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DELTA REPORT

10-Q

AXON - AXON ENTERPRISE, INC.

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	2034
CHANGES	256
DELETIONS	896
ADDITIONS	882

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2023 March 31, 2024

☐ **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: 001-16391

Axon Enterprise, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**86-0741227**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
17800 North 85th Street Scottsdale, Arizona	**85255**
(Address of principal executive offices)	(Zip Code)

(480) 991-0797
(Registrant’s telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.00001 Par Value	AXON	The Nasdaq NASDAQ Global Select 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, a 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 ☒

The number of shares of the registrant’s common stock outstanding as of November 3, 2023 May 1, 2024 was 74,933,831. 75,467,220.

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INDEX TO QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2023 MARCH 31, 2024

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Special Note Regarding Forward-Looking Statements

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"), including statements regarding our expectations, beliefs, intentions and strategies regarding the future. We intend that such forward-looking statements be subject to the safe-harbor provided by the Private Securities Litigation Reform Act of 1995. From time to time, we also provide forward-looking statements in other materials we release to the public as well as verbal forward-looking statements. These forward-looking statements include, without limitation, statements regarding: proposed products and services and related development efforts and activities; expectations about the market for our current and future products and services; the impact of pending litigation; strategies and trends relating to subscription plan programs and revenues; statements related to recently completed acquisitions; our anticipation that contracts with governmental customers will be fulfilled; strategies and trends, including the amounts and benefits of, research and development ("R&D") investments; the sufficiency of our liquidity and financial resources; expectations about customer behavior; the impact on our investment portfolio of changes in interest rates; our potential use of foreign currency forward and option contracts; statements concerning projections, predictions, expectations, estimates or forecasts as to our business, financial and operational results and future economic performance; statements of management's strategies, goals and objectives and other similar expressions; as well as the ultimate resolution of financial statement items requiring critical accounting estimates, including those set forth in our Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023. Such statements give our current expectations or forecasts of future events; they do not relate strictly to historical or current facts. Words such as "may," "will," "should," "could," "would," "predict," "potential," "continue," "expect," "anticipate," "future," "intend," "plan," "believe," "estimate," and similar expressions, as well as statements in future tense, identify forward-looking statements. However, not all forward-looking statements contain these identifying words.

We cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties and potentially inaccurate assumptions. The following important factors could cause actual results to differ materially from those in the forward-looking statements: our exposure to cancellations of government contracts due to appropriation clauses, exercise of a cancellation clause, or non-exercise of contractually optional periods; the ability of law enforcement agencies to obtain funding, including based on tax revenues; our ability to design, introduce and sell new products, services or features; our ability to defend against litigation and protect our intellectual property, and the resulting costs of this activity; our ability to win bids through the open bidding process for governmental agencies; our ability to manage our supply chain and avoid production delays, shortages and impacts to expected gross margins; the impacts of inflation, macroeconomic conditions and global events; the impact of catastrophic events or public health emergencies; the impact of stock-based compensation expense, impairment expense, and income tax expense on our financial results; customer purchase behavior, including adoption of our software as a service delivery model; negative media publicity or sentiment regarding our products; the impact of product mix various factors on projected gross margins; defects in, or misuse of, our products; changes in the costs of product components and labor; loss of customer data, a breach of security, or an extended outage, including by our third party cloud-based storage providers; exposure to international operational risks; delayed cash collections and possible credit losses due to our subscription model; changes in government regulations in the United States and in foreign markets, especially related to the classification of our products by the United States Bureau of Alcohol, Tobacco, Firearms and Explosives ("ATF"); Explosives; our ability to integrate acquired businesses; the impact of declines or increases in the fair value values or impairment of our investments, including our strategic investments; our ability to enforce patent rights internationally; the use of open source software in our operations; our ability to attract and retain key personnel; litigation or inquiries and related time and costs; and counter-party risks relating to cash balances held in excess of FDIC insurance federally insured limits. Many events beyond our control may determine whether results we anticipate will be achieved. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could differ materially from past results and those anticipated, estimated or projected. You should bear this in mind as you consider forward-looking statements. This Quarterly Report on Form 10-Q lists various important factors that could cause actual results to differ materially from expected and historical results. These factors are intended as cautionary statements for investors within the meaning of Section 21E of the Exchange Act and Section 27A of the Securities Act. Readers can find them under the heading "Risk Factors" in this Quarterly Report on Form 10-Q, and investors should refer to them. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider any such list to be a complete set of all potential risks or uncertainties.

Except as required by law, we undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our Form 10-Q, 8-K and 10-K reports to the Securities and Exchange Commission ("SEC"). Our filings with the SEC may be accessed at the SEC's web site at www.sec.gov.

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PART I - FINANCIAL INFORMATION

Item 1. *Financial Statements*

AXON ENTERPRISE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
	(Unaudited)		*(Unaudited)*	
ASSETS				
Current assets:				
Cash and cash equivalents	$ 406,042	$ 353,684	$ 403,870	$ 598,545
Marketable securities	68,850	39,240	99,720	77,940
Short-term investments	715,688	581,769	560,186	644,054
Accounts and notes receivable, net of allowance of $2,144 and $2,176 as of September 30, 2023 and December 31, 2022, respectively	442,830	358,190		
Accounts and notes receivable, net of allowance of $2,298 and $2,392 as of March 31, 2024 and December 31, 2023, respectively			476,764	417,690
Contract assets, net	260,523	196,902	266,172	275,779
Inventory	260,119	202,471	271,318	269,855
Prepaid expenses and other current assets	103,789	73,022	123,677	112,786
Total current assets	2,257,841	1,805,278	2,201,707	2,396,649
Property and equipment, net	186,957	169,843	209,166	200,533
Deferred tax assets, net	213,831	156,866	208,861	229,513
Intangible assets, net	20,324	12,158	89,419	19,539
Goodwill	57,344	44,983	308,470	57,945
Long-term investments	—	156,207		
Long-term notes receivable, net	4,381	5,210	2,397	2,588
Long-term contract assets, net	78,663	45,170	88,209	77,710
Strategic investments	240,299	296,563	295,497	231,730
Other long-term assets	194,543	159,616	212,470	220,638
Total assets	$ 3,254,183	$ 2,851,894	$3,616,196	$ 3,436,845
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	$ 90,035	$ 59,918	$ 82,075	$ 88,326
Accrued liabilities	146,940	155,934	127,415	188,230
Current portion of deferred revenue	454,891	360,037	516,404	491,691
Customer deposits	16,469	20,399	21,979	21,935
Other current liabilities	9,492	6,358	9,601	9,787
Total current liabilities	717,827	602,646	757,474	799,969
Deferred revenue, net of current portion	270,082	248,003	293,878	281,852
Liability for unrecognized tax benefits	18,938	10,745	18,610	18,049

Long-term deferred compensation	9,148	6,285	14,700	11,342
Deferred tax liability, net	2,467	1		
Long-term lease liabilities	35,329	37,143	32,546	33,550
Convertible notes, net	676,315	673,967	677,895	677,113
Other long-term liabilities	2,960	4,613	3,078	2,936
Total liabilities	1,733,066	1,583,403	1,798,181	1,824,811
Commitments and contingencies (Note 13)				
Stockholders' equity:				
Preferred stock, $0.00001 par value; 25,000,000 shares authorized; no shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively	—	—		
Common stock, $0.00001 par value; 200,000,000 shares authorized; 74,931,697 and 71,474,581 shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively	1	1		
Preferred stock, $0.00001 par value; 25,000,000 shares authorized; no shares issued and outstanding as of March 31, 2024 and December 31, 2023, respectively			—	—
Common stock, $0.00001 par value; 200,000,000 shares authorized; 75,466,171 and 75,301,424 shares issued and outstanding as of March 31, 2024, and December 31, 2023, respectively			1	1
Additional paid-in capital	1,315,954	1,174,594	1,421,080	1,347,410
Treasury stock at cost, 20,220,227 shares as of September 30, 2023 and December 31, 2022	(155,947)	(155,947)		
Treasury stock at cost, 20,220,227 shares as of March 31, 2024 and December 31, 2023			(155,947)	(155,947)
Retained earnings	373,978	257,022	564,467	431,249
Accumulated other comprehensive loss	(12,869)	(7,179)	(11,586)	(10,679)
Total stockholders' equity	1,521,117	1,268,491	1,818,015	1,612,034
Total liabilities and stockholders' equity	$ 3,254,183	$ 2,851,894	$3,616,196	$ 3,436,845

The accompanying notes are an integral part of these condensed consolidated financial statements.

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AXON ENTERPRISE, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended March 31,	
	2023	2022	2023	2022	2024	2023
Net sales from products	$ 256,443	$ 210,398	$ 709,306	$ 586,653	$ 272,048	$ 219,389
Net sales from services	157,158	101,356	421,943	267,140	188,688	123,654
Net sales	413,601	311,754	1,131,249	853,793	460,736	343,043
Cost of product sales	116,278	93,724	325,054	260,578	151,698	107,584
Cost of service sales	42,051	24,773	114,700	70,256	48,992	31,357
Cost of sales	158,329	118,497	439,754	330,834	200,690	138,941
Gross margin	255,272	193,257	691,495	522,959	260,046	204,102
Operating expenses:						
Sales, general and administrative	123,279	102,023	359,768	287,157	152,669	116,567
Research and development	76,880	59,127	219,747	165,090	91,097	70,927

Total operating expenses	200,159	161,150	579,515	452,247	243,766	187,494
Income from operations	55,113	32,107	111,980	70,712	16,280	16,608
Interest and other income (loss), net	14,310	(11,249)	(12,782)	91,076		
Interest income, net					10,374	9,666
Other income, net					139,066	15,610
Income before provision for income taxes	69,423	20,858	99,198	161,788	165,720	41,884
Provision for (benefit from) income taxes	10,026	8,727	(17,758)	43,824	32,502	(3,255)
Net income	$ 59,397	$ 12,131	$ 116,956	$ 117,964	$ 133,218	$ 45,139
Net income per common and common equivalent shares:						
Basic	$ 0.79	$ 0.17	$ 1.58	$ 1.66	$ 1.77	$ 0.62
Diluted	$ 0.78	$ 0.17	$ 1.56	$ 1.63	$ 1.73	$ 0.61
Weighted average number of common and common equivalent shares outstanding:						
Basic	74,826	71,107	73,904	71,033	75,355	72,638
Diluted	75,952	72,525	75,212	72,386	77,132	73,880
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME						
Net income	$ 59,397	$ 12,131	$ 116,956	$ 117,964	$ 133,218	$ 45,139
Foreign currency translation adjustments	(6,799)	(2,275)	(5,680)	(5,513)	(801)	1,676
Unrealized gain (loss) on available-for-sale investments	656	(326)	(10)	(976)	(106)	184
Comprehensive income	$ 53,254	$ 9,530	$ 111,266	$ 111,475	$ 132,311	$ 46,999

The accompanying notes are an integral part of these condensed consolidated financial statements.

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AXON ENTERPRISE, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands, except share data)

	Common Stock		Additional Paid-in	Treasury Stock		Retained	Accumulated Other Comprehensive	Total Stockholders'	Common Stock		Additional Paid-in	Treasury Stock		Retained	Accumul Othe Comprehe
	Shares	**Amount**	**Capital**	**Shares**	**Amount**	**Earnings**	**Loss**	**Equity**	**Shares**	**Amount**	**Capital**	**Shares**	**Amount**	**Earnings**	**Loss**
Balance, December 31, 2022	71,474,581	$ 1	$ 1,174,594	20,220,227	$ (155,947)	$ 257,022	$ (7,179)	$ 1,268,491							
Issuance of common stock	154,500	—	33,650	—	—	—	—	33,650							
Balance, December 31, 2023									75,301,424	$ 1	$ 1,347,410	20,220,227	$ (155,947)	$ 431,249	$ (1

Issuance of common stock under employee plans, net	335,629	—	(34,841)	—	—	—	—	(34,841)	164,747	—	(2,710)	—	—	—
Stock options exercised	1,901,535	—	54,346	—	—	—	—	54,346						
Stock-based compensation	—	—	34,350	—	—	—	—	34,350	—	—	75,115	—	—	—
Issuance of common stock for business combination contingent consideration	7,817	—	—	—	—	—	—	—						
Net income	—	—	—	—	—	45,139	—	45,139						
Other comprehensive income, net	—	—	—	—	—	—	1,860	1,860						
Balance, March 31, 2023	73,874,062	$ 1	$ 1,262,099	20,220,227	$ (155,947)	$ 302,161	$ (5,319)	$ 1,402,995						
Issuance of common stock	313,094	—	61,156	—	—	—	—	61,156						
Issuance of common stock under employee plans, net	570,357	—	(62,214)	—	—	—	—	(62,214)						
Stock options exercised	5,491	—	157	—	—	—	—	157						
Stock-based compensation	—	—	31,891	—	—	—	—	31,891						
Issuance of replacement awards in connection with acquisitions									—	—	1,265	—	—	—
Net income	—	—	—	—	—	12,420	—	12,420	—	—	—	—	—	133,218
Other comprehensive loss, net	—	—	—	—	—	—	(1,407)	(1,407)	—	—	—	—	—	—
Balance, June 30, 2023	74,763,004	$ 1	$ 1,293,089	20,220,227	$ (155,947)	$ 314,581	$ (6,726)	$ 1,444,998						
Issuance of common stock	—	—	(101)	—	—	—	—	(101)						
Issuance of common stock under employee plans, net	168,693	—	(7,021)	—	—	—	—	(7,021)						
Stock-based compensation	—	—	29,987	—	—	—	—	29,987						
Net income	—	—	—	—	—	59,397	—	59,397						

Other comprehensive loss, net	—	—	—	—	—	—	(6,143)	(6,143)							
Balance, September 30, 2023	74,931,697	$ 1	$1,315,954	20,220,227	$(155,947)	$373,978	$ (12,869)	$ 1,521,117							
Balance, March 31, 2024									75,466,171	1	1,421,080	20,220,227	(155,947)	564,467	(1

	Common Stock		Additional Paid-in	Treasury Stock		Retained	Accumulated Other Comprehensive	Total Stockholders'	Common Stock		Additional Paid-in	Treasury Stock		Retained
	Shares	**Amount**	**Capital**	**Shares**	**Amount**	**Earnings**	**Loss**	**Equity**	**Shares**	**Amount**	**Capital**	**Shares**	**Amount**	**Earnings**
Balance, December 31, 2021	70,896,856	$ 1	$1,095,229	20,220,227	$(155,947)	$109,883	$ (1,317)	$ 1,047,849						
Balance, December 31, 2022									71,474,581	$ 1	$1,174,594	20,220,227	$(155,947)	$257,022
Issuance of common stock	—	—	(70)	—	—	—	—	(70)	154,500	—	33,650	—	—	—
Issuance of common stock under employee plans, net	99,802	—	(1,388)	—	—	—	—	(1,388)	335,629	—	(34,841)	—	—	—
Stock options exercised									1,901,535	—	54,346	—	—	—
Stock-based compensation	—	—	25,088	—	—	—	—	25,088	—	—	34,350	—	—	—
Issuance of common stock for business combination contingent consideration									7,817	—	—	—	—	—
Net income	—	—	—	—	—	54,871	—	54,871	—	—	—	—	—	45,139
Other comprehensive loss, net	—	—	—	—	—	—	(1,561)	(1,561)						
Balance, March 31, 2022	70,996,658	$ 1	$1,118,859	20,220,227	$(155,947)	$164,754	$ (2,878)	$ 1,124,789						
Issuance of common stock		—	(4)	—	—	—	—	(4)						
Issuance of common stock under employee plans, net	81,041	—	(931)	—	—	—	—	(931)						
Stock-based compensation	—	—	21,162	—	—	—	—	21,162						
Net income	—	—		—	—	50,962	—	50,962						
Other comprehensive loss, net	—	—		—	—		(2,327)	(2,327)						
Balance, June 30, 2022	71,077,699	1	1,139,086	20,220,227	(155,947)	215,716	(5,205)	1,193,651						
Issuance of common stock under employee plans, net	73,971	—	(72)	—	—	—	—	(72)						
Stock-based compensation	—	—	28,204	—	—	—	—	28,204						
Net income	—	—	—	—	—	12,131	—	12,131						
Other comprehensive loss, net	—	—	—	—	—	—	(2,601)	(2,601)						
Balance, September 30, 2022	71,151,670	$ 1	$1,167,218	20,220,227	$(155,947)	$227,847	$ (7,806)	$ 1,231,313						
Other comprehensive income, net									—	—	—	—	—	—
Balance, March 31, 2023									73,874,062	$ 1	$1,262,099	20,220,227	$(155,947)	$302,161

The accompanying notes are an integral part of these condensed consolidated financial statements.

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AXON ENTERPRISE, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Nine Months Ended September 30,	
	2023	**2022**
Cash flows from operating activities:		
Net income	$ 116,956	$ 117,964
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	96,228	74,454
Deferred income taxes	(53,311)	30,349
Unrealized loss (gain) on strategic investments and marketable securities, net	42,306	(92,498)
Depreciation and amortization	22,587	18,171
Bond amortization	(12,071)	(61)
Noncash lease expense	4,890	4,997
Unrecognized tax benefits	4,302	3,519
Amortization of debt issuance cost	2,328	—
Coupon interest expense	1,073	—
Other noncash items	(1,140)	2,659
Change in assets and liabilities:		
Accounts and notes receivable and contract assets	(182,468)	(115,046)
Inventory	(59,564)	(66,267)
Prepaid expenses and other assets	(64,608)	(17,871)
Accounts payable, accrued and other liabilities	13,423	28,684
Deferred revenue	118,294	115,187
Net cash provided by operating activities	49,225	104,241
Cash flows from investing activities:		
Purchases of investments	(426,993)	(194,142)
Proceeds from call, maturity, and sale of investments	461,214	15,485
Exercise of warrants of strategic investments	—	(6,555)
Purchases of property and equipment	(35,624)	(44,218)
Proceeds from disposal of property and equipment	67	226
Purchases of intangible assets	(579)	(193)
Strategic investments	(17,692)	(70,500)
Business acquisition, net of cash acquired	(21,090)	(2,104)
Net cash used in investing activities	(40,697)	(302,001)
Cash flows from financing activities:		
Net proceeds from equity offering	94,705	(74)
Proceeds from options exercised	54,503	—
Income and payroll tax payments for net-settled stock awards	(104,076)	(2,391)
Net cash provided by (used in) financing activities	45,132	(2,465)
Effect of exchange rate changes on cash and cash equivalents	(1,201)	(6,783)
Net increase (decrease) in cash and cash equivalents	52,459	(207,008)
Cash and cash equivalents and restricted cash, beginning of period	355,552	356,438

Cash and cash equivalents and restricted cash, end of period	$ 408,011	$ 149,430
Supplemental disclosures:		
Cash and cash equivalents	$ 406,042	$ 147,711
Restricted cash (Note 1)	1,969	1,719
Total cash, cash equivalents and restricted cash shown in the statements of cash flows	$ 408,011	$ 149,430
Cash paid for income taxes, net of refunds	$ 47,689	$ 7,503
Non-cash transactions		
Property and equipment purchases in accounts payable and accrued liabilities	$ 1,784	$ 1,244

	Three Months Ended March 31,	
	2024	**2023**
Cash flows from operating activities:		
Net income	$ 133,218	$ 45,139
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Gain on strategic investments and marketable securities, net	(97,419)	(15,570)
Stock-based compensation	75,115	34,350
Gain on remeasurement of previously held minority interest, net	(42,292)	—
Deferred income taxes	20,670	(9,660)
Depreciation and amortization	11,564	6,689
Bond amortization	(4,990)	(3,890)
Noncash lease expense	1,795	1,395
Amortization of debt issuance cost	782	756
Unrecognized tax benefits	544	855
Other noncash items	461	1,047
Change in assets and liabilities:		
Accounts and notes receivable and contract assets	(51,132)	(50,431)
Inventory	(710)	(15,811)
Prepaid expenses and other assets	2	(64,348)
Accounts payable, accrued and other liabilities	(84,289)	(37,043)
Deferred revenue	20,743	50,199
Net cash used in operating activities	(15,938)	(56,323)
Cash flows from investing activities:		
Purchases of investments	(241,457)	(145,124)
Proceeds from call, maturity, and sale of investments	330,472	81,088
Purchases of property and equipment	(16,194)	(8,513)
Proceeds from disposal of property and equipment	34	—
Purchases of intangible assets	—	(125)
Strategic investments	(9,128)	—
Business acquisition, net of cash acquired	(237,771)	—
Net cash used in investing activities	(174,044)	(72,674)
Cash flows from financing activities:		
Net proceeds from equity offering	—	33,650
Proceeds from options exercised	—	39,181
Income and payroll tax payments for net-settled stock awards	(2,710)	(34,841)
Net cash provided by (used in) financing activities	(2,710)	37,990
Effect of exchange rate changes on cash and cash equivalents	(1,978)	779
Net decrease in cash and cash equivalents	(194,670)	(90,228)
Cash and cash equivalents and restricted cash, beginning of period	600,670	355,552
Cash and cash equivalents and restricted cash, end of period	$ 406,000	$ 265,324

Supplemental disclosures:

Cash and cash equivalents	$	403,870	$	263,414
Restricted cash (Note 1)		2,130		1,910
Total cash, cash equivalents and restricted cash shown in the statements of cash flows	$	406,000	$	265,324
Cash paid for income taxes, net of refunds	$	1,413	$	20,936
Non-cash transactions				
Property and equipment purchases in accounts payable and accrued liabilities	$	1,406	$	1,130
Receivables from options exercised	$	—	$	15,165

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Note 1 - Organization and Summary of Significant Accounting Policies

Axon Enterprise, Inc. (“Axon”, the “Company”, “we”, or “us”) is a market-leading provider of law enforcement public safety technology solutions. Our mission is to protect life in service of promoting peace, justice and strong institutions.

Our headquarters in Scottsdale, Arizona houses and our software hub in Seattle, Washington house the majority of our in-person employees located in the United States, including members of our executive management team, and sales, marketing, certain engineering, manufacturing, finance and other administrative support functions. Our global software hub is located in Seattle, Washington, and we We also have subsidiaries and / or offices located in Australia, Belgium, Canada, Finland, France, Germany, Hong Kong, India, Italy, the Netherlands, Spain, the United Kingdom and Vietnam.

The accompanying unaudited condensed consolidated financial statements include the accounts of Axon Enterprise, Inc. and our subsidiaries. All material intercompany accounts, transactions and profits have been eliminated.

Basis of Presentation and Use of Estimates

These unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the SEC. Certain information related to our organization, significant accounting policies and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP” or “GAAP”) has been condensed or omitted. The accounting policies followed in the preparation of these unaudited condensed consolidated financial statements are consistent with those followed in our annual consolidated financial statements for the year ended December 31, 2022 December 31, 2023, as filed on Form 10-K. In the opinion of management, these unaudited condensed consolidated financial statements contain all material adjustments, consisting only of normal recurring adjustments, necessary to fairly state our financial position, results of operations and cash flows for the periods presented and the presentations and disclosures herein are adequate when read in conjunction with our Form 10-K for the year ended December 31, 2022 December 31, 2023. The Our results of operations for the three and nine months ended September 30, 2023 March 31, 2024 are not necessarily indicative of the results to be expected for the full year (or any other period). Significant estimates and assumptions in these unaudited condensed consolidated financial statements include:

- product warranty reserves,
- inventory valuation,
- revenue recognition,
- reserve for expected credit losses,
- valuation of goodwill, intangible and long-lived assets,
- valuation of strategic investments,
- recognition, measurement and valuation of current and deferred income taxes,
- stock-based compensation,
- business combinations, and
- recognition and measurement of contingencies and accrued litigation expense.

The Company believes that estimates used in the preparation of these unaudited condensed consolidated financial statements are reasonable; however, actual results could differ materially from those estimates.

Segment Information

Our operations comprise two reportable segments: the development, manufacture and sale of fully integrated hardware and cloud-based software solutions that enable law enforcement to capture, securely store, manage, share and analyze video and other digital evidence (collectively, the “Software and Sensors” segment); and the manufacture and sale of conducted electrical energy devices (“CEDs”), batteries, accessories, extended warranties and other products and services (collectively, the “TASER” segment). In both segments, we report sales of products and services. Service revenue in both segments includes sales related to Axon Evidence. In the Software and Sensors segment, service revenue also includes other recurring cloud-hosted software revenue and related professional services. Collectively, this revenue is sometimes referred to as “Axon Cloud revenue.”

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Reportable segments are determined based on discrete financial information reviewed by our Chief Executive Officer, who is our chief operating decision maker (“CODM”). We organize and review operations based on products and services, and currently there are no operating

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segments that are aggregated. We perform an analysis of our reportable segments at least annually. Additional information related to our business segments is summarized in Note 15.

Geographic Information and Major Customers / Suppliers

For the three and nine months ended September 30, 2023 March 31, 2024 and March 31, 2023, no individual country outside the United States represented more than 10% of total net sales. Individual sales transactions in the international market are generally larger and occur more intermittently than in the domestic market due to the profile of our customers. For the three and nine months ended September 30, 2023 March 31, 2024 and March 31, 2023, no customer represented more than 10% of total net sales. At September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, no customer represented more than 10% of the aggregate balance of accounts and notes receivable and contract assets.

We currently purchase both off the shelf off-the-shelf and custom components, including but not limited to, finished circuit boards, injection-molded plastic components, small machined parts, custom cartridge components, electronic components and off the shelf off-the-shelf sub-assemblies from suppliers located in the United States, China, Mexico, Republic of Korea, Malaysia, Mexico, Sri Lanka, Taiwan and Vietnam. We may source from other countries as well. Although we currently obtain many of these components from single source suppliers, we own substantially all of the injection molded component tooling, most of the designs and the test fixtures used in their production for all custom components. As a result, we believe we could obtain alternative suppliers in most cases. Although we have previously experienced supply chain disruptions relating to materials and port constraints, we continue to manage potential logistical interruptions. We remain have remained focused on closely managing our supply chain. We continue to bolster our strategic relationships in our supply chain, identifying secondary/alternate sourcing, adjusting build plans accordingly, and building in logistic modes in support of our increasing demand while working to minimize disruption to customers. We acquire most of our components on a purchase order basis and do not currently have significant long-term purchase contracts with most component suppliers.

Income per Common Share

Basic income per common share is computed by dividing net income by the weighted average number of common shares outstanding during the periods presented. Diluted income per share reflects the potential dilution from outstanding stock options and unvested restricted stock units ("RSUs"). The effects of outstanding stock options, unvested RSUs, our 2027 0.50% convertible senior notes due 2027 (the "Notes" or "2027 Notes"), and warrants to acquire shares of our common stock (the "Warrants" or "2027 Warrants") are excluded from the computation of diluted net income per share in periods in which the effect would be antidilutive. The calculation of the weighted average number of shares outstanding and earnings per share are as follows (in thousands except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended March 31,	
	2023	2022	2023	2022	2024	2023
Numerator for basic and diluted earnings per share:						
Net income	$ 59,397	$ 12,131	$ 116,956	$ 117,964	$ 133,218	$ 45,139
Denominator:						
Weighted average shares outstanding	74,826	71,107	73,904	71,033	75,355	72,638
Dilutive effect of stock-based awards	1,126	1,418	1,308	1,353	1,243	1,242
Dilutive effect of 2027 Notes					534	—
Diluted weighted average shares outstanding	75,952	72,525	75,212	72,386	77,132	73,880
Net income per common share:						
Basic	$ 0.79	$ 0.17	$ 1.58	$ 1.66	$ 1.77	$ 0.62
Diluted	$ 0.78	$ 0.17	$ 1.56	$ 1.63	$ 1.73	$ 0.61

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Potentially dilutive securities that are not included in the calculation of diluted net income per share because doing so would be antidilutive are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended March 31,	
	2023	2022	2023	2022	2024	2023
Stock-based awards	481	2,977	470	2,952	308	1,469
2027 Notes	3,017	—	3,017	—	2,483	3,017
2027 Warrants	3,017	—	3,017	—	3,017	3,017
Total potentially dilutive securities	6,515	2,977	6,504	2,952	5,808	7,503

For additional information regarding our 2027 Notes, refer to Note 9.

Standard Warranties***Warranty Reserves***

We warranty our CEDs, Axon cameras and certain related accessories from manufacturing defects on a limited basis for a period of one year after purchase and, thereafter, will replace any defective unit for a fee. Estimated The company estimates and records a liability for standard warranty at the time products are sold. The estimates are based on historical experience and reflect management's best estimates of costs for to be incurred over the standard warranty period. Adjustments may be required when actual or projected costs differ. Variations in component failure rates, repair costs and the point of failure within the product life cycle are key drivers that impact our periodic re-assessment of the warranty liability.

Revenue related to separately priced extended warranties is initially recorded as deferred revenue at its allocated amount and subsequently recognized as net sales on a straight-line basis over the warranty service period. Costs related to extended warranties are charged to cost of products sold product and service sales when revenue is recorded for the related product. Future warranty costs are estimated on a quarterly basis based on historical data related to warranty claims become probable and this rate is applied to current product sales. Historically, reserve amounts have been increased if management becomes aware of a component failure or other issue that could result in larger than anticipated warranty claims from customers. The warranty reserve is reviewed quarterly to verify that it sufficiently reflects the remaining warranty obligations based on the anticipated expenditures over the balance of the warranty obligation period, and adjustments are made when actual warranty claim experience differs from estimates. The warranty reserve is included in accrued liabilities on the accompanying consolidated balance sheets. can be reasonably estimated.

Changes in our estimated product warranty liabilities were as follows (in thousands):

	Nine Months Ended September 30,		Three Months Ended March 31,	
	2023	2022	2024	2023
Balance, beginning of period	$ 811	$ 2,822	$ 7,374	$ 811
Utilization of reserve	(901)	(1,988)	(2,207)	(438)
Warranty expense	3,381	161	1,119	2,928
Balance, end of period	$ 3,291	$ 995	$ 6,286	$ 3,301

Fair Value Measurements and Financial Instruments

We use the fair value framework that prioritizes the inputs to valuation techniques for measuring financial assets and liabilities measured on a recurring basis and for non-financial assets and liabilities when these items are re-measured. Fair value is considered to be the exchange price in an orderly transaction between market participants, to sell an asset or transfer a liability at the measurement date. The hierarchy below lists three levels of fair value based on the extent to which inputs used in measuring fair value are observable in the market. We categorize each of our fair value measurements in one of these three levels based on the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

- Level 1 – Valuation techniques in which all significant inputs are unadjusted quoted prices from active markets for assets or liabilities that are identical to the assets or liabilities being measured.
- Level 2 – Valuation techniques in which significant inputs include quoted prices from active markets for assets or liabilities that are similar to the assets or liabilities being measured and/or quoted prices for assets or liabilities that are identical or similar to the assets or liabilities being measured from markets that are not active. Also, model-derived valuations in which all significant inputs and significant value drivers are observable in active markets are Level 2 valuation techniques.

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- Level 3 – Valuation techniques in which one or more significant inputs or significant value drivers are unobservable. Unobservable inputs are valuation technique inputs that reflect our own assumptions about inputs that market participants would use in pricing an asset or liability.

