

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

(Mark One)

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

For the fiscal year ended December 31, 2021

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
(State or other jurisdiction of
incorporation or organization)

**17800 North 85th Street
Scottsdale, Arizona**
(Address of principal executive offices)

86-0741227
(I.R.S. Employer
Identification No.)

85255
(Zip Code)

Registrant's telephone number, including area code:

(480) 991-0797

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

Title of each class	Trading Symbol(s)	Name of exchange on which registered
Common Stock, \$0.00001 par value per share	AXON	The NASDAQ Global Select Market

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

None

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 762(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

As of June 30, 2021, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately \$11.4 billion based on the closing sale price as reported on The NASDAQ Global Select Market.

The number of shares of the registrant's common stock outstanding as of February 18, 2022 was 70,931,874.

DOCUMENTS INCORPORATED BY REFERENCE

Parts of the registrant's definitive proxy statement for its 2022 annual meeting of stockholders to be prepared and filed with the Securities and Exchange Commission not later than 120 days after December 31, 2021 are incorporated by reference into Part III of this Form 10-K.

AXON ENTERPRISE, INC.
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FOR THE YEAR ENDED DECEMBER 31, 2021

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PART I

Statements contained in this report that are not historical are “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. 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. 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 report lists various important factors that could cause actual results to differ materially from expected and historical results. These factors are intended as cautionary statements for investors within the meaning of Section 21E of the Exchange Act and Section 27A of the Securities Act. Readers can find them under the heading “Risk Factors” in this Annual Report on Form 10-K, 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.

Item 1. Business

Axon Enterprise, Inc. may be referred to as “the Company,” “Axon,” “we,” or “our.” We were incorporated in Arizona in September 1993 as ICER Corporation. We changed our name to AIR TASER, Inc. in December 1993 and to TASER International, Incorporated in April 1998. In January 2001, we reincorporated in Delaware as TASER International, Inc., and in April 2017, changed our name to Axon Enterprise, Inc.

Our headquarters in Scottsdale, Arizona houses our executive management, sales, marketing, certain engineering, manufacturing, finance and other administrative support functions. Our global software hub is located in Seattle, Washington, and we also have subsidiaries and / or offices located in Australia, Canada, Finland, Germany, Hong Kong, India, Italy, the Netherlands, the United Kingdom, and Vietnam.

Overview

Axon’s mission is to protect life. We fulfill this mission through developing hardware and software products that advance our long-term strategic goals of a) obsoleting the bullet, b) reducing social conflict, c) enabling a fair and effective justice system, and d) building for racial equity, diversity, and inclusion. Our products solve some of society’s most challenging problems and our mission attracts top talent.

An axon is a nerve fiber that serves as the primary communication link in a nervous system — similarly, we see ourselves as building the nervous system for public safety. Our research & development (“R&D”) investments support continuous innovation on behalf of our customers. Our financial strategy is to build highly recurring, highly profitable businesses.

In 2021, we made investments for scale to expand our total addressable market along three axes — introducing new products, selling into new customer market segments, and adding sales channels to new geographic regions. We believe we are serving a \$52 billion total addressable market.

- What we build - Technologies to assist officers in de-escalating events, devices, digital evidence management systems, productivity software, real-time operations software and services, and virtual reality training services
- Who we sell to - State and local law enforcement, U.S. federal civilian and defense agencies, justice and court systems, corrections, fire departments and emergency medical services providers, consumers, and commercial enterprises such as private security firms and transportation providers
- Where we deliver – U.S., Asia-Pacific (“APAC”); Europe, the Middle East, and Africa (“EMEA”) and the Americas

Axon’s operations comprise two reportable segments:

1. TASER: Axon is the market leader in the development, manufacture and sale of conducted energy devices (“CEDs”), which we sell under our brand name, TASER.
2. Software and Sensors: We develop, manufacture and sell 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.

