costs to perform the short-term deferred revenue is relatively low compared to the balance of $32.9 million. However, should additional working capital be needed, we can utilize our unused loan facility. Our loan facility expires September 2022, but we expect the facility to be renewed under similar terms. 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 a purchase consideration of $31.6 million, consisting of $4.9 million in cash, subject to working capital adjustments, and 464,540 shares of our common stock valued at $14.3 million. 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. Up to $9.5 million in contingent earnout will be payable based on Forensic Logic’s revenues generated during 2022. An additional amount up to $10.5 million contingent earnout will be payable based on Forensic Logic’s revenues during 2023. The amounts are payable within approximately 120 days after the end of 2022 and 2023, respectively. During the three months ended June 30, 2022, we recorded an adjustment of $3.4 million to decrease the estimated Forensic Logic contingent earnout payable, which was reduced for 2022 but increased for 2023.

Stock Repurchase Program

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

During the six months ended June 30, 2022, we repurchased 106,992 shares of our common stock at an average price of $28.81 per share for $3.1 million, utilizing the remaining balance available for repurchase under our stock repurchase program. The repurchases were made in open market transactions using cash on hand, and all of the shares repurchased were retired.

Credit Facility

On September 27, 2018, we entered into the Umpqua Credit Agreement for $10.0 million, which was amended in August 2020 to increase the size of our available loan facility to $20.0 million, which allows us to borrow up to $20.0 million under a revolving loan facility. We intend to use the revolving loan facility for general working capital purposes, as needed. During the three months ended June 30, 2022, we utilized $5.0 million of our loan facility for a letter of credit related to a customer contract requirement.

Cash Flows

Comparison of Six Months Ended June 30, 2022 and 2021

The following table presents a summary of our cash flows for the six months ended June 30, 2022 and 2021:

	Six Months Ended June 30, 2022	2021
	(in thousands)	
Net cash provided by (used in):		
Operating activities	$ (220)	$ 5,136
Investing activities	(9,388)	(3,590)
Financing activities	(2,580)	(2,039)
Net change in cash and cash equivalents	$ (12,188)	$ (493)

Operating Activities

Our net income (loss) and cash flows provided by (used in) 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.

Net cash used in operating activities increased $5.3 million for the six months ended June 30, 2022 compared to net cash provided in the same period of 2021, primarily due to an increase of $4.1 million in payments for personnel costs, an increase of $0.9 million in prepaid expenses including insurance, and an increase of $0.2 million in accounts payable.

Investing Activities

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

Investing activities used $9.4 million and $3.6 million in the six months ended June 30, 2022 and 2021, respectively. During the six months ended June 30, 2022, this was primarily driven by the acquisition of Forensic Logic for $4.6 million as well as investments in property and equipment installed for new deployments and our solutions in customer coverage areas of $4.8 million. Investing activities used $3.6 million in the six months ended June 30, 2021 primarily for 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 cash during the six months ended June 30, 2022, which was driven by $3.1 million in payments for repurchases of our common stock, offset by $0.5 million in proceeds from our employee stock purchase plan purchases. Financing activities used $2.0 million in cash during the six months ended June 30, 2021. This was primarily driven by $2.7 million in payments for repurchases of our common stock and $0.4 million in payments for HunchLab's contingent consideration, partially offset by $0.6 million in proceeds from the exercise of options and warrants and $0.5 million in proceeds from employee stock purchase plan purchases.

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 2021 Annual Report on Form 10-K and the notes to the audited consolidated financial statements appearing in our 2021 Annual Report on Form 10-K. For the significant or material changes in our critical accounting policies during the three months ended June 30, 2022, 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 2021 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 as well as, to a lesser extent, inflation.

There were no material changes in our market risk during the six months ended June 30, 2022, compared to the market risk disclosed in the Qualitative and Quantitative Disclosures about Market Risk section of our 2021 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 Securities Exchange Act of 1934, as amended (the “Exchange Act") Rules 13-a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of June 30, 2022, our disclosure controls and procedures were effective to provide reasonable assurance that the information we are required to file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

In January 2022, we completed the acquisition of Forensic Logic. We continue to integrate internal controls at Forensic Logic into our control structure. With the exception of these changes, there were no changes in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) during the quarter ended June 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

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

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:

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

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

- Interruptions or delays in service from our third-party providers, including delays in the delivery of new sensors as a result of an industry-wide chip shortage, could impair our ability to make our solutions available to our customers, resulting in customer dissatisfaction, damage to our reputation, loss of customers, limited growth and reduction in revenues.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to the COVID-19 Pandemic

