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, 2024

or

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

For the transition period from _________ to _________
Commission File Number: 001-16391

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 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 1, 2024 was 76,254,776.

AXON ENTERPRISE, INC.
INDEX TO QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2024

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, 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 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; our ability to integrate acquired businesses; the impact of declines in the fair values or impairment of our investments, including our strategic investments; 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 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 27A of the Securities Act and Section 21E of the Exchange 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.

PART I - FINANCIAL INFORMATION

Item 1. ***Financial Statements***

AXON ENTERPRISE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	September 30, 2024	December 31, 2023
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 695,144	$ 598,545
Marketable securities	151,560	77,940
Short-term investments	311,570	644,054
Accounts and notes receivable, net of allowance of $3,292 and $2,392 as of September 30, 2024 and December 31, 2023, respectively	512,662	412,961
Contract assets, net	372,923	287,232
Inventory	272,295	269,855
Prepaid expenses and other current assets	117,592	103,055
Total current assets	2,433,746	2,393,642
Property and equipment, net	235,881	200,533
Deferred tax assets, net	244,317	227,784
Intangible assets, net	81,748	19,539
Goodwill	308,472	57,945
Long-term notes receivable, net	2,898	2,588
Long-term contract assets, net	119,973	84,382
Strategic investments	387,905	231,730
Other long-term assets	190,718	191,031
Total assets	$ 4,005,658	$ 3,409,174
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 75,590	$ 65,852
Accrued liabilities	209,691	193,550
Current portion of deferred revenue	505,008	470,415
Customer deposits	22,234	21,935
Other current liabilities	10,704	9,787
Total current liabilities	823,227	761,539
Deferred revenue, net of current portion	305,414	270,901
Liability for unrecognized tax benefits	20,342	18,049
Long-term deferred compensation	15,605	11,342
Long-term lease liabilities	41,223	33,550
Convertible notes, net	679,483	677,113
Other long-term liabilities	20,528	20,915
Total liabilities	1,905,822	1,793,409
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Preferred stock, $0.00001 par value; 25,000,000 shares authorized; no shares issued and outstanding as of September 30, 2024 and December 31, 2023, respectively	—	—
Common stock, $0.00001 par value; 200,000,000 shares authorized; 76,084,179 and 75,301,424 shares issued and outstanding as of September 30, 2024, and December 31, 2023, respectively	1	1
Additional paid-in capital	1,588,072	1,347,410
Treasury stock at cost, 20,220,227 shares as of September 30, 2024 and December 31, 2023	(155,947)	(155,947)
Retained earnings	676,830	434,980
Accumulated other comprehensive loss	(9,120)	(10,679)
Total stockholders' equity	2,099,836	1,615,765
Total liabilities and stockholders' equity	$ 4,005,658	$ 3,409,174

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

AXON ENTERPRISE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME
(in thousands, except per share data)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net sales from products	$ 327,900	$ 255,055	$ 891,087	$ 707,563
Net sales from services	216,374	158,223	616,294	422,760
Net sales	544,274	413,278	1,507,381	1,130,323
Cost of product sales	156,167	114,613	450,954	323,808
Cost of service sales	57,360	42,009	160,896	115,054
Cost of sales	213,527	156,622	611,850	438,862
Gross margin	330,747	256,656	895,531	691,461
Operating expenses:				
Sales, general and administrative	192,189	122,357	514,228	357,611
Research and development	114,477	76,880	307,008	219,747
Total operating expenses	306,666	199,237	821,236	577,358
Income from operations	24,081	57,419	74,295	114,103
Interest income, net	10,978	10,458	31,134	29,787
Other income (loss), net	44,510	3,852	191,510	(42,569)
Income before provision for income taxes	79,569	71,729	296,939	101,321
Provision for (benefit from) income taxes	12,544	10,420	55,089	(17,401)
Net income	$ 67,025	$ 61,309	$ 241,850	$ 118,722
Net income per common and common equivalent shares:				
Basic	$ 0.89	$ 0.82	$ 3.20	$ 1.61
Diluted	$ 0.86	$ 0.81	$ 3.12	$ 1.58
Weighted average number of common and common equivalent shares outstanding:				
Basic	75,697	74,826	75,543	73,904
Diluted	78,080	75,952	77,614	75,212
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME				
Net income	$ 67,025	$ 61,309	$ 241,850	$ 118,722
Foreign currency translation adjustments	4,640	(6,799)	1,112	(5,680)
Unrealized gain (loss) on available-for-sale investments	434	656	447	(10)
Comprehensive income	$ 72,099	$ 55,166	$ 243,409	$ 113,032

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

AXON ENTERPRISE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share data)
(unaudited)

	Common Stock		Additional Paid-in Capital	Treasury Stock		Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount		Shares	Amount			
Balance, December 31, 2023	75,301,424	$ 1	$ 1,347,410	20,220,227	$ (155,947)	$ 434,980	$ (10,679)	$ 1,615,765
Issuance of common stock under employee plans, net	164,747	—	(2,710)	—	—	—	—	(2,710)
Stock-based compensation	—	—	75,115	—	—	—	—	75,115
Issuance of replacement awards in connection with acquisitions	—	—	1,265	—	—	—	—	1,265
Net income	—	—	—	—	—	133,352	—	133,352
Other comprehensive loss, net	—	—	—	—	—	—	(907)	(907)
Balance, March 31, 2024	75,466,171	$ 1	$ 1,421,080	20,220,227	$ (155,947)	$ 568,332	$ (11,586)	$ 1,821,880
Issuance of common stock under employee plans, net	107,043	—	(2,185)	—	—	—	—	(2,185)
Stock-based compensation	—	—	74,821	—	—	—	—	74,821
Net income	—	—	—	—	—	41,473	—	41,473
Other comprehensive loss, net	—	—	—	—	—	—	(2,608)	(2,608)
Balance, June 30, 2024	75,573,214	$ 1	$ 1,493,716	20,220,227	$ (155,947)	$ 609,805	$ (14,194)	$ 1,933,381
Issuance of common stock under employee plans, net	160,847	—	(17,430)	—	—	—	—	(17,430)
Stock options exercised	350,118	—	10,006	—	—	—	—	10,006
Stock-based compensation	—	—	101,780	—	—	—	—	101,780
Net income	—	—	—	—	—	67,025	—	67,025
Other comprehensive income, net	—	—	—	—	—	—	5,074	5,074
Balance, September 30, 2024	76,084,179	$ 1	$ 1,588,072	20,220,227	$ (155,947)	$ 676,830	$ (9,120)	$ 2,099,836

	Common Stock		Additional Paid-in Capital	Treasury Stock		Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount		Shares	Amount			
Balance, December 31, 2022	71,474,581	$ 1	$ 1,174,594	20,220,227	$ (155,947)	$ 259,197	$ (7,179)	$ 1,270,666
Issuance of common stock	154,500	—	33,650	—	—	—	—	33,650
Issuance of common stock under employee plans, net	335,629	—	(34,841)	—	—	—	—	(34,841)
Stock options exercised	1,901,535	—	54,346	—	—	—	—	54,346
Stock-based compensation	—	—	34,350	—	—	—	—	34,350
Issuance of common stock for business combination contingent consideration	7,817	—	—	—	—	—	—	—
Net income	—	—	—	—	—	45,899	—	45,899
Other comprehensive income, net	—	—	—	—	—	—	1,860	1,860
Balance, March 31, 2023	73,874,062	$ 1	$ 1,262,099	20,220,227	$ (155,947)	$ 305,096	$ (5,319)	$ 1,405,930
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
Net income	—	—	—	—	—	11,514	—	11,514
Other comprehensive loss, net	—	—	—	—	—	—	(1,407)	(1,407)
Balance, June 30, 2023	74,763,004	$ 1	$ 1,293,089	20,220,227	$ (155,947)	$ 316,610	$ (6,726)	$ 1,447,027
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	—	—	—	—	—	61,309	—	61,309
Other comprehensive loss, net	—	—	—	—	—	—	(6,143)	(6,143)
Balance, September 30, 2023	74,931,697	$ 1	$ 1,315,954	20,220,227	$ (155,947)	$ 377,919	$ (12,869)	$ 1,525,058

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

AXON ENTERPRISE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Nine Months Ended September 30, 2024		Nine Months Ended September 30, 2023	
Cash flows from operating activities:				
Net income	$	241,850	$	118,722
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Stock-based compensation		251,716		96,228
(Gain) loss on strategic investments and marketable securities, net		(192,158)		42,306
Depreciation and amortization		30,745		12,844
Provision for bad debts and inventory		13,824		5,083
Deferred income taxes		(27,061)		(52,955)
Other noncash items		13,183		8,238
Change in assets and liabilities:				
Receivables and contract assets		(226,759)		(186,614)
Inventory		(11,629)		(65,096)
Deferred revenue		56,720		103,386
Accounts payable, accrued and other liabilities		10,243		13,367
Other, net		(2,528)		(46,284)
Net cash provided by operating activities		158,146		49,225
Cash flows from investing activities:				
Purchases of investments		(615,414)		(444,685)
Business acquisitions, net of cash acquired		(237,796)		(21,090)
Proceeds from call, maturity, and sale of investments		858,326		461,214
Purchases of property and equipment		(53,984)		(35,624)
Other, net		34		(512)
Net cash (used in) investing activities		(48,834)		(40,697)
Cash flows from financing activities:				
Net proceeds from equity offering		—		94,705
Proceeds from options exercised		9,717		54,503
Income and payroll tax payments for net-settled stock awards		(22,325)		(104,076)
Net cash (used in) provided by financing activities		(12,608)		45,132
Effect of exchange rate changes on cash and cash equivalents		75		(1,201)
Net increase in cash and cash equivalents		96,779		52,459
Cash and cash equivalents and restricted cash, beginning of period		600,670		355,552
Cash and cash equivalents and restricted cash, end of period	$	697,449	$	408,011
Supplemental disclosures:				
Cash and cash equivalents	$	695,144	$	406,042
Restricted cash (Note 1)		2,305		1,969
Total cash, cash equivalents and restricted cash shown in the statements of cash flows	$	697,449	$	408,011
Cash paid for income taxes, net of refunds	$	60,670	$	47,689
Non-cash transactions				
Property and equipment purchases in accounts payable and accrued liabilities	$	10,214	$	1,784

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

Note 1 - Organization and Summary of Significant Accounting Policies

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

The accompanying unaudited condensed consolidated financial statements include the accounts of Axon Enterprise, Inc. and our subsidiaries. All 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, 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, 2023. Our results of operations for the three and nine months ended September 30, 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:

- revenue recognition,
- stock-based compensation,
- business combinations,
- product warranty reserves,
- inventory valuation and related reserves,
- valuation of goodwill, intangible and long-lived assets,
- valuation of strategic investments,
- recognition, measurement and valuation of current and deferred income taxes, 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.

Revision of Previously Issued Financial Statements

In preparing the condensed consolidated financial statements as of and for the three and nine months ended September 30, 2024, we identified errors in our previously issued financial statements related to our historical conclusions of principal vs. agent accounting of certain reseller arrangements under ASC Topic 606, Revenue from Contracts with Customers (“ASC 606”). The identified errors impacted our previously issued 2021 and 2022 annual financial statements, 2023 quarterly and annual financial statements, and 2024 quarterly financial statements through June 30, 2024. We have made adjustments to the prior period amounts presented in these financial statements accordingly. Additionally, we have made adjustments to correct for other previously identified immaterial errors.

We assessed the materiality of the errors on prior period consolidated financial statements in accordance with SEC Staff Accounting Bulletin No. 99, "Materiality," codified in ASC Topic 250, Accounting Changes and Error Corrections. Based on this assessment, we concluded that the error correction is not material to any previously presented interim or annual financial statements. A summary of the revisions to the previously reported financial information is included in Note 19.

Geographic Information and Major Customers / Suppliers

For the three and nine months ended September 30, 2024 and 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, 2024 and 2023, no customer represented more than 10% of total net sales. At September 30, 2024 and

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 and custom components, including finished circuit boards, injection-molded plastic components, small machined parts, custom cartridge components, electronic components and sub-assemblies from suppliers located in the United States, Taiwan, Mexico, China, Vietnam and the Republic of Korea. We may source from other countries as well. Although we currently obtain many of these components from single source suppliers, we own substantially all injection molded component tooling, designs and 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 experienced supply chain disruptions relating to materials and port constraints, we 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, unvested restricted stock units (“RSUs”), and our 0.50% convertible senior notes due 2027 (the “Notes” or “2027 Notes”). The effects of outstanding stock options, unvested RSUs, our 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,	
	2024	2023	2024	2023
Numerator for basic and diluted earnings per share:				
Net income	$ 67,025	$ 61,309	$ 241,850	$ 118,722
Denominator:				
Weighted average shares outstanding	75,697	74,826	75,543	73,904
Dilutive effect of stock-based awards	1,317	1,126	1,298	1,308
Dilutive effect of 2027 Notes	1,015	—	773	—
Dilutive effect of 2027 Warrants	51	—	—	—
Diluted weighted average shares outstanding	78,080	75,952	77,614	75,212
Net income per common share:				
Basic	$ 0.89	$ 0.82	$ 3.20	$ 1.61
Diluted	$ 0.86	$ 0.81	$ 3.12	$ 1.58

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,	
	2024	2023	2024	2023
Stock-based awards	4,574	481	4,620	470
2027 Notes	2,002	3,017	2,244	3,017
2027 Warrants	2,966	3,017	3,017	3,017
Total potentially dilutive securities	9,542	6,515	9,881	6,504

For additional information regarding our 2027 Notes and 2027 Warrants, refer to Note 10.