Further information about our reportable segments and sales by geographic region is included in Notes 1 and 19 of the consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K. For backlog by reportable segment, refer to Part II, Item 7 of this Annual Report on Form 10-K.

Key Product Category Revenue Drivers: What We Offer

Axon products are generally cloud-connected, designed to drive better outcomes and customer experiences, and sold via mutually reinforcing integrated bundles. Our key revenue drivers belong to three broad product categories:

1. **TASER:** We develop smart devices, tools and services that support public safety officers in de-escalating situations, avoiding or minimizing use of force and aid consumers in personal protection. These tools include TASER devices, virtual reality training services and consumer devices. Research has shown that TASER devices are the most effective less-than-lethal force option, with the lowest likelihood of injury to officers and assailants. Since our inception in 1993, TASER devices have been adopted by a majority of U.S. police departments and are used daily to help keep communities safe. We see opportunity to create more effective and reliable personal protection for private individuals, and, thus, our consumer business is a growing area of investment. Our market penetration among consumers is virtually nil.
2. **Sensors:** Axon devices address many needs, including transparency, real-time situational awareness, and capturing evidence accurately and integrating with software workflows. Product categories within sensors include Axon body cameras, Axon Fleet in-car systems, and other devices that work with our software.
3. **Software:** Axon is building a suite of cloud-based, software-as-a-service (“SaaS”) solutions that integrate with our sensors and TASER devices to benefit customers and drive annual recurring revenue, which totaled \$327.5 million^(a) as of December 31, 2021. We have many SaaS solutions, which can best be trisected into three categories: digital evidence management, productivity and real-time operations solutions. Axon Evidence is the world’s largest cloud-hosted public safety data repository of public safety video data and other types of digital evidence.

(a) Monthly recurring license, integration, warranty, and storage revenue annualized.

Sales and Distribution: Who We Sell To and Where We Deliver

Axon’s direct sales force and strong customer relationships represent key strategic advantages. The majority of our revenues are generated via direct sales, including our online store, although we do leverage distribution partners and third-party resellers.

No customer represented more than 10% of total net sales for the years ended December 31, 2021, 2020 or 2019.

Our primary customer market is U.S. law enforcement. Of the approximately 18,000 law enforcement agencies in the U.S., we have a customer relationship with approximately 17,000. Axon has dedicated sales representatives for the 1,200 largest agencies, which account for approximately 70% of U.S. law enforcement patrol officers. The remaining agencies are served via our telesales teams as well as distributors.

In recent years, we have been investing in sales personnel to capture new markets, including the U.S. federal government and military, departments of corrections, the fire and emergency medical services markets, and new geographies outside the U.S. In 2021, we continued to expand our presence in new markets by growing our dedicated sales teams in the Justice and Enterprise markets.

Governmental agencies generally have the ability to terminate our contracts, in whole or in part, for reasons including, but not limited to, non-appropriation of funds.

Resources

Manufacturing and Supply Chain

We perform light manufacturing, final assembly, and final test operations at our headquarters in Scottsdale, Arizona, and own substantially all of the equipment required to develop, prototype, manufacture and assemble our finished products. We have continued to maintain both our ISO 9001 and our ISO 9001:2015 certifications.

We previously took steps to diversify our supply chain and global manufacturing footprint, which positioned us well to manage through the COVID-19 pandemic. Thus far, we have been able to produce and ship our critical core products. However, as we enter 2022 material availability still poses real risks to all businesses that manufacture products. Supplier decommitments remain our largest area of risk and we have seen this practice increase over the course of the pandemic and global supply chain constraints. We proactively manage our supply chain down to third tier suppliers to overcome material shortages as they arise. These actions align to our strategic model to help meet strong product demand while also preparing us to stagger factory work schedules as needed, which enables us to meet compressed build schedules over short periods of time. We continue to adjust strategic inventory levels based on areas of risk (Covid, geopolitical, governmental, etc.) to mitigate potential supply disruptions.