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

The COVID-19 pandemic has resulted in a substantial curtailment of business activities worldwide and is causing weakened economic conditions, both in the United States and many countries abroad. As part of intensifying efforts to contain the spread of COVID-19, many companies and state, local and foreign governments had imposed restrictions, including work-from-home policies and travel bans. While some of these companies and jurisdictions had relaxed such restrictions, these restrictions may be put back in place. We expect that the evolving COVID-19 pandemic, including the potential for periods of increases in case numbers and the emergence and spread of virus variants in communities in which we and our customers operate, will continue to have an adverse impact on our results of operations. While the ultimate economic impact of the COVID-19 pandemic is highly uncertain, we expect that our business and results of operations, including our revenues, earnings and cash flows from operations, will be adversely impacted for the remainder of 2022, including as a result of:

- Delays in our ability to deploy new "go-live" miles attributable to company policies or customer policies designed to protect employee health and comply with government restrictions;

- Greater funding challenges for our customer base, which may adversely affect customer contract renewals, expansion of existing customer deployments or new customer sales;

- Possible disruption to our supply chain caused by distribution and other logistical issues, including delays in manufacturing chips used in our sensors may further delay our ability to deploy new go-live miles or update our currently deployed technology;

- Potential decrease in productivity or availability of our employees or those of our customers or suppliers due to work-from-home policies and orders, or vaccine requirements.

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

- the duration and scope of the pandemic, including the impact of new variants with varying degree of resistance to vaccines;
- governmental, business and individuals' actions that have been and continue to be taken in response to the pandemic;
- the impact of the pandemic on economic activity and actions taken in response;
- the effect on our customers and demand for our products and services;
- our ability to continue to sell our products and services, including as a result of people working from home, or restrictions on access to our potential customers;
- the ability of our customers to pay for its products and services;
- any closures of our facilities and the facilities of our customers and suppliers; and
- the degree to which our employees or those of our customers or suppliers become ill with COVID-19.

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

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

Risks Related to Our Growth

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

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

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

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

Further, our growth could increase quickly and place a strain on our managerial, operational, financial and other resources, and our future operating results depend to a large extent on our ability to successfully manage our anticipated expansion and growth. To manage our growth successfully, we will need to continue to invest in sales and marketing, research and development, and general and administrative functions and other areas. We are likely to recognize the costs associated with these investments earlier than receiving some of the anticipated benefits, and the return on these investments may be lower, or may develop more slowly, than we expect, which could adversely affect our operating results.

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

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

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

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

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

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

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

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

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

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

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

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

We had net income in both 2020 and 2019; prior to that, we posted a net loss in each year since inception and we had a net loss of $4.4 million for the year ended December 31, 2021. We had net income of $3.4 million for the six months ended June 30, 2022, and as of June 30, 2022 we had an accumulated deficit of $95.4 million. We are not certain whether we will be able to maintain enough revenues from sales of our solutions to sustain or increase our growth or maintain profitability in the future. We also expect our costs to increase in future periods, which could negatively affect our future operating results if our revenues do not increase. In particular, we expect to continue to expend substantial financial and other resources on:

- sales and marketing, including a significant expansion of our sales organization, both domestically and internationally;
- research and development related to our solutions, including investments in our engineering and technical teams;

- acquisition of complementary technologies or businesses, such as our acquisition of HunchLab technology in October 2018, 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. In particular, the COVID-19 pandemic and its impact on economic conditions, including supply chain disruptions, may make it more difficult for us to increase revenues sufficient to maintain profitability. Furthermore, rising inflation rates may result in decreased demand for our products and services and increase our operating costs. Additionally, we may encounter unforeseen operating expenses, difficulties, complications, delays and other unknown factors that may result in losses in future periods. If our revenue growth does not meet our expectations in future periods, our financial performance may be harmed, and we may not maintain profitability in the future.

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

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

Risks Related to Our Public Safety Business

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. Although the negativity of some of these events have been reduced, some of these events may still 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 our business and results of operations, including our revenues, earnings and cash flows from operations.