We have cash equivalents and investments, which at September 30, 2023 March 31, 2024 comprised money market funds, commercial paper, corporate bonds, term deposits, U.S. government bonds, agency bonds U.S. Treasury bills, and U.S. Treasury Inflation-Protected Securities bills. Cash equivalents and investments at December 31, 2022 December 31, 2023 also included municipal bonds commercial paper and certificates of deposit. U.S. Treasury inflation-protected securities. See additional disclosure regarding the fair value of our cash equivalents and investments in Note 3. Debt investments are classified as available-for-sale and realized gains and losses are recorded using the specific identification method. Included in the balance of other long-term assets as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 was $5.9 million $8.1 million and $4.3 million $7.6 million, respectively, related to corporate-owned life insurance policies, which are used to fund our deferred compensation plan. We determine the fair value of insurance contracts by obtaining the cash surrender value of the contracts from the issuer, a Level 2 valuation technique.

We have an investment in marketable securities, for which changes in fair value are recorded in the condensed consolidated statement of operations as unrealized gain or (loss) on marketable securities, which is included in interest and other income, (loss), net.

We have strategic investments in eight various unconsolidated affiliates as of September 30, 2023 March 31, 2024. The estimated fair value of the investments was determined based on Level 3 inputs. In determining the estimated fair value of our strategic investments in privately held companies, we utilize observable data available to us as discussed further in Note 6. 7.

We have convertible senior notes, for which the The fair value of our 2027 Notes is determined based on the closing trading price per $1,000 of the Notes as of the last day of trading for the period. We consider the fair value of the Notes at September 30, 2023 March 31, 2024 to be a Level 2 measurement as they are not publicly traded. The fair value of the Notes is primarily affected by the trading price of our common stock and market interest rates.

Our financial instruments also include accounts and notes receivable, accounts payable and accrued liabilities. Due to the short-term nature of these instruments, their fair values approximate their carrying values on the condensed consolidated balance sheet.

Restricted Cash

Restricted cash balance balances of $2.1 million as of September 30, 2023 was $2.0 million March 31, 2024 and December 31, 2023, respectively, primarily related relate to funds held in an international bank account securing a guarantee and funds held in an international bank account for a country in which we are required to maintain a minimum balance to operate. Approximately $1.9 million As of March 31, 2024, approximately $2.0 million was included in prepaid expenses and other assets on our condensed consolidated balance sheet, with the remainder in other long-term assets. Restricted cash balance as of December 31, 2022 was $1.9 million primarily related to funds held in an international bank account securing a guarantee and funds held in an international bank account for a country in which we are required to maintain a minimum balance to operate. Approximately $1.8 million was included in prepaid expenses and other assets on our condensed consolidated balance sheet, with the remainder in other long-term assets.

Valuation of Goodwill, Intangibles and Long-lived Assets

We evaluate whether events and changes in circumstances have occurred that indicate the remaining estimated useful life of long-lived assets and identifiable intangible assets, excluding goodwill and intangible assets with indefinite useful lives, may warrant revision or that the remaining balance of these assets may not be recoverable. Such events and changes in circumstances could include but are not limited to, a change in our the product mix, a change in the way products are created, produced or delivered, or a significant change in the way products are branded and marketed. In performing the review for recoverability, we estimate the future undiscounted cash flows expected to result from the use of the assets and their eventual disposition. The amount of the impairment loss, if impairment exists, is calculated based on the excess of the carrying amounts of the assets over their estimated fair value values computed using discounted cash flows.

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Finite-lived intangible assets and other long-lived assets are amortized over their estimated useful lives. We do not amortize goodwill and intangible assets with indefinite useful lives; rather such assets are required to be tested for impairment at least annually or sooner whenever events or changes in circumstances indicate that the assets may be impaired. We perform our annual test goodwill and intangible asset assets for impairment tests on an annual basis in the fourth quarter and on an interim basis when certain events and circumstances exist.

Business Combinations

Acquired businesses are included in the consolidated financial statements from the date we gain control of the business. We recognize, separately from goodwill, the identifiable assets acquired and liabilities assumed at their estimated acquisition-date fair values. Our estimates are inherently uncertain and subject to refinement. During the measurement period, which may be up to one year from the acquisition date, we may record qualifying adjustments to the fair value of these tangible and intangible assets acquired and liabilities assumed, with the corresponding offset to goodwill. In addition, uncertain tax positions, tax-related valuation allowances and pre-acquisition contingencies are initially recorded in connection with a business combination as of the acquisition date. We continue to collect information and reevaluate these estimates and assumptions quarterly and record any qualifying adjustments to our preliminary estimates to goodwill provided that we are within the measurement period. Upon the conclusion of the measurement period or final determination of the fair value of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to our consolidated statement of operations.

In the event that we acquire an entity in which we previously held an existing ownership interest, the difference between the fair value of the interest as of the acquisition date and the carrying value of the interest is recorded as a gain or loss within other income, net, in the consolidated statement of operations. Preexisting relationships subject to termination as a result of consummating an acquisition may require the recognition of a gain or loss upon settlement, which is recognized within income (loss) from operations on the consolidated statement of operations. All third-party transaction-related costs are recognized as expense in the period in which they are incurred.

Recently Issued Accounting Guidance and Disclosure Rules

In November 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures. ASU 2023-07 requires annual and interim disclosures that are expected to improve reportable segment disclosures, primarily through enhanced disclosures about significant segment expenses. The new standard is effective for our Annual Report on Form 10-K for the year ending December 31, 2024, and subsequent interim periods, with early adoption permitted. We are currently evaluating the impact of this update on our consolidated financial statements.

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures. ASU 2023-09 is intended to enhance the transparency and decision usefulness of income tax. The provisions of ASU 2023-09 are effective for our Annual Report on Form 10-K for the year ending December 31, 2025, with early adoption permitted. We are currently evaluating the impact of this update on our consolidated financial statements.

In March 2024, the SEC adopted final rules under SEC Release No. 34-99678 and No. 33-11275, *The Enhancement and Standardization of Climate-Related Disclosures for Investors* (the "Final Rules"), which will require registrants to provide certain climate-related information in their registration statements and annual reports. The Final Rules require, among other things, disclosure in the notes to the audited financial statements of the effects of severe weather events and other natural conditions, subject to certain thresholds, as well as amounts related to carbon offsets and renewable energy credits or certificates in certain circumstances. The financial statement disclosure requirements of the Final Rules will begin phasing in for the Company for fiscal year 2025. In April 2024, the SEC stayed the effectiveness of the Final Rules. We are currently evaluating the impact of the Final Rules.

Reclassification of Prior Year Presentation

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications are not material and had no effect on the reported results of operations.

Note 2 - Revenues

Nature of Products and Services

The following tables present our revenues by primary product and service offering (in thousands):

	Three Months Ended September 30, 2023			Three Months Ended September 30, 2022		
	TASER	Software and Sensors	Total	TASER	Software and Sensors	Total
TASER Devices (Professional)	$ 86,718	$ —	$ 86,718	$ 80,146	$ —	$ 80,146
Cartridges	54,279	—	54,279	46,475	—	46,475
Axon Evidence and Cloud Services	8,975	150,563	159,538	5,125	96,814	101,939
Extended Warranties	8,078	16,054	24,132	7,290	14,511	21,801
Axon Body Cameras and Accessories	—	52,488	52,488	—	40,944	40,944
Axon Fleet Systems	—	26,716	26,716	—	10,139	10,139
Other (1) (2)	4,520	5,210	9,730	5,847	4,463	10,310
Total	$ 162,570	$ 251,031	$ 413,601	$ 144,883	$ 166,871	$ 311,754

	Nine Months Ended September 30, 2023			Nine Months Ended September 30, 2022			Three Months Ended March 31, 2024			Three
	TASER	Software and Sensors	Total	TASER	Software and Sensors	Total	TASER	Software and Sensors	Total	TASI
TASER Devices (Professional)	$ 239,165	—	$ 239,165	$ 213,623	$ —	$ 213,623	$ 98,676	—	$ 98,676	$ 67,4
Cartridges	149,504	—	149,504	134,145	—	134,145	56,198	—	56,198	46,8
Axon Evidence and Cloud Services	24,670	400,979	425,649	11,862	258,664	270,526	12,221	175,458	187,679	7,2
Extended Warranties	23,463	45,305	68,768	21,428	36,070	57,498	8,526	18,474	27,000	7,6
Axon Body Cameras and Accessories	—	124,066	124,066	—	113,399	113,399	—	51,205	51,205	
Axon Fleet Systems	—	95,648	95,648	—	39,840	39,840	—	28,387	28,387	
Other (1) (2)	14,460	13,989	28,449	13,771	10,991	24,762	3,127	8,464	11,591	5,1
Total	$ 451,262	$ 679,987	$ 1,131,249	$ 394,829	$ 458,964	853,793	$178,748	$ 281,988	$460,736	$134,2

(1) TASER segment "Other" includes smaller categories, such as Virtual Reality ("VR") hardware, weapons training revenue such as revenue associated with our Master Instructor School, and TASER consumer device sales.

(2) Software and Sensors segment "Other" includes revenue from items including Signal Sidearm, Interview Room, Axon Air and Axon Air. other sensors and equipment.

The following table presents our revenues disaggregated by geography (in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,				Three Months Ended March 31,			
	2023		2022		2023		2022		2024		2023	
United States	$342,090	83 %	$264,644	85 %	$ 954,949	84 %	$707,304	83 %	$392,406	85 %	$290,938	85 %
Other countries	71,511	17	47,110	15	176,300	16	146,489	17	68,330	15	52,105	15
Total	$413,601	100 %	$311,754	100 %	$1,131,249	100 %	$853,793	100 %	$460,736	100 %	$343,043	100 %

Contract Balances

The following table presents our contract assets, contract liabilities and certain information related to these balances as of and for the nine three months ended September 30, 2023 March 31, 2024 (in thousands):

	September 30, 2023	March 31, 2024
Contract assets, net	$ 339,186	$ 354,381
Contract liabilities (deferred revenue)	724,973	810,282
Revenue recognized in the period from:		
Amounts included in contract liabilities at the beginning of the period	279,223	186,485

Contract liabilities (deferred revenue) consisted of the following (in thousands):

	September 30, 2023			December 31, 2022			March 31, 2024			December 31, 2023		
	Current	Long-Term	Total	Current	Long-Term	Total	Current	Long-Term	Total	Current	Long-Term	Total
Extended Warranty:												
TASER	$ 12,500	$ 16,748	$ 29,248	$ 14,207	$ 17,618	$ 31,825	$ 14,877	$ 18,802	$ 33,679	$ 14,773	$ 18,828	$ 33,601
Software and Sensors	31,569	18,524	50,093	26,229	15,338	41,567	34,396	15,980	50,376	33,940	16,036	49,976
	44,069	35,272	79,341	40,436	32,956	73,392	49,273	34,782	84,055	48,713	34,864	83,577
Hardware:												
TASER	28,908	29,056	57,964	49,361	12,640	62,001	54,368	33,613	87,981	42,464	29,689	72,153
Software and Sensors	77,207	109,573	186,780	50,426	109,227	159,653	61,353	117,808	179,161	62,635	117,024	179,659
	106,115	138,629	244,744	99,787	121,867	221,654	115,721	151,421	267,142	105,099	146,713	251,812
Services:												
TASER	11,104	6,549	17,653	7,637	9,501	17,138	11,808	2,183	13,991	7,939	3,983	11,922
Software and Sensors	293,603	89,632	383,235	212,177	83,679	295,856	339,602	105,492	445,094	329,940	96,292	426,232
	304,707	96,181	400,888	219,814	93,180	312,994	351,410	107,675	459,085	337,879	100,275	438,154
Total	$454,891	$270,082	$724,973	$360,037	$248,003	$608,040	$516,404	$293,878	$810,282	$491,691	$281,852	$773,543

	September 30, 2023			December 31, 2022			March 31, 2024			December 31, 2023		
	Current	Long-Term	Total	Current	Long-Term	Total	Current	Long-Term	Total	Current	Long-Term	Total
TASER	$ 52,512	$ 52,353	$104,865	$ 71,205	$ 39,759	$110,964	$ 81,053	$ 54,598	$135,651	$ 65,176	$ 52,500	$117,676

Software and Sensors	402,379	217,729	620,108	288,832	208,244	497,076	435,351	239,280	674,631	426,515	229,352	655,867
Total	$454,891	$270,082	$724,973	$360,037	$248,003	$608,040	$516,404	$293,878	$810,282	$491,691	$281,852	$773,543

Remaining Performance Obligations

As of September 30, 2023 March 31, 2024, we had approximately $5.8 billion $7.0 billion of remaining performance obligations, which included both recognized contract liabilities as well as amounts that will be invoiced and recognized in future periods. The remaining performance obligations are limited only to arrangements that meet the definition of a contract under Accounting Standards Codification ("ASC") Topic 606, Revenue from Contracts with Customers, as of September 30, 2023 March 31, 2024. We currently expect to recognize between 15% - 25% of this balance over the next 12 months, and generally expect the remainder to be recognized over the following ten years, subject to risks related to delayed deployments, budget appropriation or other contract cancellation clauses.

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Note 3 - Cash, Cash Equivalents and Investments

The following tables summarize our cash, cash equivalents, marketable securities and available-for-sale investments at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 (in thousands):

	As of September 30, 2023								As of March 31, 2024				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash and Cash Equivalents	Marketable Securities	Short-Term Investments	Long-Term Investments	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash Ca Equiv
Cash	$ 224,437	$ —	$ —	$ 224,437	$224,437	$ —	$ —	$ —	$ 110,509	—	—	$ 110,509	$110
Level 1:													
Money market funds	25,292	—	—	25,292	25,292	—	—	—	101,721	—	—	101,721	101
Agency bonds	170,838	17	(347)	170,508	33,500	—	137,008	—	87,635	—	(48)	87,587	81
Treasury bills	133,779	20	—	133,799	122,813	—	10,986	—	310,446	1	(441)	310,006	
U.S. Government									130,793	—	(29)	130,764	
Marketable securities	90,000	—	(21,150)	68,850	—	68,850	—	—	90,000	9,720	—	99,720	
Subtotal	419,909	37	(21,497)	398,449	181,605	68,850	147,994	—	720,595	9,721	(518)	729,798	183
Level 2:													
Term deposits	203,205	—	—	203,205	—	—	203,205	—	211,729	—	—	211,729	110
Corporate bonds	121,071	8	(559)	120,520	—	—	120,520	—	11,752	7	(19)	11,740	
U.S. government	176,371	—	(700)	175,671	—	—	175,671	—					

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash and Cash Equivalents	Marketable Securities	Short-Term Investments	Long-Term Investments	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cas…
Treasury Inflation-Protected Securities	2,606	—	(11)	2,595	—	—	2,595	—					
Commercial paper	65,703	—	—	65,703	—	—	65,703	—					
Subtotal	568,956	8	(1,270)	567,694	—	—	567,694	—	223,481	7	(19)	223,469	110
Total	$1,213,302	$ 45	$(22,767)	$1,190,580	$406,042	$ 68,850	$ 715,688	$ —	$1,054,585	$ 9,728	$ (537)	$1,063,776	$403

As of September 30, 2023 March 31, 2024, we had $390.4 million $531.5 million of available-for-sale investments with unrealized losses. Of the $390.4 million $531.5 million of available-for-sale investments with unrealized losses, $27.0 million $25.2 million has been in a continuous unrealized loss position for twelve 12 months or longer, with total gross unrealized losses of $0.3 million less than $0.1 million. We do not intend to sell the investments and it is not more likely than not that we will be required to sell the investments before recovery of their amortized cost bases.

During the year ended December 31, 2021, we acquired 9.0 million shares of common stock of Cellebrite DI Ltd ("CLBT") with a fair value of $90.0 million. The CLBT common stock is recorded as marketable securities in the accompanying condensed consolidated balance sheets and its fair value is adjusted every reporting period. Changes in fair value are recorded in the condensed consolidated statement of operations as unrealized gain or (loss) on marketable securities, which is included in interest and other income, (loss), net. During the three and nine months ended September 30, 2023 March 31, 2024, we recorded an unrealized gain on marketable securities of $4.1 million and $29.6 million $21.8 million, respectively, relating to CLBT.

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	As of December 31, 2022								As of December 31, 2023				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash and Cash Equivalents	Marketable Securities	Short-Term Investments	Long-Term Investments	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cas… C… Equi…
Cash	$ 143,744	$ —	$ —	$ 143,744	$143,744	$ —	$ —	$ —	$ 406,743	$ —	$ —	$ 406,743	$40
Level 1:													
Money market funds	2,669	—	—	2,669	2,669	—	—	—	1,470	—	—	1,470	1
Agency bonds	164,486	6	(263)	164,229	—	—	69,862	94,367	222,057	2	(174)	221,885	10
U.S. Government									238,747	120	(237)	238,630	
Treasury bills	121,650	18	(3)	121,665	113,100	—	8,565	—	148,063	28	—	148,091	8
Marketable securities	90,000	—	(50,760)	39,240	—	39,240	—	—	90,000	—	(12,060)	77,940	
Subtotal	378,805	24	(51,026)	327,803	115,769	39,240	78,427	94,367	700,337	150	(12,471)	688,016	19
Level 2:													

State and municipal obligations	4,980	—	(33)	4,947	—	—	4,947	—					
Certificate of deposits	5,002	—	—	5,002	—	—	5,002	—					
Term deposits	200,000	—	—	200,000	25,000	—	175,000	—	128,205	—	—	128,205	
Corporate bonds	257,422	33	(1,159)	256,296	28,883	—	168,074	59,339	80,646	8	(165)	80,489	
U.S. government	30,525	—	(159)	30,366	—	—	30,366	—					
Treasury Inflation-Protected Securities	2,503	—	(2)	2,501	—	—	—	2,501	2,635	—	(5)	2,630	
Commercial paper	160,241	—	—	160,241	40,288	—	119,953	—	14,456	—	—	14,456	
Subtotal	660,673	33	(1,353)	659,353	94,171	—	503,342	61,840	225,942	8	(170)	225,780	
Total	$1,183,222	$ 57	$(52,379)	$1,130,900	$353,684	$ 39,240	$ 581,769	$ 156,207	$1,333,022	$ 158	$(12,641)	$1,320,539	$59

As of December 31, 2023, we had $420.4 million of available-for-sale investments with unrealized losses. Of this amount, $138.8 million has been in a continuous unrealized loss position for 12 months or longer, with total gross unrealized losses of $0.3 million. We do not intend to sell the investments and it is not more likely than not that we will be required to sell the investments before recovery of their amortized cost bases.

During the year ended December 31, 2023, we recorded a $38.7 million unrealized gain on marketable securities from our investment in CLBT.

Note 4 - Expected Credit Losses

We are exposed to credit losses primarily through sales of products and services. Our expected loss allowance methodology for accounts receivable, contract assets, notes receivable and off-balance-sheet exposures is developed using historical collection experience, published or estimated credit default rates for entities that represent our customer base, current and future economic and market conditions, and a review of the current status of customers' trade accounts receivables. Additionally, specific allowance amounts are established to record the appropriate provision for customers that have a higher probability of default. Our monitoring activities include account reconciliation, dispute resolution, payment confirmation, consideration of customers' financial condition and macroeconomic conditions. Balances are written off when determined to be uncollectible. We review receivables for U.S. and international customers separately to better reflect different published credit default rates and economic and market conditions.

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The following table provides a roll-forward of the allowance for expected credit losses for finance receivables and off-balance-sheet exposures. The expected credit losses for receivables is deducted from the amortized cost basis of accounts receivable, contract assets and notes receivable to present the net amount expected to be collected (in thousands):

	Nine Months Ended September 30, 2023			Three Months Ended March 31, 2024		
	United States	Other countries	Total	United States	Other countries	Total
Balance, beginning of period	$ 3,064	$ 566	$ 3,630	$ 3,369	$ 597	$3,966
Provision for expected credit losses	733	146	879	195	22	217
Amounts written off charged against the allowance	(719)	(105)	(824)	(302)	(51)	(353)
Other, including foreign currency translation	—	8	8	—	14	14
Balance, end of period (1)	$ 3,078	$ 615	$ 3,693	$ 3,262	$ 582	$3,844

(1) Ending balance includes allowance for credit losses recorded in Other current liabilities on the Consolidated Balance Sheet which is related to off-balance-sheet credit exposure.

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As of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, the allowance for expected credit losses for each type of customer receivable and off-balance-sheet exposures were as follows (in thousands):

	September 30, 2023	December 31, 2022
Accounts receivable and notes receivable, current	$ 2,144	$ 2,176
Contract assets, net	1,476	1,360
Long-term notes receivable, net of current portion	59	94
Other current liabilities	14	—
Total allowance for expected credit losses on customer receivables	$ 3,693	$ 3,630

	March 31, 2024	December 31, 2023
Accounts receivable and notes receivable, current	$ 2,298	$ 2,392
Contract assets, net	1,516	1,516
Long-term notes receivable, net of current portion	30	44
Other current liabilities	—	14
Total allowance for expected credit losses on customer receivables	$ 3,844	$ 3,966

Note 5 - Inventory

Inventories are stated at the lower of cost or realizable values. Cost of inventories is determined on the first-in, first-out ("FIFO") basis or net realizable value, net of an inventory valuation allowance. We use utilizing a standard cost methodology to determine the cost basis for our inventories. Costs include allocations for materials, labor, and overhead. All variances between actual costs and standard costs are apportioned to inventory and cost of goods sold based upon inventory turnover. We evaluate inventory on a quarterly basis for obsolete or slow-moving items to ascertain if the recorded allowance is reasonable and adequate. methodology. Additional provisions are made to reduce excess, obsolete or slow-moving inventories to their net realizable value. These provisions are based on management's best estimate after considering historical demand, projected future demand, inventory purchase commitments, industry and market trends and conditions among other factors. We evaluate inventory costs for abnormal costs due to excess production capacity and treat such costs as period costs.

Inventory consisted of the following at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 (in thousands):

	March 31, 2024	December 31, 2023
Raw materials	$ 107,121	$ 104,112
Finished goods	164,197	165,743
Total inventory	$ 271,318	$ 269,855

	September 30, 2023	December 31, 2022
Raw materials	$ 104,372	$ 72,740
Finished goods	155,747	129,731
Total inventory	$ 260,119	$ 202,471

Note 6 – Goodwill and Intangible Assets

The changes in the carrying amount of goodwill for the three months ended March 31, 2024 were as follows (in thousands):

	TASER	Software and Sensors	Total
Balance, beginning of period	$ 2,984	$ 54,961	$ 57,945
Goodwill acquired	—	250,653	250,653
Purchase accounting adjustments	—	(231)	(231)
Foreign currency translation adjustments	(37)	140	103
Balance, end of period	$ 2,947	$ 305,523	$ 308,470

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Intangible assets (other than goodwill) consisted of the following at March 31, 2024 and December 31, 2023 (in thousands):

		March 31, 2024			December 31, 2023		
	Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable (definite-lived) intangible assets:							
Domain names	3 - 10 years	$ 3,043	(2,205)	$ 838	$ 3,043	$ (2,128)	$ 915
Issued patents	5 - 25 years	3,147	(1,648)	1,499	3,222	(1,707)	1,515
Trademarks	3 - 15 years	3,214	(935)	2,279	1,333	(817)	516
Customer relationships	4 - 10 years	18,629	(2,719)	15,910	5,530	(3,620)	1,910
Non-compete agreements	3 - 4 years	—	—	—	448	(448)	—
Developed technology	3 - 8 years	82,532	(15,438)	67,094	29,402	(16,562)	12,840
Total amortizable		110,565	(22,945)	87,620	42,978	(25,282)	17,696
Non-amortizable (indefinite-lived) intangible assets:							
Trademarks		1,068	—	1,068	1,068	—	1,068
Patents and trademarks pending		731	—	731	775	—	775
Total non-amortizable		1,799	—	1,799	1,843	—	1,843
Total intangible assets		$ 112,364	$ (22,945)	$ 89,419	$ 44,821	$ (25,282)	$ 19,539

Amortization expense of intangible assets for the three months ended March 31, 2024 was $3.0 million. Amortization expense of intangible assets for the three months ended March 31, 2023 was $1.0 million. Estimated amortization for intangible assets with definite lives for the remaining nine months of 2024, the next five years ended December 31, and thereafter, is as follows (in thousands):

2024 remaining	$ 11,520
2025	12,534
2026	12,336
2027	11,394
2028	11,283
2029	11,098
Thereafter	17,455
Total	$ 87,620

Note 6 7 - Strategic Investments

Strategic investments include investments in a number of non-public technology-driven technology driven companies. We account for strategic investments under the ASC 321 measurement alternative for equity securities without readily determinable fair values, as there are no quoted market prices for the investments. The investments are measured at cost less impairment, adjusted for observable price changes and are assessed for impairment whenever events or changes in circumstances indicate that the fair value may be less than its carrying value.

In conjunction with certain of our strategic investments, we have the ability to commit additional capital over time through warrants and call options; for some investments, the exercisability and exercise prices are conditional on the achievement of certain performance metrics.

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The following tables provide a roll-forward of the balance of strategic investments (in thousands):

	Three Months Ended September 30, 2023				Three Months Ended September 30, 2022			
	Strategic investments	Warrants	Call options	Total	Strategic investments	Warrants	Call options	Total
Balance, beginning of period	$ 215,945	$ 459	$ 17,233	$ 233,637	$ 264,156	$ 1,195	16,340	$ 281,691
Investments	4,099	1,176	—	5,275	8,004	459	893	9,356
Fair value adjustments:								
Unrealized losses and impairments	—	(113)	—	(113)	(718)	—	—	(718)
Exercises	1,500	—	—	1,500	—	—	—	—
Balance, end of period	$ 221,544	$ 1,522	$ 17,233	$ 240,299	$ 271,442	$ 1,654	$ 17,233	$ 290,329

	Nine Months Ended September 30, 2023				Nine Months Ended September 30, 2022			
	Strategic investments	Warrants	Call options	Total	Strategic investments	Warrants	Call options	Total
Balance, beginning of period	$ 277,676	$ 1,654	$ 17,233	$ 296,563	$ 80,775	$ 2,745	—	$ 83,520
Investments	15,016	1,176	—	16,192	53,164	459	17,233	70,856
Fair value adjustments:								
Unrealized gains	—	—	—	—	41,893	28,539	—	70,432
Unrealized losses and impairments	(72,648)	(1,308)	—	(73,956)	(1,109)	—	—	(1,109)
Exercises	1,500	—	—	1,500	96,719	(30,089)	—	66,630
Balance, end of period	$ 221,544	$ 1,522	$ 17,233	$ 240,299	$ 271,442	$ 1,654	$ 17,233	$ 290,329

	Inception to date				Three Months Ended March 31, 2024				Three Months Ended March 31, 2023			
	Strategic investments	Warrants	Call options	Total	Strategic investments	Warrants	Call options	Total	Strategic investments	Warrants	Call options	Total
Balance, beginning of period					$ 212,996	$1,501	$17,233	$231,730	$ 277,676	$1,654	$17,233	$296,563
Investments	$ 124,498	$ 4,222	$17,233	$145,953	9,128	—	—	9,128	—	—	—	—
Fair value adjustments:												
Realized gains	12,312	—	—	12,312	45,162	—	—	45,162	—	—	—	—

Realized losses					—	—	(2,870)	(2,870)	—	—	—	—
Unrealized gains	74,817	29,073	—	103,890	74,784	855	—	75,639	—	—	—	—
Unrealized losses and impairments	(73,756)	(1,684)	—	(75,440)								
Exercises	98,219	(30,089)	—	68,130	(61,962)	—	(1,330)	(63,292)	—	—	—	—
Sales	(14,546)	—	—	(14,546)								
Balance, end of period	$ 221,544	$ 1,522	$17,233	$240,299	$ 280,108	$2,356	$13,033	$295,497	$ 277,676	$1,654	$17,233	$296,563

In accordance with ASC 321-10-35-3, we determined an impairment indicator existed for one January 2024, the Company acquired the remaining outstanding stock of our a strategic investments as of June 30, 2023. Thus, we performed investment. The Company's existing interest had a quantitative analysis and concluded the fair value was less than at acquisition date of $63.3 million which resulted in a non-taxable gain of $42.3 million. For additional information on the carrying value. business combination, refer to Note 16.

An Additionally, as a result of an observable price change for a separate strategic investee, we recognized an unrealized impairment loss gain of $73.8 million related to our $75.6 million for the strategic investment and related warrants was recorded in interest and other income, (loss), net on our condensed consolidated statement of operations during the nine three months ended September 30, 2023 March 31, 2024.

	Inception to date			
	Strategic investments	Warrants	Call options	Total
Investments	$ 133,626	4,222	17,233	$ 155,081
Fair value adjustments:				
Realized gains	57,474	—	—	57,474
Realized losses	—	—	(2,870)	(2,870)
Unrealized gains	149,601	29,928	—	179,529
Unrealized losses and impairments	(82,304)	(1,705)	—	(84,009)
Exercises	36,257	(30,089)	(1,330)	4,838
Sales	(14,546)	—	—	(14,546)
Balance, end of period	$ 280,108	$ 2,356	$ 13,033	$ 295,497

Note 7 - Variable Interest Entities

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We evaluate our investments and other significant relationships to determine whether any investee is a variable interest entity ("VIE"). If we conclude that an investee is a VIE, we evaluate our power to direct the activities of the investee, our obligation to absorb the expected losses of the investee and our right to receive the expected residual returns of the investee to determine whether we are the primary beneficiary of the investee. If we are the primary beneficiary of a VIE, we consolidate such entity and reflect the non-controlling interest of other beneficiaries of that entity.

We determine whether we are the primary beneficiary of a VIE by performing an analysis that principally considers:

- The VIE's purpose, design, and risks the VIE was designed to create and pass through to its variable interest holders;
- The VIE's capital structure;
- The terms between the VIE and its variable interest holders and other parties involved with the VIE; and

- Related-party affiliations.

The table below presents a summary of the unconsolidated VIEs in which we hold variable interests:

	September 30, 2023		December 31, 2022	
Total unconsolidated variable interest entities:				
Carrying value of variable interest - assets	$	13,016	$	11,530
Carrying value of variable interest - liabilities		—		—
Maximum exposure to loss:				
Non-public equity (1)		13,016		11,530
Total	$	13,016	$	11,530

(1) The maximum exposure to loss is limited to the carrying value of the interest.

In the table above:

- The nature of our variable interest is described in the row under maximum exposure to loss.
- Our exposure to the obligations of the VIE is limited to our interest in the entity.

The primary purpose of our U.S-based, unconsolidated VIE investments is to create strategic partnerships with market-leading providers of law enforcement technology solutions. We present all variable interests in unconsolidated VIEs as strategic investments within the long-term assets section of the condensed consolidated balance sheet.

We have provided financial support to the unconsolidated VIEs in exchange for preferred equity as well as warrants and call options that give us the ability to commit additional capital over time. Financial support provided to the unconsolidated VIEs is used to continue to finance their operations. We have no explicit or implicit arrangements to provide additional financial support to the VIEs and we have no liabilities to the VIEs as of September 30, 2023 and December 31, 2022.