Warranty Reserves

We warranty our TASER® brand conducted energy devices (“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. We estimate and record 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 to be incurred over the 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 product and service sales when the costs become probable and can be reasonably estimated.

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

	Nine Months Ended September 30,	
	2024	2023
Balance, beginning of period	$ 7,374	$ 811
Utilization of reserve	(5,007)	(901)
Warranty expense	4,860	3,381
Balance, end of period	$ 7,227	$ 3,291

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 from markets that are not active for assets or liabilities that are identical or similar to the assets or liabilities being measured. Also, model-derived valuations in which all significant inputs and significant value drivers are observable in active markets are Level 2 valuation techniques.
- 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, 2024 comprised money market funds, U.S. government bonds, term deposits, U.S. Treasury bills, and agency bonds. Cash equivalents and investments at December 31, 2023 also included corporate bonds, commercial paper and 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, 2024 and December 31, 2023 was $8.6 million and $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 other income (loss), net.

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

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 2027 Notes at September 30, 2024 and December 31, 2023 to be a Level 2 measurement based on the fair value hierarchy. The fair value 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 balances of $2.3 million and $2.1 million as of September 30, 2024 and December 31, 2023, respectively, primarily relate to funds held in an international bank account for a country in which we are required to maintain a minimum balance to operate. As of September 30, 2024, approximately $2.2 million was included in prepaid expenses and other current 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 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 circumstances could include a change in 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 impairment loss, if impairment exists, is calculated based on the excess of the carrying amounts of the assets over their estimated fair values computed using discounted cash flows.

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 test goodwill and indefinite-lived intangible assets for impairment 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 condensed consolidated statement of operations.

In the event that we acquire an entity in which we previously held an existing minority 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 (loss), net, in the condensed 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 from operations on the condensed consolidated statement of operations. All third-party transaction-related costs are recognized as expense in the period in which they are incurred.

Stock-Based Compensation

On May 10, 2024, our shareholders approved the Axon Enterprise, Inc. 2024 eXponential Stock Plan (the "2024 Employee XSP"). The 2024 Employee XSP includes an approved pool of shares of common stock to be reserved for grants of awards of eXponential Stock Units ("XSUs") to employees. The grants of XSUs (the "2024 XSUs") are grants of performance-based RSUs that vest in seven substantially equal tranches. The tranches will vest upon certification by the Compensation Committee of the Board of Directors upon achievement of three independent vesting conditions: (1) stock price goals; (2) operational goals; and (3) minimum service conditions.

Additionally, shareholders approved the grant of the 2024 XSUs to our CEO, Patrick W. Smith (the "2024 CEO Performance Award"). The stock price goals and operational goals under the 2024 CEO Performance Award are identical to those under the 2024 Employee XSP, but Mr. Smith is subject to a longer minimum required service period. Refer to Note 12 for further discussion regarding ongoing progress towards reaching the aforementioned goals.

Recently Issued Accounting Guidance and Disclosure Rules

Standards Not Yet Adopted

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 ASU2023-09, 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 pending judicial review. We are currently evaluating the impact of the Final Rules on our consolidated financial statements.

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 and reportable segment (in thousands):

	Three Months Ended September 30, 2024			Three Months Ended September 30, 2023		
	TASER	Software and Sensors	Total	TASER	Software and Sensors	Total
TASER Devices (Professional)	$ 130,515	$ —	$ 130,515	$ 86,718	$ —	$ 86,718
Cartridges	60,179	—	60,179	54,279	—	54,279
Axon Evidence and Cloud Services	13,861	203,481	217,342	8,975	151,518	160,493
Extended Warranties	9,729	17,306	27,035	8,078	14,046	22,124
Axon Body Cameras and Accessories	—	70,363	70,363	—	52,488	52,488
Axon Fleet Systems	—	23,239	23,239	—	27,336	27,336
Other (1) (2)	7,450	8,151	15,601	4,520	5,320	9,840
Total	$ 221,734	$ 322,540	$ 544,274	$ 162,570	$ 250,708	$ 413,278

	Nine Months Ended September 30, 2024			Nine Months Ended September 30, 2023		
	TASER	Software and Sensors	Total	TASER	Software and Sensors	Total
TASER Devices (Professional)	$ 333,815	$ —	$ 333,815	$ 239,165	$ —	$ 239,165
Cartridges	181,792	—	181,792	149,504	—	149,504
Axon Evidence and Cloud Services	40,297	570,222	610,519	25,575	401,281	426,856
Extended Warranties	27,164	48,651	75,815	23,463	40,194	63,657
Axon Body Cameras and Accessories	—	180,592	180,592	—	124,066	124,066
Axon Fleet Systems	—	79,620	79,620	—	99,015	99,015
Other (1) (2)	14,373	30,855	45,228	14,460	13,600	28,060
Total	$ 597,441	$ 909,940	$ 1,507,381	$ 452,167	$ 678,156	$ 1,130,323

(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 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,			
	2024		2023		2024		2023	
United States	$ 482,596	89 %	$ 341,767	83 %	$ 1,298,775	86 %	$ 954,023	84 %
Other countries	61,678	11	71,511	17	208,606	14	176,300	16
Total	$ 544,274	100 %	$ 413,278	100 %	$ 1,507,381	100 %	$ 1,130,323	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 months ended September 30, 2024 (in thousands):

	September 30, 2024
Contract assets, net	$ 492,896
Contract liabilities (deferred revenue)	810,422
Revenue recognized in the period from:	
Amounts included in contract liabilities at the beginning of the period	432,411

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

	September 30, 2024			December 31, 2023		
	Current	Long-Term	Total	Current	Long-Term	Total
Extended Warranty:						
TASER	$ 15,783	$ 18,162	$ 33,945	$ 14,666	$ 18,828	$ 33,494
Software and Sensors	20,300	8,749	29,049	22,642	8,165	30,807
	36,083	26,911	62,994	37,308	26,993	64,301
Hardware:						
TASER	43,322	32,737	76,059	35,845	29,689	65,534
Software and Sensors	65,067	136,105	201,172	63,299	117,024	180,323
	108,389	168,842	277,231	99,144	146,713	245,857
Services:						
TASER	8,510	5,141	13,651	7,832	3,983	11,815
Software and Sensors	352,026	104,520	456,546	326,131	93,212	419,343
	360,536	109,661	470,197	333,963	97,195	431,158
Total	$ 505,008	$ 305,414	$ 810,422	$ 470,415	$ 270,901	$ 741,316

	September 30, 2024			December 31, 2023		
	Current	Long-Term	Total	Current	Long-Term	Total
TASER	$ 67,615	$ 56,040	$ 123,655	$ 58,343	$ 52,500	$ 110,843
Software and Sensors	437,393	249,374	686,767	412,072	218,401	630,473
Total	$ 505,008	$ 305,414	$ 810,422	$ 470,415	$ 270,901	$ 741,316

Remaining Performance Obligations

As of September 30, 2024, we had approximately $7.7 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 ASC 606 as of September 30, 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.

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, 2024 and December 31, 2023 (in thousands):

	As of September 30, 2024						
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash and Cash Equivalents	Marketable Securities	Short-Term Investments
Cash	$ 85,256	$ —	$ —	$ 85,256	$ 85,256	$ —	$ —
Level 1:							
Money market funds	438,408	—	—	438,408	438,408	—	—
U.S. government	140,758	23	(5)	140,776	—	—	140,776
Marketable securities	90,000	61,560	—	151,560	—	151,560	—
Treasury bills	117,880	19	(2)	117,897	48,513	—	69,384
Agency bonds	104,780	—	(13)	104,767	104,767	—	—
Subtotal	891,826	61,602	(20)	953,408	591,688	151,560	210,160
Level 2:							
Term deposits	119,610	—	—	119,610	18,200	—	101,410
Subtotal	119,610	—	—	119,610	18,200	—	101,410
Total	$ 1,096,692	$ 61,602	$ (20)	$ 1,158,274	$ 695,144	$ 151,560	$ 311,570

As of September 30, 2024, we had $159.7 million of available-for-sale investments with unrealized losses, of which none have been in a continuous unrealized loss position for 12 months or longer. 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.

Acquired common stock is recorded as marketable securities in the 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 other income (loss), net. During the three and nine months ended September 30, 2024, we recorded an unrealized gain on marketable securities of $44.0 million and $73.6 million, respectively. We recorded an unrealized gain on marketable securities of $4.1 million and $29.6 million, respectively, for the same periods in the prior year.

	As of December 31, 2023						
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash and Cash Equivalents	Marketable Securities	Short-Term Investments
Cash	$ 406,743	$ —	$ —	$ 406,743	$ 406,743	$ —	$ —
Level 1:							
Money market funds	1,470	—	—	1,470	1,470	—	—
Agency bonds	222,057	2	(174)	221,885	101,635	—	120,250
U.S. government	238,747	120	(237)	238,630	—	—	238,630
Treasury bills	148,063	28	—	148,091	88,697	—	59,394
Marketable securities	90,000	—	(12,060)	77,940	—	77,940	—
Subtotal	700,337	150	(12,471)	688,016	191,802	77,940	418,274
Level 2:							
Term deposits	128,205	—	—	128,205	—	—	128,205
Corporate bonds	80,646	8	(165)	80,489	—	—	80,489
Treasury inflation-protected securities	2,635	—	(5)	2,630	—	—	2,630
Commercial paper	14,456	—	—	14,456	—	—	14,456
Subtotal	225,942	8	(170)	225,780	—	—	225,780
Total	$ 1,333,022	$ 158	$ (12,641)	$ 1,320,539	$ 598,545	$ 77,940	$ 644,054

As of December 31, 2023, we had $420.4 million of available-for-sale investments with unrealized losses. Of this amount, $138.8 million had 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.

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.

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 are 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, 2024		
	United States	Other countries	Total
Balance, beginning of period	$ 3,369	$ 597	$ 3,966
Provision for expected credit losses	2,606	216	2,822
Amounts written off charged against the allowance	(700)	(84)	(784)
Other, including foreign currency translation	—	14	14
Balance, end of period	$ 5,275	$ 743	$ 6,018

As of September 30, 2024 and 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, 2024	December 31, 2023
Accounts receivable and notes receivable, current	$ 3,292	$ 2,392
Contract assets, net	2,678	1,516
Long-term notes receivable, net of current portion	48	44
Other current liabilities	—	14
Total allowance for expected credit losses on customer receivables	$ 6,018	$ 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 basis. 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, 2024 and December 31, 2023 (in thousands):

	September 30, 2024	December 31, 2023
Raw materials	$ 100,526	$ 104,112
Finished goods	171,769	165,743
Total inventory	$ 272,295	$ 269,855

Note 6 – Goodwill and Intangible Assets

The changes in the carrying amount of goodwill for the nine months ended September 30, 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	—	(364)	(364)
Foreign currency translation adjustments	(14)	252	238
Balance, end of period	$ 2,970	$ 305,502	$ 308,472

Intangible assets (other than goodwill) consisted of the following at September 30, 2024 and December 31, 2023 (in thousands):

		September 30, 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:							
Developed technology	3 - 8 years	$ 82,531	$ (21,478)	$ 61,053	$ 29,402	$ (16,562)	$ 12,840
Customer relationships	4 - 10 years	18,649	(3,730)	14,919	5,530	(3,620)	1,910
Trademarks	3 - 15 years	3,214	(1,312)	1,902	1,333	(817)	516
Issued patents	5 - 25 years	3,019	(1,553)	1,466	3,222	(1,707)	1,515
Domain names	3 - 10 years	3,043	(2,357)	686	3,043	(2,128)	915
Non-compete agreements	3 - 4 years	—	—	—	448	(448)	—
Total amortizable intangible assets		110,456	(30,430)	80,026	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		654	—	654	775	—	775
Total non-amortizable intangible assets		1,722	—	1,722	1,843	—	1,843
Total intangible assets		$ 112,178	$ (30,430)	$ 81,748	$ 44,821	$ (25,282)	$ 19,539

Amortization expense of intangible assets for the three and nine months ended September 30, 2024 was $3.8 million and $10.7 million, respectively. Amortization expense of intangible assets for the three and nine months ended September 30, 2023 was $1.3 million and $3.2 million, respectively. Estimated amortization for intangible assets with definite lives for the remaining three months of 2024, the next five years ended December 31, and thereafter, is as follows (in thousands):

2024 remaining	$ 3,840
2025	12,536
2026	12,341
2027	11,400
2028	11,289
2029	11,105
Thereafter	17,515
Total	$ 80,026

Note 7 - Strategic Investments

Strategic investments include equity and debt investments in a number of non-public technology driven companies. We account for strategic equity 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.

For the debt security strategic investment, we have elected to account for this investment and the associated embedded derivatives utilizing the fair value option. Unrealized changes in fair value for the entire hybrid instrument are recorded within other income (loss), net in the condensed consolidated statement of operations. The debt security is recorded as a strategic investment within the long-term assets section of the condensed consolidated balance sheet.

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.