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

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

- decreases or changes in available funding, including tax revenues, budgetary allocations, government grants and other government funding programs;
- potential delays or changes in appropriations or other funding authorization processes;
- changes in fiscal or contracting policies;
- macro-and/or local economic changes that may affect customer funding;
- changes in elected or appointed officials;
- changes in public perception of the accuracy of our solutions and the appropriate use of our solutions by law enforcement, including as a result of negative publicity; and
- changes in laws or public sentiment regarding privacy or surveillance.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A false positive alert, in which a non-gunfire incident is reported as gunfire, could result in an unnecessary rapid deployment of police officers and first responders, which may raise unnecessary fear among the occupants of a community or facility, and may be deemed a waste of police and first responder resources. A failure to alert law enforcement or security personnel of actual gunfire (false negative) could result in a less rapid or no response by police officers and first responders, increasing the probability of injury or loss of life. Both false positive alerts and the failure to generate alerts of actual gunfire (false negative) may result in customer dissatisfaction, potential loss of confidence in our solutions, and potential liabilities to customers or other third parties, any of which could harm our reputation and adversely impact our business and operating results. Additionally, third parties may misunderstand or misrepresent what constitutes a false positive or false negative and generate negative publicity regarding our solutions. For example, a May 2021 report by the MacArthur Center for Justice appears to argue that any incident that does not result in a police report is a false positive. The perception of a false positive alert or of a failure to generate an alert, even where our customers understand that our solutions were utilized correctly, could lead to negative publicity or harm the public perception of our solutions, which could harm our reputation and adversely impact our business and operating results.

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

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

Our reputation and our business may be harmed by inaccurate reporting which could have an adverse impact on new sales or renewals or expansions of coverage areas by existing customers, which would adversely impact our financial results and future prospects. For example, in July 2021, VICE Media, LLC ("VICE") falsely accused us of illegal behavior, which has had a material adverse effect on our business. We initiated a defamation lawsuit against VICE that has since been dismissed.

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

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

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

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

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

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

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

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

Governmental agencies and private citizens have become increasingly sensitive to real or perceived government or third-party surveillance and may wrongly believe that our outdoor sensors allow customers to listen to private conversations and monitor private citizen activity. Our sensors are not designed for "live listening" and are triggered only by loud impulsive sounds that may likely be gunfire. However, perceived privacy concerns may result in negative media coverage and efforts by private citizens to persuade municipalities, educational institutions or other potential customers not to purchase our precision policing solutions for their communities, campuses or facilities. In addition, laws may exist or be enacted to address such concerns that could impact our ability to deploy our solutions. For example, the City of

Toronto, Canada decided against using ShotSpotter solutions because the Ministry of the Attorney General of Ontario indicated that it may compromise Section 8 of Canada's Charter of Rights and Freedoms, which relates to unreasonable search and seizure. If customers choose not to purchase our solutions due to privacy or surveillance concerns, then the market for our solutions may develop more slowly than we expect, or it may not achieve the growth potential we expect, any of which would adversely affect our business and financial results.

Strategic and Operational Risks

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Any of our facilities or operations may be harmed or rendered inoperable by natural or man-made disasters, including earthquakes, tornadoes, hurricanes, wildfires, floods, nuclear disasters, acts of terrorism or other criminal activities, infectious disease outbreaks, such as COVID-19, and power outages, which may render it difficult or impossible for us to operate our business for some period of time or decrease productivity. For example, our primary IRC and a data center that hosts some of our customer services are located in the San Francisco Bay Area, a region known for seismic activity. Our facilities would likely be costly to repair or replace, and any such efforts would likely require substantial time. In addition, like many companies, at the beginning of the COVID-19 pandemic, we implemented a work from home policy, which has largely remained in effect. 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”), which we increased to $20.0 million in August 2020 and which we intend to use for general working capital purposes, as needed. During the three months ended June 30, 2022, we utilized $5.0 million of our loan facility for a letter of credit related to a customer contract requirement. Our available loan facility at June 30, 2022 was approximately $15.0 million, and as of June 30, 2022, no amounts were outstanding on our loan facility.

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

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

We are also required to maintain certain financial covenants tied to our leverage, interest charges and profitability. Our ability to meet such covenants (those negative covenants discussed in the preceding paragraph) or other restrictions can be affected by events beyond our control, and our failure to comply with the financial and other covenants would be an event of default under the Umpqua Credit Agreement. If an event of default under the Umpqua Credit Agreement, has occurred and is continuing, the outstanding borrowings thereunder could become immediately due and payable, and we would then be required to cash collateralize any letters of credit then outstanding, and the lender could refuse to permit additional borrowings under the facility. In December 2021, we obtained a waiver for the financial covenant tied to our profitability through June 30, 2022. We cannot assure you that we would have sufficient assets to repay those borrowings and, if we are unable to repay those amounts, the lender could proceed against the collateral granted to them to secure such indebtedness. We have pledged substantially all of our assets as collateral, and an event of default would likely have a material adverse effect on our business.

The competitive landscape for our security solutions is evolving.

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

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

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

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

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

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

We acquired LEEDS in November 2020 and Forensic Logic in January 2022 in order to enhance our precision policing platform. We will continue to evaluate and consider potential strategic transactions, including acquisitions of, or investments in, businesses, technologies, services, products and other assets in the future. We also may enter into relationships with other businesses to expand our platform and applications, which could involve preferred or exclusive licenses, additional channels of distribution, discount pricing or investments in other companies.