Note 8 - Accrued Liabilities

Accrued liabilities consisted of the following at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 (in thousands):

	September 30, 2023		December 31, 2022		March 31, 2024		December 31, 2023	
Accrued salaries, commissions, benefits and bonus	$	92,437	$	97,882	$	35,997	$	125,636
Accrued income and other taxes						22,392		5,784
Accrued inventory in transit						20,944		12,197
Accrued professional, consulting and lobbying fees		6,102		3,861		10,415		7,377
Accrued warranty expense		3,291		811		6,286		7,374
Accrued income and other taxes		3,358		13,559				
Accrued inventory in transit		11,847		10,548				
Other accrued expenses		29,905		29,273		31,381		29,862
Accrued liabilities	$	146,940	$	155,934	$	127,415	$	188,230

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Note 9 – Convertible Senior Notes

2027 Notes

In December 2022, we issued $690.0 million $690.0 million aggregate principal amount of our 0.50% convertible senior notes due 2027 Notes in a private offering, which aggregate principal amount included the exercise in full of the initial purchasers' option to purchase up to an additional $90.0 million $90.0 million principal amount of the Notes. The Notes mature on December 15, 2027 and bear interest at a fixed rate of 0.50% per annum, payable semiannually in arrears on June 15 and December 15 of each year, beginning on June 15, 2023. The total net proceeds from the issuance of the Notes, after deducting initial purchasers' discounts and commissions and estimated debt issuance costs of $16.2 million, $16.2 million, were approximately $673.8 million. $673.8 million. The effective interest rate for the Notes was 0.99% and included interest payable and amortization of debt issuance cost.

If we undergo a fundamental change (as defined in the indenture governing the Notes), holders may require us to repurchase for cash all or any portion of their Notes at a fundamental change repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest, if any, up to but excluding the fundamental change repurchase date. In addition, following certain corporate events or if we issue a notice of redemption, it will increase the conversion rate for holders who elect to convert their notes Notes in connection with such corporate event or during the relevant redemption period.

The following table summarizes the carrying value of the Notes (in thousands):

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Principal	$ 690,000	$ 690,000	$ 690,000	$ 690,000
Unamortized debt issuance costs	(13,685)	(16,033)	(12,105)	(12,887)
Convertible notes carrying amount, net	$ 676,315	$ 673,967	$ 677,895	$ 677,113

We consider the fair value of the Notes to be a Level 2 measurement. The estimated fair value of the Notes at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 is based on the closing trading price per $1,000 of the Notes as of the last day of trading for each period as follows (in millions):

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
2027 Notes	$ 738.4	$ 687.3	$ 1,006.0	$ 873.3

Interest expense related to the Notes was as follows (in thousands):

	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2023	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Contractual interest expense	$ 863	$ 2,588	$ 863	$ 863
Amortization of debt issuance costs	797	2,328	782	756
Total interest expense	$ 1,660	$ 4,916	$ 1,645	$ 1,619

Note Hedge

To reduce the impact of potential economic dilution upon conversion of the Notes, we entered into a convertible note hedge transaction (the "Note Hedge" or "2027 Note Hedge") with certain investment banks, with respect to our common stock, concurrently with the issuance of the 2027 Notes.

	Purchase Price	Shares Purchased
2027 Note Hedge	$ 194,994	3,016,680

The Note Hedge covers shares of our common stock at a strike price per share that corresponds to the initial conversion price of the respective Notes, subject to adjustment, and is exercisable upon conversion of the Notes. If exercised, we may elect to receive cash, shares of our common stock, or a combination of cash and shares. We have accounted for the aggregate amount of purchase price for the Note Hedge as a reduction to additional paid-in capital. The Note Hedge will expire upon the maturity of the Notes. The Note Hedge is intended to reduce the potential economic

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dilution upon conversion of the Notes in the event that the fair market value per share of our common stock at the time of exercise is greater than the conversion price of the Notes. The Note Hedge is a separate transaction and is not part of the terms of the Notes. Holders of the Notes do not have any rights with respect to the Note Hedge. The Note Hedge does not impact earnings per share, as it was entered into to offset any dilution from the Notes. As of September 30, 2023 March 31, 2024, 3,016,680 shares remain subject to the Note Hedge.

Note Warrants

	Proceeds	Shares	Strike Price	First Expiration
2027 Warrants	$ 124,269	3,016,680	$ 338.86	March 15, 2028

Separately, we entered into warrant the Warrant transactions with certain investment banks, whereby we sold warrants Warrants to acquire, subject to adjustment, the number of shares of our common stock shown in the table above. If the average market value per share of our common stock on each expiration date exceeds the strike price of the Warrants expiring on that day, such Warrants would have a dilutive effect on our earnings per share to the extent we report net income. According to the terms of the Warrants, the Warrants will be automatically exercised over a 60-trading day period beginning on the first expiration date as set forth above.

Note 10 - Income Taxes

We file income tax returns for federal purposes and in many states, as well as in multiple foreign jurisdictions. Our tax filings remain subject to examination by applicable tax authorities for a certain length of time, generally three to four years, but can be up to ten years in some jurisdictions following the tax year to which these filings relate.

Deferred Tax Assets

Net deferred income tax assets at September 30, 2023 March 31, 2024, primarily include R&D capitalization net of amortization, deferred revenue, convertible debt net of amortization, accruals and reserves, and stock-based compensation expense, partially offset by accelerated depreciation expense, amortization of intangibles, unrealized gains on certain investments, and valuation allowance reserve. Our total net deferred tax assets at September 30, 2023 March 31, 2024 were $211.4 million $208.9 million.

In preparing our condensed consolidated financial statements, management assesses the likelihood that its deferred tax assets will be realized from future taxable income. In evaluating our ability to recover our deferred income tax assets, management considers all available positive and negative evidence, including our operating results, ongoing tax planning and forecasts of future taxable income on a jurisdiction by jurisdiction jurisdiction-by-jurisdiction basis. A valuation allowance is established if it is determined that it is more likely than not that some portion or all of the net deferred tax assets will not be realized. Management exercises significant judgment in determining our provisions for income taxes, our deferred tax assets and liabilities, and our future taxable income for purposes of assessing our ability to utilize any future tax benefit from our deferred tax assets.

As of September 30, 2023 March 31, 2024, management continues to believe the positive evidence from projected future earnings outweighs the negative evidence and a valuation allowance is only needed on specific deferred tax assets. We have concluded that a valuation allowance is necessary against unrealized investment losses as well as transaction costs incurred in connection with certain investments. Additionally, we do have Arizona R&D tax credits expiring unutilized each year; therefore, management has concluded that it is more likely than not that our Arizona R&D deferred tax asset will not be realized, and a valuation allowance has been recorded against this net asset.

In Australia, we have determined that sufficient deferred tax liabilities will reverse in order to realize all assets except one long-lived intangible where there is not an expectation that the asset may be realized. Therefore, we continue to recognize a partial valuation allowance for Australia.

We complete R&D tax credit studies for each year that an R&D tax credit is claimed for federal and state income tax purposes. Management has made the determination that it is more likely than not that the full benefit of the R&D tax credit will not be sustained on examination and recorded a liability for unrecognized tax benefits of $25.6 million $26.1 million as of

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September 30, 2023. March 31, 2024. Should the unrecognized benefit of $25.6 $26.1 million be recognized, our effective tax rate would be favorably impacted. Approximately $5.5 $6.5 million of the unrecognized tax benefit associated with R&D credits has been netted against the R&D deferred tax asset.

Effective Tax Rate

Our overall effective tax rate for the nine three months ended September 30, 2023 March 31, 2024, after discrete period adjustments, was (17.9%) 19.6%. Before discrete adjustments, the estimated annual effective tax rate was 17.4% 21.9%, which differs from the federal statutory rate primarily due to the impact of R&D tax credits and a decrease in valuation allowance net gain related to an investment transaction not recognized for tax, offset by the executive compensation limitation under Internal Revenue Code ("IRC") Section 162(m) and an increase in unrecognized tax benefits, on projected pre-tax income for the year. The effective tax rate was favorably impacted by a $36.8 million $4.1 million discrete tax benefit primarily associated with net windfalls related to stock-based compensation for RSUs and performance stock units ("PSUs") that vested during the nine months ended September 30, 2023, primarily attributed to the vesting of the final three tranches of eXponential Stock Performance Plan ("XSPP") in March and May 2023.

Note 11 - Stockholders' Equity

CEO Performance Award

On May 24, 2018, our stockholders approved the Board of Directors' grant of 6,365,856 stock options to Patrick W. Smith, our Chief Executive Officer (the "CEO Performance Award"). The CEO Performance Award consists of 12 vesting tranches with a vesting schedule based entirely on the attainment of both operational goals (performance conditions) and market capitalization goals (market conditions), assuming continued employment either as the Chief Executive Officer or as both Executive Chairman and Chief Product Officer and service through each attainment date.

As of September 30, 2023, all 12 market capitalization and operational goals have been achieved and certified by the Compensation Committee of the Board of Directors (the "Compensation Committee"). As a result, 6.4 million stock options have been certified by the Compensation Committee and vested. As all 12 operational goals have been achieved, we recorded stock-based compensation expense of $246.0 million related to the CEO Performance Award. No stock-based compensation expense was recorded related to the CEO Performance Award for the three months ended September 30, 2023 March 31, 2024.

eXponential Stock Performance Plan

On February 12, 2019, our shareholders approved the Axon Enterprise, Inc. 2019 Stock Incentive Plan (the "2019 Plan"), which was adopted by the Board of Directors to reserve a sufficient number of shares to facilitate our XSPP and grants of eXponential Stock Units ("XSUs") under the 2019 Plan.

As of September 30, 2023, all 12 market capitalization and operational goals have been achieved and certified by the Compensation Committee. We recorded stock-based compensation expense of $199.4 million related to the XSU awards from their respective grant dates through September 30, 2023. As of September 30, 2023, we had $0.5 million of total unrecognized stock-based compensation expense, which will be recognized over a weighted-average period of 0.2 years. The unrecognized expense is related to certain awards that have not yet vested due to their minimum service requirement.

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Note 11 - Stockholders' Equity

Restricted Stock Units

The following table summarizes RSU activity for the nine three months ended September 30, 2023 March 31, 2024 (number of units and aggregate intrinsic value in thousands):

	Number of Units	Weighted Average Grant-Date Fair Value	Aggregate Intrinsic Value	Number of Units	Weighted Average Grant-Date Fair Value	Aggregate Intrinsic Value
Units outstanding, beginning of year	1,565	$ 145.38		1,615	$ 193.09	
Granted	464	203.71		478	257.49	
Released	(371)	118.04		(174)	213.88	
Forfeited	(104)	155.25		(42)	186.93	
Units outstanding, end of period	1,554	168.67	$ 309,283	1,877	$ 207.73	$ 587,321

Aggregate intrinsic value represents our closing stock price on the last trading day of the period, which was $198.99 $312.88 per share, multiplied by the number of RSUs outstanding. As of September 30, 2023 March 31, 2024, there was $193.8 million $321.8 million in unrecognized compensation costs related to RSUs under our stock plans for awards that are expected to vest. We expect to recognize the cost related to the RSUs over a weighted average period of 2.1 2.4 years. RSUs are released settled when vesting requirements are met.

Certain RSUs that vested in the nine three months ended September 30, 2023 March 31, 2024 were net-share settled such that we withheld shares to cover the employees' tax obligations for the applicable income and other employment taxes, and remitted the cash to the appropriate taxing authorities. Total shares withheld related to RSUs were approximately 17,000 8,800 and had a an aggregate value of $3.3 million $2.7 million on their respective vesting dates as determined by the closing stock price on such dates. Payments for the employees' tax obligations are reflected as a financing activity within the condensed consolidated statements of cash flows. We record a liability for the tax withholding to be paid by us as a reduction to additional paid-in capital.

On January 2, 2024, we granted an aggregate of 0.4 million RSUs to employees whose compensation was under a specified threshold. The RSUs generally vest in five annual installments from March 2024 through March 2028. For the three months ended March 31, 2024, there was $29.6 million of stock compensation expense related to these RSUs that was primarily recorded within cost of product and service sales.

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Performance Stock Units

The following table summarizes PSU activity inclusive of XSUs, for the nine three months ended September 30, 2023 March 31, 2024 (number of units and aggregate intrinsic value in thousands):

	Number of Units	Weighted Average Grant-Date Fair Value	Aggregate Intrinsic Value	Number of Units	Weighted Average Grant-Date Fair Value	Aggregate Intrinsic Value
Units outstanding, beginning of year	1,369	$ 43.43		394	$ 201.61	
Granted	171	187.74		15	284.00	
Released	(1,222)	36.60		(1)	180.89	
Forfeited	(43)	27.52		(7)	93.32	
Units outstanding, end of period	275	166.05	$ 54,768	401	$ 206.75	$ 125,533

Aggregate intrinsic value represents our closing stock price on the last trading day of the period, which was $198.99 $312.88 per share, multiplied by the number of PSUs outstanding. As of September 30, 2023 March 31, 2024, there was $22.6 million $51.2 million in unrecognized compensation costs related to PSUs under our stock plans for awards that are expected to vest. We expect to recognize the cost related to the PSUs over a weighted average period of 4.8 2.7 years. PSUs are released settled when vesting requirements are met.

Certain PSUs that vested ***2024 CEO Performance Award and 2024 eXponential Stock Plan***

On October 14, 2023, our Board of Directors approved the 2024 eXponential Stock Plan (the "2024 Employee XSP") and, on December 20, 2023, the Board approved a pool of 4,516,370 shares of our common stock to be reserved for grants of awards of eXponential Stock Units ("2024 XSUs") to employees under the 2024 Employee XSP, including those who elected to have compensation withheld in order to participate in the nine months ended September 30, 2023 2024 Employee XSP. The 2024 XSUs are grants of performance-based RSUs, each with a term of approximately seven years, that vest in seven substantially equal tranches. Additionally, on December 18, 2023, the Compensation Committee granted to our Chief Executive Officer an award of 2024 XSUs covering 679,102 shares of our common stock (the "2024 CEO Performance Award"). Both the 2024 Employee XSP and the 2024 CEO Performance Award are subject to shareholder approval at our upcoming Annual Meeting of Shareholders. Dollar-denominated awards granted under the 2024 Employee XSP and the 2024 CEO Performance Award were net-share settled such that we withheld shares converted to cover 2024 XSUs using a price per share of common stock of $220.88, which reflects the employees' tax obligations for 90-day volume weighted average price per share as of the applicable income trading day preceding the grant date. Neither the 2024 Employee XSP nor the 2024 CEO Performance Award will have a financial statement impact unless and other employment taxes, and remitted the cash to the appropriate taxing authorities. Total shares withheld related to PSUs were 0.5 million and had a value until either or both are approved by shareholders at our Annual Meeting of $100.8 million on their respective vesting dates as determined by the closing stock price on such dates. Payments for the employees' tax obligations are reflected as a financing activity within the condensed consolidated statements of cash flows. We record a liability for the tax withholding to be paid by us as a reduction to additional paid-in capital. Shareholders in May 2024.

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Stock Option Activity

The following table summarizes stock option activity Options outstanding and exercisable for the nine months period ended September 30, 2023 (number March 31, 2024 was 0.5 million with a weighted average exercise price of options $28.58 and a weighted average remaining contractual life of 3.9 years. The aggregate intrinsic value in thousands):

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Options outstanding, beginning of year	2,438	$ 28.58		
Granted	—	—		
Exercised	(1,907)	28.58		
Expired / terminated	—	—		
Options outstanding and exercisable, end of period	531	28.58	4.41	$ 90,476

Aggregate intrinsic value was $150.9 million and represents the difference between the exercise price of the underlying stock options and the closing stock price on the last trading day of the period ended September 30, 2023 March 31, 2024, which was $198.99.

Of $312.88. There was no stock option activity for the total stock options exercised during the nine three months ended September 30, 2023, 0.9 million shares were immediately sold to cover the exercise price and the option holder's tax obligation for the applicable income and other employment taxes. March 31, 2024.

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Stock-based Compensation Expense

The following table summarizes the composition of stock-based compensation expense for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended March 31,	
	2023	2022	2023	2022	2024	2023
Cost of product sales and service sales	$ 1,687	$ 1,157	$ 4,685	$ 3,331	$ 29,595	$ 1,320
Sales, general and administrative expenses	12,886	14,268	43,232	35,860	23,155	15,445
Research and development expenses	15,414	12,779	48,311	35,263	22,365	17,585
Total stock-based compensation expense	$ 29,987	$ 28,204	$ 96,228	$ 74,454	$ 75,115	$ 34,350

Stock Incentive Plan

In May 2022, our shareholders approved the Axon Enterprise, Inc. 2022 Stock Incentive Plan (the "2022 Plan") authorizing an additional 2.5 million shares, plus remaining available shares under prior plans, for issuance under the new plan. 2022 Plan. Combined with the shares of our 2019 Plan and other common stock available under our legacy stock incentive plans, there are 2.3 million 1.3 million shares of our common stock available for grant as of September 30, 2023 March 31, 2024.

Stock Repurchase Plan

In February 2016, our Board of Directors authorized a stock repurchase program to acquire up to $50.0 million of our outstanding common stock subject to stock market conditions and corporate considerations. During the nine three months ended September 30, 2023 March 31, 2024 and 2022, 2023, no common shares were purchased under the program. As of September 30, 2023 March 31, 2024, $16.3 million remains available under the plan for future purchases. Any future purchases will be discretionary.

At-the-Market equity offering At-The-Market Equity Offering

During the nine months year ended September 30, 2023 December 31, 2023, we sold 467,594 shares of our common stock under our "at-the-market" equity offering program (the "ATM"). We generated approximately $96.4 million in aggregate gross proceeds from sales under the ATM. Aggregate net proceeds from the ATM were $94.7 million after deducting related expenses, including commissions to the sales agent and issuance costs of $1.7 million. No shares were sold during the three months ended March 31, 2024.

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We may were authorized to sell up to a total of 3.0 million shares of our common stock under the ATM, with approximately 2.0 million shares remaining as of September 30, 2023March 31, 2024. The ATM expires expired on April 20, 2024; however, we may amend and extend the program to facilitate the sales of the shares remaining from time to time. We intend to use the net proceeds from this offering program for general corporate purposes, which may include, among other things, providing capital to satisfy a portion of the tax obligations related to the vesting and settlement of stock compensation awards granted to our executive officers and other employees under our stock plans, to support our growth, and to acquire or invest in product lines, products, services, technologies or facilities.

Note 12 - Line of Credit

In December 2022, we entered into a credit agreement that provides for a senior unsecured multi-currency revolving credit facility in an aggregate principal amount of up to $200.0 million, $30.0 million of which is available for the issuance of letters of credit. The credit agreement will mature on the earlier of December 15, 2027 or the date that is six months prior to the stated maturity date of the 2027 Notes unless the Notes have been redeemed, repurchased, converted or defeased in full. Additionally, the credit agreement has an accordion feature which allows for an increase in the total line of credit up to $300.0 million, in each lender's sole discretion.

At September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, there were no borrowings under the line. Under the terms of the line of credit, available borrowings are reduced by outstanding letters of credit. As of September 30, 2023 March 31, 2024 we had letters of credit outstanding of approximately $7.4 $7.5 million under the facility and available borrowing of $192.6 $192.5 million, excluding amounts

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available under the accordion feature. Advances under the line of credit bear interest at Term SOFR plus 1.25 to 1.75% per year determined in accordance with a pricing grid based on our net debt to earnings before interest expense, taxes, depreciation and amortization ("EBITDA") ratio, which for the purposes of the credit agreement excludes investment interest income. "SOFR" is defined as a rate equal to the secured overnight financing rate as administered by the Federal Reserve Bank of New York or a successor administrator of the secured overnight financing rate.

We are required to comply with a net leverage ratio, defined as consolidated total indebtedness to EBITDA, of no greater than 3.50 to 1.00 based upon a trailing four fiscal quarter period. At September 30, 2023 March 31, 2024, our net leverage ratio was 0.27 (0.15) to 1.00. Additionally, we must comply with a consolidated interest coverage ratio, defined as EBITDA to consolidated interest expense, of no less than 3.50 to 1.00 based upon a trailing four fiscal quarter period. We are compliant with the At March 31, 2024, our consolidated interest coverage ratio which is not meaningful for the period ended September 30, 2023. was 51.03 to 1.00.

Note 13 - Commitments and Contingencies

Product Litigation

As a manufacturer of weapons and other law enforcement tools used in high-risk field environments, we are often the subject of products liability litigation concerning the use of our products. We are currently named as a defendant in four two lawsuits in which the plaintiffs allege either wrongful death or personal injury in situations in which a TASER CED was used by law enforcement officers in connection with arrests or training. While the facts vary from case to case, these product liability claims typically allege defective product design, manufacturing, and/or failure to warn. They seek compensatory and sometimes punitive damages, often in unspecified amounts.

We continue to aggressively defend all product litigation. As a general rule, it is our policy not to settle suspect injury or death cases. Exceptions are sometimes made where the settlement is strategically beneficial to us. Due to the confidential nature of our litigation strategy and the confidentiality agreements that are executed in the event of a settlement, we do not identify or comment on specific settlements by case or amount. Based on current information, we do not believe that the outcome of any such legal proceeding will have a material effect on our financial position, results of operations or cash flows. We are self-insured for the first $5.0 million of any product claim made after 2014. No judgment or settlement has ever exceeded this amount in any products liability case. We continue to maintain product liability insurance coverage, including an insurance policy fronting arrangement, above our self-insured retention with various limits depending on the policy period.

Antitrust Litigation and Inquiry

On October 6, 2023, the U.S. Federal Trade Commission ("FTC") unilaterally dismissed its administrative enforcement complaint against Axon without consent decree or other condition. That complaint alleged that Axon's May 2018 acquisition of an insolvent body-worn camera competitor, Vievu LLC ("Vievu"), was anticompetitive. Now pending in the District of New Jersey (Case No. 3:23-cv-7182) is a purported class action based primarily on the same unproven, dismissed FTC allegations that the Vievu acquisition substantially lessened competition in the body-worn camera systems market for large U.S. law enforcement agencies. The Township of Howell (NJ), the City of Augusta (ME) and the City of Baltimore (MD) filed their consolidated amended complaint on November 27, 2023, alleging Sherman and Clayton Act violations against both Axon and Safariland LLC, which sold Vievu to Axon. The complaint further alleges that an ancillary holster supply agreement between Axon and Safariland constituted an illegal restraint of trade in the long-range energy weapon market. Axon denies the allegations and is vigorously defending the case. Motion practice is underway on Axon's motion to dismiss and motion to strike class allegations, with rulings unlikely in 2024. Discovery is stayed pending these rulings.

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U.S. Federal Trade Commission Litigation

In January 2020,Axon also recently received a request for information from the U.S. Federal Trade Commission ("FTC") filed an administrative enforcement action Pennsylvania Office of Attorney General regarding our May 2018 acquisition this same consummated Vievu transaction. Axon intends to cooperate with any such investigation and work to resolve any concerns of an insolvent body worn camera competitor, Vievu LLC ("Vievu"). The FTC alleged the merger was anticompetitive and adversely affected the body worn camera and digital evidence management market for "large metropolitan police departments," which we strongly denied. We sued the FTC in federal court challenging the FTC's structure as unconstitutional. In April Commonwealth of this year, the Supreme Court unanimously held that Axon's "existential" claims could proceed in federal court, and in August we filed our amended complaint in the District of Arizona. On October 6, 2023, the FTC unilaterally dismissed its administrative complaint against Axon without consent decree or other condition. We therefore dismissed our federal court claims as moot on October 10, 2023 ending this five-year dispute.

In August 2023, the Township of Howell (NJ) filed a purported class action in the District of New Jersey alleging Sherman and Clayton Act violations, relying heavily on the now dismissed FTC allegations concerning the Vievu acquisition. Howell also sued Safariland LLC, which sold Vievu to Axon, alleging a companion holster supply agreement for TASER energy weapons impermissibly restrained trade, which we deny. Subsequently, the City of Baltimore (MD) and the City of Augusta (ME) filed suits making similar antitrust allegations. Axon will vigorously defend these actions, which are in the process of being consolidated.

General

From time to time, we are notified that we may be a party to a lawsuit or that a claim is being made against us. After carefully assessing the claim, and assuming we determine that we are not at fault or we disagree with the damages or relief demanded, we vigorously defend any lawsuit filed against us. We record a liability when losses are deemed probable and reasonably estimable. When losses are deemed reasonably possible but not probable, we determine whether it is possible to provide an estimate of the amount of the loss or range of possible losses for the claim, if material for disclosure. In evaluating matters for accrual and disclosure purposes, we take into consideration factors such as our historical experience with matters of a similar nature, the specific facts and circumstances asserted, the likelihood of our prevailing, the availability of insurance, and the severity of any potential loss. We reevaluate and update accruals as matters progress over time.

Based on our assessment of outstanding litigation and claims as of the date of these financial statements, we have determined that it is not reasonably probable possible that these losses, if any, from lawsuits will individually, or in the aggregate, materially affect our results of operations, financial condition or cash flows. However, the outcome of any litigation is inherently uncertain and there can be no assurance that any expense, liability or damages that may ultimately result from the resolution of these matters will be covered by our insurance or will not be in excess of amounts recognized or provided by insurance coverage and will not have a material adverse effect on our operating results, financial condition or cash flows.

Off-Balance Sheet Arrangements

Under certain circumstances, we use letters of credit and surety bonds to guarantee our performance under various contracts, principally in connection with the installation and integration of Axon cameras and related technologies. Certain of our letters of credit and surety bonds have stated expiration dates with others being released as the contractual performance terms are completed. At September 30, 2023 March 31, 2024, we had outstanding letters of credit issued under our credit facility of $7.4 $7.5 million that are expected to expire throughout 2023 2024 and 2024. 2025.Additionally, we had $10.5 million

Note 14 – Accumulated Other Comprehensive Income (Loss)

The following tables reflect the changes in accumulated other comprehensive income (loss), net of outstanding surety bonds as of September 30, 2023 expiring in 2024. tax (in thousands):

	Unrealized Gains (Losses) on Available-for-Sale Investments	Foreign Currency Translation	Total
Balance, December 31, 2023	$ (399)	(10,280)	$ (10,679)
Other comprehensive loss	(106)	(801)	(907)
Balance, March 31, 2024	$ (505)	$ (11,081)	$ (11,586)

	Unrealized Gains (Losses) on Available-for-Sale Investments	Foreign Currency Translation	Total
Balance, December 31, 2022	$ (1,251)	$ (5,928)	$ (7,179)
Other comprehensive income	184	1,676	1,860
Balance, March 31, 2023	$ (1,067)	$ (4,252)	$ (5,319)

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Note 14 – Accumulated Other Comprehensive Income (Loss)

The following tables reflect the changes in accumulated other comprehensive income (loss), net of tax (in thousands):

	Unrealized Gains (Losses) on Available-for-Sale Investments	Foreign Currency Translation	Total
Balance, December 31, 2022	$ (1,251)	(5,928)	$ (7,179)
Other comprehensive income	184	1,676	1,860
Balance, March 31, 2023	$ (1,067)	$ (4,252)	$ (5,319)
Other comprehensive loss	(850)	(557)	(1,407)
Balance, June 30, 2023	$ (1,917)	$ (4,809)	$ (6,726)
Other comprehensive income (loss)	656	(6,799)	(6,143)
Balance, September 30, 2023	$ (1,261)	$ (11,608)	$ (12,869)

	Unrealized Gains (Losses) on Available-for-Sale Investments	Foreign Currency Translation	Total
Balance, December 31, 2021	$ (207)	$ (1,110)	$ (1,317)
Other comprehensive loss	(489)	(1,072)	(1,561)
Balance, March 31, 2022	$ (696)	$ (2,182)	$ (2,878)
Other comprehensive loss	(161)	(2,166)	(2,327)
Balance, June 30, 2022	$ (857)	$ (4,348)	$ (5,205)
Other comprehensive loss	(326)	(2,275)	(2,601)
Balance, September 30, 2022	$ (1,183)	$ (6,623)	$ (7,806)

Note 15 - Segment Data

Our operations comprise two reportable segments: the TASER segment and the Software and Sensors segment.In both segments, we report sales of products and services. Service revenue in both segments includes sales related to Axon Evidence. In the TASER segment, service revenue also includes digital subscription training content. In the Software and Sensors segment, service revenue also includes Axon Cloud revenue. Our Chief Executive Officer, who is our CODM, is not provided asset information, R&D expenses, or SG&A expenses by segment.

During the three months ended March 31, 2024, the segment measure of profit and loss used by the CODM was changed from gross margin to adjusted gross margin, defined as gross margin before non-cash stock-based compensation expense and amortization of acquired intangible assets. This change in segment measure allows the CODM to better assess operating results over time and is consistent with how the CODM evaluates our businesses. Accordingly, we have updated our segment disclosure for the three months ended March 31, 2023 to conform to the new presentation.

Information relative to our reportable segments was as follows (in thousands):

	Three Months Ended September 30, 2023			Three Months Ended September 30, 2022		
	TASER	Software and Sensors	Total	TASER	Software and Sensors	Total
Net sales from products	$ 153,375	$ 103,068	$ 256,443	$ 139,267	$ 71,131	$ 210,398
Net sales from services	9,195	147,963	157,158	5,616	95,740	101,356
Net sales	162,570	251,031	413,601	144,883	166,871	311,754
Cost of product sales	59,746	56,532	116,278	53,422	40,302	93,724
Cost of service sales	1,252	40,799	42,051	—	24,773	24,773
Cost of sales	60,998	97,331	158,329	53,422	65,075	118,497
Gross margin	$ 101,572	$ 153,700	$ 255,272	$ 91,461	$ 101,796	$ 193,257
Research and development	$ 15,672	$ 61,208	$ 76,880	$ 13,864	$ 45,263	$ 59,127

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	Nine Months Ended September 30, 2023			Nine Months Ended September 30, 2022			Three Months Ended March 31,	
		Software and			Software and		2024	2023
TASER segment net sales							$ 178,748	$ 134,282
Software and Sensors segment net sales							281,988	208,761
Total consolidated net sales							$ 460,736	$ 343,043
	TASER	Sensors	Total	TASER	Sensors	Total		
Net sales from products	$ 426,372	$ 282,934	$ 709,306	$ 382,142	$ 204,511	$ 586,653		
Net sales from services	24,890	397,053	421,943	12,687	254,453	267,140		
Net sales	451,262	679,987	1,131,249	394,829	458,964	853,793		
Cost of product sales	170,297	154,757	325,054	142,510	118,068	260,578		
Cost of service sales	2,517	112,183	114,700	—	70,256	70,256		
Cost of sales	172,814	266,940	439,754	142,510	188,324	330,834		
Adjusted gross margin							$ 291,327	$ 205,422
Stock-based compensation expense							29,595	1,320
Amortization of acquired intangible assets							1,686	—
Gross margin	$ 278,448	$ 413,047	$ 691,495	$ 252,319	$ 270,640	$ 522,959	$ 260,046	$ 204,102
Sales, general and administrative							152,669	116,567
Research and development	$ 46,128	$ 173,619	$ 219,747	$ 37,076	$ 128,014	$ 165,090	91,097	70,927
Interest income, net							10,374	9,666
Other income, net							139,066	15,610
Income before provision (benefit) for income taxes							$ 165,720	$ 41,884

Note 16 – Business Acquisition

During the nine months ended September 30, 2023 On January 31, 2024, we completed an acquisition acquired the remaining 79.7% interest in Fusus, Inc. ("Fusus"), a global leader in real-time crime center technology, for total purchase consideration transferred of $23.9 million approximately $241.3 million, subject to adjustment (the "step acquisition"). The purchase price included $2.2 million of contingent cash consideration, acquisition expands our ability to aggregate live video, data and sensor feeds, which is expected to be earned by the sellers upon meeting specified targets by July 1, 2027. enhances situational awareness and investigative capabilities for our customers in public safety, education and enterprise. Total transaction costs related to the acquisition were $1.7 million $3.5 million for the nine months ended September 30, 2023 period ending March 31, 2024. These transaction costs were expensed as incurred in sales, selling, general and administrative expenses ("SG&A") expenses in our condensed consolidated statements of operations.