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

	Three Months Ended September 30, 2024					Three Months Ended September 30, 2023			
	Equity investments	Warrants	Call options	Debt investments	Total	Equity investments	Warrants	Call options	Total
Balance, beginning of period	$ 340,108	$ 2,356	$ 13,033	$ 7,637	$ 363,134	$ 215,945	$ 459	$ 17,233	$ 233,637
Investments	24,322	—	—	—	24,322	4,099	1,176	—	5,275
Fair value adjustments:									
Unrealized gains	—	—	—	449	449	—	—	—	—
Unrealized losses and impairments	—	—	—	—	—	—	(113)	—	(113)
Exercises	—	—	—	—	—	1,500	—	—	1,500
Balance, end of period	$ 364,430	$ 2,356	$ 13,033	$ 8,086	$ 387,905	$ 221,544	$ 1,522	$ 17,233	$ 240,299

	Nine Months Ended September 30, 2024					Nine Months Ended September 30, 2023			
	Equity investments	Warrants	Call options	Debt investments	Total	Equity 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	93,450	—	—	7,500	100,950	15,016	1,176	—	16,192
Fair value adjustments:									
Realized gains	45,162	—	21	—	45,183	—	—	—	—
Realized losses	—	—	(2,870)	—	(2,870)	—	—	—	—
Unrealized gains	74,784	855	—	586	76,225	—	—	—	—
Unrealized losses and impairments	—	—	—	—	—	(72,648)	(1,308)	—	(73,956)
Exercises	(61,962)	—	(1,351)	—	(63,313)	1,500	—	—	1,500
Balance, end of period	$ 364,430	$ 2,356	$ 13,033	$ 8,086	$ 387,905	$ 221,544	$ 1,522	$ 17,233	$ 240,299

In January 2024, we acquired the remaining outstanding stock of a strategic investment. Our existing interest had a fair value at acquisition date of $63.3 million, which resulted in a net non-taxable gain of $42.3 million related to the existing strategic equity investment and call option. For additional information on the business combination, refer to Note 17.

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

For the debt security strategic investment, we recognized an unrealized gain of $0.6 million for the entire hybrid instrument in other income (loss), net on our condensed consolidated statement of operations during the nine months ended September 30, 2024.

	Inception to date				
	Equity investments	Warrants	Call options	Debt investments	Total
Investments	$ 217,948	$ 4,222	$ 17,233	$ 7,500	$ 246,903
Fair value adjustments:					
Realized gains	57,474	—	21	—	57,495
Realized losses	—	—	(2,870)	—	(2,870)
Unrealized gains	149,601	29,928	—	586	180,115
Unrealized losses and impairments	(82,304)	(1,705)	—	—	(84,009)
Exercises	36,257	(30,089)	(1,351)	—	4,817
Sales	(14,546)	—	—	—	(14,546)
Balance, end of period	$ 364,430	$ 2,356	$ 13,033	$ 8,086	$ 387,905

Note 8 - Variable Interest Entities

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 will 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.

As of September 30, 2024 and December 31, 2023, the unconsolidated non-public VIEs in which we hold variable interests were as follows (in thousands):

	September 30, 2024	December 31, 2023
Carrying value of variable interest - assets (1)	$ 28,073	$ 4,986

(1) Balance reflects the maximum exposure to loss, which is limited to the carrying value of the interest.

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 investments in debt and preferred equity securities 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.

Note 9 - Accrued Liabilities

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

	September 30, 2024	December 31, 2023
Accrued salaries, commissions, benefits and bonus	$ 103,566	$ 125,636
Accrued income and other taxes	27,911	5,784
Accrued inventory in transit	11,428	12,197
Accrued professional, consulting and lobbying fees	10,870	7,377
Accrued warranty expense	7,227	7,374
Other accrued expenses	48,689	35,182
Accrued liabilities	$ 209,691	$ 193,550

Note 10 – Convertible Senior Notes

2027 Notes

In December 2022, we issued $690.0 million aggregate principal amount of our 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 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 effective interest rate for the Notes was 0.99% and included interest payable and amortization of debt issuance cost. On or after December 22, 2025, we may redeem for cash all or any portion of the notes in accordance with the optional redemption terms of the convertible debt agreement.

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 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, 2024	December 31, 2023
Principal	$ 690,000	$ 690,000
Unamortized debt issuance costs	(10,517)	(12,887)
Convertible notes carrying amount, net	$ 679,483	$ 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, 2024 and 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, 2024	December 31, 2023
2027 Notes	$ 1,239.8	$ 873.3

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Contractual interest expense	$ 862	$ 863	$ 2,588	$ 2,588
Amortization of debt issuance costs	803	797	2,368	2,328
Total interest expense	$ 1,665	$ 1,660	$ 4,956	$ 4,916

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 dilution upon conversion of the Notes in the event that the 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, 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 transactions with certain investment banks, whereby we sold 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 11 - Income Taxes

We file income tax returns for federal purposes and in most 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, 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 reserves. Our total net deferred tax assets at September 30, 2024 were $244.3 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 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, 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 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 $27.4 million as of September 30, 2024. Should the unrecognized benefit of $27.4 million be recognized, our effective tax rate would be favorably impacted. Approximately $6.8 million of the unrecognized tax benefit, net of federal 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 months ended September 30, 2024, after discrete period adjustments, was 18.6%. Before discrete adjustments, the estimated annual effective tax rate was 23.3%, which differs from the federal statutory rate due to the impact of state taxes net of federal benefit and executive compensation limitation under IRC Section 162(m) on projected pre-tax income for the year, partially offset by R&D tax credits and a net gain related to an investment transaction not recognized for tax. The effective tax rate was favorably impacted by a net $13.0 million discrete tax benefit associated with net windfalls related to stock-based compensation for RSUs and PSUs that vested, in addition to non-qualified stock options that were exercised during the nine months ended September 30, 2024.

Note 12 - Stockholders' Equity

2024 Employee XSP and 2024 CEO Performance Award

On May 10, 2024, our shareholders approved the 2024 Employee XSP. The 2024 Employee XSP includes an approved pool of 4.5 million shares of common stock to be reserved for grants of XSU awards to employees under the 2024 Employee XSP. A total of approximately 3.8 million 2024 XSUs were granted in the nine months ended September 30, 2024. The 2024 XSUs are grants of performance-based RSUs that vest in seven substantially equal tranches. The tranches will vest upon certification by the Compensation Committee of the Board of Directors upon achievement of three independent vesting conditions, described in the following table:

	Operational Goals[(1)] *(in millions)*				Stock Price		Minimum Service Requirement		
Tranche	Revenue		Adj. EBITDA		Goal		Employee XSP	CEO Award	Goal Expiration
1	$ 1,834	*or*	$ 393	*and*	$ 247.40	*and*	June 2025	December 2028	December 31, 2026
2	2,293	*or*	508	*and*	309.25	*and*	December 2025	December 2028	December 31, 2027
3	2,866	*or*	655	*and*	386.56	*and*	June 2026	December 2029	December 31, 2028
4	3,583	*or*	845	*and*	483.20	*and*	December 2026	December 2029	December 31, 2029
5	4,479	*or*	1,088	*and*	604.00	*and*	June 2027	December 2030	December 31, 2030
6	5,599	*or*	1,400	*and*	755.00	*and*	December 2027	December 2030	December 31, 2031
7	6,999	*or*	1,750	*and*	943.75	*and*	June 2028	December 2030	December 31, 2032

(1) Operational goals are measured, as of any date, for the previous four consecutive fiscal quarters, beginning with the Company's first full fiscal quarter ending after the fiscal quarter in which the grant date occurred

Additionally, shareholders approved the 2024 CEO Performance Award to grant 679,102 shares of the 2024 XSUs to our CEO, Patrick W. Smith. The stock price goals and operational goals under the 2024 CEO Performance Award are identical to those under the 2024 Employee XSP, but Mr. Smith is subject to a longer minimum required service period.

Stock-based compensation expense associated with the 2024 XSU awards is recognized over the requisite service period, which is considered the longest explicit, implicit or derived service period for each respective tranche. We utilized Monte Carlo simulations to evaluate a range of possible future stock price goals over the term of the awards at each of the respective grant dates. The median of all iterations of the simulation was used as the basis for the derived service period for each tranche.

We measured the grant date fair value of each tranche using a Monte Carlo simulation with the following assumptions: risk-free interest rate of 4.3% - 4.5%, expected volatility of 41.4% – 41.5%, expected term of 8.6 years, and dividend yield of 0.0%. We utilized a blended volatility assumption, equally weighting both historical volatility and implied volatility, resulting in a weighted-average expected volatility of 41.4%. An illiquidity discount is considered in our estimate of the fair value of shares during post-vesting holding periods. The mandatory post-vesting holding periods for 2024 XSU awards will lapse on the earlier of (i) December 31, 2030, or (ii) the date that a subsequent tranche vests and settles. Therefore, the illiquidity discount is dependent upon projected tranche vesting dates, determined via the Monte Carlo simulation. This simulation is based on a subjective assessment of our forward-looking financial projections, taking into consideration statistical analysis.

Even though no tranche with respect to either the 2024 Employee XSP or the 2024 CEO Performance Award vests unless the stock price goal, operational goal and corresponding minimum service condition are achieved, stock-based compensation expense is recognized when an operational goal is considered probable of attainment regardless of the achievement of the stock price and minimum service conditions. As of September 30, 2024, we consider some of the tranches probable and will recognize the expense ratably over their respective expected vesting periods. This may result in volatility and higher upfront expense recognition and is subject to change based on periodic probability assessments.

Restricted Stock Units

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

	Number of Units	Weighted Average Grant-Date Fair Value	Aggregate Intrinsic Value
Units outstanding, beginning of year	1,615	$ 193.09	
Granted	595	269.18	
Released	(488)	185.33	
Forfeited	(128)	202.01	
Units outstanding, end of period	1,594	$ 223.16	$ 636,869

Aggregate intrinsic value represents our closing stock price on the last trading day of the period, which was $399.60 per share, multiplied by the number of RSUs outstanding. As of September 30, 2024, there was $252.7 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 2.2 years. RSUs are settled when vesting requirements are met.

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 nine months ended September 30, 2024, there was $38.3 million of stock compensation expense related to these RSUs that was primarily recorded within cost of product and service sales.

Performance Stock Units

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

	Number of Units	Weighted Average Grant-Date Fair Value	Aggregate Intrinsic Value
Units outstanding, beginning of year	394	$ 201.61	
Granted	4,517	240.07	
Released	(11)	149.49	
Forfeited	(345)	232.01	
Units outstanding, end of period	4,555	$ 237.57	$ 1,820,338

Aggregate intrinsic value represents our closing stock price on the last trading day of the period, which was $399.60 per share, multiplied by the number of PSUs outstanding. As of September 30, 2024, there was $585.0 million in unrecognized compensation expense related to PSUs under our stock plans for awards that are expected to vest. Of the balance, there was $579.5 million of total unrecognized stock-based compensation expense related to XSP for performance goals that were considered probable of achievement, which will be recognized over a weighted-average period of 3.7 years.

Stock Option Activity

The following table summarizes stock option activity for the nine months ended September 30, 2024 (number of options and 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	531	$ 28.58		
Granted	—	—		
Exercised	(350)	28.58		
Expired / terminated	—	—		
Options outstanding and exercisable, end of period	181	$ 28.58	3.41	$ 67,085

Aggregate intrinsic value 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, 2024, which was $399.60 per share.

Of the total stock options exercised during the nine months ended September 30, 2024, 0.2 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.

Stock-based Compensation Expense

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Cost of product sales and service sales	$ 10,123	$ 1,687	$ 48,235	$ 4,685
Sales, general and administrative expenses	55,248	12,886	117,036	43,232
Research and development expenses	36,409	15,414	86,445	48,311
Total stock-based compensation expense	$ 101,780	$ 29,987	$ 251,716	$ 96,228

Stock Incentive Plan

In May 2024, our shareholders approved the Axon Enterprise, Inc. Amended and Restated 2022 Stock Incentive Plan (the "Amended 2022 Plan") authorizing an additional 2.2 million shares, plus remaining available shares under prior plans, for issuance under the Amended 2022 Plan. Combined with the shares of our common stock available under our legacy stock incentive plans, there are 3.7 million shares of our common stock available for grant under the Amended 2022 Plan as of September 30, 2024.

At-The-Market Equity Offering

We participate in an "at-the-market" equity offering program (the "ATM"), pursuant to which we are authorized to sell up to a total of approximately 2.0 million shares of our common stock. As of September 30, 2024, there were approximately 2.0 million shares remaining. There were no issuances under the ATM during the nine months ended September 30, 2024.

Note 13 - Line of Credit

In December 2022, we entered into a credit agreement that provides for a senior unsecured multi-currency revolving credit facility (the "Credit Agreement") 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.

As of September 30, 2024, no amounts were drawn under the Credit Agreement and outstanding letters of credit totaled $8.2 million. 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 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, and a consolidated interest coverage ratio, defined as EBITDA to consolidated interest expense. As of September 30, 2024, we are in compliance with the associated covenants under the Credit Agreement.

Note 14 - 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 one such lawsuit 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.

Other Matters

Despite the FTC's dismissal of its administrative enforcement complaint against Axon without consent decree or other condition in October 2023, other parties continue to allege that Axon's May 2018 acquisition of an insolvent body-worn camera competitor, Vievu LLC ("Vievu"), was anticompetitive. Two purported antitrust lawsuits based largely on the FTC's unproven allegations are pending in the District of New Jersey (Case No. 3:23-cv-7182) and District of Arizona (Case No. 2:24-cv-01869-SMB). Axon denies all allegations of anticompetitive or other misconduct and is vigorously defending the cases. Axon has also received a request for information from the Pennsylvania Office of Attorney General regarding this same consummated Vievu transaction. Axon is cooperating with the investigation to resolve any concerns of the Commonwealth.