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

- incurring higher than anticipated capital expenditures and operating expenses;
- failing to assimilate the operations and personnel or failing to retain the key personnel of the acquired company or business;
- failing to integrate the acquired technologies, or incurring significant expense to integrate acquired technologies, into our platform and applications;
- disrupting our ongoing business;
- diverting our management’s attention and other company resources;
- failing to maintain uniform standards, controls and policies;
- incurring significant accounting charges;
- impairing relationships with our customers and employees;

- finding that the acquired technology, asset or business does not further our business strategy, that we overpaid for the technology, asset or business or that we may be required to write off acquired assets or investments partially or entirely;

- failing to realize the expected synergies of the transaction;

- being exposed to unforeseen liabilities and contingencies that were not identified prior to acquiring the company; and

- being unable to generate sufficient revenues and profits from acquisitions to offset the associated acquisition costs.

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

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

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

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

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

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

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

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

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

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

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

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

Security incidents, whether as a result of third-party action, employee or customer error, technology impairment or failure, malfeasance or criminal activity, could result in unauthorized access to, or loss or unauthorized disclosure of, data which could result in; inability to obtain approvals to sell our products, litigation expenses or damages, indemnity and other contractual obligations and other possible liabilities, including but not limited to government fines and penalties and mitigation expenses, as well as negative publicity, which could damage our reputation, impair our sales and harm our customers and our business.

Cyber incidents, malicious internet-based activity, and online and offline fraud are prevalent and continue to increase generally, and providers of cloud-based services have been targeted. Threats to our information systems and data, and those of third parties upon which we rely, come from a variety of sources. In addition to traditional computer "hackers," threat actors, personnel (such as through theft or misuse), sophisticated nation-states and nation-state-supported actors also engage in attacks. We and the third parties upon which we rely may be subject to a variety of evolving threats, including but not limited to social-engineering attacks (including through phishing attacks), malicious code (such as viruses and worms), malware (including as a result of advanced persistent threat intrusions), denial-of-service attacks (such as credential stuffing), personnel misconduct or error, and supply-chain attacks. Ransomware attacks are becoming increasingly prevalent and severe and can lead to significant interruptions in our operations, loss of data and income, reputational harm, and diversions of funds. Extortion payments may alleviate the negative impact of a ransomware attack, but we may be unwilling or unable to make such payments due to, for example, applicable laws or regulations prohibiting such payments.

If third parties with whom we work, such as vendors or developers, violate applicable laws or our security policies, such violations may also put our systems and data at risk and could in turn have an adverse effect on our business. In addition, such a violation could expose sensitive data including; criminal justice information, and other data we are contractually obliged to keep confidential. The COVID-19 pandemic may increase the likelihood of such cyber incidents. We may be unable to anticipate or prevent techniques used to obtain unauthorized access or to sabotage systems because such techniques change frequently and often are not detected until after an incident has occurred. As we increase our customer base and our brand becomes more widely known and recognized, third parties may increasingly seek to compromise our security controls or gain unauthorized access to customer data or other sensitive information. Further, because of the nature of the services that we provide to our customers, we may be a unique target for attacks.

Many governments have enacted laws requiring companies to notify individuals of data security incidents or unauthorized transfers involving certain types of personal information. In addition, some of our customers contractually require notification of any data security incident. Accordingly, security incidents experienced by our competitors, by our customers or by us may lead to public disclosures, which may lead to widespread negative publicity and significant costs. Any security compromise in our industry, whether actual or perceived, could harm our reputation, erode customer confidence in the effectiveness of our security measures, negatively impact our ability to attract new customers, cause existing customers to elect not to renew their subscriptions or subject us to third-party lawsuits, regulatory fines or other action or liability, which could materially and adversely affect our business and operating results. Further, the costs of compliance with notification laws and contractual obligations may be significant and any requirement that we provide such notifications as a result of an actual or alleged compromise could have a material and adverse effect on our business. Our contracts may not contain limitations of liability, and even where they do, there can be no assurance that limitations of liability in our contracts are sufficient to protect us from liabilities, damages, or claims related to our data privacy and security incidents.

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

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

Our ShotSpotter Respond solution requires us to deploy ShotSpotter sensors in our customer coverage areas, which typically entails the installation of approximately 20 to 25 sensors per square mile. The ShotSpotter sensors are mounted on city facilities and third-party buildings, and occasionally on city or utility-owned light poles, and installing the sensors requires the consent of the property owners, which can be time-consuming to obtain and can delay deployment. Generally, we do not pay a site license fee in order to install our sensors, and our contractual agreements with these facility owners provide them the right to revoke permission to use their facility with notice of generally 60 days.