In light of our broad domestic and international geographic supplier base, we are continuously monitoring our supply chain to manage through potential impacts, identifying alternate shipping / logistic sources, and working with foreign regulators to ensure that our suppliers can provide parts.

We obtain many of our components from single source suppliers; however, because we own the injection molded component tooling used in their production, we believe we could obtain alternative suppliers in most cases without incurring significant production delays. For additional discussion of sources and availability of raw materials, refer to Note 1 to the consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K.

We provide limited manufacturer's warranties on our CEDs and Axon devices, and customers also have the option to purchase extended warranties. For additional information about our warranties, refer to Note 1 to the consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K.

Intellectual Property

We protect our intellectual property with U.S. and international patents and trademarks. Our patents and pending patent applications relate to technology used by us in connection with our products. We also rely on international treaties, organizations and laws to protect our intellectual property. As of December 31, 2021, we hold 253 U.S. patents, 91 U.S. registered trademarks, 155 international patents, and 383 international registered trademarks, and also have numerous patent and trademark applications pending.

We continuously assess whether and where to seek formal protection for particular innovations and technologies based on such factors as the commercial significance of our operations and our competitors' operations in particular countries and regions, our strategic technology or product directions in different countries, and the degree to which intellectual property laws exist and are meaningfully enforced in different jurisdictions. We have the exclusive rights to many Internet domain names, primarily including "TASER.com", "Axon.com", "Axon.net", "Evidence.com" and "Axon.io." We also vigorously protect our intellectual property, including trademarks, patents and trade secrets against third-party infringement.

Confidentiality agreements are used with employees, consultants and key suppliers to help ensure the confidentiality of our trade secrets.

Competition

TASER for Law Enforcement, Corrections and Private Security Markets: Our CEDs compete with a variety of other less-lethal alternatives to firearms, including rubber bullets or rubber baton rounds, pepper spray, pepper spray projectiles, mace, traditional stun guns, hand-held remote restraint devices involving a tether, laser dazzlers that cause temporary blindness, stun grenades, long-range acoustic devices, police batons and night sticks. TASER devices offer advanced technology, versatility, portability, effectiveness, built-in accountability systems, and low injury rates, which enable us to compete effectively against other less-lethal alternatives. TASER devices also offer connectivity to our cloud network, which allows agencies to more effectively manage their less-lethal programs and automate use-of-force reporting.

The primary competitive factors in this market include a device's accuracy, effectiveness, reputation, safety, cost, ease of use, and exceptional customer experience. The design maturity of the TASER platform, as well as our development and sale of a two-shot device, are also key competitive differentiators. We are aware of competitors providing competing CED products primarily in international markets.

TASER for Personal Safety: In the private citizen market, TASER devices compete with firearms and with other less-than-lethal self-defense options such as stun guns and pepper spray-based products including pepper guns and miniature spray cans. The TASER StrikeLight competes in the flashlight category, in which there are dozens, if not hundreds, of competitors, including tactical flashlight providers with and without stun-gun capabilities.

TASER personal safety devices are not stun guns, and have different capabilities, including NMI (neuro-muscular incapacitation) functionality. The broader market for personal safety and home defense is far-reaching, and categories range from threat detection and accountability (dash and doorbell cameras), to home security (home alarms, locks, and response services) to personal defense (firearms, stun guns, TASER devices, pepper spray, tactical flashlights, and personal alarms), to personal tracking and emergency notification mobile applications.

The primary benefit of TASER devices is in less-than-lethal stopping power. Other competitive factors include a device's cost, effectiveness, safety, ease of use, and available training options.

Sensors — Connected Cameras and Digital Evidence Management Software: The body-worn camera and in-car video/automatic license plate readers market is highly competitive. Our competition includes Motorola Solutions, Utility Associates, Getac, Panasonic Corp., Reveal Media, Coban Technologies, L3 Mobile-Vision, Digital Ally, Visual Labs, Intrensic, LLC, as well as Safety Vision, Rekor, and Genetec.