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 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, 2024, we had outstanding letters of credit issued under our credit facility of $8.2 million that are expected to expire through 2025. We also had outstanding letters of credit of $0.1 million that do not draw against our credit facility. Additionally, we had $13.6 million of outstanding surety bonds as of September 30, 2024, with expiration dates ranging through 2029.

Note 15 – 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, 2023	$ (399)	$ (10,280)	$ (10,679)
Other comprehensive loss	(106)	(801)	(907)
Balance, March 31, 2024	$ (505)	$ (11,081)	$ (11,586)
Other comprehensive income (loss)	119	(2,727)	(2,608)
Balance, June 30, 2024	$ (386)	$ (13,808)	$ (14,194)
Other comprehensive income	434	4,640	5,074
Balance, September 30, 2024	$ 48	$ (9,168)	$ (9,120)

	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)

Note 16 - Segment Data

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 our 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."

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 segments that are aggregated. We perform an analysis of our reportable segments at least annually.

During the nine months ended September 30, 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 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 and nine months ended September 30, 2023 to conform to the new presentation.

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

	Three Months Ended September 30,	
	2024	2023
TASER segment net sales	$ 221,734	$ 162,570
Software and Sensors segment net sales	322,540	250,708
Total consolidated net sales	$ 544,274	$ 413,278
TASER adjusted gross margin	$ 139,632	$ 102,151
Software and Sensors adjusted gross margin	204,258	157,147
Total segment adjusted gross margin	$ 343,890	$ 259,298
Stock-based compensation expense	10,123	1,687
Amortization of acquired intangible assets	3,020	955
Gross margin	$ 330,747	$ 256,656
Sales, general and administrative	192,189	122,357
Research and development	114,477	76,880
Interest income, net	10,978	10,458
Other income (loss), net	44,510	3,852
Income (loss) before provision for (benefit from) income taxes	$ 79,569	$ 71,729

	Nine Months Ended September 30,	
	2024	2023
TASER segment net sales	$ 597,441	$ 452,167
Software and Sensors segment net sales	909,940	678,156
Total consolidated net sales	$ 1,507,381	$ 1,130,323
TASER adjusted gross margin	$ 374,072	$ 280,875
Software and Sensors adjusted gross margin	577,992	417,460
Total segment adjusted gross margin	$ 952,064	$ 698,335
Stock-based compensation expense	48,235	4,685
Amortization of acquired intangible assets	8,298	2,189
Gross margin	$ 895,531	$ 691,461
Sales, general and administrative	514,228	357,611
Research and development	307,008	219,747
Interest income, net	31,134	29,787
Other income (loss), net	191,510	(42,569)
Income before provision for income taxes	$ 296,939	$ 101,321

Note 17 – Business Acquisitions

Fusus, LLC.

On January 31, 2024, we acquired the remaining 79.7% interest in Fusus, LLC ("Fusus"), a global leader in real-time crime center technology, for total consideration transferred of approximately $241.3 million, subject to customary adjustments (the "step acquisition"). The acquisition expands our ability to aggregate live video, data and sensor feeds, which enhances situational awareness and investigative capabilities for our customers in public safety, education and enterprise. Total transaction costs related to the acquisition were $0.3 million and $4.6 million for the three and nine months ended September 30, 2024, respectively. These transaction costs were expensed as incurred in sales, general and administrative expenses ("SG&A") 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 recorded in other income (loss), net in our condensed consolidated statement of operations. 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, which is expected to be completed in the fourth quarter of 2024. Based on the purchase price allocation, we recorded $250.1 million of goodwill, $72.9 million of identifiable intangible assets, and other net liabilities assumed of $7.8 million, excluding deferred taxes. We recorded a net deferred tax liability of $10.5 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. Following the acquisition, the consolidated results of Fusus are included in the Company's Software and Sensors operating segment.

Note 18 - Subsequent Event

In October 2024, we acquired the remaining outstanding stock of Dedrone Holdings, Inc. ("Dedrone"), a global leader in air space security, for approximately $400 million, subject to customary purchase price adjustments. This acquisition will be recorded to our Software and Sensors segment, and it represents alignment to our mission and positions us to accelerate the next generation of drone and air space solutions. Prior to this transaction, we had an approximately 20% ownership interest in Dedrone. This transaction is considered a "step acquisition" under GAAP whereby our ownership interest in Dedrone held before the acquisition is required to be remeasured to fair value at the date of the acquisition. We expect to recognize a gain on our previously held strategic equity investment as a result of this transaction in the fourth quarter of 2024.

Due to the proximity of the closing date of the acquisition of the remaining interest in Dedrone to the date of this filing, the initial accounting for the acquisition is not yet complete. Transaction costs related to the acquisition were approximately $7.5 million for the nine months ended September 30, 2024. These transaction costs were expensed as incurred in SG&A in our condensed consolidated statements of operations.

Note 19 - Revision of Prior Period Financial Statements

As discussed in Note 1, in preparing the condensed consolidated financial statements as of and for the three and nine months ended September 30, 2024, we identified errors in our previously issued financial statements related to our historical conclusions of principal vs. agent accounting of certain reseller arrangements under ASC 606 and concluded they were not material to any previously issued financial statements. The identified errors impacted our previously issued 2021 and 2022 annual financial statements, 2023 quarterly and annual financial statements, and 2024 quarterly financial statements through June 30, 2024. We have made adjustments to the prior period amounts presented in these financial statements accordingly. Additionally, we have made adjustments to correct for other previously identified immaterial errors.

The following tables reflect the impact of the revision to the specific line items presented in our previously reported (a) consolidated balance sheet as of December 31, 2023; (b) consolidated statements of operations and comprehensive income for the years ended December 31, 2023, December 31, 2022, and December 31, 2021, and for the quarterly periods ended June 30, 2024, March 31, 2024, December 31, 2023, and September 30, 2023; (c) consolidated statements of cash flows for the years ended December 31, 2023 and December 31, 2022, and for the year to date periods ended June 30, 2024, March 31, 2024, September 30, 2023; and (d) consolidated statements of stockholder's equity for the quarterly periods ending December 31, 2022 through June 30, 2024.

Consolidated Balance Sheet
(in thousands)

As of December 31, 2023	As Reported	Revision	As Revised
Accounts and notes receivable, net of allowance of $2,392 as of December 31, 2023	$ 417,690	$ (4,729)	$ 412,961
Contract assets, net	275,779	11,453	287,232
Prepaid expenses and other current assets	112,786	(9,731)	103,055
Total current assets	2,396,649	(3,007)	2,393,642
Deferred tax assets, net	229,513	(1,729)	227,784
Long-term contract assets, net	77,710	6,672	84,382
Other long-term assets	220,638	(29,607)	191,031
Total assets	3,436,845	(27,671)	3,409,174
Accounts payable	88,326	(22,474)	65,852
Accrued liabilities	188,230	5,320	193,550
Current portion of deferred revenue	491,691	(21,276)	470,415
Total current liabilities	799,969	(38,430)	761,539
Deferred revenue, net of current portion	281,852	(10,951)	270,901
Other long-term liabilities	2,936	17,979	20,915
Total liabilities	1,824,811	(31,402)	1,793,409
Retained earnings	431,249	3,731	434,980
Total stockholders' equity	1,612,034	3,731	1,615,765
Total liabilities and stockholders' equity	$ 3,436,845	$ (27,671)	$ 3,409,174

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Consolidated Statements of Operations and Comprehensive Income
(in thousands, except per share data)

Three Months Ended June 30, 2024	**As Reported**	**Revision**	**As Revised**
Net sales from products	$ 295,185	$ (2,422)	$ 292,763
Net sales from services	208,914	1,559	210,473
Net sales	504,099	(863)	503,236
Cost of product sales	145,154	(2,527)	142,627
Cost of service sales	55,210	(757)	54,453
Cost of sales	200,364	(3,284)	197,080
Gross margin	303,735	2,421	306,156
Sales, general and administrative	169,427	1,537	170,964
Total operating expenses	270,861	1,537	272,398
Income from operations	32,874	884	33,758
Income before provision for income taxes	50,590	884	51,474
Provision for (benefit from) income taxes	9,793	208	10,001
Net income	$ 40,797	$ 676	$ 41,473
Net income per common and common equivalent shares - Basic	$ 0.54	$ 0.01	$ 0.55
Comprehensive income	$ 38,189	$ 676	$ 38,865

There was no impact on disclosed diluted income per common and common equivalent shares for the three months ended June 30, 2024.

Six Months Ended June 30, 2024	**As Reported**	**Revision**	**As Revised**
Net sales from products	$ 567,233	$ (4,046)	$ 563,187
Net sales from services	397,602	2,318	399,920
Net sales	964,835	(1,728)	963,107
Cost of product sales	296,852	(2,065)	294,787
Cost of service sales	104,202	(666)	103,536
Cost of sales	401,054	(2,731)	398,323
Gross margin	563,781	1,003	564,784
Sales, general and administrative	322,096	(57)	322,039
Total operating expenses	514,627	(57)	514,570
Income from operations	49,154	1,060	50,214
Income before provision for income taxes	216,310	1,060	217,370
Provision for (benefit from) income taxes	42,295	250	42,545
Net income	$ 174,015	$ 810	$ 174,825
Net income per common and common equivalent shares - Basic	$ 2.31	$ 0.01	$ 2.32
Net income per common and common equivalent shares - Diluted	$ 2.25	$ 0.01	$ 2.26
Comprehensive income	$ 170,500	$ 810	$ 171,310

Three Months Ended March 31, 2024	As Reported	Revision	As Revised
Net sales from products	$ 272,048	$ (1,624)	$ 270,424
Net sales from services	188,688	759	189,447
Net sales	460,736	(865)	459,871
Cost of product sales	151,698	462	152,160
Cost of service sales	48,992	91	49,083
Cost of sales	200,690	553	201,243
Gross margin	260,046	(1,418)	258,628
Sales, general and administrative	152,669	(1,594)	151,075
Total operating expenses	243,766	(1,594)	242,172
Income from operations	16,280	176	16,456
Income before provision for income taxes	165,720	176	165,896
Provision for (benefit from) income taxes	32,502	42	32,544
Net income	$ 133,218	$ 134	$ 133,352
Comprehensive income	$ 132,311	$ 134	$ 132,445

There was no impact on disclosed basic and diluted income per common and common equivalent shares for the three months ended March 31, 2024.

Three Months Ended December 31, 2023	As Reported	Revision	As Revised
Net sales from products	$ 258,405	$ (1,966)	$ 256,439
Net sales from services	173,737	200	173,937
Net sales	432,142	(1,766)	430,376
Cost of product sales	125,664	(1,764)	123,900
Cost of service sales	42,591	(107)	42,484
Cost of sales	168,255	(1,871)	166,384
Gross margin	263,887	105	263,992
Sales, general and administrative	137,106	167	137,273
Total operating expenses	221,078	167	221,245
Income from operations	42,809	(62)	42,747
Income before provision for income taxes	55,802	(62)	55,740
Provision for (benefit from) income taxes	(1,469)	148	(1,321)
Net income	$ 57,271	$ (210)	$ 57,061
Comprehensive income	$ 59,461	$ (210)	$ 59,251

There was no impact on disclosed basic and diluted income per common and common equivalent shares for the three months ended December 31, 2023.

Year Ended December 31, 2023	As Reported	Revision	As Revised
Net sales from products	$ 967,711	$ (3,709)	$ 964,002
Net sales from services	595,680	1,017	596,697
Net sales	1,563,391	(2,692)	1,560,699
Cost of product sales	450,718	(3,010)	447,708
Cost of service sales	157,291	247	157,538
Cost of sales	608,009	(2,763)	605,246
Gross margin	955,382	71	955,453
Sales, general and administrative	496,874	(1,990)	494,884
Total operating expenses	800,593	(1,990)	798,603
Income from operations	154,789	2,061	156,850
Income before provision for income taxes	155,000	2,061	157,061
Provision for (benefit from) income taxes	(19,227)	505	(18,722)
Net income	$ 174,227	$ 1,556	$ 175,783
Net income per common and common equivalent shares - Basic	$ 2.35	$ 0.02	$ 2.37
Net income per common and common equivalent shares - Diluted	$ 2.31	$ 0.02	$ 2.33
Comprehensive income	$ 170,727	$ 1,556	$ 172,283

Three Months Ended September 30, 2023	As Reported	Revision	As Revised
Net sales from products	$ 256,443	$ (1,388)	$ 255,055
Net sales from services	157,158	1,065	158,223
Net sales	413,601	(323)	413,278
Cost of product sales	116,278	(1,665)	114,613
Cost of service sales	42,051	(42)	42,009
Cost of sales	158,329	(1,707)	156,622
Gross margin	255,272	1,384	256,656
Sales, general and administrative	123,279	(922)	122,357
Total operating expenses	200,159	(922)	199,237
Income from operations	55,113	2,306	57,419
Income before provision for income taxes	69,423	2,306	71,729
Provision for (benefit from) income taxes	10,026	394	10,420
Net income	$ 59,397	$ 1,912	$ 61,309
Net income per common and common equivalent shares - Basic	$ 0.79	$ 0.03	$ 0.82
Net income per common and common equivalent shares - Diluted	$ 0.78	$ 0.03	$ 0.81
Comprehensive income	$ 53,254	$ 1,912	$ 55,166

Nine Months Ended September 30, 2023	As Reported	Revision	As Revised
Net sales from products	$ 709,306	$ (1,743)	$ 707,563
Net sales from services	421,943	817	422,760
Net sales	1,131,249	(926)	1,130,323
Cost of product sales	325,054	(1,246)	323,808
Cost of service sales	114,700	354	115,054
Cost of sales	439,754	(892)	438,862
Gross margin	691,495	(34)	691,461
Sales, general and administrative	359,768	(2,157)	357,611
Total operating expenses	579,515	(2,157)	577,358
Income from operations	111,980	2,123	114,103
Income before provision for income taxes	99,198	2,123	101,321
Provision for (benefit from) income taxes	(17,758)	357	(17,401)
Net income	$ 116,956	$ 1,766	$ 118,722
Net income per common and common equivalent shares - Basic	$ 1.58	$ 0.03	$ 1.61
Net income per common and common equivalent shares - Diluted	$ 1.56	$ 0.02	$ 1.58
Comprehensive income	$ 111,266	$ 1,766	$ 113,032

Year Ended December 31, 2022	As Reported	Revision	As Revised
Net sales from products	$ 801,388	$ (4,211)	$ 797,177
Net sales from services	388,547	1,419	389,966
Net sales	1,189,935	(2,792)	1,187,143
Cost of product sales	363,219	(2,310)	360,909
Cost of service sales	98,078	2,043	100,121
Cost of sales	461,297	(267)	461,030
Gross margin	728,638	(2,525)	726,113
Sales, general and administrative	401,575	(2,245)	399,330
Total operating expenses	635,385	(2,245)	633,140
Income from operations	93,253	(280)	92,973
Income before provision for income taxes	196,518	(280)	196,238
Provision for (benefit from) income taxes	49,379	(71)	49,308
Net income	$ 147,139	$ (209)	$ 146,930
Comprehensive income	$ 141,277	$ (209)	$ 141,068

There was no impact on disclosed income per common and common equivalent shares for the year ended December 31, 2022.