Our existing 20.3% interest had a fair value at the acquisition date of $63.3 million, which resulted in a non-taxable gain of $42.3 million. The gain is recorded in other income, net in our condensed consolidated statement of operations for the period ending March 31, 2024. Prior to the step acquisition, the fair value of the previously held investment was determined using Level 3 valuation techniques, which include inputs to the valuation methodology that are considered unobservable and significant to the fair value measurement.

The purchase price allocation is subject to revision during the measurement period pending final asset valuation procedures and related calculations. Based on the purchase price allocation, we recorded $12.9 million $250.7 million of goodwill, $11.5 million $72.9 million of identifiable intangible assets, and $2.3 million $8.1 million in net tangible assets, liabilities, excluding deferred taxes. We acquired recorded a net deferred tax liability of $2.8 million $10.9 million.

With the assistance of third-party valuation experts, we calculated the fair values of intangible assets using the multi-period excess earnings method for the acquired developed technology and the with and without method for customer relationships. The weighted average amortization period of the acquired intangible assets was 7.5 years.

The goodwill generated from the acquisition is primarily attributable to synergies that are expected to be achieved from the integration of the business and is not deductible for tax purposes. We have assigned Following the goodwill to acquisition, the consolidated results of Fusus are included in the Company's Software and Sensors operating segment.

Note 17 – Subsequent Event

On April 30, 2024, we entered into a definitive agreement to acquire the remaining outstanding stock of Dedrone Holdings, Inc. ("Dedrone") for approximately $400.0 million, subject to customary purchase price adjustments. Axon currently holds an approximately 20% ownership interest in Dedrone. Dedrone is a market leader in air space security combining hardware sensors with software to detect, identify, track, and mitigate drones. The proposed acquisition represents alignment to our mission and positions Axon to accelerate the next generation of drone and air space solutions. The proposed transaction would be considered a "step acquisition" under GAAP whereby our ownership interest in Dedrone held before the proposed acquisition is required to be remeasured to fair value as of the closing date of the acquisition. Closing of the acquisition is contingent upon customary closing conditions, including regulatory approval.

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

The following discussion and analysis of our financial condition as of September 30, 2023 March 31, 2024, and results of operations for the three and nine months ended September 30, 2023 March 31, 2024 and 2022, 2023, should be read in conjunction with the condensed consolidated financial statements and related notes included in this Quarterly Report on Form 10-Q and the audited consolidated financial statements and related notes in our 2022 Annual Report on Form 10-K for the year ended December 31, 2023, filed with the SEC on February 28, 2023 February 27, 2024. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in such forward-looking statements as a result of certain factors, including but not limited to those described under "Part II, Item 1A. Risk Factors." See also "Special Note Regarding Forward-Looking Statements" on page ii of this Quarterly Report on Form 10-Q.

Overview

Axon is a technology leader in global public safety. Our moonshot goal is to cut gun-related deaths between police and the public by 50% before 2033. Axon is building the public safety operating system of the future by integrating a suite of hardware devices and cloud software solutions that lead modern policing. Axon's technology suite includes TASER energy devices, body-worn cameras, in-car cameras, cloud-hosted digital evidence management solutions, productivity software and real-time operations capabilities. Axon's growing global customer base includes first responders across international, federal, state, and local law enforcement, fire, corrections, and emergency medical services, as well as the justice sector, commercial enterprises, and consumers.

Our revenues for the three months ended September 30, 2023 March 31, 2024 were $413.6 million $460.7 million, an increase of $101.8 million $117.7 million, or 32.7% 34.3%, from the comparable period in the prior year. We had income from operations of $55.1 million $16.3 million compared to $32.1 million $16.6 million for the same comparable period in the prior year. Gross margin dollars increased $62.0 million $55.9 million and decreased as a percentage of revenue to 61.7% 56.4% from 62.0% 59.5% compared to the three months ended September 30, 2022 March 31, 2023. The decrease was primarily driven by lower higher stock-based compensation expense and payroll taxes related to vesting events from a one-time RSU program for employees under a specified compensation threshold, as well as intangibles amortization from acquired developed technology. Excluding the impacts of stock-based compensation expense and intangibles amortization in cost of goods sold, gross margin increased to 63.2% for the three months ended March 31, 2024, compared to 59.9% for the same period in our TASER segment resulting from the launch of TASER 10, which is still ramping toward full scale in manufacturing, prior year due to increased mix from lower margin Sensors hardware, of high-margin Axon Cloud & Services revenue and higher professional services costs associated with growth the absence of one-time items related to inventory and other cost adjustments recognized in Fleet 3, partially offset by increased software mix. the first quarter of 2023. Operating expenses increased $39.0 million $56.3 million, reflecting an increase in salaries, benefits and bonus stock-based compensation expense and increases in sales, marketing, and commissions expense, as well as an increase in stock-based compensation expense. professional and consulting expense related to transaction costs. For the three months ended September 30, 2023 March 31, 2024, we recorded net income of $59.4 million $133.2 million, which included a realized gain of $42.3 million related to our acquisition in Fusus, an unrealized gain of $75.6 million related to a strategic investment, and noncash unrealized gain of $4.1 million on $21.8 million related to our investment in CLBT. Net income of $12.1 million $45.1 million for the comparable period in the prior year included an unrealized loss of $10.6 million on marketable securities related to our investment in CLBT along with a unrealized loss of $0.7 million of observable price changes for our existing strategic investments and related warrants.

Our revenues for the nine months ended September 30, 2023 were $1.1 billion, an increase of $277.5 million, or 32.5%, from the comparable period in the prior year. We had income from operations of $112.0 million compared to $70.7 million for the same period in the prior year. Gross margin dollars increased $168.5 million and decreased as a percentage of revenue to 61.1% from 61.3% compared to the nine months ended September 30, 2022. The decrease was primarily driven by lower margin in our TASER segment resulting from the launch of TASER 10, which is still ramping toward full scale in manufacturing, increased mix from lower margin Sensors hardware, and higher professional services costs associated with growth in Fleet 3, partially offset by increased software mix. Operating expenses increased $127.3 million, reflecting an increase in salaries, benefits, and bonus expense and increases in sales, marketing, and commissions expense, as well as an increase in stock-based compensation expense. For the nine months ended September 30, 2023, we recorded net income of $117.0 million, which reflected a noncash unrealized gain of $29.6 million on our investment in CLBT and a noncash unrealized impairment loss of $71.9 million, net, related to a strategic investment and related warrants. Net income was $118.0 million for the comparable period in the prior year included net unrealized gains of $129.4 million related to observable price changes for our existing investments and related warrants and an unrealized loss of $36.9 million on marketable securities $15.6 million related to our investment in CLBT.

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Results of Operations

Three Months Ended September 30, 2023 March 31, 2024 Compared to the Three Months Ended September 30, 2022 March 31, 2023

The following table presents data from our condensed consolidated statements of operations as well as the percentage relationship to total net sales of items included in our statements of operations (dollars in thousands):

	Three Months Ended September 30,				Three Months Ended March 31,			
	2023		2022		2024		2023	
Net sales from products	$ 256,443	62.0 %	$ 210,398	67.5 %	$272,048	59.0 %	$219,389	64.0 %
Net sales from services	157,158	38.0	101,356	32.5	188,688	41.0	123,654	36.0
Net sales	413,601	100.0	311,754	100.0	460,736	100.0	343,043	100.0
Cost of product sales	116,278	28.1	93,724	30.1	151,698	32.9	107,584	31.4
Cost of service sales	42,051	10.2	24,773	7.9	48,992	10.7	31,357	9.1
Cost of sales	158,329	38.3	118,497	38.0	200,690	43.6	138,941	40.5
Gross margin	255,272	61.7	193,257	62.0	260,046	56.4	204,102	59.5
Operating expenses:								
Sales, general and administrative	123,279	29.8	102,023	32.7	152,669	33.1	116,567	34.0
Research and development	76,880	18.6	59,127	19.0	91,097	19.8	70,927	20.7
Total operating expenses	200,159	48.4	161,150	51.7	243,766	52.9	187,494	54.7
Income from operations	55,113	13.3	32,107	10.3	16,280	3.5	16,608	4.8

Interest and other income (loss), net	14,310	3.5	(11,249)	(3.6)				
Interest income, net					10,374	2.3	9,666	2.8
Other income, net					139,066	30.2	15,610	4.6
Income before provision for income taxes	69,423	16.8	20,858	6.7	165,720	36.0	41,884	12.2
Provision for income taxes	10,026	2.4	8,727	2.8	32,502	7.1	(3,255)	(1.0)
Net income	$ 59,397	14.4 %	$ 12,131	3.9 %	$133,218	28.9 %	$ 45,139	13.2 %

The following table presents our revenues disaggregated by geography (in thousands):

	Three Months Ended September 30,			
	2023		2022	
United States	$ 342,090	83 %	$ 264,644	85 %
Other countries	71,511	17	47,110	15
Total	$ 413,601	100 %	$ 311,754	100 %

	Three Months Ended March 31,			
	2024		2023	
United States	$ 392,406	85 %	$ 290,938	85 %
Other countries	68,330	15	52,105	15
Total	$ 460,736	100 %	$ 343,043	100 %

International revenue increased compared to the prior year prior-year comparable period, primarily driven by increased sales in our Europe, Middle East and Africa ("EMEA") and our Asia Pacific ("APAC") regions on large hardware orders during the current quarter. regions.

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Net Sales

Net sales by product line were as follows (dollars in thousands):

	Three Months Ended September 30,				Dollar	Percent	Three Months Ended March 31,				Dollar	Percent
	2023		2022		Change	Change	2024		2023		Change	Change
TASER segment:												
TASER Devices (Professional)	$ 86,718	21.0 %	$ 80,146	25.7 %	$ 6,572	8.2 %	$ 98,676	21.4 %	$ 67,472	19.7 %	$ 31,204	46.2 %
Cartridges	54,279	13.1	46,475	14.9	7,804	16.8	56,198	12.2	46,800	13.6	9,398	20.1
Axon Evidence and Cloud Services	8,975	2.2	5,125	1.7	3,850	75.1	12,221	2.7	7,201	2.1	5,020	69.7
Extended Warranties	8,078	1.9	7,290	2.3	788	10.8	8,526	1.8	7,670	2.2	856	11.2
Other (1)	4,520	1.1	5,847	1.9	(1,327)	(22.7)	3,127	0.7	5,139	1.5	(2,012)	(39.2)
Total TASER segment	162,570	39.3	144,883	46.5	17,687	12.2	178,748	38.8	134,282	39.1	44,466	33.1

Software and Sensors segment:												
Axon Body Cameras and Accessories	52,488	12.7	40,944	13.1	11,544	28.2	51,205	11.1	38,797	11.3	12,408	32.0
Axon Fleet Systems	26,716	6.4	10,139	3.2	16,577	163.5	28,387	6.2	32,972	9.6	(4,585)	(13.9)
Axon Evidence and Cloud Services	150,563	36.4	96,814	31.1	53,749	55.5	175,458	38.1	118,314	34.5	57,144	48.3
Extended Warranties	16,054	3.9	14,511	4.7	1,543	10.6	18,474	4.0	14,085	4.1	4,389	31.2
Other (2)	5,210	1.3	4,463	1.4	747	16.7	8,464	1.8	4,593	1.4	3,871	84.3
Total Software and Sensors segment	251,031	60.7	166,871	53.5	84,160	50.4	281,988	61.2	208,761	60.9	73,227	35.1
Total net sales	$413,601	100.0 %	$311,754	100.0 %	$101,847	32.7 %	$460,736	100.0 %	$343,043	100.0 %	$117,693	34.3 %

(1) TASER segment "Other" includes smaller categories, such as VR hardware, weapons training revenue such as revenue associated with our Master Instructor School, and TASER consumer device sales.

(2) Software and Sensors segment "Other" includes revenue from items including Signal Sidearm, Interview Room, Axon Air and Axon Air. other sensors and equipment.

Net sales for the TASER segment increased 12.2% 33.1% for the three months ended September 30, 2023 March 31, 2024 as compared to the prior year prior-year quarter, primarily due to increases of $6.6 million $31.2 million in TASER devices (professional) revenue and $7.8 million $9.4 million of cartridge revenue. The increase in TASER devices (professional) revenue was primarily related to strong adoption of our next generation product, TASER 10, which began shipping in the first quarter of 2023. The increase in cartridge revenue was primarily due related to higher international volume. Fluctuations in cartridge revenue are generally attributable to customers who are not on cartridge subscriptions plans and periodically purchase in bulk. growing sales of next generation TASER products. Net sales for Axon Evidence and cloud services also increased $3.9 million $5.0 million in the quarter three months ended March 31, 2024 due to an increase in the number of cloud-connected TASER devices in the field, as well as an increase in VR revenue.

Net sales for the Software and Sensors segment increased 50.4% 35.1% for the three months ended September 30, 2023 March 31, 2024 as compared to the prior year prior-year quarter as we continue to add users and associated devices to our network. The increase in the aggregate number of users and the revenue per user increasing adoption of our premium add-on features by our existing customers drove the majority of the increase in Axon Evidence and cloud services revenue of $53.7 million $57.1 million. The $16.6 million increase Net sales of Axon Body cameras and accessories increased $12.4 million due to higher volume. Partially offsetting the increases in the Software and Sensors segment was a decrease of $4.6 million in Axon Fleet systems revenue was primarily driven by higher reflecting lower unit sales as we continue to see strong demand since the release of Fleet 3 in 2021. The $11.5 million increase in Axon Body Cameras and Accessories revenue was due to increased unit sales and premium product mix driven by demand for our next generation product, Axon Body 4, which began shipping at the end of the second quarter of 2023. volumes on more normalized deployment timelines. An increase in cameras, docks and Axon Fleet systems in the field drove the $1.5 million $4.4 million increase in extended warranties revenue, as most of those devices are sold with extended warranties warranties..

We consider total company future contracted revenues a forward-looking performance indicator. As of September 30, 2023 March 31, 2024, we had approximately $5.8 billion $7.0 billion of total company future contracted revenue, which included both recognized contract liabilities as well as amounts that will be invoiced and recognized in future periods. We currently expect to recognize between 15% - 25% of this balance over the next 12 months, and expect the remainder to be recognized over the following ten years, subject to risks related to delayed deployments, budget appropriation or other contract cancellation clauses.

Gross Margin

As a percentage of net sales, gross margin for the TASER segment decreased to 62.5% 50.7% from 63.1% 62.2% for the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively. The decrease was primarily due to increased stock-based compensation expense and payroll taxes related to vesting events from a one-time RSU program. Excluding the impacts of stock-based compensation expense, gross margin for the TASER segment is 61.8% for the three months ended March 31, 2024, compared to 62.4% for the same period in 2023. The decrease is due to the introduction of our next generation device, TASER 10, which began shipping at the end of the first quarter of 2023 and is still ramping toward full scale in manufacturing. manufacturing, partially offset by the absence of non-recurring inventory reserves recognized in the first quarter of 2023.

As a percentage of net sales, gross margin for the Software and Sensors segment increased slightly to 61.2% 60.1% from 61.0% 57.8% for the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively. Within the Software and Sensors segment, hardware gross margin increased to 45.2% 38.7% for the three months ended September 30, 2023 March 31, 2024 compared to 43.3% 38.2% for the same period in 2022 due 2023. Excluding the impacts of stock-based compensation expense and intangibles amortization, hardware gross margin increased to scale efficiencies from higher Fleet volume and growth in our next generation product, Axon Body 4. Service margin decreased to 72.4% 46.9% for the three months ended September 30, 2023 from 74.1% March 31, 2024, compared to 38.6% for the same period in 2022 2023 due to favorable product mix and manufacturing overhead reallocations made in the second quarter of 2023. Service margin decreased to 72.8% for the three months ended March 31, 2024 from 73.2% for the same period in 2023 primarily due to increased stock-based compensation expense and payroll taxes related to vesting events from a one-time RSU program. Excluding the impacts of stock-based compensation expense and intangibles amortization, service margin increased to 74.5% for the three months ended March 31, 2024, compared to 73.8% for the same period in 2023 due to a higher lower mix of lower margin professional services revenue.

We anticipate an increase in stock-based compensation expense reflected within cost of goods sold as a result of RSUs granted in January 2024 that generally vest in five annual installments from March 2024 through March 2028. These RSUs were granted to employees whose compensation was under a specified threshold, including production-line employees. As previously disclosed in Note 15 to our consolidated financial statements included within our Annual Report on Form 10-K for the year ended December 31, 2023, Patrick W. Smith, our Chief Executive Officer, agreed to compensation in a lesser amount than the Compensation Committee of our Board of Directors was otherwise willing to provide so that the Company could instead provide enhanced compensation opportunities to other employees of the Company. If instead he had accepted higher compensation, it would have been reflected in SG&A expenses over a similar period.

Sales, General and Administrative Expenses

SG&A expenses were comprised as follows (dollars in thousands):

	Three Months Ended September 30,		Dollar	Percent	Three Months Ended March 31,		Dollar	Percent
	2023	2022	Change	Change	2024	2023	Change	Change
Total sales, general and administrative expenses	$ 123,279	$ 102,023	$ 21,256	20.8 %	$ 152,669	$ 116,567	$36,102	31.0 %
Sales, general, and administrative expenses as a percentage of net sales	29.8 %	32.7 %			33.1 %	34.0 %		

Professional and consulting expense increased $8.3 million in comparison to the prior year comparable period, which was primarily attributable to transaction costs related to the recent acquisition of Fusus.

Stock-based compensation expense increased $7.7 million in comparison to the prior year comparable period, which was primarily related to increased headcount and additional grants that were awarded to employees whose compensation was under a specified threshold.

Salaries, benefits and bonus expense increased $13.5 million $5.7 million in comparison to the prior year comparable period, which was primarily attributable to an increase in headcount and higher wages. Benefits

Sales and marketing and travel expense also reflected higher self-insured medical expense related to increased medical plan enrollment and higher claims during the current quarter.

Stock-based compensation expense decreased $1.4 million$7.3 million in comparison to the prior year comparable period, which period. The increase was primarily attributable to an increase of commissions of $5.2 million as a decrease result of $4.3 million in higher revenue. Travel

expense related increased $2.6 million due to higher seasonal travel for company events compared to the XSPP and CEO Performance Award. The decrease in stock-based compensation expense related to XSPP and CEO Performance Award was due to the attainment of the final market capitalization goals earlier in 2023. Partially offsetting the decrease was higher expense related to increased headcount and new performance stock awards issued to certain employees. prior-year comparable period.

Sales commissions increased $6.1 million in comparison to the prior year comparable period, tied to higher revenue.

Partially offsetting the increase in SG&A expense for the quarter were $2.6 million of insurance recoveries.

Research and Development Expenses

R&D expenses were comprised as follows (dollars in thousands):

	Three Months Ended September 30,		Dollar	Percent	Three Months Ended March 31,		Dollar	Percent
	2023	2022	Change	Change	2024	2023	Change	Change
Total research and development expenses	$ 76,880	$ 59,127	$ 17,753	30.0 %	$ 91,097	$ 70,927	$20,170	28.4 %
Research and development expenses as a percentage of net sales	18.6 %	19.0 %			19.8 %	20.7 %		

Within the TASER segment, R&D expense increased $1.8 million in comparison to the prior year comparable period. The increase is attributable to headcount growth driving increases in compensation, Salaries, benefits and bonus expense.

R&D expense for the Software and Sensors segment increased $15.9 million $14.1 million in comparison to the prior year comparable period, reflecting which was primarily attributable to an increase of $9.9 million in salaries, benefits, and bonus expense due to higher headcount and higher wages.

Stock-based compensation expense increased wages. Additionally, there $4.8 million in comparison to the prior year comparable period, which was a $2.6 million increase related to stock-based compensation expense, primarily related to increased headcount. Internal cloud costs increased $1.7 million primarily related to software product headcount

development. Professional and consulting expenses increased $1.0 million primarily related to software feature development and continued investment in Axon Body 4.

Interest and Income, Net

Interest income, net, was as follows (dollars in thousands):

	Three Months Ended March 31,	
	2024	2023
Interest income	$ 12,130	$ 11,390
Interest expense	(1,756)	(1,724)
Total interest income, net	$ 10,374	$ 9,666

Other Income, (Loss), Net

Interest and other Other income, (loss), net, was income of ***$14.3 million for the three months ended September 30, 2023, compared to a loss of $11.2 million for the same period*** ***as follows (dollars in 2022. During the third quarter of 2023, we recorded interest expense of $1.8 million primarily related to our 2027 Notes, partially offset by an unrealized gain of $4.1 million related to our investment in CLBT and interest income of $12.5 million on our available-for-sale securities*** ***thousands):. For additional information regarding our 2027 Notes, refer to Note 9 to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q. During the three months ended September 30, 2022, we recorded an unrealized loss of $10.6 million on marketable securities related to our investment in CLBT.***

	Three Months Ended March 31,	
	2024	2023
Realized and unrealized gains on fair value adjustments of strategic investments, net	$ 117,931	—
Unrealized gain on marketable securities, net	21,780	15,570
Gain (loss) on foreign currency transactions, net	88	(37)
Other, net	(733)	77
Other income, net	$ 139,066	$ 15,610

Provision for Income Taxes

The provision for income taxes was an expense of $10.0 million $32.5 million for the three months ended September 30, 2023 March 31, 2024, which was an effective tax rate of 14.4% 19.6%. Our estimated annual effective income tax rate for 2024, before discrete period adjustments, is 21.9%, which differs from the federal statutory rate primarily due to the impact of R&D tax credits and net gain related to an investment transaction not recognized for tax, offset by the executive compensation limitation under IRC Section 162(m) on projected pre-tax income for the year. The effective tax rate was favorably impacted by a $4.1 million discrete tax benefit associated with net windfalls related to stock-based compensation for RSUs and PSUs that vested during the three months ended March 31, 2024.

The provision for income taxes was a benefit of $3.3 million for the three months ended March 31, 2023, which was an effective tax rate of -7.8%. Our estimated full year effective income tax rate for 2023, before discrete period adjustments, is 17.4% 22.8%, which differs from the federal statutory rate primarily due to the impact of R&D tax credits and decrease in valuation allowance offset by the executive compensation limitation under IRC Section 162(m) and an increase in unrecognized tax benefits, on projected pre-tax income for the year. The effective tax rate was favorably impacted by a $2.9 million

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$13.0 million discrete tax benefit associated with net windfalls related to stock-based compensation for RSUs and PSUs that vested and stock options that were exercised during the three months ended September 30, 2023. March 31, 2023, primarily attributable to the vesting of tranche 10 of the eXponential Stock Plan (“2019 XSPP”) in March 2023.

In December 2021, the Organization for Economic Co-operation and Development (“OECD”) published a framework for Pillar Two of the Global Anti-Base Erosion Rules (“GloBE”). The provision for GloBE rules were designed to coordinate participating jurisdictions in updating the international tax system to ensure that large multinational companies pay a minimum level of income taxes was an expense of

$8.7 million for tax. Recommendations from the three months ended September 30, 2022, which was an effective tax rate of 41.8%. Our estimated full year effective OECD regarding a global minimum income tax rate for 2022, before discrete period adjustments, is 28.0%. The effective tax rate was favorably impacted by a $0.2 million discrete tax expense associated with shortfalls related and other changes are being considered and/or implemented in jurisdictions where we operate. We believe enactment of the recommended framework in jurisdictions where we operate will result in minimal impacts to stock-based compensation for RSUs and PSUs that vested during our financial results in the three months ended September 30, 2022.

near term.

Net Income

We recorded net income of $59.4 million $133.2 million for the three months ended September 30, 2023 March 31, 2024 compared to net income of $12.1 million $45.1 million for the same period in 2022. 2023. Net income per basic share was $0.79 $1.77 for the three months ended September 30, 2023 March 31, 2024 compared to $0.17 $0.62 net income per basic share for the same period in 2022 2023. Net income per diluted share was $0.78 $1.73 for the three months ended September 30, 2023 March 31, 2024 compared to $0.17 $0.61 net income per diluted share for the same comparable period in 2022 2023.

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Three Months Ended September 30, 2023 March 31, 2024 Compared to the Three Months Ended June 30, 2023 December 31, 2023

Net Sales

Net sales by product line were as follows (dollars in thousands):

	Three Months Ended September 30, 2023		Three Months Ended June 30, 2023		Dollar Change	Percent Change	Three Months Ended March 31, 2024		Three Months Ended December 31, 2023		Dollar Change	Percent Change
TASER segment:												
TASER Devices (Professional)	$ 86,718	21.0 %	$ 84,975	22.7 %	$ 1,743	2.1 %	$ 98,676	21.4 %	$ 94,758	21.9 %	$ 3,918	4.1 %
Cartridges	54,279	13.1	48,425	12.9	5,854	12.1	56,198	12.2	43,781	10.1	12,417	28.4
Axon Evidence and Cloud Services	8,975	2.2	8,494	2.3	481	5.7	12,221	2.7	10,105	2.4	2,116	20.9
Extended Warranties	8,078	1.9	7,715	2.0	363	4.7	8,526	1.8	8,226	1.9	300	3.6
Other (1)	4,520	1.1	4,801	1.3	(281)	(5.9)	3,127	0.7	4,473	1.0	(1,346)	(30.1)
Total TASER segment	162,570	39.3	154,410	41.2	8,160	5.3	178,748	38.8	161,343	37.3	17,405	10.8
Software and Sensors segment:												
Axon Body Cameras and Accessories	52,488	12.7	32,781	8.8	19,707	60.1	51,205	11.1	58,957	13.7	(7,752)	(13.1)
Axon Fleet Systems	26,716	6.4	35,960	9.6	(9,244)	(25.7)	28,387	6.2	22,481	5.2	5,906	26.3

Axon Evidence and Cloud Services	150,563	36.4	132,102	35.3	18,461	14.0	175,458	38.1	165,204	38.2	10,254	6.2
Extended Warranties	16,054	3.9	15,166	4.0	888	5.9	18,474	4.0	17,272	4.0	1,202	7.0
Other (2)	5,210	1.3	4,186	1.1	1,024	24.5	8,464	1.8	6,885	1.6	1,579	22.9
Software and Sensors segment	251,031	60.7	220,195	58.8	30,836	14.0	281,988	61.2	270,799	62.7	11,189	4.1
Total net sales	$413,601	100.0 %	$374,605	100.0 %	$38,996	10.4 %	$460,736	100.0 %	$432,142	100.0 %	$28,594	6.6 %

(1) TASER segment “Other” includes smaller categories, such as VR hardware, weapons training revenue such as revenue associated with our Master Instructor School, and TASER consumer device sales.

(2) Software and Sensors segment “Other” includes revenue from items including Signal Sidearm, Interview Room, Axon Air and Axon Air. other sensors and equipment.

Net sales within the TASER segment increased by approximately $8.2 million $17.4 million, or 5.3% 10.8%, during the three months ended September 30, 2023 March 31, 2024 compared to the prior quarter, primarily due to a $5.9 million increase in cartridge revenue. quarter. The increase in cartridge revenue was primarily due is related to strong adoption of TASER 10 and higher international cartridge volume. Fluctuations in cartridge revenue are generally attributable to customers who are not on cartridge subscriptions plans and periodically purchase in bulk. TASER devices (professional) revenue increased by $1.7 million due to volume shift to TASER 10.

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Within the Software and Sensors segment, net sales increased $30.8 million $11.2 million, or 14.0% 4.1%, during the three months ended September 30, 2023 March 31, 2024 compared to the prior quarter. The increase in the aggregate number of users average revenue per user, and add-ons increasing adoption of our premium add-on features by our existing customers drove the majority of the increase in Axon Evidence and cloud services revenue of $18.5 million $10.3 million. Axon Body cameras and accessories Fleet revenue increased $19.7 million on increased $5.9 million primarily due to higher unit sales and premium product mix driven by demand for our next generation product, Axon Body 4, which began shipping at the end of the second quarter in 2023. sales. Partially offsetting the increases in the Software and Sensors segment was a decrease of $9.2 million in Axon Fleet revenue primarily reflecting lower unit volume due to timing of shipments related to customer-driven deployment schedules.

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Nine Months Ended September 30, 2023 Compared to the Nine Months Ended September 30, 2022

The following table presents data from our condensed consolidated statements of operations as well as the percentage relationship to total net sales of items included in our statements of operations (dollars in thousands):

Nine Months Ended September 30,

	2023		2022	
Net sales from products	$ 709,306	62.7 %	$ 586,653	68.7 %
Net sales from services	421,943	37.3	267,140	31.3
Net sales	1,131,249	100.0	853,793	100.0
Cost of product sales	325,054	28.7	260,578	30.5
Cost of service sales	114,700	10.2	70,256	8.2
Cost of sales	439,754	38.9	330,834	38.7
Gross margin	691,495	61.1	522,959	61.3
Operating expenses:				
Sales, general and administrative	359,768	31.8	287,157	33.6
Research and development	219,747	19.4	165,090	19.4
Total operating expenses	579,515	51.2	452,247	53.0
Income from operations	111,980	9.9	70,712	8.3
Interest and other income (loss), net	(12,782)	(1.1)	91,076	10.6
Income before provision for income taxes	99,198	8.8	161,788	18.9
Provision for (benefit from) income taxes	(17,758)	(1.6)	43,824	5.1
Net income	$ 116,956	10.4 %	$ 117,964	13.8 %

The following table presents our revenues disaggregated by geography (in thousands):

	Nine Months Ended September 30,			
	2023		2022	
United States	$ 954,949	84 %	$ 707,304	83 %
Other Countries	176,300	16	146,489	17
Total	$ 1,131,249	100 %	$ 853,793	100 %

International revenue increased compared to the prior year comparable period, and decreased as a percentage of total revenue. The increase was primarily attributable to large hardware orders during the period in our EMEA and Americas regions.

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Net Sales

Net sales by product line were as follows (dollars in thousands):

	Nine Months Ended September 30,				Dollar	Percent
	2023		2022		Change	Change
TASER segment:						
TASER Devices (Professional)	$ 239,165	21.1 %	$ 213,623	25.0 %	$ 25,542	12.0 %
Cartridges	149,504	13.2	134,145	15.7	15,359	11.4
Axon Evidence and Cloud Services	24,670	2.2	11,862	1.4	12,808	108.0
Extended Warranties	23,463	2.1	21,428	2.5	2,035	9.5
Other (1)	14,460	1.3	13,771	1.6	689	5.0
Total TASER segment	451,262	39.9	394,829	46.2	56,433	14.3
Software and Sensors segment:						
Axon Body Cameras and Accessories	124,066	11.0	113,399	13.3	10,667	9.4
Axon Fleet Systems	95,648	8.5	39,840	4.7	55,808	140.1

Axon Evidence and Cloud Services	400,979	35.4	258,664	30.3	142,315	55.0
Extended Warranties	45,305	4.0	36,070	4.2	9,235	25.6
Other (2)	13,989	1.2	10,991	1.3	2,998	27.3
Total Software and Sensors segment	679,987	60.1	458,964	53.8	221,023	48.2
Total net sales	$ 1,131,249	100.0 %	$ 853,793	100.0 %	$ 277,456	32.5

(1) TASER segment "Other" includes smaller categories, such as VR hardware, weapons training revenue such as revenue associated with our Master Instructor School, and TASER consumer device sales.