The market for software solutions to improve public safety agency workflows is both highly fragmented and highly competitive. Our cloud-based digital evidence management system, Axon Evidence, competes with both cloud-based platforms and on-premises based systems designed by third-parties or developed internally by an agency's technology staff. Our competition includes Motorola Solutions, Panasonic Corp., IBM, Oracle, FotoWare, Vidizmo, NICE, QueTel, OpenText, and FileOnQ among others.

Key competitive factors in this market include product performance, product features (including live-streaming, GPS tracking, and pre-event buffering), battery life, product quality and warranty, total cost of ownership, data security, data and information workflows, company reputation and financial strength, and relationships with customers.

Productivity and Real-Time Operations — Records Management System (RMS) and Computer Aided Dispatch (CAD): The RMS and CAD markets are highly competitive and highly fragmented. We have identified more than 50 software providers, including Motorola Solutions, Tyler Technologies, Central Square Technologies (formerly Superion, TriTech and Aptean), Northrop Grumman, Hexagon AB, Niche Technology Inc., Caliber Public Safety (parent, Harris Systems USA), Saab, SOMA Global, RapidDeploy, Sopra Steria, and Mark 43 Inc. In addition, not all law enforcement agencies use software for report writing — some still use paper. We believe our network of camera sensors and digital evidence management platform give us a strategic advantage in these product categories. Our Respond offering competes both with real-time operations platforms that ingest body camera video feeds, like Motorola's CommandCentral Aware, Hitachi's Visualization Suite and Genetec's Citigraf as well as platforms that ingest video feeds exclusively from surveillance cameras, like Rave Mobile Safety, LiveEarth and Mutualink among others.

Seasonality

We have historically experienced higher net sales in our fourth quarter compared to other quarters in our fiscal year due primarily to municipal budget cycles. Additionally, new product introductions can significantly impact the cadence of net sales, product costs and operating expenses. Municipal law enforcement budgets tend to feature a mix of fiscal years that end in either June, September or December. However, historical seasonal patterns, municipal

budgets or historical patterns of product introductions should not be considered reliable indicators of our future net sales or financial performance.

Governmental Regulation

We are subject to a variety of laws and regulations in the United States and abroad that involve matters central to our business, including, for example, laws and regulations related to: privacy and data protection, security, retention, and deletion; rights of publicity; content; intellectual property; regulation of our CEDs as firearms; advertising; marketing; distribution; electronic contracts and other communications; competition; consumer protection; telecommunications; product liability; taxation; labor and employment; economic or other trade prohibitions or sanctions; securities; and online payment services. There are a number of legislative proposals in the U.S., at both the federal and state level, that could impose new obligations in areas affecting our business, such as liability for copyright infringement by third parties. Foreign laws and regulations can impose different obligations or be more restrictive than those in the U.S.

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.

TASER and Axon Devices

For our TASER products, we rely on the opinions of the U.S. Bureau of Alcohol, Tobacco, Firearms and Explosives, including the determination that a device that does not expel projectiles by the action of an explosive is not classified as a firearm.

Federal regulation of sales in the U.S.: Our currently offered CEDs are not firearms regulated by the U.S. Bureau of Alcohol, Tobacco, Firearms and Explosives, but our consumer products are regulated by the U.S. Consumer Product Safety Commission. There are currently no federal laws restricting sales of our core currently offered CED products in the U.S.

Axon devices using lithium batteries are subject to U.S.-DOT/UN 38.3 for transportation.

Our CED products are also subject to testing, safety and other standard 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 Signal Performance Power Magazine technology, and TASER 7 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 U.S. Consequently, we must obtain an export license from the DOC for the export of our CED devices from the U.S. to any country other than Canada.