Year Ended December 31, 2021	As Reported	Revision	As Revised
Net sales from products	$ 608,525	$ (1,629)	$ 606,896
Net sales from services	254,856	3,886	258,742
Net sales	863,381	2,257	865,638
Cost of product sales	260,098	(2,452)	257,646
Cost of service sales	62,373	(103)	62,270
Cost of sales	322,471	(2,555)	319,916
Gross margin	540,910	4,812	545,722
Sales, general and administrative	515,007	(162)	514,845
Total operating expenses	709,033	(162)	708,871
Income from operations	(168,123)	4,974	(163,149)
Income before provision for income taxes	(141,375)	4,974	(136,401)
Provision for (benefit from) income taxes	(81,357)	1,295	(80,062)
Net income	$ (60,018)	$ 3,679	$ (56,339)
Net income per common and common equivalent shares - Basic	$ (0.91)	$ 0.06	$ (0.85)
Net income per common and common equivalent shares - Diluted	$ (0.91)	$ 0.06	$ (0.85)
Comprehensive income	$ (61,476)	$ 3,679	$ (57,797)

Consolidated Statements of Stockholders' Equity
(in thousands)

	As Reported		Revision		As Revised	
	Retained Earnings	Total Stockholders' Equity	Retained Earnings	Total Stockholders' Equity	Retained Earnings	Total Stockholders' Equity
Balance, December 31, 2022	$ 257,022	$ 1,268,491	$ 2,175	$ 2,175	$ 259,197	$ 1,270,666
Net income	45,139	45,139	760	760	45,899	45,899
Balance, March 31, 2023	$ 302,161	$ 1,402,995	$ 2,935	$ 2,935	$ 305,096	$ 1,405,930
Net income	12,420	12,420	(906)	(906)	11,514	11,514
Balance, June 30, 2023	$ 314,581	$ 1,444,998	$ 2,029	$ 2,029	$ 316,610	$ 1,447,027
Net income	59,397	59,397	1,912	1,912	61,309	61,309
Balance, September 30, 2023	$ 373,978	$ 1,521,117	$ 3,941	$ 3,941	$ 377,919	$ 1,525,058
Net income	57,271	57,271	(210)	(210)	57,061	57,061
Balance, December 31, 2023	$ 431,249	$ 1,612,034	$ 3,731	$ 3,731	$ 434,980	$ 1,615,765
Net income	133,218	133,218	134	134	133,352	133,352
Balance, March 31, 2024	$ 564,467	$ 1,818,015	$ 3,865	$ 3,865	$ 568,332	$ 1,821,880
Net income	40,797	40,797	676	676	41,473	41,473
Balance, June 30, 2024	$ 605,264	$ 1,928,840	$ 4,541	$ 4,541	$ 609,805	$ 1,933,381

Consolidated Statements of Cash Flows
(in thousands)

Six Months Ended June 30, 2024	As Reported	Revision	As Revised
Cash flows from operating activities:			
Net income	$ 174,015	$ 810	$ 174,825
Provision for bad debts and inventory	2,241	8,843	11,084
Change in assets and liabilities:			
Receivables and contract assets	(60,513)	(16,579)	(77,092)
Inventory	(8,116)	(8,843)	(16,959)
Deferred revenue	(12,067)	3,568	(8,499)
Accounts payable, accrued and other liabilities	(43,071)	(461)	(43,532)
Other - net	(4,252)	12,662	8,410

Other than the impact to the captions noted above, there was no impact on total cash flows from operating activities, or from cash flows from investing or financing activities.

Three Months Ended March 31, 2024	As Reported	Revision	As Revised
Cash flows from operating activities:			
Net income	$ 133,218	$ 134	$ 133,352
Provision for bad debts and inventory	216	1,364	1,580
Change in assets and liabilities:			
Receivables and contract assets	(51,132)	(5,605)	(56,737)
Inventory	(710)	(1,364)	(2,074)
Deferred revenue	20,743	(1,622)	19,121
Accounts payable, accrued and other liabilities	(84,289)	(1,551)	(85,840)
Other - net	2	8,644	8,646

Other than the impact to the captions noted above, there was no impact on total cash flows from operating activities, or from cash flows from investing or financing activities.

Year Ended December 31, 2023	As Reported	Revision	As Revised
Cash flows from operating activities:			
Net income	$ 174,227	$ 1,556	$ 175,783
Deferred income taxes	(73,002)	505	(72,497)
Provision for bad debts and inventory	1,090	4,394	5,484
Change in assets and liabilities:			
Receivables and contract assets	(172,524)	(6,465)	(178,989)
Inventory	(71,896)	(5,730)	(77,626)
Deferred revenue	164,043	(17,224)	146,819
Accounts payable, accrued and other liabilities	64,384	945	65,329
Other - net	(102,370)	22,019	(80,351)

Other than the impact to the captions noted above, there was no impact on total cash flows from operating activities, or from cash flows from investing or financing activities.

Nine Months Ended September 30, 2023	As Reported	Revision	As Revised
Cash flows from operating activities:			
Net income	$ 116,956	$ 1,766	$ 118,722
Deferred income taxes	(53,311)	356	(52,955)
Provision for bad debts and inventory	887	4,196	5,083
Change in assets and liabilities:			
Receivables and contract assets	(182,468)	(4,146)	(186,614)
Inventory	(59,564)	(5,532)	(65,096)
Deferred revenue	118,294	(14,908)	103,386
Accounts payable, accrued and other liabilities	13,423	(56)	13,367
Other - net	(64,608)	18,324	(46,284)

Other than the impact to the captions noted above, there was no impact on total cash flows from operating activities, or from cash flows from investing or financing activities.

Year Ended December 31, 2022	As Reported	Revision	As Revised
Cash flows from operating activities:			
Net income	$ 147,139	$ (209)	$ 146,930
Deferred income taxes	22,090	(71)	22,019
Provision for bad debts and inventory	699	2	701
Change in assets and liabilities:			
Receivables and contract assets	(73,228)	(4,998)	(78,226)
Inventory	(95,987)	976	(95,011)
Deferred revenue	159,718	(4,152)	155,566
Accounts payable, accrued and other liabilities	80,757	221	80,978
Other - net	(52,207)	8,231	(43,976)

Other than the impact to the captions noted above, there was no impact on total cash flows from operating activities, or from cash flows from investing or financing activities.

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, 2024, and results of operations for the three and nine months ended September 30, 2024 and 2023, should be read in conjunction with the unaudited 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 Annual Report on Form 10-K for the year ended December 31, 2023, filed with the SEC on 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, 2024 were $544.3 million, an increase of $131.0 million, or 31.7%, from the comparable period in the prior year. We had income from operations of $24.1 million, compared to $57.4 million for the same period in the prior year. Gross margin dollars increased $74.1 million but decreased as a percentage of revenue to 60.8% from 62.1% compared to the three months ended September 30, 2023. The decrease was primarily driven by higher stock-based compensation expense and related payroll taxes, as well as amortization of acquired intangibles. Excluding the impacts of stock-based compensation expense and intangibles amortization in the cost of goods sold, gross margin increased from 62.7% to 63.2% year over year due to an increased mix of high-margin Axon Cloud & Services revenue. Operating expenses increased by $107.4 million, reflecting increased headcount and an increase in stock-based compensation expense. Net income of $67.0 million included a noncash unrealized gain of $44.0 million in our marketable securities. Net income of $61.3 million for the comparable period in the prior year included a noncash unrealized gain of $4.1 million on our investment in marketable securities.

Our revenues for the nine months ended September 30, 2024 were $1.5 billion, an increase of $377.1 million, or 33.4%, from the comparable period in the prior year. We had income from operations of $74.3 million, compared to $114.1 million for the same period in the prior year. Gross margin dollars increased $204.1 million but decreased as a percentage of revenue to 59.4% from 61.2% compared to the nine months ended September 30, 2023. The decrease was primarily driven by higher stock-based compensation expense and related payroll taxes, as well as amortization of acquired intangibles. Excluding the impacts of stock-based compensation expense and intangibles amortization in the cost of goods sold, the gross margin increased to 63.2% for the nine months ended September 30, 2024, compared to 61.8% for the same period in the prior year, primarily due to an increased mix of high-margin Axon Cloud & Services revenue and investments in TASER automation and cost-reduction initiatives. Operating expenses increased $243.9 million, reflecting an increase in salaries, benefits, and stock-based compensation expenses, as well as an increase in professional and consulting expenses related to transaction costs. For the nine months ended September 30, 2024, we recorded net income of $241.9 million, which included realized and unrealized gains of $192.2 million related to our acquisition of Fusus, strategic equity investment and marketable securities. Net income of $118.7 million for the comparable period in the prior year reflected a noncash unrealized gain of $29.6 million on our investment in marketable securities and a noncash unrealized impairment loss of $71.9 million, net, related to a strategic investment and related warrants.

Certain prior period amounts previously reported on our consolidated financial statements have been revised to correct for immaterial errors, as described in Note 1 and Note 19 to our condensed consolidated financial statements included in Part 1, Item 1 of this Quarterly Report on Form 10-Q.

Results of Operations

Three Months Ended September 30, 2024 Compared to the Three Months Ended September 30, 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,			
	2024		2023	
Net sales from products	$ 327,900	60.2 %	$ 255,055	61.7 %
Net sales from services	216,374	39.8	158,223	38.3
Net sales	544,274	100.0	413,278	100.0
Cost of product sales	156,167	28.7	114,613	27.7
Cost of service sales	57,360	10.5	42,009	10.2
Cost of sales	213,527	39.2	156,622	37.9
Gross margin	330,747	60.8	256,656	62.1
Operating expenses:				
Sales, general and administrative	192,189	35.3	122,357	29.6
Research and development	114,477	21.0	76,880	18.6
Total operating expenses	306,666	56.3	199,237	48.2
Income from operations	24,081	4.5	57,419	13.9
Interest income, net	10,978	2.0	10,458	2.5
Other income (loss), net	44,510	8.1	3,852	0.9
Income (loss) before provision for income taxes	79,569	14.6	71,729	17.3
Provision for (benefit from) income taxes	12,544	2.3	10,420	2.5
Net income	$ 67,025	12.3 %	$ 61,309	14.8 %

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

	Three Months Ended September 30,			
	2024		2023	
United States	$ 482,596	89 %	$ 341,767	83 %
Other countries	61,678	11	71,511	17
Total	$ 544,274	100 %	$ 413,278	100 %

International revenue decreased compared to the prior year comparable period, primarily driven by a large hardware deal in our Europe, Middle East and Africa ("EMEA") region during the third quarter of 2023.

Net Sales

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

	Three Months Ended September 30,								Dollar Change	Percent Change
	2024			2023						
TASER segment:										
TASER Devices (Professional)	$	130,515	24.0 %	$	86,718	21.0 %	$	43,797		50.5 %
Cartridges		60,179	11.1		54,279	13.1		5,900		10.9
Axon Evidence and Cloud Services		13,861	2.5		8,975	2.1		4,886		54.4
Extended Warranties		9,729	1.8		8,078	2.0		1,651		20.4
Other [1]		7,450	1.4		4,520	1.1		2,930		64.8
Total TASER segment		221,734	40.8		162,570	39.3		59,164		36.4
Software and Sensors segment:										
Axon Body Cameras and Accessories		70,363	12.9		52,488	12.7		17,875		34.1
Axon Fleet Systems		23,239	4.3		27,336	6.6		(4,097)		(15.0)
Axon Evidence and Cloud Services		203,481	37.4		151,518	36.7		51,963		34.3
Extended Warranties		17,306	3.2		14,046	3.4		3,260		23.2
Other [2]		8,151	1.4		5,320	1.3		2,831		53.2
Total Software and Sensors segment		322,540	59.2		250,708	60.7		71,832		28.7
Total net sales	$	544,274	100.0 %	$	413,278	100.0 %	$	130,996		31.7 %

(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 other sensors and equipment.