(2) Software and Sensors segment "Other" includes revenue from items including Signal Sidearm, Interview Room and Axon Air.

Net sales for the TASER segment increased $56.4 million, or 14.3%, during the nine months ended September 30, 2023, primarily due to an increase of $25.5 million in TASER devices and $15.4 million in cartridge revenue. We released our next generation device, TASER 10, in the first quarter of 2023, and have begun to see a shift to the next generation device from our prior generation devices. The increase in cartridge revenue was attributable to product mix as we shift from legacy handles to our next generation devices, which have a higher cartridge attachment rate. Net sales for Axon Evidence and cloud services also increased $12.8 million due to an increase in the number of cloud-connected TASER devices in the field, as well as an increase in VR revenue. An increase in TASER devices in the field drove the $2.0 million increase in extended warranties revenue.

Net sales for the Software and Sensors segment increased $221.0 million, or 48.2%, during the nine months ended September 30, 2023 as we continue to add users and associated devices to our network. The increase in the aggregate number of users, average revenue per user, and software add-ons drove the majority of the increase in Axon Evidence and cloud services revenue of $142.3 million. Higher professional services revenue from Axon Fleet installations also contributed to the increase. The $55.8 million increase in Axon Fleet systems revenue was primarily driven by higher unit sales. In addition to the increases in the Software and Sensors segment, Axon Body cameras and accessories revenue increased $10.7 million of $7.7 million on increased unit lower units sales and due to seasonality, partially offset by premium product mix driven by demand for our next generation product, Axon Body 4, which began shipping at the end of the second quarter in 2023. mix. An increase in Axon Body cameras, docks and Axon Fleet systems in the field drove the $9.2 million $1.2 million increase in revenue from extended warranties revenue, as most of those devices are sold with extended warranties. The $3.0 million increase in other revenue was driven by demand for smaller product offerings within the Software and Sensors segment.

Gross Margin

As a percentage of net sales, gross margin for the TASER segment decreased to 61.7% from 63.9% for the nine months ended September 30, 2023 and 2022, respectively. The decrease was primarily due to the launch of TASER 10, which is still ramping toward full scale in manufacturing, increased manufacturing overhead, and nonrecurring inventory reserves incurred in the first quarter of 2023.

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As a percentage of net sales, gross margin for the Software and Sensors segment increased to 60.7% for the nine months ended September 30, 2023 from 59.0% for the nine months ended September 30, 2022. Within the Software and Sensors segment, hardware gross margin was 45.3% for the nine months ended September 30, 2023 compared to 42.3% for the same period in 2022, while service margin decreased to 71.7% from 72.4%, respectively, during each of those same time periods. Hardware gross margin increased due to premium product mix, and scale efficiencies related to Axon Fleet 3. Service margin decreased primarily due to a higher mix of lower margin professional services revenue.

Sales, General and Administrative Expenses

SG&A expenses were comprised as follows (dollars in thousands):

	Nine Months Ended September 30,		Dollar	Percent
	2023	2022	Change	Change

Total sales, general and administrative expenses	$ 359,768	$ 287,157	$ 72,611	25.3 %
Sales, general, and administrative expenses as a percentage of net sales	31.8 %	33.6 %		

Salaries, benefits, and bonus expense increased $44.7 million in comparison to the prior year comparable period. An increase of $35.7 million in salaries, benefits, and bonus expense was attributable to an increase in headcount and higher wages. Additionally, $9.0 million was attributed to payroll taxes related to the vesting of three tranches of our XSPP and payroll taxes for CEO option exercises completed during the nine months ended September 30, 2023.

Sales and marketing and travel expenses increased $16.4 million in comparison to the prior year comparable period. The increase was primarily driven by a $13.9 million increase in sales commissions tied to increased revenue. Additionally, expense related to trade shows and seminars increased $3.0 million, primarily driven by our inaugural public safety training conference, TASERCON, in January 2023, where we announced the launch of TASER 10. Travel expense also increased $2.4 million impacted by headcount growth and the increasing cost of lodging and transportation.

Stock-based compensation expense increased $7.4 million in comparison to the prior year comparable period, which was primarily attributable to increased headcount and new PSU awards issued to certain employees. The increase was partially offset by a $0.7 million decrease in stock-based compensation expense related to the XSPP and CEO Performance Award due to the attainment of the final market capitalization goals earlier in 2023.

Partially offsetting the increase in SG&A expense were $3.4 million in insurance recoveries that were recognized during the nine months ended September 30, 2023.

Research and Development Expenses

R&D expenses were comprised as follows (dollars in thousands):

	Nine Months Ended September 30,		Dollar	Percent
	2023	2022	Change	Change
Total research and development expenses	$ 219,747	$ 165,090	$ 54,657	33.1 %
Research and development expenses as a percentage of net sales	19.4 %	19.4 %		

Within the TASER segment, R&D expense increased $9.1 million in comparison to the prior year comparable period, reflecting an increase of $6.5 million in salaries, benefits, and bonus expense and $2.4 million related to stock-based compensation expense reflecting higher headcount.

R&D expense for the Software and Sensors segment increased $45.6 million in comparison to the prior year comparable period, reflecting an increase of $26.3 million in salaries, benefits, and bonus expense due to higher headcount and increased wages. Additionally, there was an increase of $10.6 million in stock-based compensation expense related to increased headcount. Internal cloud costs increased $3.9 million related to software product development. Professional

and consulting expenses increased $2.7 million primarily related to the launch of Axon Body 4, which began shipping in the second quarter of 2023.

Interest and Other Income (Loss), Net

Interest and other income (loss), net was a loss of $12.8 million for the nine months ended September 30, 2023, compared to income of $91.1 million for the same period in 2022. During the nine months ended September 30, 2023, we recorded a net unrealized impairment loss of $71.9 million for an existing strategic investment and related warrants and interest expense of $5.2 million primarily related to our 2027

Notes, partially offset by an unrealized gain of $29.6 million related to our investment in CLBT and investment income of $34.6 million on our available-for-sale securities. For additional information regarding our 2027 Notes, refer to Note 9 to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q. For the nine months ended September 30, 2022, we recorded a net unrealized gain of $129.4 million related to observable price changes for our existing investments and related warrants and the exercise of warrants in one of our strategic investees, which was partially offset in part by a $36.9 million unrealized loss on marketable securities related to our investment in CLBT.

Provision for Income Taxes

The provision for income taxes was a benefit of $17.8 million for the nine months ended September 30, 2023, which was an effective tax rate of (17.9%). Our estimated annual effective income tax rate for 2023, before discrete period adjustments, is 17.4%, which differs from the federal statutory rate primarily due to the impact of R&D tax credits and a decrease in valuation allowance offset by the executive compensation limitation under IRC Section 162(m) and an increase in unrecognized tax benefits, on projected pre-tax income for the year. The effective tax rate was favorably impacted by a $36.8 million discrete tax benefit primarily associated with net windfalls related to stock-based compensation for RSUs and PSUs that vested during the nine months ended September 30, 2023, primarily attributed to the vesting of the final three tranches of XSPP in March and May 2023.

The provision for income taxes was an expense of $43.8 million for the nine months ended September 30, 2022, which was an effective tax rate of 27.1%. Our estimated full year effective income tax rate for 2022, before discrete period adjustments, is 28.0%. The effective tax rate was favorably impacted by a $1.4 million discrete tax benefit primarily associated with net windfalls related to stock-based compensation for RSUs and PSUs that vested during the nine months ended September 30, 2022.

Net Income

We recorded net income of $117.0 million for the nine months ended September 30, 2023 compared to net income of $118.0 million for the same period in 2022. Net income per basic share was $1.58 for the nine months ended September 30, 2023 compared to net income per basic share of $1.66 per basic share for the same period in 2022. Net income per diluted share was $1.56 for the nine months ended September 30, 2023 compared to net income per diluted share of $1.63 per diluted share for the same period in 2022.

Non-GAAP Measures

To supplement We utilize certain non-GAAP financial measures such as EBITDA, Adjusted EBITDA, and Adjusted Gross Margin as defined below to enhance understanding of our financial results presented in accordance and related measures. Beginning with GAAP, our first fiscal quarter of 2024, we present the have added Adjusted Gross Margin to our non-GAAP financial measures measures. We have adjusted for expenses that we believe are not indicative of EBITDA our core operating results, including stock-based compensation expense and Adjusted EBITDA as defined below. amortization of acquired intangible assets. To improve comparability, prior periods have been conformed to the current period presentation. Our management uses these non-GAAP financial measures in evaluating our operating performance in comparison to prior periods. We believe that both management and investors benefit from referring to these non-GAAP financial measures in assessing our performance, and when planning and forecasting our future periods. A reconciliation of GAAP to the non-GAAP financial measures is presented below.

- EBITDA (Most comparable GAAP Measure: Net income) - Earnings before interest expense, investment interest income, income taxes, depreciation and amortization.
- Adjusted EBITDA (Most comparable GAAP Measure: Net income) - Earnings before interest expense, investment interest income, income taxes, depreciation, amortization, non-cash stock-based compensation

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expense, realized and unrealized gains/losses on fair value adjustments to strategic investments and marketable securities, transaction costs related to acquisitions and certain strategic investments, and other unusual, non-recurring pre-tax items. items that are not considered representative of our underlying operating performance.

- Adjusted Gross Margin (Most comparable GAAP Measure: Gross margin) – Gross margin before non-cash stock-based compensation expense and amortization of acquired intangible assets.

Although these non-GAAP financial measures are not consistent with GAAP, management believes investors will benefit by referring to these non-GAAP financial measures when assessing our operating results, as well as when forecasting and analyzing future periods. However, management recognizes that:

- these non-GAAP financial measures are limited in their usefulness and should be considered only as a supplement to our GAAP financial measures;
- these non-GAAP financial measures should not be considered in isolation from, or as a substitute for, our GAAP financial measures;
- these non-GAAP financial measures should not be considered to be superior to our GAAP financial measures; and
- these non-GAAP financial measures were not prepared in accordance with GAAP and investors should not assume that the non-GAAP financial measures presented in this Quarterly Report on Form 10-Q were prepared under a comprehensive set of rules or principles.

EBITDA and Adjusted EBITDA reconciles reconcile to net income as follows (in thousands):

	Three Months Ended			Nine Months Ended		Three Months Ended		
	September 30, 2023	June 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022	March 31, 2024	December 31, 2023	March 31, 2023
Net income	$ 59,397	$ 12,420	$ 12,131	$ 116,956	$ 117,964	$133,218	$ 57,271	$ 45,139
Depreciation and amortization	8,418	7,480	6,206	22,587	18,171	11,564	10,051	6,689
Interest expense	1,762	1,737	3	5,223	14	1,756	1,772	1,724
Investment interest income	(12,220)	(11,400)	(1,098)	(35,010)	(168)	(12,130)	(14,097)	(11,390)
Provision for (benefit from) income taxes	10,026	(24,529)	8,727	(17,758)	43,824	32,502	(1,469)	(3,255)
EBITDA	$ 67,383	$ (14,292)	$ 25,969	$ 91,998	$ 179,805	$166,910	$ 53,528	$ 38,907
Non-GAAP adjustments:								
Stock-based compensation expense	29,987	31,891	28,204	96,228	74,454	75,115	35,130	34,350
Unrealized loss (gain) on strategic investments and marketable securities, net	(4,036)	61,912	11,338	42,306	(92,498)			
Unrealized gain on strategic investments and marketable securities, net						(97,419)	(521)	(15,570)
Gain on remeasurement of previously held minority interest, net						(42,292)	—	—
Transaction costs related to strategic investments and acquisitions	495	455	469	1,793	2,304	6,357	2,708	843

Loss on disposal, abandonment, and impairment of property, equipment and intangible assets, net	137	24	1,795	317	2,032	—	—	156
Insurance recoveries (1)	(2,615)	(789)	—	(3,404)	—			
Costs related to FTC litigation	71	1	—	72	295			
Payroll taxes related to XSPP vesting and CEO Award option exercises	201	2,368	—	8,961	—			
Costs related to antitrust and FTC litigation						224	169	—
Payroll taxes related to 2019 XSPP vesting and 2018 CEO Performance Award option exercises						—	50	6,392
Adjusted EBITDA	$ 91,623	$ 81,570	$ 67,775	$ 238,271	$ 166,392	$108,895	$ 91,064	$ 65,078

(1) Presentation of

Adjusted EBITDA for the three months ended June 30, 2023 has been recast Gross Margin reconciles to conform to the current presentation, and reflects insurance recoveries that were immaterial to that period. Adjusted EBITDA for the nine months ended September 30, 2023 reflects total year-to-date insurance recoveries. gross margin as follows (in thousands):

	Three Months Ended March 31, 2024			Three Months Ended March 31, 2023		
	TASER	Software and Sensors	Total	TASER	Software and Sensors	Total
Gross margin	$ 90,690	$ 169,356	$ 260,046	$ 83,519	$ 120,583	$ 204,102
Stock-based compensation expense	19,781	9,814	29,595	310	1,010	1,320
Amortization of acquired intangible assets	—	1,686	1,686	—	—	—
Adjusted gross margin	$ 110,471	$ 180,856	$ 291,327	$ 83,829	$ 121,593	$ 205,422
Gross margin	50.7 %	60.1 %	56.4 %	62.2 %	57.8 %	59.5 %
Adjusted gross margin	61.8 %	64.1 %	63.2 %	62.4 %	58.2 %	59.9 %

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Liquidity and Capital Resources

Summary

As of September 30, 2023 March 31, 2024, we had $406.0 million $403.9 million of cash and cash equivalents, an increase a decrease of $52.4 million $194.7 million as compared to December 31, 2022 December 31, 2023. Cash and cash equivalents and available-for-sale investments totaled $1.1 billion $964.1 million as of March 31, 2024, representing an increase a decrease of $30.1 million $278.5 million from December 31, 2022 December 31, 2023.

Our most significant source of liquidity continues to be funds generated by operating activities and available cash and cash equivalents and short-term investments. In addition, our $200.0 million revolving credit facility is available for additional working capital needs or investment opportunities. Under the terms of the line of credit, available borrowings are reduced by outstanding letters of credit. Advances under the line of credit bear interest at Term SOFR plus 1.25 1.25% to

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1.75% per year determined in accordance with a pricing grid based on our net debt to EBITDA ratio, which for purposes of the credit agreement excludes investment interest income.

As of September 30, 2023 March 31, 2024, we had letters of credit outstanding of $7.4 million $7.5 million, leaving the net amount available for borrowing of $192.6 million $192.5 million. The credit agreement will mature on the earlier of December 15, 2027 or the date that is six months prior to the stated maturity date of our 2027 Notes unless the Notes have been redeemed, repurchased, converted or defeased in full. Additionally, the credit agreement has an accordion feature that allows for an increase in the total line of credit up to $300.0 million, in each lender's sole discretion. At September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, there were no borrowings outstanding under the line.

There can be no assurance that we will continue to generate cash flows at or above current levels or that we will be able to maintain our ability to borrow under our revolving credit facility.

Our agreement with the bank requires us to comply with a net leverage ratio, defined as consolidated total indebtedness to EBITDA, of no greater than 3.50 to 1.00 based upon a trailing four fiscal quarter period. At September 30, 2023 March 31, 2024, our net leverage ratio was 0.27 (0.15) to 1.00. Additionally, we must comply with a consolidated interest coverage ratio, defined as EBITDA to consolidated interest expense, of no less than 3.50 to 1.00 based upon a trailing four fiscal quarter end. We are compliant with the At March 31, 2024, our consolidated interest coverage ratio was 51.03 to 1.00.

TASER subscription and installment purchase arrangements typically involve amounts invoiced in five equal installments at the beginning of each year of the five-year term. This is in contrast to a traditional CED sale in which is not meaningful the entire amount being charged for the period ended September 30, 2023. hardware is invoiced upon shipment. This impacts liquidity in a commensurate fashion, with the cash for the subscription or installment purchase received in five annual installments rather than up front. Our strategy includes continuing to shift an increasing amount of our business to a subscription model, to better match the municipal budgeting process of our customers as well as to allow for multiple product offerings to be bundled into existing subscriptions. We carefully considered the cash flow impacts of this strategic shift and regularly revisit our cash flow forecast with the goal of maintaining a comfortable level of liquidity as we continue to offer products and services in which we incur upfront cash costs to produce and fulfill hardware sales ahead of the cash inflows from our customers.

Based on our strong balance sheet at September 30, 2023 Our primary sources of liquidity are cash flows from operations, existing cash and successful Notes offering completed during 2022, we believe financing will be available, both through cash equivalents and investments and credit capacity under our existing credit line and possible facility. Additionally, we believe we have access to additional financing. However, there is no assurance that such funding will be available on terms acceptable to us, or at all.

We believe that our sources of funding will be sufficient to satisfy our currently anticipated cash requirements, including capital expenditures, working capital requirements, potential acquisitions or investments, income and payroll tax payments for net-settled stock awards, and other liquidity requirements through at least the next 12 months. We and our Board of Directors may consider repurchases of our common stock. Further repurchases of our common stock would take place on the open market, would be financed with available cash and are subject to authorization as well as market and business conditions.

Cash Flows

The following table summarizes our cash flows from operating, investing and financing activities (in thousands):

	Nine Months Ended September 30,		Three Months Ended March 31,	
	2023	2022	2024	2023
Operating activities	$ 49,225	$ 104,241	$ (15,938)	$ (56,323)
Investing activities	(40,697)	(302,001)	(174,044)	(72,674)
Financing activities	45,132	(2,465)	(2,710)	37,990

Effect of exchange rate changes on cash and cash equivalents	(1,201)	(6,783)	(1,978)	779
Net increase (decrease) in cash and cash equivalents and restricted cash	$ 52,459	$ (207,008)	$ (194,670)	$ (90,228)

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Operating activities

Net cash provided used by operating activities in the first nine three months of 2023 2024 of $49.2 million $15.9 million reflects net income of $117.0 million $133.2 million, non-cash income statement items totaling $107.1 million $33.8 million, and a decrease of $175.0 million $115.4 million for the net change in operating assets and liabilities. Included in the non-cash items were $53.3 million a gain of $97.4 million on strategic

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investments and marketable securities, $75.1 million in stock-based compensation expense, a $42.3 million gain on remeasurement of a previously held minority interest, net, $20.7 million related to an increase in deferred income taxes, $12.1 million $11.6 million in depreciation and amortization expense, and $5.0 million in bond amortization, amortization. Cash used in operations was impacted by an increase in accounts and notes receivable and contract assets of $51.1 million, an increase of $0.7 million in inventory, and a decrease in accounts payable, accrued and other liabilities of $84.3 million. Offsetting this activity was an increase in deferred revenue of $20.7 million. The increase in accounts and notes receivable and contract assets was due to increased sales and timing of satisfied performance obligations compared to customer payments of accounts receivable. The decrease in accounts payable, accrued and other liabilities was driven primarily by lower commissions payable and by the timing of the annual bonus payout.

Net cash used in operating activities in the first three months of 2023 of $56.3 million reflects net unrealized loss income of $42.3 million related to strategic investments $45.1 million, non-cash income statement items totaling $16.0 million, and marketable securities, $96.2 million a decrease of $117.4 million for the net change in operating assets and liabilities. Included in the non-cash items were $34.4 million in stock-based compensation expense, and $22.6 million a decrease of $9.7 million in deferred income taxes, net, $6.7 million in depreciation and amortization expense. expense, and a $15.6 million gain on the change in fair value of marketable securities. Cash provided by operations was favorably impacted by increased deferred revenue of $118.3 million $50.2 million, which was primarily attributable to increased sales where the customer is invoiced before performance occurs. Offsetting this activity was an increase of accounts and notes receivables and contract assets of $182.5 million $50.4 million, an increase in prepaid expenses and other assets of $64.6 million $64.3 million, an increase of $59.6 million $15.8 million in inventory, and a decrease in accounts payable, accrued and other liabilities of $13.4 million. The increase in accounts and notes receivable and contract assets was due to increased sales and timing of satisfied performance obligations compared to customer payments of accounts receivable. The increase in prepaid expenses and other assets was attributable to an increase in deferred commissions related to increased bookings, as well as higher deferred cost of goods sold related to increased sales of Axon Air and Axon Fleet. Inventory increases were a result of advance purchases to support future sales. The decrease in accounts payable, accrued and other liabilities was driven primarily by lower commissions payable and by the timing of the annual bonus payout.

Net cash provided by operating activities in the first nine months of 2022 of $104.2 million reflects net income of $118.0 million, non-cash income statement items totaling $41.6 million, and a decrease of $55.3 million for the net change in operating assets and liabilities. Included in the non-cash items were $74.5 million in stock-based compensation expense, a decrease of $30.3 million in deferred income taxes, net, $18.2 million in depreciation and amortization expense, and a $92.5 million gain on the change in fair value of strategic investments and marketable securities, net. Cash provided by operations was favorably impacted by increased deferred revenue of $115.2 million, which was primarily attributable to increased sales where payment is received from the customer before performance occurs. Additionally, accounts payable, accrued and other liabilities increased $28.7 million due to an increase in accounts payable due to the timing of invoice payments and to increased accrued commissions on higher revenue. Offsetting this activity was an increase of accounts and notes receivables and contract assets of $115.0 million, an increase of $66.3 million in inventory, and an increase in prepaid expenses and other assets of $17.9 million $37.0 million. The increase in accounts and notes receivable and contract assets is due to increased sales and timing of satisfied performance obligations compared to customer payments of accounts receivable. Inventory increases were a result of advance purchases to support future sales. The Of the increase in prepaid expenses and other assets, $33.0 million was primarily driven by a receivable for proceeds from shares sold to cover the tax liability and option cost for options exercised during the first three months of 2023, but settled in April 2023. The decrease in accounts payable, accrued and other liabilities was driven primarily by an increase the timing of deferred commissions related to increased bookings. the annual bonus payout.

Investing activities

Cash used in investing activities during the first nine three months of 2023 2024 was $40.7 million $174.0 million. Cash inflows from investing activities included $34.2 million $89.0 million of proceeds from calls, maturities and sales of available-for-sale investments, net of purchases. The outflows from investing activities included $38.8 million $237.8 million for a business acquisition, $9.1 million for a strategic investment, and strategic investments and $35.6 million $16.2 million for purchases of property and equipment, net of proceeds.

We used $302.0 million $72.7 million of cash for investing activities during the first nine three months of 2022. 2023. Cash outflows from investing activities included $70.5 million for new strategic minority investments, $6.6 million for the exercise price of warrants related to our strategic investments, and $2.1 million for a business acquisition. The outflows also included $178.7 million $64.0 million for the purchase of available-for-sale investments, net of proceeds from calls and maturities. Property and equipment purchases totaled $44.0 million, net of proceeds on disposals. $8.5 million.

Financing activities

Net cash used in financing activities was $2.7 million during the first three months of 2024 and was primarily attributable to income and payroll taxes on behalf of employees who net-settled stock awards during the period.

Net cash provided by financing activities was $45.1 million $38.0 million during the first nine three months of 2023 and was primarily attributable to net proceeds of $94.7 million received from our ATM offering and $54.5 million $39.2 million from the exercise of stock options where shares were sold to cover the exercise price. price and net proceeds of $33.7 million received from our ATM offering. Partially offsetting the net cash inflows was a payment of $104.1 million for income and payroll taxes on behalf of employees who net-settled stock awards during the period, primarily related to the vesting of three tranches of the XSPP.

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Net cash used in provided by financing activities was $2.5 million during the first nine months of 2022 and was primarily attributable to $34.8 million for the payment of income and payroll taxes on behalf of employees who net-settled stock awards during the period. period related to the vesting of tranche 10 of the 2019 XSPP.

Off-Balance Sheet Arrangements

The discussion under the heading off-balance sheet arrangements in Note 13 to our condensed consolidated financial statements within this Quarterly Report on Form 10-Q is incorporated by reference herein.

Critical Accounting Estimates

Our management's discussion and analysis of our financial condition and results of operation is based on our condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosures. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances, and we evaluate our estimates and assumptions on an ongoing basis. While we do not believe that a change in these estimates is reasonably likely, there can be no assurance that our actual results will not differ from these estimates.

Our significant accounting policies are discussed in Note 1 to our consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 December 31, 2023. There Except as noted below, there have been no significant changes to these policies for the nine three months ended September 30, 2023 March 31, 2024.

Business Combinations

Accounting for business combinations requires us to make significant estimates and assumptions, notably at the acquisition date with respect to tangible and intangible assets acquired and liabilities assumed and pre-acquisition contingencies. The fair values of intangible assets are determined utilizing information available as of the acquisition date based on expectations and assumptions that are deemed reasonable by management. Given the considerable judgment involved in determining fair values, we typically obtain assistance from third-party valuation specialists for significant items. Any excess of the purchase price (consideration transferred) over the estimated fair values of net assets acquired is recorded as goodwill.

We may adjust provisional amounts recorded for assets acquired and liabilities assumed to reflect new information, provided we have not exceeded the maximum measurement period of one year from the acquisition date and subsequently obtained facts and circumstances existed as of the acquisition date. While we believe the expectations and assumptions used in valuing assets acquired and liabilities assumed are reasonable, they are inherently uncertain. Unanticipated market or macroeconomic events and circumstances may occur, which could affect the accuracy or validity of the estimates and assumptions, implying that an indicator of impairment could be present. Any such impairment charges could have a material effect on our results of operations.

Item 3. ***Quantitative and Qualitative Disclosures About Market Risk***

Interest Rate Risk

We typically invest in a limited number of financial instruments, consisting principally of investments in money market accounts, certificates of deposit, corporate and municipal bonds with a typical long-term debt rating of "A" or better by any nationally recognized statistical rating organization, denominated in U.S. dollars. All of our cash equivalents and investments are treated as "available-for-sale". We report available-for-sale investments at fair value as of each balance sheet date and record any unrealized gains or losses within accumulated other comprehensive income (loss) as a component of stockholders' equity. The cost of securities sold is determined on a specific identification basis, and realized gains and losses are included in interest and other income (expense), net within the condensed consolidated statements of operations. When the fair value is below the amortized cost of a marketable security, an estimate of expected credit losses is made. The credit-related impairment amount is recognized in the condensed consolidated statements of operations. Credit losses are recognized through the use of an allowance for credit losses account in the condensed consolidated balance sheet and subsequent improvements in expected credit losses are recognized as a reversal of an amount in the allowance account. If we have the intent to sell the security or it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis, then the allowance for the credit loss is written-off and the excess of the amortized cost basis of the asset over its fair value is recorded in the condensed consolidated statements of operations. Based on investment positions as of September 30, 2023 March 31, 2024, a hypothetical 100 basis point increase in interest rates across all maturities would result in a $2.1 million $1.5 million decline in the fair market value of the portfolio. Such losses would only be realized if we sold the investments prior to maturity.

Additionally, we have access to a $200.0 million line of credit borrowing facility which bears interest at SOFR plus 1.25 to 1.75% per year determined in accordance with a pricing grid based on our net leverage ratio and consolidated interest coverage ratio. Under the terms of the line of credit, available borrowings are reduced by outstanding letters of credit, which totaled $7.4 million $7.5 million at September 30, 2023 March 31, 2024. At September 30, 2023 March 31, 2024, there was no amount outstanding under the line of credit, and the available borrowing under the line of credit was $192.6 million $192.5 million. We have not borrowed any funds under the line of credit since its inception; however, should we need to do so in the future, such borrowings could be subject to adverse or favorable changes in the underlying interest rate.

Exchange Rate Risk

Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, in each case compared to the U.S. dollar, related to transactions by our foreign subsidiaries. The majority of our sales to international customers are transacted in foreign currencies and therefore are subject to exchange rate fluctuations on these transactions. The cost of our products to our customers increases when the U.S. dollar strengthens against their local currency, and we may have more sales and expenses denominated in foreign currencies in future years, which could increase our foreign exchange rate risk. Additionally, intercompany sales to our non-U.S. dollar functional currency international subsidiaries are transacted in U.S. dollars, which could increase our foreign exchange rate risk caused by foreign currency transaction gains and losses.

To date, we have not engaged in any currency hedging activities. However, we may enter into foreign currency forward and option contracts with financial institutions to protect against foreign exchange risks associated with certain existing assets and liabilities, certain firmly committed transactions, forecasted future cash flows and net investments in foreign subsidiaries. However, we may choose not to hedge certain foreign exchange exposures for a variety of reasons, including, but not limited to, the prohibitive economic cost of hedging particular exposures. As such, fluctuations in currency exchange rates could harm our business in the future.

Item 4. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer are responsible for the evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Our disclosure controls and procedures are designed to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that because a material weakness exists our disclosure controls and procedures were effective as of March 31, 2024.

There was no change in our internal control over financial reporting as further described below, our disclosure controls and procedures were not effective as of September 30, 2023.

Specifically, during the year quarter ended December 31, 2022, we identified a material weakness in our internal controls stemming from control deficiencies with respect March 31, 2024 that has materially affected, or is reasonably likely to the risks of understatement of software and services revenue and overstatement of deferred revenue. This material weakness in internal control over financial reporting resulted from a failure to effectively manage the migration of triggering events for certain software and services performance obligations during the quote-to-cash phase of the implementation of our Enterprise Resource Planning ("ERP") and related systems in 2021. Additionally, there were limited instances of invoicing errors resulting from ineffective change management of the quote-to-cash systems implementation. The manual business processes for tracking open software and services performance obligations and for monitoring billing events were not sufficiently robust to prevent the errors. The related business processes and account reconciliation detective controls were not designed to operate with a sufficient degree of precision to identify these errors on a timely basis. These deficiencies resulted in immaterial understatements of revenue that accumulated over time and were corrected in the fourth quarter of 2022 as disclosed in Note 1 to the audited consolidated financial statements in Part II, Item 8 of our Annual Report on Form 10-K filed February 28, 2023.

To remediate the material weakness described above, we have designed and implemented new business processes and automation of integrations between our systems as well as enhanced our reconciliation controls and monitoring procedures to properly ensure transactions are identified and recorded timely and accurately.

We have documented and are in the process of assessing and testing the necessary changes in materially affect, our internal control over financial reporting as part of our efforts to comply with Section 404 of the Sarbanes-Oxley Act.

The material weaknesses will not be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. As

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remediation has not yet been completed and tested, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective as of September 30, 2023 at a level that provides reasonable assurance as of the last day of the period covered by this report. reporting.

PART II - OTHER INFORMATION

Item 1. ***Legal Proceedings***

The discussion under the headings Product Litigation and U.S. Federal Trade Commission Antitrust Litigation in Note 13 to our condensed consolidated financial statements included within this Quarterly Report on Form 10-Q is incorporated by reference herein.

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Item 1A. ***Risk Factors***

Risk Factor Summary

The following is only a summary of the principal risks that may materially adversely affect our business, financial condition, results of operations and cash flows. The following should be read in conjunction with the more complete discussion of the risk factors risks we face, which are set forth more fully in "Item 1A. Risk Factors." below.