Federal regulation of foreign national employees: Our CED technology is considered controlled “technology” by the U.S. DOC and is categorized as a “deemed export” for any foreign national employees exposed to the technology within the U.S. Consequently, we must obtain an export license from the DOC for any deemed export within the U.S. made to a foreign national employee exposed to the deemed controlled technology. Deemed export licenses are subject to DOC approvals and issued licenses require annual status reports for the stated employees.

State and local regulation: Our CEDs are controlled, restricted or, less frequently, prohibited by a number of state and local governments. As of December 31, 2021, the general public in Hawaii and Rhode Island is prohibited from possessing certain of our TASER-branded devices. Some cities and municipalities also prohibit private citizen possession or use of our CED products. Subsequent to December 31, 2021, Hawaii lifted restrictions on possession related to TASER-branded devices.

International regulation of foreign imports and sales: Certain jurisdictions prohibit, restrict, or require a permit for the importation, sale, possession or use of CEDs, including in some countries by law enforcement agencies, limiting 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 U.S. Export of these components from abroad is subject to shifting regulatory landscapes imposed by both the foreign government and U.S. authorities upon import.

International regulation of foreign-based operations: We maintain foreign operations in several countries globally for purposes of logistics, sales, and R&D support. Depending on these activities, regulations can include business activity licensing and registration, import permits and recordkeeping, warehousing & storage security and permitting, and government reporting.

Radio Spectrum Devices

Certain of our products utilize the radio spectrum to provide wireless voice, data and video communications services. The allocation of spectrum is regulated in the U.S. and other countries and limited spectrum space is allocated to wireless services and specifically to public safety users. In the U.S., the Federal Communications Commission ("FCC") regulates spectrum use by non-federal entities and federal entities. Similarly, countries around the world have one or more regulatory bodies that define and implement the rules for use of radio spectrum and electromagnetic interference, pursuant to their respective national laws. We manufacture and, after receiving the required approvals, we market our products in spectrum bands already made available by regulatory bodies.

Axon body worn cameras, docks, fleet vehicle cameras and signal devices are subject to FCC's rules and regulations. The FCC regulates not only the "intentional radiation" of radio transmitters, but also the "unintentional radiation" of noise from all sorts of electrical equipment. Current Axon products use Bluetooth, WiFi and/or Long Term Evolution ("LTE") radio technologies. With the integration of LTE technologies, we must also apply for the approval of private certifications such as Cellular Telecommunications and Internet Association certification, required by FirstNet and other operators. These regulations affect CEDs with Signal technology, including the TASER 7, SPPM, and future CEDs implementing wireless technology.

Environmental Regulations

We are subject to various state, federal and international laws and regulations governing the environment, including restricting the presence of certain substances in our products and making producers of those products financially responsible for the collection, treatment, recycling and disposal of such products.

The European Union ("EU") 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 EU 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 EU. In addition, similar environmental legislation has been enacted in other jurisdictions, including the U.S. (under federal and state laws) and other countries.

In addition, the EU 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 on the EU market containing substances of very high concern as identified by the EU 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 U.S., Canada, and Australia.

Privacy Regulations

We are subject to laws and regulations that dictate whether, how, and under what circumstances we can collect, transfer, process and/or receive 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. We continue to monitor and assess for compliance as the regulatory environment evolves both within the United States and in relevant international markets.

The European General Data Protection Regulation ("GDPR") took effect in May 2018 and applies to many of our products and services that provide service in Europe. The GDPR includes operational requirements for companies that receive or process personal data of residents of the EU. The GDPR includes significant penalties for non-compliance. In addition, some countries have passed legislation implementing data protection requirements or requiring local storage and processing of data or similar requirements.

Human Capital Resources

Our success depends on the continued service of our employees and on our ability to continue to attract, retain, and motivate top talent. To facilitate this, we strive to create a diverse and inclusive environment at Axon, with equitable opportunities for employee growth and development, supported by strong compensation and benefits and by programs that build connections between our employees and their communities. Axon's mission is central to our recruiting and retention efforts.