Net sales for the TASER segment increased 36.4% for the three months ended September 30, 2024 as compared to the prior-year quarter, primarily due to increases of $43.8 million in TASER devices (professional) revenue and $5.9 million of cartridge revenue. The increases are primarily related to increased TASER 10 device and cartridge volumes. Net sales for Axon Evidence and cloud services increased $4.9 million in the three months ended September 30, 2024 due to an increase in the number of cloud-connected TASER devices in the field.

Net sales for the Software and Sensors segment increased 28.7% for the three months ended September 30, 2024 as compared to the prior-year quarter as we continue to add users and associated devices to our network. The increase in the aggregate number of users and 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 $52.0 million. Net sales of Axon Body cameras and accessories increased $17.9 million due to higher volume sales of Axon Body 4. The $2.8 million increase in "Other" revenue was primarily driven by demand for smaller product offerings within the Software and Sensors segment.

We consider total company future contracted revenues a forward-looking performance indicator. As of September 30, 2024, we had approximately $7.7 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 10 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 60.8% from 62.5% for the three months ended September 30, 2024 and 2023, respectively. The decrease was primarily due to increased stock-based compensation expense. Excluding the impacts of stock-based compensation expense, gross margin for the TASER segment was 63.0% for the three months ended September 30, 2024, compared to 62.8% for the same period in 2023. The increase is primarily driven by investment in automation and cost reduction initiatives.

As a percentage of net sales, gross margin for the Software and Sensors segment decreased to 60.8% from 61.9% for the three months ended September 30, 2024 and 2023, respectively. Within the Software and Sensors segment, hardware gross margin decreased to 41.4% for the three months ended September 30, 2024 compared to 46.0% for the same period in 2023. Excluding the impacts of stock-based compensation expense and intangibles amortization, hardware gross margin decreased to 43.3% for the three months ended September 30, 2024, compared to 46.5% for the same period in 2023 due to manufacturing overhead reallocations made in the prior year. Service margin decreased to 72.3% for the three months ended September 30, 2024 from 72.7% for the same period in 2023. Excluding the impacts of stock-based compensation expense and intangibles amortization, service margin increased to 75.2% for the three months ended September 30, 2024, compared to 73.7% for the same period in 2023 due to higher mix of software revenue.

Sales, General and Administrative Expenses

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

	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023	Dollar Change	Percent Change
Total sales, general and administrative expenses	$ 192,189	$ 122,357	$ 69,832	57.1 %
As a percentage of net sales	35.3%	29.6%		

Stock-based compensation expense increased $42.4 million in comparison to the prior-year comparable period, which was primarily related to the 2024 Employee XSP and the 2024 CEO Performance Award that were approved by shareholders in the 2024 Annual Meeting of Shareholders and increased headcount . As of September 30, 2024, we consider some of the tranches probable and will recognize the expense ratably over their respective expected vesting periods. This may result in volatility and higher upfront expense recognition and is subject to change based on periodic probability assessments.

Salaries, benefits and bonus expense increased $10.9 million in comparison to the prior-year comparable period, which was primarily attributable to an increase in headcount and higher wages.

Sales and marketing and travel expense increased $3.8 million in comparison to the prior-year comparable period. The increase was partially attributable to an increase in travel expense of $2.3 million due to higher seasonal travel for company events compared to the prior-year comparable period. Sales and marketing fees increased $1.1 million as a result of in-person events.

Research and Development Expenses

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

	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023	Dollar Change	Percent Change
Total research and development expenses	$ 114,477	$ 76,880	$ 37,597	48.9 %
As a percentage of net sales	21.0 %	18.6 %		

Stock-based compensation expense increased $20.9 million in comparison to the prior-year comparable period, which was primarily related to the 2024 Employee XSP that was approved by shareholders in the 2024 Annual Meeting of Shareholders and increased headcount.

Salaries, benefits and bonus expense increased $12.9 million in comparison to the prior-year comparable period, which was primarily attributable to an increase in headcount and higher wages.

Interest Income, Net

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

	Three Months Ended September 30,	
	2024	2023
Interest income	$ 12,624	$ 12,220
Interest expense	(1,646)	(1,762)
Total interest income, net	$ 10,978	$ 10,458

Other Income, Net

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

	Three Months Ended September 30,	
	2024	2023
Realized and unrealized gain (loss) on fair value adjustments of strategic investments, net	$ 449	$ (14)
Unrealized gain on marketable securities, net	44,010	4,050
Loss on foreign currency transactions, net	(233)	(473)
Other, net	284	289
Other income, net	$ 44,510	$ 3,852

Provision for Income Taxes

Our estimated annual effective income tax rate for 2024, before discrete period adjustments, is 23.3%, which differs from the federal statutory rate primarily due to the impact of state taxes net of federal benefit and executive compensation limitation under IRC Section 162(m) on projected pre-tax income for the year, partially offset by R&D tax credits and a net gain related to an investment transaction not recognized for tax. The effective tax rate was favorably impacted by a net $5.5 million discrete tax benefit associated with net windfalls related to stock-based compensation for RSUs and PSUs that vested, in addition to non-qualified stock options that were exercised during the three months ended September 30, 2024.

Provision for income taxes and effective tax rates were as follows (dollars in thousands):

	Three Months Ended September 30,		
	2024	2023	Change
Provision for income taxes	$ 12,544	$ 10,420	$ 2,124
Effective tax rate	15.8 %	14.5 %	1.3 %

Net Income

We recorded net income of $67.0 million for the three months ended September 30, 2024 compared to net income of $61.3 million for the same period in 2023. Net income per basic share was $0.89 for the three months ended September 30, 2024 compared to $0.82 net income per basic share for the same period in 2023. Net income per diluted share was $0.86 for the three months ended September 30, 2024 compared to $0.81 net income per diluted share for the comparable period in 2023.

Three Months Ended September 30, 2024 Compared to the Three Months Ended June 30, 2024

Net Sales

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

	Three Months Ended September 30, 2024		Three Months Ended June 30, 2024		Dollar Change	Percent Change
TASER segment:						
TASER Devices (Professional)	$ 130,515	24.0 %	$ 104,624	20.8 %	$ 25,891	24.7 %
Cartridges	60,179	11.1	65,415	13.0	(5,236)	(8.0)
Axon Evidence and Cloud Services	13,861	2.5	13,974	2.8	(113)	(0.8)
Extended Warranties	9,729	1.8	8,908	1.8	821	9.2
Other (1)	7,450	1.4	3,796	0.7	3,654	96.3
Total TASER segment	221,734	40.8	196,717	39.1	25,017	12.7
Software and Sensors segment:						
Axon Body Cameras and Accessories	70,363	12.9	59,024	11.7	11,339	19.2
Axon Fleet Systems	23,239	4.3	27,083	5.4	(3,844)	(14.2)
Axon Evidence and Cloud Services	203,481	37.4	191,237	38.0	12,244	6.4
Extended Warranties	17,306	3.2	15,405	3.1	1,901	12.3
Other (2)	8,151	1.4	13,770	2.7	(5,619)	(40.8)
Software and Sensors segment	322,540	59.2	306,519	60.9	16,021	5.2
Total net sales	$ 544,274	100.0 %	$ 503,236	100.0 %	$ 41,038	8.2 %

(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 other sensors and equipment.

Net sales within the TASER segment increased by approximately $25.0 million, or 12.7%, during the three months ended September 30, 2024 compared to the prior quarter. The increase is primarily related to higher TASER 10 device volume. The $5.2 million decrease in Cartridge revenue is due to lower international volume of legacy cartridges. Fluctuations in cartridge revenue are generally attributable to customers who are not on cartridge subscriptions plans and periodically purchase in bulk.

Within the Software and Sensors segment, net sales increased $16.0 million, or 5.2%, during the three months ended September 30, 2024 compared to the prior quarter. The increase in the aggregate number of users and 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 $12.2 million. Axon Body cameras and accessories revenue increased $11.3 million on higher unit sales. Partially offsetting the increases in the Software and Sensors segment was a decrease of $3.8 million in Axon Fleet revenue primarily reflecting lower unit volume.

Nine Months Ended September 30, 2024 Compared to the Nine Months Ended September 30, 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):

	Nine Months Ended September 30,			
	2024		2023	
Net sales from products	$ 891,087	59.1 %	$ 707,563	62.6 %
Net sales from services	616,294	40.9	422,760	37.4
Net sales	1,507,381	100.0	1,130,323	100.0
Cost of product sales	450,954	29.9	323,808	28.6
Cost of service sales	160,896	10.7	115,054	10.3
Cost of sales	611,850	40.6	438,862	38.8
Gross margin	895,531	59.4	691,461	61.2
Operating expenses:				
Sales, general and administrative	514,228	34.1	357,611	31.6
Research and development	307,008	20.4	219,747	19.4
Total operating expenses	821,236	54.5	577,358	51.1
Income from operations	74,295	4.9	114,103	10.1
Interest income, net	31,134	2.1	29,787	2.6
Other income (loss), net	191,510	12.7	(42,569)	(3.7)
Income before provision for income taxes	296,939	19.7	101,321	9.0
Provision for (benefit from) income taxes	55,089	3.7	(17,401)	(1.5)
Net income	$ 241,850	16.0 %	$ 118,722	10.5 %

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

	Nine Months Ended September 30,			
	2024		2023	
United States	$ 1,298,775	86 %	$ 954,023	84 %
Other countries	208,606	14	176,300	16
Total	$ 1,507,381	100 %	$ 1,130,323	100 %

International revenue increased compared to the prior year comparable period. The increase was primarily attributable to large hardware orders during the period in our EMEA and Americas regions.

Net Sales

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

	Nine Months Ended September 30,				Dollar Change	Percent Change
	2024		2023			
TASER segment:						
TASER Devices (Professional)	$ 333,815	22.1 %	$ 239,165	21.2 %	$ 94,650	39.6 %
Cartridges	181,792	12.1	149,504	13.2	32,288	21.6
Axon Evidence and Cloud Services	40,297	2.7	25,575	2.3	14,722	57.6
Extended Warranties	27,164	1.8	23,463	2.1	3,701	15.8
Other [(1)]	14,373	1.0	14,460	1.2	(87)	(0.6)
Total TASER segment	597,441	39.7	452,167	40.0	145,274	32.1
Software and Sensors segment:						
Axon Body Cameras and Accessories	180,592	12.0	124,066	11.0	56,526	45.6
Axon Fleet Systems	79,620	5.3	99,015	8.8	(19,395)	(19.6)
Axon Evidence and Cloud Services	570,222	37.8	401,281	35.5	168,941	42.1
Extended Warranties	48,651	3.2	40,194	3.6	8,457	21.0
Other [(2)]	30,855	2.0	13,600	1.1	17,255	126.9
Total Software and Sensors segment	909,940	60.3	678,156	60.0	231,784	34.2
Total net sales	$ 1,507,381	100.0 %	$ 1,130,323	100.0 %	$ 377,058	33.4 %

(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 $145.3 million or 32.1% during the nine months ended September 30, 2024, primarily due to an increase of $94.7 million in TASER devices and $32.3 million in cartridge revenue. The increase is primarily related to increased TASER 10 device and cartridge volumes. The increase in revenue from Axon Evidence and cloud services of $14.7 million was driven by an increase in TASER software. An increase in TASER devices in the field drove the $3.7 million increase in extended warranties, as most of those devices are sold with extended warranties

Net sales for the Software and Sensors segment increased $231.8 million, or 34.2%, during the nine months ended September 30, 2024, as we continued to add users and associated devices to our network. The increase in the aggregate number of users and the growing adoption of our premium add-on features by existing customers drove the majority of the increase in Axon Evidence revenue, totaling $168.9 million, as well as increases in professional services revenue. Axon Body cameras and accessories revenue increased $56.5 million due to higher unit sales. Partially offsetting the increase was a $19.4 million decrease in Axon Fleet systems revenue primarily reflecting lower unit volumes on more normalized deployment timelines. An increase in cameras, docks and Fleet systems in the field drove the $8.5 million increase in extended warranties, as most of those devices are sold with extended warranties. The $17.3 million increase in "Other" revenue was primarily 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 57.7% from 61.8% for the nine months ended September 30, 2024 and 2023, respectively. The decrease was primarily due to increased stock-based compensation expense. Excluding the impacts of stock-based compensation expense, gross margin for the TASER segment is 62.6% for the nine months ended September 30, 2024, compared to 62.1% for the same period in 2023. The increase is primarily due to the investments in automation and cost reduction initiatives.

As a percentage of net sales, gross margin for the Software and Sensors segment decreased to 60.6% from 60.8% for the nine months ended September 30, 2024 and 2023, respectively. Within the Software and Sensors segment, hardware gross margin was 39.6% for the nine months ended September 30, 2024, compared to 45.4% for the same period in 2023. Excluding the impacts of stock-based compensation expense and intangibles amortization, hardware gross margin decreased to 43.3% for the nine months ended September 30, 2024, compared to 45.7% for the same period in 2023 due to inventory reserve charges associated with legacy products in the second quarter of 2024. Service margin increased to 72.7% for the nine months ended September 30, 2024 compared to 71.7% for the same period in 2023. Excluding the impacts of stock-based compensation expense and intangibles amortization, service margin increased to 75.2% for the nine months ended September 30, 2024, compared to 72.8% for the same period in 2023, due to higher software mix and cloud cost efficiencies.