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

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

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

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

Approximately 96% of our installed ShotSpotter sensors use fourth-generation Long-Term Evolution (“LTE”) wireless technology and 4% use third-generation (“3G”) cellular communications. Our U.S. wireless carriers have advised us that they will discontinue their 3G services in the future and our ShotSpotter sensors will not be able to transmit on these networks. As a result, we are upgrading the sensors that use 3G cellular communications at no additional cost to our customers prior to the discontinuation of 3G services. As of the date of this Quarterly Report, we have completed upgrading approximately 85% of these sensors. As our wireless carriers phase out their 3G services or make changes to their spectrum allocation, we may experience reduced service performance, which may require us to complete upgrading our 3G sensors sooner than planned. If we are unable to complete these upgrades, we could experience disruptions in our ability to provide our solutions, which would adversely impact our business. These sensor replacements require significant capital expenditures, which may reduce our gross margins and also divert management’s attention and other important resources away from our customer service and sales efforts for new customers.

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

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

We rely on a limited number of suppliers and contract manufacturers. In particular, we use a single manufacturer, with which we have no long-term contract and from which we purchase on a purchase-order basis, to produce our proprietary ShotSpotter sensors. Our reliance on a sole contract manufacturer increases our risks since we do not currently have any alternative or replacement manufacturers, and we do not maintain a high volume of inventory. In the event of an interruption in our supply from our sole contract manufacturer, we may not be able to develop alternate or secondary sources without incurring material additional costs and substantial delays. Furthermore, these risks could materially and adversely affect our business if one of our contract manufacturers is impacted by a natural disaster or other interruption at a particular location because each of our contract manufacturers produces our products from a single location. Although each of our contract manufacturers has alternative manufacturing locations, transferring manufacturing to another location may result in significant delays in the availability of our sensors. Also, many standardized components used broadly in our sensors are manufactured in significant quantities in concentrated geographic regions, particularly in Greater China. As a result, protracted regional crises, issues with manufacturing facilities, or the COVID-19 pandemic, could lead to eventual shortages of necessary components. It could be difficult, costly and time consuming to obtain alternative sources for these components, or to change product designs to make use of alternative components. In addition, difficulties in transitioning from an existing supplier to a new supplier could create delays in component availability that would have a significant impact on our ability to fulfill orders for our products.

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

For example, for our ShotSpotter sensors, it may take a significant amount of time to identify a contract manufacturer that has the capability and resources to build the sensors to our specifications. Identifying suitable suppliers and contract manufacturers is an extensive process that requires us to become satisfied with their quality control, technical capabilities, responsiveness and service, financial stability, regulatory compliance, and labor and other ethical practices. Accordingly, the loss of any key supplier or contract manufacturer could adversely impact our business, operating results and financial condition.

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

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

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

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

Some of our customers choose to integrate our solutions with certain other systems used by our customers, such as real-time LEEDS or Forensic Logic platforms or computer-aided dispatch systems. The functionality and popularity of our solutions depend, in part, on our ability to integrate our solutions into these systems. Providers of these systems may change the features of their technologies, restrict our access to their applications or alter the terms governing use of their applications in an adverse manner. Such changes could functionally limit or terminate our ability to use these technologies in conjunction with our solutions, which could negatively impact our customer service and harm our business. If we fail to integrate our solutions with applications that our customers use, we may not be able to offer the functionality that our customers need, and our customers may not renew their agreements, which would negatively impact our ability to generate revenues and adversely impact our business.

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

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

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

- the potential impact of currency exchange fluctuations;

- the need to comply with local data residency requirements;

- the availability and reliability of local data centers and internet bandwidth providers;
- the difficulty of staffing and managing international operations and the increased operations, travel, shipping and compliance costs associated with having customers in numerous international locations;
- potentially greater difficulty collecting accounts receivable and longer payment cycles;
- the availability and cost of coverage by wireless carriers in international markets;
- higher or more variable costs associated with wireless carriers and other service providers;
- the need to offer customer support in various languages;
- challenges in understanding and complying with local laws, regulations and customs in foreign jurisdictions, including laws regarding privacy and government surveillance;
- export controls and economic sanctions administered by the Department of Commerce Bureau of Industry and Security and the Treasury Department's Office of Foreign Assets Control;
- compliance with various anti-bribery and anti-corruption laws such as the Foreign Corrupt Practices Act and United Kingdom Bribery Act of 2010;
- tariffs and other non-tariff barriers, such as quotas and local content rules;
- more limited protection for our intellectual property in some countries;
- adverse or uncertain tax consequences as a result of international operations;
- currency control regulations, which might restrict or prohibit our conversion of other currencies into U.S. dollars;
- restrictions on the transfer of funds;
- deterioration of political relations between the United States and other countries; and
- political or social unrest, global pandemics such as the COVID-19 pandemic or economic instability in a specific country or region in which we operate, which could have an adverse impact on our operations in that location.