Strategic Risks

- If law enforcement agencies do not continue to purchase and use our products and services, our growth prospects, operating results and financial condition will be materially adversely affected.
- If our TASER CEDs do not continue to be widely accepted, our growth prospects, operating results and financial condition will be diminished.
- If we are unable to design, introduce, sell and deploy new products or new product features successfully, our business and financial results could be adversely affected.
- We face risks associated with rapid technological change and new competing products.
- Our future success is dependent on our ability to expand sales through direct sales and distributors and our inability to increase direct sales or recruit new distributors would negatively affect our sales.
- Negative publicity could adversely impact sales, which could cause our revenues or operating results to decline.
- Acquisitions of, or investments in, other companies, products, technologies or technologies businesses could disrupt our business, dilute stockholder shareholder value, and adversely affect our operating results.
- Our failure to retain executive officers, including Patrick W. Smith, could adversely impact our business.

Operational Risks

- Unavailability of materials or higher costs could adversely affect our financial results.
- Material adverse developments in domestic and global economic conditions, or the occurrence of other world events, could materially adversely affect our revenue and results of operations.
- To the extent demand for our products increases, our future success will be dependent upon our ability to manage our growth and to increase manufacturing production capacity.
- Delays in product development schedules could adversely affect our revenues and cash flows.
- We expend significant resources in anticipation of a sale and may receive no revenue in return.
- Changes in civil forfeiture laws may affect our customers' ability to purchase our products.
- If our security measures or those of our third-party providers, including cloud storage providers, are breached and unauthorized access is obtained to customers' data or our data, our network, data centers and service may be perceived as not being secure, customers may curtail or stop using our products and services, and we may incur significant legal and financial exposure and liabilities.
- Catastrophic events could materially adversely affect our business, results of operations and/or financial condition.
- If Uncertainty in the development, deployment and use of artificial intelligence ("AI") in our security measures or those of products and services, as well as our third-party cloud storage providers are breached business more broadly, could adversely affect our business and unauthorized access is obtained to customers' data or our data, customers may curtail or stop using our service and we may incur significant legal and financial exposure and liabilities. reputation.
- Defects or disruptions in our services could impact demand for our services and subject us to substantial liability.
- Defects in our products could reduce demand for our products or result in product recalls and result in a loss of sales, delay in market acceptance and damage to our reputation.
- Our international operations expose us to additional risks that could harm our business. business, operating results and financial condition.

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- We depend on our ability to attract and retain our key management, sales and technical personnel.
- If we fail to comply with federal, state or local regulations applicable to TASER 10 CEDs, we may be subject to governmental actions or litigation which that could materially harm our business.
- If we fail to maintain effective internal control over financial reporting, or identify a material weakness or significant deficiency, our ability to accurately and timely report our financial condition and results of operations could be adversely affected, investor confidence could diminish, and the value of our common stock may decline.

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Financial Risks

- An increasing percentage of our revenue is derived from subscription billing arrangements which that may result in delayed cash collections and may increase customer credit risk on receivables and contract assets.
- We may experience a decline in gross margins due to a shift in product sales to Software and Sensors products and services which may continue to carry a lower Our gross margin than that is dependent on a number of TASER devices. factors, including our product mix, cost structure and acquisitions we may make, any of which could cause our gross margin to decline.
- Revenue for our Software-as-a-Service ("SaaS") revenue for Axon Evidence products is recognized over the terms of the contracts, which may be several years, and, as such, trends in new business may not be immediately reflected in our operating results.
- Most of our end-user customers are subject to budgetary and political constraints that may delay or prevent sales.
- Due to government funding rules, certain of our contracts are subject to various cancellation clauses, which could allow our customers to cancel or not exercise options to renew contracts in the future.
- The open bidding process creates uncertainty in predicting future contract awards.
- We maintain most of our cash balances, some of which are not insured, at two depository institutions.
- Stock transactions may have a material, unpredictable impact on our results of operations and may result in dilution to existing shareholders.
- Our financial performance is subject to risks associated with changes in the value of the U.S. dollar versus local currencies.
- Unanticipated changes in our effective tax rate and additional tax liabilities may impact our operating results of operations and financial condition.
- Our revenues and operating results may fluctuate unexpectedly, which may cause our common stock price to decline.
- Our profitability could suffer from declines in fair value or impairment of our investments, including our strategic investments, and could fluctuate if the fair value values of our investments increases. increase.

Legal and Compliance Risks

- We may face personal injury, wrongful death, product liability and other liability claims that harm our reputation and adversely affect our sales and financial condition.
- Other litigation, government inquiries and regulatory actions may subject us to result in significant costs and judgments and divert management attention from our business.
- We have been in the past and may in the future be subject to intellectual property infringement and other claims, which could incur substantial litigation costs, result in significant damage damages awards, inhibit our use of certain technologies, and divert management attention from our business.
- If we are unable to protect our intellectual property, the value of our brands and products may decrease and we may lose our competitive market advantage.
- We may be unable to enforce patent rights internationally, which may limit our ability to prevent our product features from being used by competitors in some foreign jurisdictions.
- The use of open source open-source software in our products, services and technologies may expose us to additional risks and harm our intellectual property. property rights.
- A variety of new and existing laws and/or interpretations could materially and adversely affect our business.

o Our business could be adversely affected by rules and regulations governing our radio spectrum devices.

  - o Changes in statutes, regulations, and interpretation outside of our control may result in our products being classified or reclassified as firearms and could substantially reduce our private citizen market.
  - o Failure to comply with U.S. federal regulations could disrupt our operations.
  - o Our inability to obtain export licenses or classifications on a timely basis for sales of our products to our international customers could adversely affect our international sales.

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  - o Inability to comply with federal regulation of foreign national employees could curtail our ability to execute research and development and production related to CED technology.
  - o Our product sales may be adversely affected by state and local governmental regulation of our TASER-branded devices.
  - o Certain jurisdictions prohibit, restrict, or require a permit for importation, sale, possession or use of CEDs, including in some countries by law enforcement agencies, limiting our international sales opportunities.
  - o Abrupt changes to domestic and international regulation of imports and exports of components in our supply chain can result in delays or interruptions to final product supplies.
  - o Any failure to properly maintain or license our foreign operations could limit our ability to sell, support, or develop our products and services both internationally and in the U.S. market.

- o We may be adversely impacted by environmental or climate change disclosure litigation and new, or changes in, environmental safety laws, regulations or rules.
- o Our inability to adequately address privacy concerns, or comply with applicable laws, regulations, policies, industry standards and guidance, contractual obligations, or other legal obligations, could result in significant regulatory and third-party liability and increased costs and may adversely affect our business.

- We are subject to evolving corporate governance and public disclosure regulations and expectations that could expose us to numerous risks.
- Our amended and restated bylaws include exclusive forum provisions that could increase costs to bring a claim, discourage claims or limit the ability of our shareholders to bring a claim in a judicial forum viewed by shareholders as more favorable for disputes.

Risks Related to our 2027 Convertible Notes

- Servicing our debt requires a significant amount of cash, and we may not have sufficient cash flow to pay our substantial debt.
- The conditional conversion feature of the Notes, if triggered, may adversely affect our operating results.
- Conversion of the Notes may dilute the ownership interest of our stockholders shareholders or may otherwise depress the price of our common stock.
- Changes in the accounting treatment for the Notes may have a material effect on our reported financial results.

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- The convertible note hedge 2027 Note Hedge and warrant Warrant transactions may affect the value of the Notes and our common stock.
- We are subject to counterparty risk with respect to the convertible note hedge transactions.

Because of the following factors, as well as other variables affecting our operating results, our Our past financial performance may not be a reliable indicator of our future performance and historical trends should not be used to anticipate our results or trends in future periods. periods because of the following factors and other variables affecting our operating results. You should carefully consider the trends, risks and uncertainties described below and other information in this Quarterly Report on Form 10-Q 10Q and subsequent reports filed with or furnished to the SEC before making any investment decision with respect to our securities. If any of the following trends, risks or uncertainties actually occurs or continues, our business, financial condition, results of operations or operating results cash flows could be materially adversely affected, the trading prices of our securities could decline, and you could lose all or part of your investment. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by this cautionary statement.

Strategic Risks

We are substantially dependent on acceptance of our products and services by law enforcement markets agencies throughout the world. If law enforcement agencies do not continue to purchase and use our products and services, our growth prospects, operating results and financial condition will be materially adversely affected.

Our largest customer segment is U.S. state and local law enforcement. Axon has a customer relationship with a substantial number of state and local law enforcement agencies in the United States. At any point, whether or not related to the performance of our products and services, law enforcement agencies may elect to no longer purchase or use our CEDs or other products and services. For example, we believe that in the past we believed that our sales were adversely impacted by negative coverage and publicity surrounding our products and services and their use. If law enforcement agencies no longer

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purchase our products and services, or materially decrease their purchases, our growth prospects, operating results and financial condition will be materially adversely affected.

We substantially depend on sales of our TASER CEDs, and if these products do not continue to be widely accepted, our growth prospects, operating results and financial condition will be diminished.

In each of the years ended December 31, 2022 December 31, 2023, 2021 2022 and 2020, 2021, we derived a significant portion of our revenues from sales of TASER brand devices CEDs and related cartridges, products, whether on a standalone basis or as part of a bundled offering, and expect to depend on sales of these products for a significant portion of our revenue for the foreseeable future. The acceptance of these devices is critical to our growth prospects, operating results and financial condition. If we are unable to continue to meet customer demands or to achieve more widespread market acceptance of these products, our growth prospects, operating results and financial condition will be materially adversely affected.

Demand for TASER products is affected by several factors, many of which are beyond our control, including continued market acceptance of our products by our customers, technological change, and growth or contraction of the economy in general. Additionally, our TASER CEDs and other offerings or products could fail to maintain or attain sufficient customer acceptance for many reasons, including:

- our failure to predict market demand accurately in terms of product functionality and to supply offerings that meet this demand;
- real or perceived defects, errors or failures;
- negative publicity about their performance or effectiveness;
- delays in releasing to the market our improved offerings or enhancements;
- introduction or anticipated introduction of competing products; and
- budget constraints or other limitations for our customers.

A decrease in the selling prices of or demand for these products, or their failure to maintain broad market acceptance, would significantly harm our competitive position, growth prospects, operating results and financial condition.

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If we are unable to design, introduce, sell and deploy new products or new product features successfully, our business and financial results could be adversely affected.

Our future success will likely depend on our ability to develop new products or new product features that achieve market acceptance in a timely and cost-effective manner. The development of new products and new product features is complex, time-consuming and expensive, and we may experience delays in completing the development and introduction of new products. We may choose to carry higher levels of inventory to mitigate the risk of production delays, which may in turn expose us to an increased risk of obsolescence.

We have devoted, and continue to devote, significant resources to develop and deploy our cloud-based productivity and real-time operations SaaS solutions, which we continue to broadly deploy to a large number of customers. Customers' Customers' requirements for these products are complex and varied. If we cannot develop scalable solutions that can be consistently configured for customers with minimal effort or grow a professional services team that can consistently configure our products to meet the requirements of large numbers of customers in a timely and cost-effective manner, our ability to broadly scale our cloud-based productivity and real-time operations SaaS solutions could be negatively impacted, and our business prospects, operating results and financial condition could be negatively impacted.

We cannot provide any assurance that products that we may develop in the future will achieve market acceptance. If we fail to develop new products or new product features on a timely basis that achieve market acceptance, our business, financial results and competitive position could be adversely affected.

We face risks associated with rapid technological change and new competing products.

The technology associated with law enforcement devices and software is receiving significant attention and is rapidly evolving. The introduction of products embodying new technologies (such as the use of artificial intelligence AI and machine learning) and the emergence of new industry standards can render existing products obsolete and unmarketable. Additionally, our products and services are expected to meet and keep pace with evolving security standards and requirements of our industry and customers, including those of the U.S. federal government and international governments. While we have some patent protection in certain key areas of our Axon device, CED and SaaS technology, new technology may result in competing products that operate outside our patents and could present significant competition for our products, which could adversely affect our business, financial results and competitive position. Additionally, our competitors may develop competing technologies or products that provide superior features or are less expensive than our products, or our competitors may respond more quickly to new or emerging technologies, undertake more extensive marketing campaigns, have greater financial, marketing, manufacturing and other resources than we do, or may be more successful in attracting potential customers, employees and strategic partners. If we are not able to compete effectively, our business and financial results could be adversely affected.

Our future success is dependent on our ability to expand sales through direct sales and distributors and our inability to increase direct sales or recruit new distributors would negatively affect our sales.

Our distribution strategy is to pursue sales through multiple channels, which is are principally through direct sales and independent distributors. We are focusing on direct sales to larger agencies through our regional sales managers and our inability to grow sales to these agencies in this manner would materially adversely affect our business prospects, operating results and financial condition. In addition, our inability to establish relationships with and retain law enforcement equipment distributors, who we believe can successfully sell our products, would materially adversely affect our business prospects, operating results and financial condition. If we do not competitively price our products, meet the requirements of our distributors or end-users, provide adequate marketing support, or comply with the terms of our distribution arrangements, our distributors may fail to aggressively market our products or may terminate their

relationships with us. These developments would likely have a material adverse effect on our sales. Our reliance on the sales of our products by others also makes it more difficult to predict our revenues, cash flow and operating results.

In certain states and foreign jurisdictions, we have decided to pursue sales directly with law enforcement customers, rather than working through established distribution channels. Our customers may have strong working relationships with distributors, and we may face resistance to this change. If we do not overcome this resistance and effectively build a direct relationship with our customers, sales may be adversely affected.

Negative publicity could adversely impact sales, which could cause our revenues or operation results to decline.

Our business is dependent upon the reputation of the Axon brand. If we are unable to maintain the position of the Axon brand, our business may be adversely affected by diminishing the appeal of the brand to our customer base. This could result in lower sales and earnings.

In addition, unfavorable media or investor and analyst reports related to our industry, company, brand, marketing, personnel, operations, business performance or prospects may affect our common stock price and the performance of our business, regardless of accuracy. Furthermore, the speed at which negative publicity is disseminated has increased dramatically through the use of electronic communication, including social media outlets, websites and other digital platforms. Our success in maintaining and enhancing our brand depends on our ability to adapt to this rapidly changing media environment. Adverse publicity or negative commentary from any media outlets could damage our reputation and reduce the demand for our products and services, which would adversely affect our business and financial results.

Acquisitions of, or investments in, other companies, products, technologies or technologies may require significant management attention and businesses could disrupt our business, dilute stockholder shareholder value, and adversely affect our operating

results.

Our business strategy has in the past and may in the future include acquiring or making investments in other complementary products, technologies or businesses. Identifying and negotiating these transactions can be time-consuming, difficult and expensive, and our ability to close these transactions has in the past and may in the future be subject to third-party approvals, such as government regulatory approvals and certifications, clearances, which are beyond our control. Consequently, we can make no assurance that these transactions once undertaken and announced, will close.

These kinds of acquisitions or investments may result in unforeseen operating difficulties and expenditures. If we acquire businesses, technologies or technologies, products, we may not be able to integrate the acquired personnel, operations, and technologies or products successfully, or effectively manage the combined business following the acquisition. We also may not achieve the anticipated benefits from the acquired business due to a number of factors, including:

- inability to integrate or benefit from acquired products, technologies products, personnel or services businesses in a profitable manner;
- inability to correct or achieve regulatory approvals or certifications;
- unanticipated costs or liabilities associated with the acquisition, including potential liabilities due to litigation, government inquiries and regulatory actions relating to the acquired products, technologies or business and any non-compliance with applicable laws, regulations or contractual requirements;
- potential identified or unknown security vulnerabilities in acquired technologies that expose us to additional security risks or delay our ability to integrate the acquired products into our offerings or recognize the benefits of our investment;
- differences between our values and those of an acquired company, as well as potential disruptions to our workplace culture or how we are perceived by investors;
- incurrence of acquisition-related costs, including costs related to integration activities;
- difficulty integrating the accounting and information systems, operations and personnel of the acquired business;
- inability to augment the acquired technologies and platforms to the levels that are consistent with our brand and reputation;
- difficulties and additional expenses associated with supporting legacy products and hosting infrastructure of the acquired business;
- challenges converting the acquired company's revenue recognition policies and forecasting the related revenues, including subscription-based revenues and software license revenues;

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- potential write-offs of acquired assets or investments, and potential financial and credit risks associated with acquired customers;
- difficulty converting the customers of the acquired business onto our platform and contract terms;
- diversion of management's attention and other company resources;

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- harm to our existing business relationships with business partners and customers as a result of the acquisition;
- the potential loss of key employees;

- use of resources that are needed in other parts of our business; and
- use of substantial portions of our available cash to consummate the acquisition.

We cannot assure you that the anticipated benefits of any acquisition or investment would will be realized or that we would will not be exposed to unknown liabilities or risks. Integrating an acquired technology, asset, or business into our operations can be challenging, complex and costly and we cannot assure you that we will be successful or that the anticipated benefits of the acquisitions that we complete will be realized or outweigh their costs. If our integration and development efforts are not successful unsuccessful and the anticipated benefits of the acquisitions that we complete are not achieved, our business, operating results, financial condition and prospects could be adversely affected.

In connection with these types of transactions, we may issue additional equity securities that would dilute our stockholders, shareholders, use cash that we may need in the future to operate our business, incur debt on terms unfavorable to us or that we are unable to repay, incur large charges or substantial liabilities, encounter difficulties integrating diverse business cultures and values, and become subject to adverse tax consequences, substantial depreciation, or deferred compensation charges. These challenges could adversely affect our business, operating results, financial condition and prospects.

We are highly dependent on the services of our executive officers, including Patrick W. Smith, our Chief Executive Officer. Our failure to retain executive officers could adversely impact our business.

Our future success depends upon our ability to retain executive officers, specifically including Patrick W. Smith, and any failure to do so could adversely impact our business, prospects, new product development, financial condition and operating results.

Among other qualifications, Patrick W. Smith is the founder of Axon and brings extensive executive leadership experience in the technology industry, including the management of worldwide operations, sales, service and support as well as technology innovation as an inventor listed on 48 over 50 U.S. patents. Mr. Smith has been instrumental in building the public safety operating system of the future by integrating a suite of hardware devices and cloud cloud-based software solutions that lead to modern policing and help save lives. From the early days of founding the organization to today as a market leader, Mr. Smith's expertise has brought forth entirely new product categories, including the less-lethal TASER de-escalation platform, body-worn cameras and cloud software that lead to modernized modernize public safety.

The loss of any of our senior management, including Patrick W. Smith, could interrupt our ability to execute our business plan, as such individuals may be difficult to replace.

Operational Risks

Unavailability of materials or higher costs could adversely affect our financial results.

We depend on certain domestic and international suppliers for the delivery of components used in the assembly of our products. Our reliance on third-party suppliers creates risks related to our potential inability to obtain an adequate supply of components or sub-assemblies and reduced control over pricing and timing of delivery of components and sub-assemblies. sub-assemblies, including single or sole-source components used in the manufacture of our products. Specifically, we depend on suppliers of sub-assemblies, machined parts, injection molded plastic parts, printed circuit boards, custom wire fabrications and other miscellaneous customer parts for our products. Although we have and are implementing additional

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long-term agreements with strategic suppliers to mitigate the risk of supply continuity, there remains risk across our supply chain while we extend our supplier contract program, and there is no guarantee that supply will not be interrupted. Additionally, if our suppliers do not accurately forecast and effectively allocate production or if they are not willing to allocate sufficient production to us, or they decommit to us previously agreed to agreed-to supply levels, it may reduce our access to components and require us to search for new suppliers. As the scale of our hardware production increases, we will also need to accurately forecast, purchase, warehouse and transport components at high volumes to our manufacturing facilities. If we are unable to accurately match the timing and quantities of component purchases to our

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actual needs, we may incur unexpected production disruption, storage, transportation and write-off costs, which may harm our business and operating financial results.

Single or sole-source components used in the manufacture of our products may become unavailable or discontinued. Delays caused by industry allocations or obsolescence may take weeks or months to resolve. In some cases, parts obsolescence may require a product re-design to ensure quality replacement components. These delays could cause significant delays in manufacturing and loss of sales, leading to adverse effects significantly impacting our financial condition or results of operations and could harm our reputation. For example, revenue from TASER 7 for 2021 was impacted by approximately $35.0 million for orders that were scheduled to ship prior to December 31, 2021, but could not be fulfilled due to the delayed receipt of a manufacturing component for our TASER 7 devices. Additionally, Axon Body revenue was impacted by approximately $15.5 million for orders that were scheduled to ship prior to December 31, 2021, but could not be fulfilled due to supply chain constraints for our Axon Body 3 devices.

Due to the unique requirements of the TASER 10 CEDs, including the regulation of certain TASER 10 CED components for import into the United States and export from foreign sources, we purchase our raw materials from a limited number of suppliers. Some of the raw materials that are used in the TASER 10 CEDs may be subject to fluctuations in market price, which we may be unable to pass through to our customers to offset market fluctuations. Because of the unique requirements of the TASER 10 CEDs, we cannot change suppliers easily. We may be slower to establish alternative sources of supply for TASER 10 CED components as we continue to refine the design of the product. Any delay or interruption in the supply of the raw materials that are used in the TASER 10 CEDs could impair our ability to manufacture and deliver the TASER 10 CEDs, harm our reputation or cause a reduction in revenues.

A significant number of our raw materials or components comprise petroleum-based products or incur some form of landed cost associated with transporting the raw materials or components to our facility. Our freight and import costs and the timely delivery of our products could be adversely impacted by the materialization or re-emergence of a number of factors which that could reduce the profitability of our operations, including: higher fuel costs (including increased petroleum prices as a result of, among other things, climate change-related regulations); potential port closures; closures or shipping disruptions; customs clearance issues; increased government regulation or regulatory changes for imports of foreign products into the United States; States and exports from foreign sources; delays created by terrorist attacks or threats, public health issues, national disasters or work stoppages; and other matters. We are also subject to supply chain disruption should we learn that any of our suppliers is in violation of legislation that bans the import of goods based on their method of production, such as using forced labor or otherwise. This may also result in negative publicity regarding our production methods, and alleged unethical or illegal practices of any of our suppliers could adversely affect our reputation. Any interruption of supply for any material components of our products could significantly delay the shipment of our products and have a material adverse effect on our revenues, profitability and financial condition. For example, there have been and may continue to be disruptions in the semi-conductor supply chain that could negatively impact our ability to make our products.

International Domestic or domestic international geopolitical or other events, including the imposition of new or increased tariffs and/or quotas by the U.S. government Government on any of these raw materials or components and other government trade policies, could adversely impact the supply and cost of these raw materials or components, and could adversely impact our revenues, profitability and financial condition. In particular, the implementation of tariffs and trade restrictions as well as changes in trade policies between the United States and China have in the past led to some increases in our supply costs and have made it more difficult to obtain suppliers, and may in the future have an adverse effect on our supply chain from a cost and sourcing perspective. We source certain raw materials from China, as do some of our suppliers. We may be unable to transition away from China to other jurisdictions or obtain secondary sources for raw materials, which could result in a material adverse effect on component availability and could result in a material adverse effect on our revenues, profitability and financial condition.

Material adverse developments in domestic and global economic conditions, or the occurrence of other world events, could materially adversely affect our revenue and results of operations.

Various factors contribute to the uncertain economic environment, including the conflict between Russia ongoing conflicts in Gaza and Ukraine, the increase in, and volatility of, interest rates, high inflation, an actual recession or fears of a recession, trade policies and tariffs and geopolitical tensions. Our inability to offset price inflation in our materials, components, shipping or labor through increased prices to customers with long-term fixed fixed-price contracts and formula-based or long-term fixed price fixed-price contracts with suppliers could adversely affect our business, financial condition and results of operations. Global supply chain and labor market challenges could also negatively affect our performance as well as the performance of our

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suppliers. Interest rate increases have also created financial market volatility and could further negatively impact financial markets, lead to an economic downturn or recession or have an adverse effect on our operating financial results. Economic slowdowns can

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also negatively impact municipal and state tax collections and put pressure on law enforcement budgets, which may increase the risk that our customers will be unable to appropriate funds for existing or future contracts with us. In addition, geopolitical risks could affect our customers' budgets and policies. These and other factors may adversely affect customer demand and ability to pay, cause decrease in sales, and negatively impact the realizability of our accounts and notes receivable and contract assets.

To the extent demand for our products increases, our future success will be dependent upon our ability to manage our growth and to increase manufacturing production capacity.

To the extent demand for our products increases significantly in future periods, one of our key challenges will be to increase our production capacity to meet sales demand while maintaining product quality. Our primary strategies to accomplish this include introducing additional shifts, increasing the physical size of our assembly facilities, the hiring of additional production staff, and the implementation of additional customized manufacturing automation equipment. As we develop additional products, we may need to bring new equipment on-line, implement new systems, technology, methods and processes and hire personnel with different qualifications. The costs associated with implementing new manufacturing technologies, methods and processes, including the purchase of new equipment, and any resulting delays, inefficiencies and loss of sales, could harm our financial results. The investments we make in this equipment, technologies or personnel may not yield the anticipated labor and material efficiencies. efficiencies, and we may experience difficulty in attracting and retaining qualified personnel. Our inability to meet any future increase in sales demand or effectively manage our expansion could have a material adverse effect on our revenues, operating results and financial condition.

Delays in product development schedules may adversely affect our revenues and cash flows.

The development of TASER CEDs, devices, sensors and software is a complex and time-consuming process. To achieve market acceptance for our products, we must effectively anticipate customer requirements, and we must offer products that meet changing customer demands in a timely and cost-effective manner. Customers may require product features and capabilities that our current products do not have. If we fail to develop products that satisfy customer requirements, our ability to create or increase demand for our products will be harmed.

Without the timely and cost-effective introduction of new products, services and enhancements, our offerings will likely become less competitive over time, in which case our competitive position and operating results could suffer. New products and services, as well as enhancements to existing products and services, can require long development and testing periods. periods and may require significant investment, including substantial R&D, development of different engineering and manufacturing workflows, and adjustments to our data and analytics infrastructure. Our focus on our SaaS platform also presents complex development issues. Significant delays in new product or service releases or significant problems in creating new products or services could adversely affect our business, growth prospects, operating results, cash flows and competitive position.

We expend significant resources in anticipation of a sale due to our lengthy sales cycle and may receive no revenue in return return..

Generally, law enforcement and corrections agencies our end-user customers consider a wide range of issues before committing to purchase our products, including product benefits, training costs, the cost to use our products in addition to, or in place of, other products, budget constraints and product reliability, safety and efficacy. Because we sell to various types of government entities of multiple sizes, including national agencies, state agencies, county agencies and municipal agencies, which can require varying levels of approvals followed by appropriations, the length of our sales cycle may range from a few weeks to as long as several years. Adverse publicity surrounding our products or the safety of such products has in the past, and could in the future, lengthen our sales cycle with customers. In We believe that in the past we believe that our sales were adversely impacted by negative coverage and publicity surrounding our products or the use of our products. We may incur substantial selling costs and expend significant effort in connection with the evaluation of our products by potential customers before they place an order. If these potential customers do not purchase our products, we will have expended significant resources and received no revenue in return.

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Changes in civil forfeiture laws may affect our customers’ ability to purchase our products.

Some of our customers use funds seized through civil forfeiture proceedings to fund the purchase of our products. From time to time, civil forfeiture proceedings have in the past received and may in the future receive media scrutiny and public criticism. Legislative changes could impact our customers’ ability to seize funds or use seized funds to fund purchases. Changes in civil forfeiture statutes or regulations could limit the amount of funds available to our customers, which could adversely affect the sale of our products.

Catastrophic events could materially adversely affect our business, results of operations and/or financial condition.

A disruption or failure of our systems or operations in the event of a major earthquake, weather event (including those caused or exacerbated by the effects of climate change), fire, explosion, failure to contain hazardous materials, industrial accident, utility failure, cyber-attack, terrorist attack, public health crisis, pandemic, or other catastrophic event could cause delays in completing sales, providing services, or performing other mission-critical functions. A catastrophic event that results in the destruction or disruption of any of our critical business or information technology systems could

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harm our ability to conduct normal business operations and our operating results as well as expose us to claims, litigation and governmental investigations and fines.

Public health emergencies such as the COVID-19 global pandemic have adversely affected workforces, economies, and financial markets globally, and led to an economic downturn in the past and may do so again in the future. As an essential provider of products and services for law enforcement and other first responders, we remain focused on protecting the health and well-being of our employees while assuring the continuity of our business operations.

If our backup and mitigation plans are not sufficient to minimize business disruption, our financial results could be adversely affected. We are continuously monitoring our operations and intend to take appropriate actions to mitigate the risks arising from catastrophic events, but there can be no assurances that we will be successful in doing so.

If our security measures or those of our third-party providers, including cloud storage providers, are breached and unauthorized access is obtained to customers' data or our data, our network, data centers and service may be perceived as not being secure, customers may curtail or stop using our service products and services, and we may incur significant legal and financial exposure and liabilities.

Security breaches of Axon body worn body-worn cameras, docks, Axon Fleet vehicle cameras, Axon Signal devices and Axon Evidence and other cloud services or products could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of our clients' customers' data. Additionally, breaches of our network or data security measures or those of our third-party providers, including cloud storage providers, could disrupt the security of our internal systems and business applications, impair our ability to provide products and services to our clients customers and protect the privacy of their data, result in product development delays, result in theft or misuse of our intellectual property or other assets, require us to allocate more resources to improve technologies, or otherwise adversely affect our business. Any security breach could result in a loss of confidence in the security of our services, damage our reputation, disrupt our business, lead to legal liability, and negatively impact our future sales.

Because the techniques used to obtain unauthorized access, or to sabotage systems, change frequently, grow more complex over time, and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. Moreover, our security measures and those of our third-party service providers or customers have not in the past and may not in the future immediately detect such security breaches if they occur. Although we have developed systems and processes that are designed to protect our data and user data, to prevent data loss, and to prevent or detect security breaches, we have been in the past and expect to continue to be a frequent target of third-party cybersecurity intrusion attempts and we cannot assure that such measures will provide absolute security. We may incur significant costs in protecting against or remediating cyber-attacks.

We devote significant resources to engineer secure products and ensure security vulnerabilities are mitigated, and we require our third-party service providers to do so as well; however, security breaches that have not had a material effect on our business or our third-party service providers have occurred and will continue to occur, including as a result of third-party action, employee error, and malfeasance or otherwise. Remote-work arrangements may also make our systems and employees more susceptible to attack. Breaches could occur during transfer of data-to-data data to data centers or at any time, and result in unauthorized physical or electronic access to our data or our customers' data. Third parties may attempt to fraudulently induce employees or customers into disclosing sensitive information such as usernames, passwords or other information in order to gain access to our data or our customers' data. Additionally, hackers may develop and deploy viruses, worms and other malicious software programs that attack or gain access to our networks and data centers. Recent developments in the threat landscape include use of artificial intelligence AI and machine learning, as well as an increased number of cyber extortion and ransomware attacks, with higher financial ransom demand amounts and increasing sophistication and variety of ransomware techniques and methodology. Increasing socioeconomic and political instability in some countries has heightened these risks. In addition, retaliatory acts by foreign governments in response to Western sanctions could include cyber-attacks that could directly or indirectly impact our operations.

A security breach could expose us to a risk of loss or inappropriate use of proprietary and sensitive data, or the denial of access to this data. A real or perceived security breach could also result in a loss of confidence in the security of our service, products and services, damage our reputation, disrupt our business, damage our reputation, subject us to third-party lawsuits, regulatory fines or investigations or otherwise subject us to legal liability, negatively impact our future sales and significantly harm our growth

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prospects, operating results and financial condition. Even the perception of inadequate security may damage our reputation and negatively affect our ability to win new customers or retain existing customers.