For the nine months ended September 30, 2024, we have seen an increase in stock-based compensation expense within our 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):

	Nine Months Ended September 30,		Dollar Change	Percent Change
	2024	2023		
Total sales, general and administrative expenses	$ 514,228	$ 357,611	$ 156,617	43.8 %
As a percentage of net sales	34.1 %	31.6 %		

Stock-based compensation expense increased $73.8 million in comparison to the prior-year comparable period, which was primarily related to the 2024 Employee XSP and the 2024 CEO Performance Award that were approved by shareholders in the 2024 Annual Meeting of Shareholders and increased headcount.

Salaries, benefits, and bonus expense increased $25.0 million in comparison to the prior-year comparable period, which was primarily attributable to an increase in headcount and higher wages.

Sales and marketing and travel expenses increased $18.9 million in comparison to the prior-year comparable period. The increase was partially attributable to an increase in travel expense of $7.4 million due to higher seasonal travel for company events compared to the prior-year comparable period. Commissions increased $7.9 million as a result of higher revenue.

Professional and consulting expenses increased $13.8 million in comparison to the prior-year comparable period, which was primarily attributable to transaction costs related to the acquisition of Fusus and expected acquisition of Dedrone.

Other SG&A expenses increased $21.7 million in comparison to the prior-year comparable period, which was attributable to an increase of $4.7 million in computer license expenses and an increase of $1.9 million for credit losses. Additionally, the prior-year comparable period had a $3.3 million gain related to insurance proceeds received as a result of storm damages, which did not recur in the current year.

Research and Development Expenses

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

	Nine Months Ended September 30,		Dollar Change	Percent Change
	2024	2023		
Total research and development expenses	$ 307,008	$ 219,747	$ 87,261	39.7 %
As a percentage of net sales	20.4 %	19.4 %		

Salaries, benefits, and bonus expense increased $40.8 million in comparison to the prior-year comparable period, which was primarily attributable to an increase in headcount and higher wages.

Stock-based compensation expense increased $38.0 million in comparison to the prior-year comparable period, which was primarily related to the 2024 Employee XSP that was approved by shareholders in the 2024 Annual Meeting of Shareholders and increased headcount.

Interest Income, Net

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

	Nine Months Ended September 30,	
	2024	2023
Interest income	$ 36,407	$ 35,010
Interest expense	(5,273)	(5,223)
Total interest income, net	$ 31,134	$ 29,787

Other Income (Loss), Net

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

	Nine Months Ended September 30,	
	2024	2023
Realized and unrealized gain (loss) on fair value adjustments of strategic investments, net	$ 118,538	$ (71,916)
Unrealized gain on marketable securities, net	73,620	29,610
Loss on foreign currency transactions, net	(180)	(555)
Other, net	(468)	292
Other income (loss), net	$ 191,510	$ (42,569)

Provision for Income Taxes

Our estimated annual effective income tax rate for 2024, before discrete period adjustments, is 23.3%, which differs from the federal statutory rate primarily due to the impact of state taxes net of federal benefit and executive compensation limitation under IRC Section 162(m) on projected pre-tax income for the year, partially offset by R&D tax credits and a net gain related to an investment transaction not recognized for tax. The effective tax rate was favorably impacted by a net $13.0 million discrete tax benefit associated with net windfalls related to stock-based compensation for RSUs and PSUs that vested, in addition to non-qualified stock options that were exercised during the nine months ended September 30, 2024.

Provision for (benefit from) income taxes and effective tax rates were as follows (dollars in thousands):

	Nine Months Ended September 30,		
	2024	2023	Change
Provision for (benefit from) income taxes	$ 55,089	$ (17,401)	$ 72,490
Effective tax rate	18.6 %	(17.2) %	35.8 %

Net Income

We recorded net income of $241.9 million for the nine months ended September 30, 2024 compared to net income of $118.7 million for the same period in 2023. Net income per basic share was $3.20 for the nine months ended September 30, 2024 compared to net income per basic share of $1.61 for the same period in 2023. Net income per diluted share was $3.12 for the nine months ended September 30, 2024 compared to net income per diluted share of $1.58 for the comparable period in 2023.

Non-GAAP Measures

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 and related measures. Beginning with our first fiscal quarter of 2024, we have added adjusted gross margin to our non-GAAP financial measures. We have adjusted for expenses that we believe are not indicative of our core operating results, including stock-based compensation expense and 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, noncash stock-based compensation expense, fair value adjustments to strategic investments and marketable securities, transaction costs related to acquisitions and strategic investments, costs related to antitrust litigation and other unusual, non-recurring pre-tax items that are not considered representative of our underlying operating performance.

- Adjusted gross margin (most comparable GAAP measure: Gross margin) – Gross margin before noncash 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 reconcile to net income as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
Net income	$ 67,025	$ 61,309	$ 241,850	$ 118,722
Depreciation and amortization	14,762	8,418	39,326	22,587
Interest expense	1,646	1,762	5,273	5,223
Investment interest income	(12,624)	(12,220)	(36,407)	(35,010)
Provision for (benefit from) income taxes	12,544	10,420	55,089	(17,401)
EBITDA	$ 83,353	$ 69,689	$ 305,131	$ 94,121
Non-GAAP adjustments:				
Stock-based compensation expense	101,780	29,987	251,716	96,228
Unrealized (gain) loss on strategic investments and marketable securities, net	(44,459)	(4,036)	(149,845)	42,306
Realized gain on remeasurement of previously held minority interest, net	—	—	(42,313)	—
Transaction costs related to strategic investments and acquisitions	2,652	495	13,145	1,793
Loss on disposal, abandonment, and impairment of property, equipment and intangible assets, net	—	137	—	317
Insurance recoveries	—	(2,615)	—	(3,404)
Costs related to antitrust litigation	—	71	224	72
Payroll taxes related to 2019 XSPP vesting and 2018 CEO Performance Award option exercises	1,727	201	1,727	8,961
Adjusted EBITDA	$ 145,053	$ 93,929	$ 379,785	$ 240,394

Adjusted gross margin reconciles to gross margin as follows (in thousands):

	Three Months Ended September 30, 2024			Three Months Ended September 30, 2023		
	TASER	Software and Sensors	Total	TASER	Software and Sensors	Total
Gross margin	$ 134,780	$ 195,967	$ 330,747	$ 101,572	$ 155,084	$ 256,656
Stock-based compensation expense	4,808	5,315	10,123	579	1,108	1,687
Amortization of acquired intangible assets	44	2,976	3,020	—	955	955
Adjusted gross margin	$ 139,632	$ 204,258	$ 343,890	$ 102,151	$ 157,147	$ 259,298
Gross margin	60.8%	60.8%	60.8%	62.5%	61.9%	62.1%
Adjusted gross margin	63.0%	63.3%	63.2%	62.8%	62.7%	62.7%

	Nine Months Ended September 30, 2024			Nine Months Ended September 30, 2023		
	TASER	Software and Sensors	Total	TASER	Software and Sensors	Total
Gross margin	$ 344,478	$ 551,053	$ 895,531	$ 279,353	$ 412,108	$ 691,461
Stock-based compensation expense	29,564	18,671	48,235	1,521	3,164	4,685
Amortization of acquired intangible assets	30	8,268	8,298	1	2,188	2,189
Adjusted gross margin	$ 374,072	$ 577,992	$ 952,064	$ 280,875	$ 417,460	$ 698,335
Gross margin	57.7 %	60.6 %	59.4 %	61.8 %	60.8 %	61.2 %
Adjusted gross margin	62.6 %	63.5 %	63.2 %	62.1 %	61.6 %	61.8 %

Liquidity and Capital Resources

Summary

	September 30, 2024	December 31, 2023	Dollar Change
Cash and cash equivalents	$ 695,144	$ 598,545	$ 96,599
Available-for-sale investments	311,570	644,054	(332,484)
Total	$ 1,006,714	$ 1,242,599	$ (235,885)

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 Credit Agreement of $200.0 million revolving credit facility is available for additional working capital needs or investment opportunities.

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. Refer to Note 13 for additional details related to our Credit Agreement and outstanding letters of credit.

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, 2024		Dollar Change
	2024	2023	
Operating activities	$ 158,146	$ 49,225	$ 108,921
Investing activities	(48,834)	(40,697)	(8,137)
Financing activities	(12,608)	45,132	(57,740)
Effect of exchange rate changes on cash and cash equivalents	75	(1,201)	1,276
Net increase (decrease) in cash and cash equivalents and restricted cash	$ 96,779	$ 52,459	$ 44,320

Operating activities

Net cash provided by operating activities was $158.1 million for the first nine months of 2024, compared to $49.2 million in the comparable period in the prior year. The $108.9 million increase is due to changes in the following (in thousands):

	Nine Months Ended September 30, 2024		Dollar Change
	2024	2023	
Net income	$ 241,850	$ 118,722	$ 123,128
Stock-based compensation	251,716	96,228	155,488
Fair value adjustments on strategic investments and marketable securities, net	(192,158)	42,306	(234,464)
Deferred income taxes	(27,061)	(52,955)	25,894
Inventory and accounts payable	(1,386)	(51,729)	50,343
Receivables and contract assets	(226,759)	(186,614)	(40,145)
Deferred revenue	56,720	103,386	(46,666)
Other, net	55,224	(20,119)	75,343
Net cash provided by (used in) operating activities	$ 158,146	$ 49,225	$ 108,921

Net cash provided by operating activities was $158.1 million for the first nine months ended September 30, 2024 compared to cash provided by operating activities of $49.2 million for the comparable period in the prior year. The net operating cash inflow in the current period was driven by net income of $241.9 million, noncash income statement items totaling $90.2 million, and a decrease of $174.0 million for the net change in operating assets and liabilities. Included in noncash items was $251.7 million in stock-based compensation, an increase of $155.5 million for the comparable period in the prior year. The increase was primarily related to the impacts of the 2024 Employee XSP and the 2024 CEO Performance Award grants along with the enhanced equity compensation opportunities provided to employees with income below a certain threshold. Offsetting the increase in noncash items was $192.2 million in fair value adjustments for the realized and unrealized gains (losses) on our strategic investments and marketable securities. The change in accounts and notes receivable was largely due to increased cash collection efficiency. This was partly offset by the change in deferred revenue due to the timing of billing events. The change in inventory and accounts payable was largely due to advanced raw material purchases for Axon Body 4 and TASER 10 CEDs to support future sales. The change in deferred income taxes was primarily driven by the Flock mark-to-market gain in the first three months ended March 31, 2024 as well as additional tax amortization of intangibles and R&D capitalization, partially offset by additional GAAP expense related to unvested stock compensation.

Investing activities

Net cash used in investing activities was $48.8 million for the nine months ended September 30, 2024 compared to cash used by investing activities of $40.7 million for the comparable period in the prior year. The net investing cash outflow is driven by $237.8 million for our business acquisition, $101.0 million for strategic investments, and $54.0 million for purchases of property and equipment, net of proceeds, partially offset by $858.3 million of proceeds from calls, maturities and sales of available-for-sale investments, less purchases of $514.4 million. This net cash outflow is primarily driven by greater business acquisition and strategic investment activities in the current period, when contrasted with the prior comparable period.

Financing activities

Net cash used in financing activities was $12.6 million for the nine months ended September 30, 2024 compared to cash provided by financing activities of $45.1 million for the comparable period in the prior year. The net financing cash outflow in the current period is driven by the payment of income and payroll taxes on behalf of employees who net-settled stock awards during the period, whereas the net financing cash inflow in the prior comparable period was primarily driven by net proceeds from our ATM offering and cash received from the exercise of stock options where shares were sold to cover the exercise price, partially offset by the payment of income and payroll taxes on behalf of employees who net-settled stock awards during the period.

Off-Balance Sheet Arrangements

The discussion under the heading off-balance sheet arrangements in Note 14 to our condensed consolidated financial statements included in Part 1, Item 1 of 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, 2023. Except as noted below, there have been no significant changes to these policies for the nine months ended September 30, 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.

Stock-Based Compensation

Accounting for our stock-based compensation program requires us to make significant estimates and assumptions, notably those related to our 2024 Employee XSP and 2024 CEO Performance Award. Refer to Note 12 for further discussion.

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, 2024, a hypothetical 100 basis point increase in interest rates across all maturities would result in a $0.4 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 $8.2 million at September 30, 2024. At September 30, 2024, there was no amount outstanding under the line of credit, and the available borrowing under the line of credit was $191.8 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 our disclosure controls and procedures were effective as of September 30, 2024.

There was no change in our internal control over financial reporting during the quarter ended September 30, 2024 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. ***Legal Proceedings***

The discussion in Note 14 to our condensed consolidated financial statements included in Part 1, Item 1 of this Quarterly Report on Form 10-Q is incorporated by reference herein.

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 risks we face, which are set forth more fully 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 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 products, technologies or businesses could disrupt our business, dilute 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 sufficiently disruptive 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.
- Uncertainty in the development, deployment and use of artificial intelligence ("AI") in our products and services, as well as our business more broadly, could adversely affect our business and 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, operating results and financial condition.
- 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 that could materially harm our business.

- Failure to maintain effective internal control over financial reporting, material weaknesses, or significant deficiencies may adversely affect our ability to accurately and timely report our financial condition and results of operations, which may cause investor confidence to diminish and the value of our common stock may decline.
- Our revision of previously issued consolidated financial statements may adversely affect investor confidence and could result in regulatory and litigation risks.

Financial Risks

- An increasing percentage of our revenue is derived from subscription billing arrangements that may result in delayed cash collections and may increase customer credit risk on receivables and contract assets.
- Our gross margin is dependent on a number of 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") 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.
- 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 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 values of our investments 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 result in significant costs and judgments and divert management attention from our business.
- We have 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 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 software in our products, services and technologies may expose us to additional risks and harm our intellectual property rights.
- A variety of new and existing laws and/or interpretations could materially 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 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 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.
- The 2027 Note Hedge and 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.