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

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

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

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

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

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

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

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

Legal and Regulatory Risks

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

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

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

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

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

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

Many of the new and proposed laws and regulations concerning privacy, data protection and information security are in their early stages, and we cannot yet determine how these laws and regulations may be interpreted or impact our business. The lack of a clear and universal standard for handling and protecting such information means that these obligations may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other requirements or our practices. Any failure or perceived failure by us to comply with privacy or security laws, policies, legal obligations or industry standards or any security incident that results in the unauthorized access to or disclosure of personal information or customer data may result in governmental enforcement actions, litigation, fines and penalties and/or adverse publicity, and could cause our customers to lose trust in us, which could have a material adverse effect on our reputation and on our business, financial condition and results of operations.

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

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

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

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

As of June 30, 2022, we had federal net operating loss carryforwards ("NOLs") of approximately $78.4 million, of which $73.5 million will begin to expire in 2027, if not utilized. The remaining net operating losses of $4.9 million can be carried forward indefinitely under the Tax Cuts and Jobs Act. As of June 30 2022, we also had state NOLs of approximately $50.1 million, which will expire, if not utilized, between 2022 through 2039. These federal and state NOLs may be available to reduce future income subject to income taxes. In general, under Section 382 of the Internal Revenue Code of 1986, as amended, a corporation that undergoes an "ownership change" is subject to limitations on its ability to utilize its NOLs to offset future taxable income. Past or future changes in our stock ownership, some of which are outside of our control, may have resulted or could result in an ownership change. State NOLs generated in one state cannot be used to offset income generated in another state. In addition, at the state level, there may be periods during which the use of NOLs is suspended or otherwise limited, such as the 2020 temporary suspension of the ability to use California NOLs and limitation on the use of certain tax credits to offset California income and tax liabilities, which could accelerate or permanently increase state taxes owed.

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

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

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

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

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

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

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

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

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

As of June 30, 2022 we had 40 issued patents directed to our technologies, 33 in the United States, four in the European Union and one each in Israel, Brazil and Mexico. The issued patents expire on various dates from 2022 to 2034. We also license one patent from a third party, which expires in 2023. We have patent applications pending for examination in the United States, Europe, Mexico and Brazil, but we cannot guarantee that these patent applications will be granted. We also license one other U.S. patent from one third party. The patents that we own or those that we license from others (including those that may be issued in the future) may not provide us with any competitive advantages or may be challenged by third parties.

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

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

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

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

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

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

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

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

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

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

Risks Related to the Ownership of Our Common Stock

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

The market price of our common stock has fluctuated and may continue to fluctuate significantly in response to numerous factors, many of which are beyond our control, including the factors listed below and other factors described in this "Risk Factors" section:

- actual or anticipated fluctuations in our operating results;

- the financial projections we may provide to the public, any changes in these projections or our failure to meet these projections;

•failure of securities analysts to initiate or maintain coverage of our company, changes in financial estimates by any securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors;

•ratings changes by any securities analysts who follow our company;

•changes in the availability of federal funding to support local law enforcement efforts, or local budgets;

•announcements by us of significant technical innovations, acquisitions, strategic partnerships, joint ventures or capital commitments;

•changes in operating performance and stock market valuations of other software companies generally;

•price and volume fluctuations in the overall stock market, including as a result of trends in the economy as a whole;

•changes in our board of directors or management;

•sales of large blocks of our common stock, including sales by our executive officers, directors and significant stockholders;

•lawsuits threatened or filed against us;

•novel and unforeseen market forces and trading strategies, as well as short sales, hedging and other derivative transactions involving our capital stock;

•the impact of the COVID-19 pandemic;

•general economic conditions in the United States and abroad;

•other events or factors, including those resulting from pandemics, protests against racial inequality, protests against police brutality and movements such as “Defund the Police”, war, incidents of terrorism or responses to these events; and

•negative publicity, including false information, regarding our solutions.

In addition, stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many software companies. Stock prices of many software companies have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies. Broad market and industry fluctuations, as well as general economic, political, regulatory and market conditions, may negatively impact the market price of our common stock. In the past, stockholders have instituted securities action litigation following periods of market volatility. If we were to become involved in securities litigation, it could subject us to substantial costs, divert resources and the attention of management from our business and adversely affect our business, operating results, financial condition and cash flows.