As of December 31, 2021, we had 2,148 full-time employees and 844 temporary employees (temporary employees include contractors, interns, and consultants). The breakdown of our full-time employees by department was as follows: 215 direct manufacturing employees, 614 research and development employees, 381 administrative and support employees, 452 sales employees, and 486 employees within product support. Our employees are not covered by any collective bargaining agreement, and we have never experienced a work stoppage. We believe that our relations with our employees are strong.

During fiscal 2021, the number of full-time employees increased by 438, primarily for sales and research and development resources. We closed the year with our regrettable attrition rate^(b) at 1.3%, under the annual goal of 2.5%. More than 90% of employees reported feeling proud to work at Axon during this year's employee engagement survey.

(b) Regrettable attrition is defined as rolling 12-month attrition of employees rated as top performing in the prior performance rating cycle.

Diversity and Inclusion

We embrace diversity, equity and inclusion. A truly innovative workforce needs to be diverse, leverage the skills and perspectives of a wealth of backgrounds and experiences, and ensure that all employees are equitably empowered to succeed. We continue to focus on the hiring, retention, development, and advancement of women and underrepresented communities. We are focused on recruiting diverse candidates and on internal talent development of our diverse leaders so that they can advance their careers and move into leadership positions.

Our employee affinity groups are company-sponsored, employee-led communities that address specific needs, priorities, and barriers to success for each community of focus. These groups provide a forum for employees to discuss problems and craft solutions for each community of focus, while also creating leadership and professional development opportunities for members. As of December 31, 2021, we had six affinity groups — Axon Allies for LGBTQ+ employees, APIA for Asian Pacific Islander employees, HOLA for Hispanic employees, Axon Mosaic for Black employees, Axon Vets for service veterans, and Women at Axon. Each affinity group is inclusive of employees who identify as members of each community, as well as allies.

In 2021, we broadened our already strong support for our customers and the communities they are sworn to protect. We added a Vice President of Community Impact to build and lead a team dedicated to listening to

communities, seeking citizen feedback, and keeping them safe and informed on a variety of topics. In 2020, we launched a company-wide R&D initiative that allowed employees to break from their regular responsibilities and solely focus on developing life-changing solutions to better protect citizens and law enforcement. Internally, we continue to listen to our employees with town hall sessions, provide expert-led webinars for parents, and host community round tables.

Health and Safety

The health and safety of our employees is of utmost important to us. We conduct regular self-assessments and audits to ensure compliance with our health and safety guidelines and regulatory requirements. Our ultimate goal is to achieve a level of work-related injuries as close to zero as possible through continuous investment in our safety programs. We provide protective gear (e.g. eye protection, masks and gloves) as required by applicable standards and as appropriate given employee job duties. Additionally, during the COVID-19 pandemic, we have invested heavily to help ensure the health of our employees. Through the use of education and awareness, provision of necessary personal protective equipment, and changes to our manufacturing facilities and screening, we strive to make our workplaces a safe place for employees during the workday.

To promote mental and emotional wellbeing, all full time employees globally were provided free, unlimited access by Axon to Ginger. Ginger is a 24/7 resource that includes individualized coaching via text in addition to access to articles and activities offering guidance on maintaining emotional balance throughout tumultuous times.

Additionally, we have a Wellness Incentive Program for our domestic employees that incentivizes healthy lifestyles. The program rewards employees for completing a variety of well-being activities that help foster their financial wellness, mental health, social wellbeing, community engagement and nutrition.

Available Information

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements and amendments to those reports filed with or furnished to the SEC are available free of charge on our website at <http://investor.axon.com> as soon as reasonably practicable after we electronically file or furnish such material to the SEC. The information on our website, including information about our trademarks, is not incorporated by reference into or otherwise a part of this Annual Report on Form 10-K. The SEC maintains a website that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at <http://www.sec.gov>.