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 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 Form10-Q 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 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 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 our sales were adversely impacted by negative coverage and publicity surrounding our products and services and their use. If law enforcement agencies no longer 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 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, 2023, 2022 and 2021, we derived a significant portion of our revenues from sales of CEDs and related 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 CED 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 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.

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 product features that achieve market acceptance in a timely and cost-effective manner. The development of new products and 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 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' 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 AI and machine learning) and the emergence of new industry standards can render existing products obsolete and unmarketable. Additionally, our products 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 devices, CEDs 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 are principally 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 products, technologies or businesses could disrupt our business, dilute 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 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 products, we may not be able to integrate the acquired personnel, operations, 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 or businesses in a profitable manner;
- inability to correct or achieve regulatory approvals or certifications;
- exposure to new regulations related to the acquired products, technologies or business that are unexpectedly burdensome, negatively impact existing products, technologies or business or require significant investment in order to achieve compliance;
- 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;
- 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;
- 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 will be realized, that projected synergies will materialize or that we 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 outweigh their costs. If our integration and development efforts are unsuccessful and the anticipated benefits of the acquisitions 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 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 or 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, 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 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-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 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, 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 and off-the-shelf parts for our products. Although we have and are implementing additional 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, if they are not willing to allocate sufficient production to us or if they decommit to us previously 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 actual needs, we may incur unexpected production disruption, storage, transportation and write-off costs, which may harm our business and financial results.

Due to the unique requirements of 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 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 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 TASER 10 CEDs could impair our ability to manufacture and deliver 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 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 or shipping disruptions; customs clearance issues; increased government regulation or regulatory changes for imports of foreign products into the United 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.

Domestic or international geopolitical or other events, including the imposition of new or increased tariffs and/or quotas by the U.S. 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 sufficiently disruptive world events, could materially adversely affect our revenue and results of operations.

Various factors contribute to the uncertain economic environment, including the 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-price contracts and formula-based or long-term 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 and our supplier's performance. 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 financial results. Economic slowdowns can 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 online, 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 equipment, technologies or personnel may not yield the anticipated labor and material efficiencies, and we may experience difficulty in attracting, integrating 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 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 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.

Generally, 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. We believe that in the past 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.

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.

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.

Security breaches of Axon 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 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 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.

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, 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 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 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 products and services, damage our reputation, disrupt our business, 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 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, 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 using 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. Additionally, beginning in the fourth quarter of 2024, we plan to introduce the Axon AI Era Plan, which will enable customers to subscribe to an expanding set of AI capabilities and features that further harness the power of our connected ecosystem as quickly as we can develop them. We also leverage and expect to continue to leverage AI-based technologies for internal use to drive efficiency in our business operations. As with many new and emerging technologies, AI presents numerous risks and challenges that could adversely affect our business. The development, adoption, integration and use of generative AI technology remains in early stages, and ineffective or inadequate AI or generative AI governance, development, use 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. Inadequate governance, testing or quality assurance processes could result in flawed deployments, producing erroneous or harmful outputs, which could damage our reputation and lead to legal liabilities. Thoroughly testing generative AI models is challenging due to their complexity and the unpredictability of their outputs. 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. In part due to our global scope and law enforcement customer base, we may face heightened scrutiny and regulatory requirements, which could further increase compliance costs and limit our ability to develop, deploy or use our AI solutions or other AI technologies. For example, President Biden’s recent Executive Order on Safe, Secure, and Trustworthy Artificial Intelligence has potentially broad implications for the development and use of AI across agencies within the United States, the AI Act in the European Union imposes compliance requirements on a variety of AI uses by law enforcement, as well as on the companies that develop those products, including us. Other such laws are expected to be adopted in other jurisdictions in the coming months and years. 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.

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 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:

- 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;
- import and export requirements, tariffs, trade disputes and barriers, product certification requirements, sanctions and customs classifications that may prevent us from offering products or providing services in a particular country or obtaining necessary parts and components to manufacture products;
- longer payment cycles in some countries, increased credit risk and higher levels of payment fraud;

- uncertainty regarding liability for our products and services, including uncertainty resulting from local laws and lack of legal precedent; and
- 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 CEDs is regulated by the U.S. Bureau of Industry and Security and require licenses for export abroad. Changes in U.S. 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 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 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 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 CED, we may be subject to governmental actions or litigation that could materially harm our business, operating results and financial condition.

The TASER 10 CED is primarily regulated by the 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, the Gun Control Act of 1968 ("GCA") and the Firearms Owners' Protection Act of 1986, which have been amended from time to time.

The ATF conducts periodic audits of our Arizona facilities that hold federal firearms licenses. If we fail to comply with ATF rules and regulations, the ATF may limit our activities or growth related to the TASER 10 CED, fine us, or, ultimately, suspend our ability to produce and sell the TASER 10 CED product line. There are also various state and local laws, regulations and 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 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.

Failure to maintain effective internal control over financial reporting, material weaknesses, or significant deficiencies in our internal control over financial reporting may adversely affect our ability to report our financial condition and results of operations in a timely and accurate manner, which may cause investor confidence in our company to diminish and the value of our common stock to 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, and in the past have not been, immediately 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 requires, among other things, that as a 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 have from time to time identified significant deficiencies in our internal controls and 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 that has been remediated as further discussed in "Item 9A. Controls and Procedures" in our Annual Report on Form 10-K for the year ended December 31, 2023. If we are unable to successfully remediate control deficiencies, including any 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.

We are revising certain previously issued consolidated financial statements, which may adversely affect investor confidence and could result in stockholder litigation and regulatory actions

The revision of certain of our previously issued financial statements to correct errors related to our historical conclusions of principal vs. agent accounting under ASC 606 may have the effect of eroding investor confidence in the Company and our financial reporting and accounting practices and processes and may raise reputational issues for our business. Such revision may also result in stockholder litigation against us, or adverse regulatory consequences. Any such regulatory consequences, litigation, claim or dispute, whether successful or not, could subject us to additional costs, divert the attention of our management, or impair our reputation. Each of these consequences could have a material adverse effect on our business, results of operations and financial condition.

Financial Risks

An increasing percentage of our revenue is derived from subscription billing arrangements 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.

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

Our gross margin could decline in future periods due to adverse impacts from various factors, including:

- changes in product mix;
- 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.

Any one of these factors or the cumulative effects of certain of these factors may result in significant fluctuations in our 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 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 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 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, which has previously resulted in shutdowns of the federal government in 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 fail to 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.

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 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, 2024, the aggregate balances in such accounts at these two institutions were $386.8 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, 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 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 stock-based compensation expense and the ownership of our existing shareholders would be further diluted, which could depress the market price 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.

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. 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 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 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 condition.

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

- 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;
- 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
- regulatory changes that may affect the marketability of our 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 values of our investments 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 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.

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 product liability claims could result in 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 or our company in the future.

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.

If successful, wrongful death, personal injury, misuse and other claims could result in adverse judgments or unfavorable settlements. We incur significant legal expenses in defending these cases, and significant litigation could result in a diversion of management's attention and resources and could also result in negative publicity about our 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.

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 and could in the future be involved in numerous other litigation, government inquiries and regulatory matters relating to our products, contracts, employees 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 an adverse judgment or settlement, and diversion of our management's attention, which could adversely affect our business, financial condition or operating results.

We have 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 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. These companies may also allege that their patents protect features essential to implementations of particular technical standards. 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. Additionally, our use of 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, 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 substantialdamages, 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 development and sale of software-based products, including that which is related to AI or VR, increases this risk.

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 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 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 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 TASER M26 CED and TASER X26 CED, 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 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.

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 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 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 deletion; rights of publicity; content; intellectual property; regulation of certain of our CEDs as firearms; advertising; marketing; distribution; electronic contracts and other communications; competition; consumer protection; telecommunications; product liability; taxation; labor and employment; sustainability; economic or other trade prohibitions or sanctions; securities; 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. There are a number of legislative proposals in the United States, at both the federal and state level, that could impose new obligations in areas affecting our business. In addition, foreign privacy, data protection, 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) could materially and adversely affect our business.

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, cause us to change our business practices, and subject us to remedies that may harm our business, including civil or criminal liability, such as fines, demands or orders that we modify or cease existing business practices.

Radio Spectrum and Unmanned Aerial and Ground-Based Robotic Devices

Certain of our products utilize 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 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, the European Union Directorate-General for Environment or regulatory 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 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 rules and regulations as applicable outside of the United States. These regulations affect our CEDs with Axon Signal technology, including the TASER 7 CED, Signal Performance Power Magazine ("SPPM"), TASER 10 CED, 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 that operate on the radio spectrum. We have also recently completed the acquisition of the remaining outstanding stock of Dedrone, a market leader in airspace security combining hardware sensors with software to detect, identify, track and mitigate drones. 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 has yet to be developed. Changes to the regulation of drones or other unmanned aerial systems may impact our future financial results.

Axon and CEDs

For our CED 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 laws, regulations and interpretations outside of our control may result in our products being classified or reclassified as firearms. If this were to occur, our private citizen 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 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 TASER 10 CED cartridges. 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 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 CED and TASER 10 CED 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 DOC has ruled that the product's unique propulsion design has no impact on its export classification and that the TASER 10 CED's export classification remains consistent with all other Axon CED models.

Federal regulation of foreign national employees: Our CED development and production is also considered controlled "technology" by the 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 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 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 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 our CEDs (and other select Axon products), including in some countries by law enforcement agencies, impacting our international sales opportunities.

U.S. and 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 is subject to a shifting regulatory landscape imposed by both foreign and U.S. 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 CED components may 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 comply with these requirements could 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 that 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. 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 U.S. and 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, 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 receive, control, process, hold and/or 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. For example, the European Parliament adopted the General Data Protection Regulation, effective May 2018, that extended the scope of European privacy laws to any entity that controls or processes personal data of 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 Personal Data Protection Decree, 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 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 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, local and foreign 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. The European Union has published Directives on the restriction of certain hazardous substances in electronic and electrical equipment (the “RoHS Directive”) and on electronic and electrical waste management (the “WEEE Directive”). The RoHS Directive restricts the use of a number of substances, including lead. The WEEE Directive directs members of the European Union to enact laws, regulations and administrative provisions to ensure that producers of electric and electronic equipment are financially responsible for the collection, recycling, treatment and environmentally responsible disposal of certain products sold into the European Union. In addition, similar environmental legislation has been enacted in other jurisdictions, including the United States (under federal and state laws) and other countries.

In addition, the European Union has defined a regulation for the registration, evaluation, authorization and restriction of chemicals that places responsibility on companies to manage the risks from chemicals contained in products and to provide safety information about such substances. Manufacturers and importers are required to gather information on the properties of the chemical substances in their products and provide for their safe handling. As of January 5, 2021, companies supplying products in the European Union containing substances of very high concern as identified by the European Union have to submit information on these products to the European Chemicals Agency. The information in their database is then made available to waste operators and consumers.

Other countries have adopted chemical restrictions regulations, including the United States, Canada and Australia. For example, U.S. governmental authorities are increasingly focused on preventing environmental contamination from per-and polyfluoroalkyl substances (“PFAS”), which may be contained in certain Axon products. 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.

In addition, further environmental or climate change disclosure legislation may be enacted in the jurisdictions in which we operate, including the United States (under federal and state laws) and other countries, the cumulative impact of which could be significant. For example, the European Union’s Corporate Sustainability Reporting Directive and the United Kingdom’s Streamlined Energy and Carbon Reporting will introduce additional due diligence and disclosure requirements addressing sustainability that will apply or we expect will apply, as applicable, to us in the coming years. Further, in September 2023, California passed the Climate Corporate Data Accountability Act and the Climate-Related Financial Risk Act, requiring increased climate-related reporting. While currently stayed, the SEC’s recently adopted climate-related reporting requirements, to the extent they become effective, will also require extensive additional due diligence and disclosure regarding sustainability.

These requirements will, and new, or changes in, environmental or climate change disclosure laws, regulations or rules could, lead to increased costs of compliance, including remediations of any discovered issues, and changes to our operations, including our manufacturing practices and/or product designs, which may be significant and could negatively impact our business, results of operations, financial condition and competitive position. Any failures to comply could result in governmental action, including the imposition of fines, or demands or orders that we modify or cease existing business practices, which could adversely affect our financial results.

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 several governmental and self-regulatory organizations, including the SEC, the Nasdaq Stock Market and the 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 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 adopted and stayed climate-related reporting requirements, and similar proposals by other 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.

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.

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, 2023, we had outstanding an aggregate principal amount of $690.0 million of our 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.

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 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 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 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 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 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 2027 Note Hedge and 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 2027 Note Hedge transactions with the option counterparties. We have also entered into Warrant transactions with the option counterparties. The 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 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.

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 of the Note Hedge and 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 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 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 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.

Item 5. ***Other Information***

The table below describes 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 ended September 30, 2024, that are intended to satisfy the affirmative defense conditions of Rule 10b5-1(c).

Name and Title	Adoption Date	Expiration Date	Aggregate Number of Securities to be Sold
Brittany Bagley, *Chief Operating Officer and Chief Financial Officer*	August 16, 2024	December 31, 2025	6,325
Caitlin Kalinowski, *Director*	August 20, 2024	December 31, 2025	450

In addition, 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).

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

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 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, 2024, formatted in Inline XBRL

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\+ Management contract or compensatory plan or arrangement
* Filed herewith
** Furnished herewith

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