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

Certain holders of our shares of common stock have the right, subject to various conditions and limitations, to include their shares of our common stock in registration statements relating to our securities. If the offer and sale of these shares are registered, they will be freely tradable without restriction under the Securities Act of 1933, as amended (the "Securities Act"). In addition, non-affiliates have the ability to sell shares of our common stock in the open market or through block trades without being subject to volume restrictions under Rule 144 of the Securities Act. In addition, in the future we may issue common stock or other securities if we need to raise additional capital. The number of new shares of our common stock issued in connection with raising additional capital could constitute a material portion of the then outstanding shares of our common stock. In the event a large number of shares of common stock are sold in the public market, such share sales could reduce the trading price of our common stock.

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

In May 2019, our board of directors adopted a stock repurchase program for up to $15 million of our common stock, all of which has been utilized as of June 30, 2022. Although our board of directors has authorized the stock repurchase program, it does not obligate us to repurchase any specific dollar amount or number of shares, there is no expiration date for the stock repurchase program, and the stock repurchase program may be modified, suspended or terminated at any time and for any reason. The timing and actual number of shares repurchased under the stock repurchase program will depend on a variety of factors, including the acquisition price of the shares, our liquidity position, general market and economic conditions, legal and regulatory requirements and other considerations. Our ability to repurchase shares may also be limited by restrictive covenants in our existing credit agreement or in future borrowing arrangements we may enter into from time to time.

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

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

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

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

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

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

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

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

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

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

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

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

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

- establish a classified board of directors so that not all members of our board of directors are elected at one time;
- permit the board of directors to establish the number of directors and fill any vacancies and newly-created directorships;
- provide that directors may only be removed for cause;
- require super-majority voting to amend some provisions in our certificate of incorporation and bylaws;

- authorize the issuance of “blank check” preferred stock that our board of directors could use to implement a stockholder rights plan;
- eliminate the ability of our stockholders to call special meetings of stockholders;
- prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;
- provide that the board of directors is expressly authorized to make, alter or repeal our bylaws; and
- establish advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted upon by stockholders at annual stockholder meetings.

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

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

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

Our certificate of incorporation further provides that the federal district courts of the United States of America will be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act. These forum selection clauses in our certificate of incorporation may limit our stockholders’ ability to obtain a favorable judicial forum for disputes with us. While the Delaware courts have determined that such choice of forum provisions are facially valid and several state trial courts have enforced such provisions and required that suits asserting Securities Act claims be filed in federal court, there is no guarantee that courts of appeal will affirm the enforceability of such provisions and a stockholder may nevertheless seek to bring a claim in a venue other than those designated in the exclusive forum provisions. In such instance, we would expect to vigorously assert the validity and enforceability of the exclusive forum provisions of our certificate of incorporation. This may require significant additional costs associated with resolving such action in other jurisdictions and there can be no assurance that the provisions will be enforced by a court in those other jurisdictions. If a court were to find either exclusive forum provision in our certificate of incorporation to be inapplicable or unenforceable in an action, we may incur further significant additional costs associated with litigating Securities Act claims in state court, or both state and federal court, which could seriously harm our business, financial condition, results of operations, and prospects.

Item 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)
April 1, 2022 - April 30, 2022	—	—	—	$ 1,442
May 1, 2022- May 31, 2022	35,814	$ 29.16	35,814	$ 398
June 1, 2022- June 30, 2022	13,555	$ 29.84	13,555	$ —
Total	49,369	$ 29.35	49,369	

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

Item 6. Exhibits

A list of exhibits is set forth below.

Exhibit Index

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Filed Herewith
3.1	Amended and Restated Certificate of Incorporation	8-K	001-38107	3.1	June 13, 2017	
3.2	Amended and Restated Bylaws	8-K	001-38107	3.2	June 13, 2017	
10.1	Non- Employee Director Compensation Policy					X
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1*	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document).					X
101.SCH	Inline XBRL Taxonomy Extension Schema Document					X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)					X

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

SIGNATURES

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

		SHOTSPOTTER, INC.
Date: August 10, 2022	By:	/s/ Ralph A. Clark
		Ralph A. Clark
		President and Chief Executive Officer
Date: August 10, 2022	By:	/s/ Alan R. Stewart
		Alan R. Stewart
		Chief Financial Officer

Exhibit 10.1

ShotSpotter, Inc.