Catastrophic events could materially adversely affect our business, results of operations and/or financial condition.

A disruption or failure of our systems or operations in the event of a major earthquake, weather event (including those caused or exacerbated by the effects of climate change), fire, explosion, failure to contain hazardous materials,

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industrial accident, utility failure, cyber-attack, terrorist attack, public health crisis, pandemic, or other catastrophic event could cause delays in completing sales, providing products and services, or performing other mission-critical functions. A catastrophic event that results in the destruction or disruption of any of our critical operations, or of the capacity, reliability or security of our information technology systems, could harm our ability to conduct normal business activities and our operating results, as well as expose us to claims, litigation and governmental investigations and fines. In addition, catastrophes may put pressure on federal, state and municipal government budgets, which may increase the risk that our customers will be unable to appropriate funds for existing or future contracts with us. These and other factors may adversely affect customer demand and ability to pay, cause decrease in sales, and negatively impact the realizability of our accounts receivable and contract assets.

Public health emergencies have adversely affected workforces, economies and financial markets globally, and led to an economic downturn in the past and may do so again in the future. As an essential provider of products and services for law enforcement and other first responders, we remain focused on protecting the health and well-being of our employees while assuring the continuity of our business operations.

If our backup and mitigation plans are not sufficient to minimize business disruption, our financial results could be adversely affected. We are continuously monitoring our operations and intend to take appropriate actions to mitigate the risks arising from catastrophic events, but there can be no assurances that we will be successful in doing so.

Uncertainty in the development, deployment and use of AI in our products and services, as well as our business more broadly, could adversely affect our business and reputation.

We are building and expect to use systems and tools that incorporate AI-based technologies, including generative AI, for customers and our workforce. For example, Axon makes available a software product, Draft One, which leverages generative AI to draft police report narratives based on auto-transcribed body-worn camera audio. As with many new and emerging technologies, AI presents numerous risks and challenges that could adversely affect our business. The development, adoption and use of generative AI technology remains in early stages, and ineffective or inadequate AI or generative AI development or deployment practices by us or third parties could result in unintended consequences. For example, AI algorithms that we use may be flawed or may be (or may be perceived to be) based on datasets that are biased or insufficient. In addition, any latency, disruption or failure in our AI systems or infrastructure could result in delays or errors in our offerings. Developing, testing and deploying resource-intensive AI systems may require additional investment and increase our costs. There also may be real or perceived social harm, unfairness or other outcomes that undermine public confidence in the deployment and use of AI. Furthermore, third parties may deploy AI technologies in a manner that reduces customer demand for our products and services. Any of the foregoing may result in decreased demand for our products and services or harm to our business, financial results or reputation.

The legal and regulatory landscape surrounding AI technologies is rapidly evolving and uncertain, including in relation to the areas of intellectual property, cybersecurity, and privacy and data protection. For example, there is uncertainty around the validity and enforceability of intellectual property rights related to our development, deployment and use of AI. Additionally, third parties that license AI technologies to us may impose unfavorable licensing terms or terminate the licenses altogether which would require us to seek licenses from alternative sources to avoid disruptions in feature delivery. Compliance with new or changing laws, regulations or industry standards relating to AI may impose significant operational costs and may limit our ability to develop, deploy or use AI technologies. Failure to appropriately respond to this evolving landscape may result in legal liability, regulatory action, or brand and reputational harm.

Defects or disruptions in our services could impact demand for our services and subject us to substantial liability.

We currently serve our Axon Evidence customers from third-party cloud storage providers based in the United States and other countries. The use of these cloud storage providers gives us greater flexibility in efficiently delivering a more tailored, scalable customer experience, but also exposes us to additional risks and vulnerabilities. Lack of availability of this infrastructure could be due to a number of potential causes, including technical failures, natural disasters, fraud or security attacks that we cannot predict or prevent. Interruptions in our service, or loss or corruption of digital evidence, may reduce our revenue, cause us to issue credits or pay penalties, cause customers to file litigation against us, cause customers to terminate their subscriptions and adversely affect our renewal rates and our ability to attract new customers.

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Our business will also be harmed if our customers and potential customers believe our service is unreliable.

Since our customers use our services for important aspects of their operations, any errors, defects, disruptions in service or other performance problems could hurt our reputation and may damage our customers' operations. As a result, customers could elect not to not renew our services or to delay or withhold payment to us. We could also lose future sales or customers may make warranty or other claims against us, which could result in an increase in our warranty expense, an increase in collection cycles for and decline in the collectability of accounts receivable or in the convertibility of contract assets to cash, and an increase in the expense and risk of litigation.

Defects in our products could reduce demand for our products or result in product recalls and result in a loss of sales, delay in market acceptance and damage to our reputation.

Complex components and assemblies used in our products may contain undetected defects that could be subsequently discovered at any point in the life of the product. Errors or defects in our products may only be discovered after they have been tested, commercialized and deployed. If that is the case, we may incur significant additional development costs and product recall, repair or replacement costs, or liability for personal injury or property damage caused by such errors or defects. Our reputation or brand may be damaged as a result of these problems and may result in difficulty retaining current customers and securing new contracts. Defects in our products could result in a loss of sales, delay in market acceptance, damage to our reputation and increased warranty costs, which could adversely affect our business, financial results and competitive position.

Additionally, we are subject to the U.S. Consumer Products Safety Act of 1972, as amended by the Consumer Product Safety Improvement Act of 2008, which empowers the Consumer Products Safety Commission to exclude from the market products that are found to be unsafe or hazardous, and similar laws under foreign jurisdictions. Under certain circumstances, the Consumer Products Safety Commission or comparable foreign agency could require us to repurchase or recall one or more of our products. If we were required to remove, or we voluntarily remove, our products from the market, our reputation could be tarnished, and we might have large quantities of finished products that we could not sell.

Our international operations expose us to additional risks that could harm our business, operating results and financial condition.

Our international operations are significant, and we plan to continue growing internationally by acquiring existing entities and/or setting up new legal entities in new markets. In certain international markets, we have limited operating experience and may not benefit from first-to-market advantages or otherwise succeed. Our international operations expose us to other risks, including the following: including:

- Restrictions restrictions on foreign ownership and investments and stringent foreign exchange controls that might prevent us from repatriating cash earned in countries outside the United States. States;
- Import import and export requirements; requirements, tariffs, trade disputes and barriers, product certification requirements, sanctions and customs classifications which that may prevent us from offering products or providing services to in a particular market country or obtaining necessary parts and components to manufacture products. products;
- Longer longer payment cycles in some countries, increased credit risk, and higher levels of payment fraud. fraud;
- Uncertainty uncertainty regarding liability for our products and services, including uncertainty resulting from local laws and lack of legal precedent. precedent; and

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- Different different labor laws and customs, existence of workers' councils and labor unions, and other challenges caused by distance, language and cultural differences.

In addition, our suite of TASER devices CEDs are regulated by the U.S. Bureau of Industry and Security and require licenses for export abroad. Changes in U.S. Foreign Policy, foreign policy, foreign governmental status and evolving international human rights policy objectives may impact Axon's ability to obtain licenses.

Changes to foreign political, economic, regulatory, tax, social and labor conditions may adversely harm our business. Compliance with complex foreign and U.S. laws and regulations makes it harder to do business in certain jurisdictions, potentially decreases sales, and increases our cost of doing business. These numerous and sometimes

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conflicting laws and regulations include, among others, environmental regulations, climate- and sustainability-related regulations, tax and statutory financial regulations, export and import controls, customs and duties regulations, internal control and disclosure rules, privacy and data protection requirements, anti-corruption laws, such as the U.S. Foreign Corrupt Practices Act, and other local laws prohibiting corrupt payments to governmental officials, and competition regulations, among others.

Violations of these laws and regulations could result in fines and penalties, criminal sanctions against us, our directors, officers or our employees, prohibitions on the conduct of our business and on our ability to offer our products and services in one or more countries, and could also materially adversely affect our brand, international growth efforts, ability to attract and retain employees, business and operating results. Although we have implemented policies and procedures designed to ensure compliance with these laws and regulations, there can be no assurance that our directors, officers, employees, contractors or agents will not violate our policies.

We depend on our ability to attract and retain our key management, sales and technical personnel.

Our success depends upon the continued service of our key management personnel. Our success also depends on our ability to continue to attract, retain and motivate qualified technical employees. Our ability to compete effectively and our future success depends on our continuing to identify, hire, develop, motivate and retain highly skilled personnel. In addition, our compensation arrangements, such as our equity incentives, may not always be successful in attracting new employees and retaining and motivating our existing employees. Restrictive immigration policy and regulatory changes may also affect our ability to hire, mobilize or retain some of our global talent. Although we have employment agreements with our officers and other members of our executive management team, the employment of such persons is "at-will" and either we or the employee can terminate the employment relationship at any time, subject to the applicable terms of the employment agreements. In particular, we expect to continue to face significant challenges in hiring personnel, particularly for executive-level engineering talent, whether as a result of competition with other companies or other factors.

We currently have had and expect to continue to have unique equity incentives designed to attract and retain long-term employees. We utilize these plans to align pay and performance and drive shareholder returns while reducing near-term cash expenditures. Our equity incentives and ongoing stock and option grants are subject to having sufficient shares under our stock plan and any new plans or increases in the number of shares available for grant under existing plans must be approved by our shareholders. If we are unable to obtain shareholder approval, we may be unable to attract and retain top talent, including senior executives. Our ability to attract, retain and motivate employees may also be adversely affected by common stock price volatility. The loss of the service of one or more of our key personnel could adversely impact our business, prospects, financial condition and operating results.

If we fail to comply with federal, state or local regulations applicable to our firearm product, TASER 10, we may be subject to governmental actions or litigation which that could materially harm our business, operating results and financial condition.

The TASER 10 CED is primarily regulated by the ATF, Bureau of Alcohol, Tobacco, Firearms and Explosives (the "ATF"), which licenses the manufacture, sale and import of firearms in the United States. The primary federal laws are the National Firearms Act of 1934, ("NFA"), the Gun Control Act of 1968 ("GCA"), and the Firearms Owners' Protection Act of 1986, ("FOPA"), which have been amended from time to time.

The ATF conducts periodic audits of our Arizona facilities which that hold federal firearms licenses. If we fail to comply with ATF rules and regulations, the ATF may limit our TASER 10 activities or growth related to the TASER 10 CED, fine us, or, ultimately, suspend our ability to produce and sell the TASER 10 product line. There are also various state and local laws, regulations and local ordinances relating to firearm characteristics, features and sales. Axon and local distributors must comply with state and local laws, regulations and ordinances pertaining to firearm and magazine sales in the jurisdictions where the TASER 10 CED is sold. Additionally, certain TASER 10 CED components are regulated for import into the United States by the ATF and are subject to ATF import permits which limits that limit Axon's ability to source from some suppliers leading to a potential decrease

in supply chain agility. Supply chain constraints or an inability to source TASER 10 CED components could have a material adverse effect on our business, prospects, financial condition and operating results.

Federal and state legislatures frequently consider legislation relating to the regulation of firearms, including the amendment or repeal of existing legislation. Existing laws may also be affected by future judicial rulings and

interpretations. These possible changes to existing legislation or the enactment of new legislation may seek to restrict the makeup of a firearm, mandate the use of certain technologies in a firearm, remove existing legal defenses in lawsuits, set minimum age limits to purchase certain firearms, or ban the sale and, in some cases, the ownership of various types of firearms and accessories. Such restrictions or bans could have a material adverse effect on our business, prospects, financial condition and operating results.

If we fail to maintain effective internal control over financial reporting or identify a material weakness or significant deficiency in our internal control over financial reporting, our ability to report our financial condition and results of operations in a timely and accurate manner could be adversely affected, investor confidence in our company could diminish, and the value of our common stock may decline.

Preparing our consolidated financial statements involves a number of complex manual and automated processes, which are dependent upon individual data input or review and require significant management judgment. One or more of these processes may result in errors that may not be detected and could result in a material misstatement or other errors in our consolidated financial statements. Such errors may be more likely to occur when implementing new systems and processes, particularly when implementing evolving and complex accounting rules. The Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") requires, among other things, that as a publicly-traded publicly traded company we disclose whether our internal control over financial reporting and disclosure controls and procedures are effective.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. While we continually undertake steps to improve our internal control over financial reporting as our business changes, we may not be successful in making the improvements and changes necessary to be able to identify and remediate control deficiencies or material weaknesses on a timely basis. For example, we identified a material weakness in our internal controls over revenue recognition and the reporting of deferred revenue for the year ended December 31, 2022 which we are working to remediate that has been remediated as further discussed in Item 4. "Item 9A. Controls and Procedures. Procedures" in our Annual Report on Form 10-K for the year ended December 31, 2023. If we are unable to successfully remediate any current or future material weaknesses in our internal control over financial reporting, the accuracy and timing of our financial reporting may be adversely affected; our liquidity, access to capital markets and perceptions of our creditworthiness may be adversely affected; we may be unable to maintain compliance with securities laws, stock exchange listing requirements and debt instruments' covenants regarding the timely filing of periodic reports; we may be subject to regulatory investigations and penalties; investors may lose confidence in our financial reporting; we may suffer defaults under our debt instruments; and our common stock price may decline.

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Financial Risks

An increasing percentage of our revenue is derived from subscription billing arrangements which that may result in delayed cash collections and may increase customer credit risk on receivables and contract assets.

Our strategy includes continuing to shift an increasing amount of our business to a subscription model, to better match the municipal budgeting process of our customers as well as to allow for multiple product offerings to be bundled into existing subscriptions. This is in contrast to a traditional CED sale in which the entire amount being charged for the hardware is invoiced upon shipment. This impacts liquidity in a commensurate fashion, with the cash for the subscription or installment purchase received in multiple installments rather than up front. While we record an estimate of expected credit losses and perform ongoing reviews of trade accounts receivables, if we become aware of information related to the creditworthiness of a major customer, or if future actual default rates on receivables in general differ from those currently anticipated, we may have to adjust our expected credit loss reserve, which could adversely affect our business, financial condition or operating results.

We Our gross margin is dependent on a number of factors, including our product mix, cost structure and acquisitions we may experience a make, any of which could cause our gross margin to decline.

Our gross margin could decline in gross margins future periods due to a shift in product sales to Software and Sensors products and services which may continue to carry a lower gross margin than that adverse impacts from various factors, including:

- changes in productmix;

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- changes in shipment volume;
- increased warranty costs;
- sales discounts;
- entry into new markets or growth in lower margin markets, including markets with different pricing and cost structures, through acquisitions or internal development;
- our ability to reduce production costs;
- increases in material, labor or other manufacturing-related costs or higher supply chain logistics costs;
- excess inventory and obsolescence charges;
- increased amortization of purchased intangible assets, especially from acquisitions; and
- how well we execute on our strategy and operating plans.

We
continue
to
invest
in Any one of these factors or the growth cumulative effects of the Software and Sensors segment, and this expected growth certain of these factors may result in a higher percentage of total revenues comprising Software and Sensors products and services. Certain hardware and professional services significant fluctuations in this segment may carry lower gross margins compared to software services and to hardware in the TASER segment. For example, in 2022, gross margin as a percentage of net sales for the Software and Sensors segment was 59.5% while it was 63.3% for the TASER segment, and may continue to be lower in the future, thus potentially decreasing our consolidated gross margin. This variability and unpredictability could result in our failure to meet internal expectations or those of securities analysts or investors for a particular period. Failure to meet or exceed such expectations for these or any other reasons may adversely affect the market price of our stock.

Revenue for our SaaS revenue for Axon Evidence products is recognized over the terms of the contracts, which may be several years, and, as such, trends in new business may not be immediately reflected in our operating results.

Our SaaS service revenue is generally recognized ratably over the terms of the contracts, which generally range from one to ten years. As a result, most of the SaaS revenue we report each quarter is the result of agreements entered into during previous quarters. Consequently, current trends, whether positive or negative, in this portion of our business may not be fully reflected in our revenue results for several periods, and a decline in new or renewed SaaS contracts in any period may not be immediately reflected in our reported financial results for that period, but may result in a decline in our revenue in future reporting periods. If any of our assumptions about revenue from our SaaS delivery model prove incorrect, our actual results may vary materially from those anticipated, estimated or projected.

Most of our end-user customers are subject to budgetary and political constraints that may delay or prevent sales. sales, or result in cancellations or non-renewals of contracts.

Most of our end-user customers are government agencies. These agencies often do not set their own budgets and therefore, have limited control over the amount of money they can spend. In addition, these agencies experience political pressure that may dictate the manner in which they spend money. As a result, even if an agency wants to acquire our products, it may be unable to purchase them due to budgetary or political constraints, particularly in challenging economic environments. There can be no assurance that the economic, budgeting or political issues will not worsen and adversely impact sales of our products. Some government agency orders may also be canceled or substantially delayed due to budgetary, political or other scheduling delays, which frequently occur in connection with the acquisition of products by such agencies, and such cancellations may accelerate or be more severe than we have experienced historically. Federal agencies may be particularly impacted by governmental impasse regarding continued government funding and debt limit constraints.

Due to constraints, which has resulted in shutdowns of the federal government funding rules, certain of our contracts are subject to appropriation, termination for convenience, or similar cancellation clauses, which could allow our customers to cancel or not exercise options to renew contracts in the future.*2018 and 2019.*

Although we have entered into contracts for the delivery of products and services in the future and anticipate the contracts will be completed, if agencies do not appropriate money in future year budgets, terminate contracts for convenience or if other cancellation clauses are invoked, revenue and cash associated with these bookings will not ultimately be recognized, and could result in a reduction to bookings and revenue. Termination without cause provisions generally allow agencies to terminate a contract at any time and enable us to recover only our costs incurred or committed and settlement expenses and profit, if any, on the work completed prior to termination. We may or may not be able to recover all the costs incurred during the start-up phase of a terminated contract. The unexpected termination of significant contracts could result in significant revenue shortfalls. If revenue shortfalls occur and are not offset by corresponding reductions in expenses, our business could be adversely affected. We cannot anticipate if, when, or to what extent our customers might terminate their contracts with us.

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The open bidding process creates uncertainty in predicting future contract awards.

Many governmental agencies purchase products and services through an open bidding process. Generally, a governmental entity will publish an established list of requirements requesting potential vendors to propose solutions for the established requirements. To respond successfully to these requests for proposals, we must accurately estimate our cost structure for servicing a proposed contract, the time required to establish operations for the proposed client, customer, and the likely terms of any other third-party proposals submitted. We cannot guarantee that we will win any bids in the future through the request for proposal process, or that any winning bids will ultimately result in contracts on favorable terms. Our contracts typically run for a fixed number of years and may be extended for an additional specified number of years if the contracting entity or its agent elects to do so. When these contracts expire, they may be opened for bidding by competing bidders, and there is no guarantee that the contracts will be renewed or extended. Our customers may elect to open bidding processes up earlier than anticipated, resulting in increased competition prior to the anticipated end of contracts. Our failure to secure contracts through the open bidding process, or to secure such contracts on favorable terms, may adversely affect our revenues and gross margins.

We maintain most of our cash balances, some of which are not insured, at two depository institutions.

We maintain the majority of our cash and cash equivalents accounts at two depository institutions. As of September 30, 2023 March 31, 2024, the aggregate balances in such accounts at these two institutions were $369.2 million $157.4 million. Our balances with these and other institutions regularly exceed Federal Deposit Insurance Corporation insured limits for domestic deposits and various foreign deposit insurance programs covering our deposits in Australia, Belgium, Canada, Finland, France, Germany, Hong Kong, India, Italy, the Netherlands, Spain, the United Kingdom and Vietnam.

We could suffer losses with respect to the uninsured balances if the depository institutions failed (such as the bank failures at several U.S. banks in spring 2023) and the institution's assets were insufficient to cover its deposits and/or the governments did not take actions to support deposits in excess of existing insurance limits. Any such losses or delays in access to funds as a result of such events could have a material adverse effect on our liquidity, financial condition and results of operations.

Stock transactions may have a material, unpredictable impact on our results of operations and may result in dilution to existing shareholders.

We have historically granted and expect to continue to grant stock-based compensation to key employees and non-employee directors as a means of attracting and retaining highly qualified personnel. All stock-based awards are required to be recognized in our financial statements based on their grant date fair values. The amount recognized for stock compensation expense could vary depending on a number of assumptions or changes that may occur.

Changes in the subjective and probability-based assumptions can materially affect the estimates of the fair value of the awards and timing of recognition of stock-based compensation expense and, consequently, the related amount recognized in our statements of operations and comprehensive income.

As we continue to mature, the incentives to attract, retain and motivate employees provided by our equity awards or by future arrangements may not be as effective as in the past. We may also issue equity securities to pay for acquisitions and grant stock-based awards to retain the employees of acquired companies. If we issue significant equity to attract additional employees, to retain our existing employees, or related to acquisitions, we could incur substantial additional share-based stock-based compensation expense and the ownership of our existing stockholders shareholders would be further diluted, which could depress the market price for of our stock.

Our financial performance is subject to risks associated with changes in the value of the U.S. dollar versus local currencies.

For current and potential international customers whose contracts are denominated in U.S. dollars, the relative change in local currency values creates relative fluctuations in our product pricing. These changes in international end-user costs may result in lost orders and reduce the competitiveness of our products in certain foreign markets. Additionally, intercompany sales to our non-U.S. dollar functional currency international subsidiaries are transacted in U.S. dollars, which could increase our foreign exchange rate risk caused by foreign currency transaction gains and losses.

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For non-U.S. dollar denominated sales, weakening of foreign currencies relative to the U.S. dollar generally leads us to raise international pricing, potentially reducing demand for our products. Should we decide not to raise local prices to fully offset the dollar's strengthening, the U.S. dollar value of our foreign currency denominated sales and earnings would be adversely affected. We do not currently engage in hedging activities related to fluctuations in foreign currency.

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Fluctuations in foreign currency could result in a change in the U.S. dollar value of our foreign denominated assets and liabilities, including accounts receivable. Therefore, the U.S. dollar equivalent collected on a given sale could be less than the amount invoiced causing the sale to be less profitable than contemplated.

We also import selected components which that are used in the manufacturing of some of our products. Although our purchase orders are generally in U.S. dollars, weakness in the U.S. dollar could lead to price increases for the components.

Unanticipated changes in our effective tax rate and additional tax liabilities may impact our operating results and financial condition.

We are subject to income taxes in the United States and various jurisdictions outside of the United States. Our effective tax rate could fluctuate due to changes in the mix of earnings and losses in countries with differing statutory tax rates. Our tax expense could also be impacted by changes in non-deductible expenses, changes in excess tax benefits related to exercises of stock options and vesting of restricted stock units, RSUs, changes in the valuation of deferred tax assets and liabilities and our ability to utilize them, the applicability of withholding taxes, and changes in our liability for unrecognized tax benefits.

We are subject to potential tax examinations in multiple jurisdictions. While we regularly evaluate new information that may change our judgment resulting in recognition, derecognition or change in measurement of a tax position taken, there can be no assurance that the final determination of any examinations will not have an adverse effect on our operating results and financial position. condition.

Our tax provision could also be impacted by changes in U.S. federal, state and local or international foreign tax laws, including fundamental tax law changes applicable to corporate multinationals, including and proposals by the current U.S. president President or Congress.

Additionally, we may be subject to additional tax liabilities due to changes in non-income-based taxes resulting from changes in U.S. federal, state city and local or international foreign tax laws, changes in taxing jurisdictions' administrative interpretations, decisions, policies and positions, results of tax examinations, settlements or judicial decisions, changes in accounting principles, changes to the our business operations, including acquisitions, as well as the evaluation of new information that results in a change to a tax position taken in a prior period.

Further, recommendations from the OECD regarding a global minimum income tax and other changes are being considered and/or implemented in jurisdictions where we operate. We believe enactment of the recommended framework in jurisdictions where we operate will result in minimal impacts to our financial results in the near term. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Provision for Income Taxes" in Part I, Item 2 of this Quarterly Report on Form 10-Q for additional information. The impact of any new tax legislation may differ materially from our estimates due to future regulatory guidance or changes in our interpretations or assumptions we have made.

Our revenues and operating results may fluctuate unexpectedly from quarter-to-quarter, which may cause our common stock price to decline.

Our revenues and operating results have varied significantly in the past and may vary significantly in the future due to various factors, including, but not limited to: including:

- budgetary cycles of municipal, state and federal law enforcement and corrections agencies;
- market acceptance of our products and services;
- the timing of large domestic and international orders;
- the outcome of any existing or future litigation;
- adverse publicity surrounding our products, the safety of our products, or the use of our products;

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- changes in our sales mix;
- new product introduction costs;
- increased raw material expenses;
- changes in our operating expenses, including stock-based compensation expense;
- changes in foreign currency exchange rates, inflation and interest rates;
- inventory obsolescence;
- changes in warranty reserve;
- existing or future tariffs; and

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- regulatory changes that may affect the marketability of our products. products and services.

As a result of these and other factors, we believe that period-to-period comparisons of our operating results may not be meaningful in the short term, and our performance in a particular period may not be indicative of our performance in any future period. Fluctuations in our revenues and operating results may also cause our common stock price to decline.

Our profitability could suffer from declines in fair value or impairment of our investments, including our strategic investments, and could fluctuate if the fair value values of our investments increases. increase.

We invest a portion of available funds in a portfolio consisting of equity securities of various types. Our equity investments consist of investments in both marketable and non-marketable securities. Investments in marketable securities are measured at fair value on a recurring basis. We have elected to apply the measurement alternative for non-marketable securities. Under the alternative, we measure investments without readily determinable fair values at cost, less impairment, adjusted by observable price changes and we assess for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Our future investment income may fall short of expectations due to changes in interest rates, or due to certain inherent risks involved in investments in early-stage privately held companies. For example, we have recognized and may in the future recognize an unrealized loss on an investment if we determine that our carrying amount for an investment without a readily determinable fair value is not expected to be fully recovered, which would cause our earnings performance to suffer from such losses.By contrast, we have recorded and may in the future record an unrealized gain on an investment if we determine the fair value exceeds the carrying amount, which would benefit our earnings performance.

Legal and Compliance Risks

We may face personal injury, wrongful death, product liability and other liability claims that harm our reputation and adversely affect our sales and financial condition.

Our CED products are often used in aggressive confrontations that may result in serious, permanent bodily injury or death to those involved. Our CED products may be associated with these injuries. A person, or the family members of a person, injured or killed in a confrontation or otherwise in connection with the use of our products, may bring legal action against us to recover damages on the basis of a number of theories, including wrongful death, personal injury, negligent design, defective product, product performance issues, or inadequate warnings or training. We are currently subject to a number of such lawsuits and have been and may be in the future subject to significant adverse judgments and settlements. We may also be subject to lawsuits involving allegations of criminal misuse of our products. We have no control over how our products and services are used by our customers or other end-users and cannot assure they are used consistent with our specifications, design and warnings. While our products are designed to be non-lethal, we cannot guarantee they will be used in a manner consistent with their intended use and any misuse exposes us to litigation, reputational harm and controversy. If successful, wrongful death, personal injury, misuse

Although we maintain product liability insurance in amounts that we believe are reasonable, we may not be able to maintain such insurance on acceptable terms, if at all, and other product liability claims could have a material adverse effect on our operating results and financial condition and could result in negative publicity about a potential award of monetary damages in excess of the amount of insurance coverage available to us. Because we manufacture and sell CEDs, insurance carriers may decide not to insure our products. products or our company in the future.

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Similar to product liability claims, we face exposure to class action lawsuits related to the design, performance, safety, pricing or advertising of our products. Such class action lawsuits could also result in substantial monetary judgments, defense costs, business distraction, reallocation of internal resources, injunctions related to the sale of products, and potentially harm our reputation.

Although we maintain product liability insurance If successful, wrongful death, personal injury, misuse and other claims could result in amounts that we believe are reasonable, we may not be able to maintain such insurance on acceptable terms, if at all, and product liability claims may exceed the amount of insurance coverage available to us. Because we manufacture and sell CEDs, insurance carriers may decide not to insure our products adverse judgments or our company in the future. unfavorable settlements. We incur significant legal expenses in defending these cases, and significant litigation could also result in a diversion of management's attention and resources and could also result in negative publicity and a potential award of monetary damages in excess of about our insurance coverage. products. The outcome of any litigation is inherently uncertain and there can be no assurance that our existing or any future litigation will not have a material adverse effect on our business, financial condition or operating results.

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Other litigation, government inquiries and regulatory actions may subject us to significant costs and judgments and divert management attention from our business.

We have been or and could in the future be involved in numerous other litigation, government inquiries and regulatory matters relating to our products, contracts, employees contracts and business relationships, including litigation against persons or entities we believe have infringed on our intellectual property, infringement litigation filed against us, litigation against a competitor, antitrust litigation, and enforcement actions filed against us. See discussion of litigation in Note 13 to the condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Such matters have resulted, and are expected to continue to result in, substantial costs to us, including in the form of attorneys' fees and costs, damages, fines or other penalties, whether pursuant to a an adverse judgment or settlement, and diversion of our management's attention, which could adversely affect our business, financial condition or operating results. There is also a risk of adverse judgments, as the outcome of litigation is inherently uncertain.

We have been, in the past and may be in the future be subject to intellectual property infringement and other claims, which could incur substantial litigation costs, result in significant damage damages awards, inhibit our use of certain technologies, and divert

management attention from our business.

Many companies own intellectual property rights that are directly or indirectly related to public safety technologies. These companies periodically demand licensing agreements or engage in litigation based on allegations of infringement or other violations of their patents, trademarks, copyrights or trade secrets. Non-practicing entities also have patents they have been granted or otherwise acquired, including patents that are directly or indirectly related to public safety technologies. These entities may seek compensation for perceived infringement of their patents, including by filing claims against us, independent of the merit of any such claims. As we enter new markets, expand into new product categories, and otherwise offer new products, services and technologies, additional intellectual property claims may be filed against us by these companies, entities and other third parties. Our Additionally, our use of artificial intelligence AI tools in our business may increase the likelihood that third parties will claim that we infringe their intellectual property rights. Intellectual property claims may also be filed against us as our current products, services and technologies gain additional market share.

If our products, services or technologies were found to infringe a third-party's proprietary rights, we could be forced to discontinue use of the protected technology or enter into costly royalty or licensing agreements in order to be able to sell our products. products, services or technologies. Such royalty and licensing agreements may not be available on terms acceptable to us or at all. We could also be required to pay substantial damages, fines or other penalties, indemnify customers or distributors, cease the manufacture, use or sale of infringing products or processes, make proprietary source code publicly available, and/or expend significant resources to develop or acquire non-infringing technologies. Our suppliers may not provide, or we may not be able to obtain, intellectual property indemnification sufficient to offset all damages, fines or other penalties resulting from any claims of intellectual property infringement brought against us or our customers. There is no guarantee that our use of conventional technology searching and brand clearance searching will identify all potential rights holders. Rights holders may demand payment for past infringements and/or force us to accept costly license terms or discontinue use of protected technology and/or works of authorship that may include, for example, photos, videos and software. Our current research and development R&D focus on developing software-based products, including that which is related to artificial intelligence AI or virtual reality, VR, increases this risk.

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If we are unable to protect our intellectual property, the value of our brands and products may decrease and we may lose our competitive market advantage.