Item 1A. Risk Factors

Because of the following factors, as well as other variables affecting our operating results, 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. You should carefully consider the trends, risks and uncertainties described below and other information in this Form 10-K 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 or operating results 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 materially dependent on acceptance of our products by law enforcement markets, throughout the world. If law enforcement agencies do not continue to purchase and use our products, our revenues will be adversely affected.

At any point, due to external factors and opinions, whether or not related to product performance, law enforcement agencies may elect to no longer purchase our CEDs or other products.

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

In the years ended December 31, 2021, 2020 and 2019, we derived a significant portion of our revenues from sales of TASER brand devices and related cartridges, and expect to depend on sales of these products for a significant portion of our revenue for the foreseeable future. A decrease in the selling prices of, or demand for these products, or their failure to maintain broad market acceptance, would significantly harm our 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 depend on our ability to develop new products or new product features that achieve market acceptance in a timely and cost-effective manner. These products include, but are not limited to, Axon Records, Axon Respond, and future generations of the TASER CED and Axon Body Cameras. The development of new products and new product features is complex, time consuming and expensive, and we may experience delays in completing the development and introduction of new products. We may choose to carry higher level of inventories to mitigate the risk of production delays, which may in turn expose us to an increased risk of obsolescence.

We are devoting significant resources to develop and deploy our cloud-based productivity and real-time operations SaaS solutions, which we intend to broadly deploy to a large number of customers. Customer requirements for these products are complex and varied. If we are unable to develop scalable solutions that can be consistently configured for customers with minimal effort, or if we are unable to 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 deployment costs could negatively impact our operating results.

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. While we have some patent protection in certain key areas of our CED, Axon device 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.

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 with an emphasis on 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 could adversely affect our sales. Our inability to establish relationships with and retain law enforcement equipment distributors, who we believe can successfully sell our products, would adversely affect our sales. 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.

Acquisitions, joint ventures, and other strategic investments may have an adverse effect on our business.

We may consider additional acquisitions, joint ventures, or other strategic investments as part of our long-term business strategy. These transactions involve significant challenges and risks including that the transaction does not advance our business strategy, expected synergies are not achieved, we do not realize a satisfactory return on our investment, we experience difficulty in the integration or coordination of new employees, business systems, and technology, we incur unanticipated liabilities or impairments, or management's attention is diverted from our other businesses. These events could harm our operating results, financial condition or cash flows.

We are highly dependent on the services of Patrick W. Smith, our Chief Executive Officer.

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

Operational Risks

Catastrophic events may disrupt our business.

A disruption or failure of our systems or operations in the event of a major earthquake, weather event, fire, explosion, failure to contain hazardous materials, industrial accident, utility failure, cyber-attack, terrorist attack, public health crisis, or other catastrophic event could cause delays in completing sales, providing services, or performing other mission-critical functions. A catastrophic event that results in the destruction or disruption of any of our critical business or information technology systems could harm our ability to conduct normal business operations and our operating results as well as expose us to claims, litigation and governmental investigations and fines.

The COVID-19 global pandemic has adversely affected workforces, economies, and financial markets globally, and led to an economic downturn. 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.

Although the severity of the pandemic has lessened with the rollout of vaccines and travel restrictions, remote working and schooling and social distancing requirements have been lifted or eased in varying degrees in varying locations throughout the United States and the world, continuing surges and variants have caused certain restrictions to be re-implemented in varying degrees and in varying locations. The severity and duration of the pandemic, including future surges and variants, is impossible to predict. As a result, the ongoing pandemic continues to present various risks that may affect our operations and financial results, including, but not limited to:

- Manufacturing disruptions at our Scottsdale headquarters or at our suppliers;
- A change in our classification as an essential business that impairs our ability to continue operating;
- Economic slowdowns that negatively affect municipal and state tax collections and put pressure on law enforcement budgets that in turn increases the risk that our customers will be unable to appropriate funds for existing or future contracts with us; this could also affect customer demand and ability to pay, cause decreases in sales, and negatively impact the realizability of our accounts and notes receivable and contract assets;
- Costs incurred to shut down and decontaminate our facilities if the virus is detected;