Amended and Restated Nonemployee Director Compensation Policy

Adopted by the Board of Directors: June 27, 2022

1.General

This ShotSpotter, Inc. Amended and Restated Nonemployee Director Compensation Policy (the "***Policy***") is designed to provide for the compensation of each member of the board of directors (the "***Board***") of ShotSpotter, Inc. (the "***Company***") who is not an employee of the Company or any of its subsidiaries (each, a "***Nonemployee Director***"). The Policy is effective as of June 27, 2022 and will continue in effect until its termination by the Board. The Policy replaces and supersedes any and all compensation policies or programs previously established or maintained by the Company with respect to Nonemployee Directors; provided, however, that any options or restricted stock units ("***RSUs***") outstanding on such effective date shall not be affected by this Policy and shall continue to be governed by the grant notice, agreement and equity incentive plan relating to such options or RSUs.

2.Administration

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

3.Eligibility

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

4.Annual Cash Compensation

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

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

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

(b) Ability to Take Cash Compensation as RSUs.

(i) Election.

(A) 2022 Cash Compensation. Prior to March 31, 2022, each Nonemployee Director may elect to receive 100% of the annual cash compensation set forth in Section 4(a) for the second, third and fourth quarters of 2022 as RSUs under the Company's 2017 Equity Incentive Plan or any successor equity incentive plan (the "***Plan***").

(B) Cash Compensation for 2023 and Future Years. Prior to the start of each fiscal year (commencing with 2023), each Nonemployee Director may elect to receive 100% of the annual cash compensation set forth in Section 4(a) for that next fiscal year as RSUs under the Plan.

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

(ii) Number of Shares Subject to Optional RSU Grant. The number of shares underlying an Optional RSU Grant for each applicable quarter will be equal to (x) the aggregate cash compensation for such calendar quarter, as applicable (each, a "***Retainer Quarter***"), as determined pursuant to Section 4(a) above divided by (y) the closing price of the Company's common stock on the date that is two trading days following the public dissemination of the Company's financial results during the prior fiscal quarter, rounded down to the nearest whole share; provided, however, that the number of shares subject to any Optional RSU Grant may be reduced to the extent necessary to ensure that the Company's compensation of Nonemployee Directors does not exceed the limit set forth in Section 3(e) of the Plan. For example, if the Retainer Quarter is the fourth quarter of the Company's fiscal year, the number of shares will be determined based on the closing price of the Company's common stock on the date that is two trading days following the public dissemination of the Company's financial results for the second quarter.

(iii) Grant Date. The grant date for an Optional RSU Grant will be the first trading day on the Nasdaq Stock Market LLC of the applicable Retainer Quarter.

(iii) Vesting. Each Optional RSU Grant will vest on the last trading day of the applicable fiscal quarter during which it was granted, provided in each case that the holder remains a Nonemployee Director on such vesting date. In addition, if a Change in Control (as defined in the Plan) occurs prior to the last trading day of the applicable fiscal quarter, the vesting of the Optional RSU Grant will accelerate for the pro-rated portion of the Optional RSU Grant based on the number of days served in the quarter divided by the number of days in the quarter.

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

5.RSU Awards

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

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

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

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

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

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

(c) Number of Shares Subject to RSU Awards. The number of shares subject to an Initial Award or Annual Award (either, an "***RSU Award***") will be equal to (i) the applicable dollar amount determined pursuant to Section 5(a) or 5(b) above, divided by (ii) the closing price of the Company's common stock on the date of grant, rounded down to the nearest whole share; provided, however, that the number of shares subject to any RSU Award may be reduced to the extent necessary to ensure that the Company's compensation of Nonemployee Directors does not exceed the limit set forth in Section 3(e) of the Plan.

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

6.Expenses

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

Exhibit 31.1

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

I, Ralph A. Clark, certify that:

1. I have reviewed this Form 10-Q of ShotSpotter, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 10, 2022	/s/ Ralph A. Clark
	Ralph A. Clark
	President and Chief Executive Officer
	(Principal Executive Officer)

Exhibit 31.2

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

I, Alan R. Stewart, certify that:

1. I have reviewed this Form 10-Q of ShotSpotter, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 10, 2022	/s/ Alan R. Stewart
	Alan R. Stewart
	Chief Financial Officer
	(Principal Financial and Accounting Officer)

Exhibit 32.1

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

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

(1)The Company's Quarterly Report on Form 10-Q for the period ended June 30, 2022 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: August 10, 2022

/s/ Ralph A. Clark	/s/ Alan R. Stewart
Ralph A. Clark	Alan R. Stewart
President and Chief Executive Officer	Chief Financial Officer
(Principal Executive Officer)	(Principal Financial and Accounting Officer)