Our future success depends upon our proprietary technology. Our protective measures for this proprietary technology include patents, trademarks, copyrights and trade secret protection. However, these protective measures, as well as our efforts to pursue such protective measures, may prove inadequate. For example, the value of intellectual property protection in certain countries may not be apparent until after such protection can no longer be pursued. As such, our intellectual property protection may not extend to all countries in which our products are distributed or will be distributed in the future. Though we work to protect our innovations, we may not be able to obtain protection for certain innovations. For example, we may be unable to patent some software-based products. Furthermore, any use of artificial intelligence AI tools to create content or code that may be incorporated into our products or services may also impact our ability to obtain or successfully defend certain intellectual property rights. The scope of any patent protection we have

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obtained, or may obtain, may not prevent others from developing and selling competing products. Despite our efforts, any intellectual property protection we obtain may be later determined to be insufficient or ineffective.

Our protective measures may prove inadequate for reasons outside of our control. Varying intellectual property laws across countries may lead to differences in protection between such countries. In certain countries in which our products are distributed, the ability to effectively enforce intellectual property rights may not exist. Patent requirements differ by country and certain domestic or foreign international laws may prohibit us from satisfying these requirements, creating a risk that some of our international patents may become unenforceable. Patents for older technologies, such as those first introduced in our M26 and X26 models of CEDs, have expired or will expire due to statutory limits on patent term. Despite policies and efforts to maintain secrecy of trade secrets and other confidential information, such information could be compromised by employees, partners or other third parties.

Once established, there is no guarantee that our intellectual property rights will remain in force. Issued patents may be re-examined and subsequently ruled invalid or unenforceable. Our registered trademarks may also be diminished or lost. For example, there is a risk that our "TASER" trademark could become synonymous with the general product category of "conducted energy devices" resulting in claims of genericness that could interfere with our enforcement efforts and create customer confusion as to product source. The right to stop others from misusing our trademarks and service marks in commerce depends, to some extent, on our ability to show evidence of enforcement of our rights against such misuse in commerce. Our efforts to stop improper use, if ineffective, may lead to loss of trademark and service mark rights, brand loyalty and notoriety among our customers and prospective customers.

Inability to protect our intellectual property could negatively impact our commercial efforts and competitive market advantage. Regardless of outcome, the prosecution of patent and other intellectual property claims is both costly and time-consuming. Unauthorized use of our proprietary technology could divert our management's attention from our business and could result in a material adverse effect on our business, financial position and operating results.

We may be unable to enforce patent rights internationally, which may limit our ability to prevent our product features from being used by competitors in some foreign jurisdictions.

Our U.S. patents protect us from imported infringing products coming into the United States from abroad. We have filed applications for patents in foreign countries; however, these may be inadequate to protect markets for our products in these foreign countries. Each patent is examined and granted according to the law of the country where it was filed independent of whether a U.S. patent on similar technology was granted. Certain foreign countries have patent working requirements that require a patent owner to practice a patented invention within the respective country. A patent in a foreign country may be subject to cancellation, forfeiture, compulsory license or other penalty if the claimed invention has not been worked in that country. Meeting the requirements of working an invention differs by country and ranges from sales in the country to manufacturing in the country. U.S. export law, or the laws of some foreign countries, may prohibit us from satisfying the requirements for working the invention, creating a risk that some of our international patents may become unenforceable. In a country in which we do not have a patent or a country in which our patent in that country is unenforceable or unenforced, other companies and makers of similar products and services may be able to copy our products or features of our products without consequence, thus limiting our ability to capture market share or protect our technology, which could materially harm our growth prospects and operating results.

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The use of open source software in our products, services and technologies may expose us to additional risks and harm our intellectual property.

Open source software is typically freely accessible, usable and modifiable. Certain open source software licenses require a user who intends to distribute the open source software as a component of the user's software to disclose publicly part or all of the source code to the user's software or require the user of such software to make any derivative works of the open source code available to others on potentially unfavorable terms or at no cost. The terms of many open source licenses have not been interpreted by courts, and there is a risk that those licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to commercialize our products, services and technologies. In that event, we could be required to seek licenses from third parties in order to continue offering our products, to re-develop our products, to discontinue sales of our products or to release our proprietary software code under the terms of an open source license, any of which could harm our business. Although we aim to avoid any use of open source software in our products, services and technologies, and otherwise only use open source software available under permissive open

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source licenses, it is possible that other manners of use, including those that a third party may allege to be in breach of a corresponding open source license, may have inadvertently occurred in deploying our products, services and technologies. If a third-party software provider has incorporated certain types of open source software into software we license from such third party for our products, services and technologies without our knowledge, we could be required to disclose the source code to our products, services and technologies. This could harm our intellectual property position as well as our business, financial condition, cash flows and results of operations.

A variety of new and existing laws and/or interpretations could materially and adversely affect our business.

As detailed in "Item I. Business – Government Regulation" in our 2022 Annual Report on Form 10-K for the year ended December 31, 2023, we are subject to a variety of laws and regulations in the United States and abroad that involve matters central to our business, including laws and regulations related to: privacy, data protection, security, retention and personal information, deletion; rights of publicity, content, publicity; content; intellectual property, advertising, marketing, distribution, data security, data retention and deletion, property; regulation of certain of our CEDs as firearms; advertising; marketing; distribution; electronic contracts and other communications, competition, communications; competition; consumer protection, telecommunications, protection; telecommunications; product liability, taxation, liability; taxation; labor and employment, sustainability, employment; sustainability; economic or other trade prohibitions or sanctions, sanctions; securities law compliance, law; and online payment services. The introduction of new products and expansion of our activities in certain jurisdictions, including through acquisitions, or other actions that we may take may subject us to additional laws, regulations or other government scrutiny. In addition, foreign privacy, data protection, privacy, content, competition, sustainability and other laws and regulations can impose different obligations or be more restrictive than those in the United States.

These U.S. federal and state and foreign laws and regulations, which in some cases can be enforced by private parties in addition to government entities, are constantly evolving and can be subject to significant change. As a result, the application, interpretation, and enforcement of these laws and regulations are often uncertain and may be interpreted and applied inconsistently from country to country and inconsistently with our current policies and practices. New laws and regulations (or new interpretations of existing laws and regulations) may require us to incur substantial costs, expose us to unanticipated civil or criminal liability, or cause us to change our business practices.

The cost of compliance with these laws and regulations is high and is likely to increase in the future. Additionally, these laws and regulations, or any associated inquiries or investigations or other government actions, have in the past and may in the future delay or impede the development of new products, result in negative publicity, cause customers to delay purchases, require significant management time and attention, and subject us to remedies that may harm our business, including fines or demands or orders that we modify or cease existing business practices. For example, as has been reported in the press, there is a grand jury investigation being conducted by the U.S. Attorney's Office for the Northern District of Illinois. We have fully cooperated with the investigation and continue to do so. While we conducted an extensive internal investigation into, among other things, lobbying activities, and have found no indication of any wrongdoing by any Axon employee, there can be no assurance that this matter will not harm our business.

Radio Spectrum and Unmanned Aerial and Ground-Based Robotic Devices

Certain of our products utilize the radio spectrum to provide wireless voice, data and video communications services. The allocation of spectrum is regulated in the United States and other countries and limited spectrum space is allocated to wireless services and specifically to public safety users. We manufacture and market products in spectrum bands already made available by regulatory bodies. If current products do not comply with the regulations set forth by these governing regulatory bodies, we may be unable to sell our products or could incur penalties. Our results could be negatively affected by the rules and regulations adopted from time to time by the U.S. Federal Communications Commission ("FCC"), Innovation, Science and Economic Development Canada, ("ISED"), the European Union Directorate-General for Environment or regulatory agencies bodies in other countries. Regulatory changes in current spectrum bands may also require modifications to some of our products so they can continue to be manufactured and marketed.

Axon body worn body-worn cameras, docks, Axon Fleet vehicle cameras and Axon Signal devices are subject to the FCC's rules and regulations in the United States, as well as local rules and regulations as applicable outside of the United States. These regulations affect CEDs with Axon Signal technology, including the TASER 7, Signal Performance Power Magazine ("SPPM"), TASER 10, and future CEDs implementing wireless technology. Compliance with government regulations could increase our operations and product costs and impact our future financial results.

Additionally, some of our products depend on drones or other unmanned aerial and ground-based systems which that operate on the radio spectrum. The FCC, the Federal Aviation Administration and other agencies at the federal, state and local levels (as well as in foreign jurisdictions) are beginning to address some of the numerous certification, regulatory and legal challenges associated with drones, but a comprehensive set of standards and enforcement procedures will need has yet to be developed. Changes to the regulation of drones or other unmanned aerial systems may impact our future financial results.

Axon and TASER Devices CEDs

For our TASER products, we rely on the opinions of the ATF, including the determination that a device that does not expel projectiles by the action of an explosive is not classified as a firearm. Changes in statutes, laws, regulations and interpretation interpretations outside of our control may result in our products being classified or reclassified as firearms. If this were to occur, our private citizen market demand could be substantially reduced because consumers would be required to comply with federal, state or local firearm transfer requirements prior to purchasing our products.

Federal regulation of sales in the United States: The majority of our currently offered TASER CEDs are not classified as firearms regulated by the ATF. However, the ATF regulates the TASER 10 CED as a firearm under the GCA due to a technological advancement specific to the propulsion design of the TASER 10 CED cartridges. In the event we make the TASER 10 available to our private citizen and enterprise markets, they could be substantially reduced as a result of this classification because non-governmental end-users would be required to comply with federal, state, or local firearm transfer requirements prior to purchasing TASER 10. In addition, the The implications of such classification on use-of-force standards and regulations could impact our ability to sell TASER 10 CEDs to law enforcement and government entities. Because Axon must maintain a federal firearms license to manufacture and sell the TASER 10 CEDs, we are subject to periodic compliance inspections by the ATF. License violations discovered by the ATF can result in fines, penalties, warning letters or license revocation, leading to disruptions in operations. Further, we are required to administer, track and remit firearm excise taxes as applicable.

Our CED products are also subject to testing, safety and other standards by organizations such as the American National Standards Institute, the International Electrotechnical Commission, the National Institute of Standards and Technology, and Underwriters Laboratories. These regulations also affect CEDs with Axon Signal technology, including SPPM technology, and TASER 7 and TASER 10 battery packs.

Federal regulation of international sales: Our CEDs are considered a "crime control" product by the U.S. Department of Commerce ("DOC") for export directly from the United States which requires us to obtain an export license from the DOC for the export of our CED devices from the United States to any country other than Canada. Future products and services may require classifications from the DOC before they may be shipped internationally. Our inability to obtain DOC export licenses or classifications on a timely basis for sales of our products and services to our international customers could significantly and adversely affect our international sales. Although the TASER 10 CED is regulated by the ATF for domestic sales, the U.S. DOC has ruled that the product's unique propulsion design has no impact on its export classification and that the TASER 10 CED model's export classification remains consistent with all other TASER CED models.

Federal regulation of foreign national employees: Our CED development and production is also considered controlled “technology” by the U.S. DOC and is categorized as a “deemed export” for any foreign national employees exposed to the technology within the United States. Consequently, we must obtain export licenses from the DOC for any deemed export within the United States made to a foreign national employee exposed to the deemed controlled technology. Deemed export licenses are subject to DOC approvals and issued licenses require annual status reports for the stated employees. Inability to obtain proper licensing could curtail the company’s Company’s ability to execute R&D and production related to CED technology.

State and local regulation: Our CEDs are controlled, restricted or, less frequently, prohibited by some state and local governments. Other jurisdictions may ban or restrict the sale of our TASER-branded devices, or restrict their use through

changes to use-of-force laws or regulations, and our product sales may be significantly affected by additional state, county and city governmental regulation. The change in TASER 10’s 10 CED’s propulsion design may impact how TASER 10 CED is regulated at the state and/or local level depending on each state’s firearm laws.

International regulation of foreign imports and sales: Certain jurisdictions prohibit, restrict, or require a permit for the importation, sale, possession or use of CEDs (and other select Axon products), including in some countries by law enforcement agencies, limiting impacting our international sales opportunities.

U.S. and International international regulation of component movements globally: We rely on a global supply chain of components across our product lines with most final assembly occurring in the United States. Export of these components from abroad is subject to a shifting regulatory landscapes landscape imposed by both the foreign government and U.S. authorities upon import. authorities. Abrupt changes to these regulations can result in delays or interruptions to final product supplies. Additionally, ATF regulation of certain imports of TASER 10 components may limit impact Axon’s supply chain agility.

International regulation of foreign-based operations: We maintain foreign operations in several countries globally for purposes of logistics, SG&A services and R&D support. Depending on these activities, applicable regulations may include business activity licensing and registration, import permits and recordkeeping, warehousing and storage security and permitting, and government reporting. Any failure to properly maintain or license comply with these requirements could limit impact our ability to sell, support or develop our products and services both internationally and in the United States.

Axon offers products and services that some jurisdictions determine to be “prohibited” or “controlled” weapons under applicable local arms brokering regulations. Consequently, jurisdictions with such regulations, particularly those which are signatories to the Arms Trade Treaty, can require certain covered groups and Axon employees to receive weapons brokering licenses. Brokering license issuance and approval is not always guaranteed and is subject to the applicable policy of the approving jurisdiction. Denial or limitations on brokering activity can impact the ability of individual employees to proceed with weapons brokering activity in certain instances.

Federal Procurement Regulations

Our U.S. market. government business is subject to specific procurement regulations, such as the Federal Acquisition Regulation, and a variety of socioeconomic and other requirements imposed by executive order and statute. These requirements, although customary in U.S.

government contracts, increase our performance and compliance costs. These costs might increase in the future, thereby reducing our margins, which could have an adverse effect on our business, financial condition, results of operations and cash flows. In addition, the U.S. government will likely continue to implement new requirements focused on initiatives to drive efficiencies, affordability and cost savings and other changes to its procurement practices to meet governmental interests. These initiatives and changes to procurement practices may change the way U.S. government contracts are solicited, negotiated and managed, which may affect whether and how we pursue opportunities to provide our products and services to the U.S. government, including the terms and conditions under which we do so, which may have an adverse impact on our business, financial condition, results of operations, and cash flows.

Failure to comply with applicable regulations and requirements could lead to contractual, civil, criminal, and administrative remedies such as termination, fines, penalties, repayments, or compensatory or treble damages, or suspension or debarment from U.S. government contracting or subcontracting for a period of time or indefinitely. Among the causes for suspension or debarment are violations of various laws and regulations, including those related to procurement integrity, export control, U.S. government security, employment practices, protection of the environment, accuracy of records, proper recording of costs and foreign corruption. The termination of a U.S. government contract or relationship as a result of any of these violations would have an adverse impact on our operations and could have an adverse effect on our standing and eligibility for future U.S. government contracts.

Privacy Regulations

We are subject to various risks U.S. and costs foreign laws and regulations associated with the collection, processing, storage and transmission of personally identifiable information and other sensitive and confidential information. This data is wide ranging and relates to our employees, customers and other third parties, and including the subjects of law enforcement. Our compliance obligations include those prescribed under laws and regulations that dictate whether, how and under what circumstances we can transfer, receive, control, process, hold and/or receive and hold transfer certain data that is critical to our operations, including

data shared between countries or regions in which we operate and data shared among our products and services. If one or more of the legal mechanisms for transferring data from other countries to the United States is invalidated, if we are unable to transfer data between and among countries and regions in which we operate, or if we are prohibited from sharing data among our products and services, it could affect the manner in which we provide our products and services or adversely affect our financial results. Countries may also pass legislation implementing data protection requirements or requiring local storage and processing of data or similar requirements that could increase the cost and complexity of delivering our products and services and expose us to significant penalties for non-compliance. The For example, the European Parliament adopted the General Data Protection Regulation, (“GDPR”), effective May 2018, that extended the scope of European privacy laws to any entity that controls or processes personal data of European Union E.U. residents in connection with the offer of goods or services or the monitoring of behavior and imposes compliance obligations concerning the handling of personal data. Further, Vietnam's Vietnam’s Personal Data Protection Decree, (“PDPD”), which entered into force July 1, 2023, applies to organizations (wherever based) so long as they participate in personal data processing in Vietnam. We are also subject to U.S. laws and regulations, including without limitation, the including the California Privacy Rights Act, which provides for enhanced consumer protections for California residents, a private right of action for data breaches and statutory fines and damages for data breaches or other California Consumer Privacy Act violations, as well as a requirement of “reasonable” cybersecurity, which could subject us to additional compliance costs as well as potential fines, individual claims, class actions and commercial liabilities.

Any inability, or perceived inability, by us to adequately address privacy concerns, or comply with applicable laws, regulations, policies, industry standards and guidance, contractual obligations or other legal obligations, even if unfounded, could result in significant regulatory and third-party liability, increased costs, disruption of our business and operations, and a loss of confidence and other reputational damage. Furthermore, as new privacy- related privacy laws and regulations are implemented, the time and resources needed for us to comply with such laws and regulations continues to increase and become a significant compliance workstream.

Environmental Regulations

We are subject to various U.S. federal, state, federal local and international laws and regulations governing the environment, including restricting the presence of certain substances in our products and making us financially responsible for the collection, treatment, recycling and disposal of such products. In addition, further environmental or climate change disclosure legislation may be enacted in other jurisdictions, including the United States (under federal and state laws) and other countries, the cumulative impact of which could be significant. For example, in September 2023, California passed the Climate Corporate Data Accountability Act and the Climate-Related Financial Risk Act, requiring increased climate-related reporting. See "Item 1. Business – Governmental Regulation – Environmental Regulations" in our Annual Report on Form 10-K for the year ended December 31, 2023. Further, governmental authorities are increasingly focused on preventing environmental contamination from per-and polyfluoroalkyl substances ("PFAS"), which may be contained in certain Axon products. For example, federal and state governments and agencies are in various stages of considering and/or implementing laws and regulations requiring the reporting, restriction and/or phase-out of PFAS in products. New, or changes in, environmental safety laws, regulations or rules could also lead to increased costs of compliance, including remediations of any discovered issues, and changes to our operations, which may be significant. Any failures to comply could result in significant expenses, delays or fines. fines and could adversely affect our financial results.

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Our business is subject to evolving corporate governance and public disclosure regulations and expectations, including with respect to environmental, social and governance ("ESG") matters, that could expose us to numerous risks.

We are subject to changing rules and regulations promulgated by a number of several governmental and self-regulatory organizations, including the SEC, the Nasdaq Stock Market and the Financial Accounting Standards Board. FASB. These rules and regulations continue to evolve in scope and complexity and many new requirements have been created in response to laws enacted by Congress, making compliance more difficult and uncertain. In addition, increasingly regulators, customers, investors, employees and other stakeholders are focusing on environmental, social and governance ("ESG") ESG matters and related disclosures. These changing rules, regulations and stakeholder expectations have resulted in, and are likely to continue to result in, increased general and administrative expenses and increased management time and attention spent complying with or meeting such regulations and expectations. For example, developing and acting on initiatives within the scope of ESG, and collecting, measuring and reporting ESG-related information and metrics can be costly, difficult and time-consuming and is subject to evolving reporting standards, including the SEC's recently proposed adopted and stayed climate-related reporting requirements, and similar proposals by other

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domestic or international regulatory bodies. Foreign governments have also enacted legislation to address ESG issues, such as the UK Modern Slavery Act.

Additionally, unfavorable perception regarding our social initiatives, governance practices, diversity initiatives, the perceived or actual impacts of our products and services, environmental policies or other growing concerns of our stakeholders, could adversely affect our reputation. Any negative effect on our reputation could have an adverse effect on the size of our customer base, which could adversely affect our business and financial results. We have been, and may be in the future, subject to informal private or public inquiries and formal proxy proposals by activists urging us to take certain corporate actions related to ESG matters, which may not be aligned with our best interests. These activities may adversely affect our business in a number of ways, since responding to inquiries or proposals can be costly, time-consuming, and disruptive to our operations and could meaningfully divert our resources, including the attention of our management team and our employees.

We may also communicate certain initiatives and goals, regarding environmental matters, diversity, responsible sourcing and social investments and other ESG-related matters, in our SEC filings or in other public disclosures. These initiatives and goals within the scope of

ESG could be difficult and expensive to implement, the technologies needed to implement them may not be cost effective and may not advance at a sufficient pace, and we could be criticized for the accuracy, adequacy or completeness of the disclosure. Further, statements about our ESG-related initiatives and goals, and progress against those goals, may be based on standards for measuring progress that are still developing, internal controls and processes that continue to evolve, and assumptions that are subject to change in the future. In addition, we could be criticized for the scope or nature of such initiatives or goals, or for any revisions to these goals. Given the dynamic nature of ESG expectations, standards and regulations, which may change over time, we may from time to time need to update or otherwise revise our current practices, initiatives and goals, including in response to legislative or legal developments. If our ESG-related data, processes and reporting are incomplete or inaccurate, or if we fail to achieve progress with respect to our goals within the scope of ESG on a timely basis, or at all, we may be exposed to potential liability or litigation, and our reputation, business, financial performance and growth could be adversely affected. affected.

Our amended and restated bylaws include exclusive forum provisions that could increase costs to bring a claim, discourage claims or limit the ability of our shareholders to bring a claim in a judicial forum viewed by shareholders as more favorable for disputes.

Our amended and restated bylaws provide that, unless we consent in writing to the selection of an alternative forum, the Chancery Court of the State of Delaware will be, to the fullest extent permitted by law, the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf; (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or shareholders; (iii) any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law or of our amended and restated certificate of incorporation or our amended and restated bylaws; or (iv) any action asserting a claim against us or any of our directors or officers governed by the internal affairs doctrine. In addition, our amended and restated bylaws also provide that, unless we consent in writing to the selection of an alternative forum, the federal district courts of the United States shall be the exclusive forum for the resolution of any claim arising under the Securities Act. The exclusive forum provision in our amended and restated bylaws does not apply to suits brought to enforce any duty or liability created by the Exchange Act or any other claim for which the federal courts have exclusive jurisdiction.

The choice of forum provision may increase costs to bring a claim, discourage claims or limit a shareholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with Axon or Axon's directors, officers or other employees, which may discourage such lawsuits against Axon or Axon's directors, officers and other employees. Alternatively, if a court were to find the choice of forum provision contained in our amended and restated bylaws to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions.

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Risks Related to our Convertible Notes

Servicing our debt requires a significant amount of cash, and we may not have sufficient cash flow to pay our substantial debt.

As of December 31, 2022 December 31, 2023, we had outstanding an aggregate principal amount of $690.0 million of our 0.50% convertible senior notes due 2027. 2027 Notes. Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness, including the Notes, depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to service our debt and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations, including the Notes.

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The conditional conversion feature of the Notes, if triggered, may adversely affect our financial condition and operating results.

In the event the conditional conversion feature of the Notes is triggered, holders of Notes will be entitled to convert their Notes at any time during specified periods at their option. If one or more holders elect to convert their Notes, we would be required to settle any converted principal amount of such Notes through the payment of cash, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Notes as a current, rather than long-term, liability, which would result in a material reduction of our net working capital.

Conversion of the Notes may dilute the ownership interest of our stockholders shareholders or may otherwise depress the price of our common stock.

The conversion of some or all of the Notes may dilute the ownership interests of our stockholders. shareholders. Upon conversion of the Notes, we have the option to pay or deliver, as the case may be, cash, shares of our common stock, or a combination of cash and shares of our common stock in respect of the remainder, if any, of our conversion obligation in excess of the aggregate principal amount of the Notes being converted. If we elect to settle the remainder, if any, of our conversion obligation in excess of the aggregate principal amount of the Notes being converted in shares of our common stock or a combination of cash and shares of our common stock, any sales in the public market of our common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. In addition, the existence of the Notes may encourage short selling by market participants because the conversion of the Notes could be used to satisfy short positions, or anticipated conversion of the Notes into shares of our common stock could depress the market price of our common stock.

Changes in the accounting treatment for the Notes could have a material effect on our reported financial results.

We have adopted Accounting Standards Update ASU 2020-06 ("ASU 2020-06") as of January 1, 2022. Accordingly, we do not bifurcate the liability and equity components of the Notes on our balance sheet and we use the if-converted method of calculating diluted earnings per share. Under the "if-converted" if-converted method, diluted earnings per share will generally be calculated assuming that all the Notes were converted solely into shares of common stock at the beginning of the reporting period, unless the result would be anti-dilutive, which could adversely affect our diluted earnings per share. Because the principal amount of the Notes upon conversion is required to be paid in cash, and only the excess is permitted to be settled in shares, the application of the if-converted method will produce a similar result as the treasury stock method prior to the adoption of ASU 2020-06. The effect of the treasury stock method is that the shares issuable upon conversion of such Notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of such Notes exceeds their principal amount.

In accordance with ASU 2020-06, the Notes are reflected as a liability on our consolidated balance sheets, with the initial carrying amount equal to the principal amount of the Notes, net of issuance costs. The issuance costs have been treated as a debt discount for accounting purposes, which is and will be amortized into interest expense over the term of

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the Notes. As a result of this amortization, the interest expense that we recognize for the Notes for accounting purposes is greater than the cash interest payments payable on the Notes, resulting in lower reported income.

We cannot be sure whether future changes made to the current accounting standards related to the Notes will not have a material effect on our reported financial results.

The convertible note hedge 2027 Note Hedge and warrant Warrant transactions may affect the value of the Notes and our common stock.

In connection with the pricing of the Notes, we have entered into convertible note hedge 2027 Note Hedge transactions with the option counterparties. We have also entered into warrant Warrant transactions with the option counterparties. The convertible note hedge Note Hedge transactions are expected generally to reduce the potential dilution to our common stock upon any conversion of Notes and/or offset any cash payments we are required to make in excess of the principal amount of converted Notes, as the case may be. However, the warrant Warrant transactions could have a dilutive effect on our common stock to the extent that the market price per share of our common stock exceeds the strike price of the warrants. Warrants.

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In addition, the option counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions following the pricing of the Notes and prior to the maturity of the Notes (and are likely to do so in connection with any conversion of the Notes or redemption or repurchase of the Notes). This activity could cause or avert an increase or a decrease in the market price of our common stock.

In addition, if any such convertible note hedge of the Note Hedge and warrant hedging Warrant transactions fail to become effective, the option counterparties or their respective affiliates may unwind their hedge positions with respect to our common stock, which could adversely affect the value of our common stock.

The potential effect, if any, of these transactions and activities on the market price of our common stock will depend in part on market conditions and cannot be ascertained at this time. Any of these activities could adversely affect the value of our common stock.

We are subject to counterparty risk with respect to the convertible note hedge 2027 Note Hedge transactions.

The option counterparties are financial institutions, and we will be subject to the risk that any or all of them might default under the convertible note hedge 2027 Note Hedge transactions. Our exposure to the credit risk of the option counterparties will not be secured by any collateral.

If an option counterparty becomes subject to insolvency proceedings, we will become an unsecured creditor in those proceedings with a claim equal to our exposure at that time under the convertible note hedge 2027 Note Hedge transactions with such option counterparty. Our exposure will depend on many factors but, generally, an increase in our exposure will be correlated to an increase in the market price and in the volatility of our common stock. In addition, upon a default by an option counterparty, we may suffer adverse tax consequences and more dilution than we currently anticipate with respect to our common stock. We can provide no assurances as to the financial stability or viability of the option counterparties.

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

None.

Item 3. ***Defaults Upon Senior Securities***

None.

Item 4. ***Mine Safety Disclosures***

None.

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Item 5. ***Other Information***

The table below describes During the contracts, instructions or written plans for the purchase or sale of securities adopted by our directors or officers (as defined in Rule 16a-1(f) under the Exchange Act) during the three months fiscal quarter ended September 30, 2023 March 31, 2024, that are intended to satisfy the affirmative defense conditions of Rule 10b5-1(c).

Certain certain of our officers or directors have made, and may from time to time make, elections to have shares withheld or sold to cover withholding taxes or pay the exercise price of options, which may be designed to satisfy the affirmative defense conditions of Rule 10b5-1 under the Exchange Act or may constitute non-Rule 10b5-1 trading arrangements (as defined in Item 408(c) of Regulation S-K) S-K under the Exchange Act).

No other Rule 10b5-1 trading arrangements or "non-Rule 10b5-1 trading arrangements" (as defined by S-K Item 408(c)) of Regulation S-K) were entered into, modified or terminated by our directors or officers during such period.

Name and Title	Adoption Date	Expiration Date	Aggregate Number of Securities to be Sold
Jeffrey Kunins, *Chief Product Officer and Chief Technology Officer*	August 11, 2023	January 15, 2024	41,167
Brittany Bagley, *Chief Operating Officer and Chief Financial Officer*	August 18, 2023	November 30, 2024	15,000
Joshua Isner, *President*	September 15, 2023	December 31, 2024	35,400

Item 6. ***Exhibits***

3.1	Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Quarterly Report on Form 10-Q, filed August 9, 2022)
3.2	Bylaws, as amended and restated (incorporated by reference to Exhibit 3.2 to the Quarterly Current Report on Form 8-K, filed December 21, 2023)
31.1*	Principal Executive Officer Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a)
31.2*	Principal Financial Officer Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a)
32**	Principal Executive Officer and Principal Financial Officer Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
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
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 March 31, 2024, formatted in Inline XBRL

\+ Management contract or compensatory plan or arrangement

* Filed herewith

** Furnished herewith

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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.

AXON ENTERPRISE, INC.

Date: November 7, 2023 May 6, 2024	By:	/s/ PATRICK W. SMITH
		Chief Executive Officer
		(Principal Executive Officer)
Date: November 7, 2023 May 6, 2024	By:	/s/ BRITTANY BAGLEY
		Chief Operating Officer and Chief Financial Officer
		(Principal Financial and
		Accounting Officer)

EXHIBIT 31.1

CERTIFICATION PURSUANT TO
RULE 13a-14(a) or RULE 15d-14(a)
SECURITIES EXCHANGE ACT OF 1934

I, Patrick W. Smith, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2023 March 31, 2024 of Axon Enterprise, 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(s) 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(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

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

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

Date: November 7, 2023 May 6, 2024

By: /s/ Patrick W. Smith
Patrick W. Smith
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION PURSUANT TO
RULE 13a-14(a) or RULE 15d-14(a)
SECURITIES EXCHANGE ACT OF 1934

I, Brittany Bagley, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2023 March 31, 2024 of Axon Enterprise, 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(s) 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(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

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

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

Date: November 7, 2023 May 6, 2024

By: /s/ Brittany Bagley
Brittany Bagley
Chief Operating Officer and Chief Financial Officer

EXHIBIT 32

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

In connection with the Quarterly Report on Form 10-Q of Axon Enterprise, Inc. (the "Company") for the quarterly period ended September 30, 2023 March 31, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Patrick W. Smith, Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Patrick W. Smith
Patrick W. Smith
Chief Executive Officer
November 7, 2023 May 6, 2024

In connection with the Quarterly Report on Form 10-Q of Axon Enterprise, Inc. (the "Company") for the quarterly period ended September 30, 2023 March 31, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brittany Bagley, Chief Operating Officer and Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Brittany Bagley
Brittany Bagley
Chief Operating Officer and Chief Financial Officer
November 7, 2023 May 6, 2024

DISCLAIMER

THE INFORMATION CONTAINED IN THE REFINITIV CORPORATE DISCLOSURES DELTA REPORT™ IS A COMPARISON OF TWO FINANCIALS PERIODIC REPORTS. THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORT INCLUDING THE TEXT AND THE COMPARISON DATA AND TABLES. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED IN THIS REPORT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S ACTUAL SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.