- Extended illness, incapacitation or death of key personnel or executives;
- Ongoing governmental mandates to shutdown factories or limit travel and the movement of people that causes interruptions to our business, supply chain or extended supply chain;
- Compounding risk from continued surges in infections around the world, including in the U.S.; and
- Additional airline bankruptcies or further reduction in very limited global freight capacity that causes interruptions to our supply chain or extended supply chain

These events have had and could continue to have an impact on our 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 the COVID-19 pandemic, but there can be no assurances that we will be successful in doing so.

Higher costs or unavailability of materials 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. Specifically, we depend on suppliers of sub-assemblies, machined parts, injection molded plastic parts, printed circuit boards, custom wire fabrications and other miscellaneous customer parts for our products. Although we have and are implementing additional 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.

Single or sole-source components used in the manufacture of our products may become unavailable or discontinued. Delays caused by industry allocations or obsolescence may take weeks or months to resolve. In some cases, parts obsolescence may require a product re-design to ensure quality replacement components. These delays could cause significant delays in manufacturing and loss of sales, leading to adverse effects significantly impacting our financial condition or results of operations and could injure our reputation.

A significant number of our raw materials or components are comprised of 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 a number of factors which could reduce the profitability of our operations, including: higher fuel costs; potential port closures; customs clearance issues; increased government regulation or regulatory changes for imports of foreign products into the U.S.; delays created by terrorist attacks or threats, public health issues, national disasters or work stoppages; and other matters. 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, other industries are experiencing a significant shortage of semiconductors in their supply chains. We are tracking second-and third-level constraints and have taken steps to mitigate the potential impacts by building in buffers in our raw materials inventory and ensuring our suppliers have adequate access to raw material levels aligned to our forecasts. Disruptions in the semi-conductor supply chain could cause a disruption in our ability to make our products.

International or domestic 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 the profitability of our operations. In particular, the implementation of tariffs and trade restrictions as well as changes in trade policies between the U.S. and China may have an adverse effect on our supply chain from a sourcing and cost perspective. We source certain raw materials from China, as do some of our suppliers. While we have actively implemented programs to increase buffer inventory levels as well as transition from China along with secondary sources of raw materials outside of China, future actions or events could result in a material adverse effect on our revenues, profitability and financial condition.

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, which may be accomplished by the implementation of customized manufacturing automation equipment.

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 automation equipment. The investments we make in this equipment may not yield the anticipated labor and material efficiencies. Our inability to meet any future increase in sales demand or effectively manage our expansion could have a material adverse effect on our revenues, financial 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. New products and enhancements to existing products can require long development and testing periods. 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, financial results 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, law enforcement and corrections agencies 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. The length of our sales cycle may range from a few weeks to as long as several years. Adverse publicity surrounding our products or the safety of such products has in the past, and could in the future, lengthen our sales cycle with customers. In the past, we believe that our sales were adversely impacted by negative 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. Legislative changes could impact our customers' ability to seize funds or use seized funds to fund purchases. Changes in civil forfeiture statutes or regulations are outside of our control and 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 cloud storage providers are breached and unauthorized access is obtained to customers' data or our data, our network, data centers and service may be perceived as not being secure, customers may curtail or stop using our service and we may incur significant legal and financial exposure and liabilities.

Our service involves the storage and transmission of customers' proprietary information, and security breaches could expose us to a risk of loss of information or the total or partial deletion or encryption of all stored customer data, litigation and possible liability. 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. Despite these efforts, security measures may be breached as a result of third-party action, employee error, and malfeasance or otherwise. Breaches could occur during transfer of data to data centers or at any time, and result in unauthorized 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.

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 may not 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 cannot assure that such measures will provide absolute security, and we may incur significant costs in protecting against or remediating cyber-attacks.

A security breach could expose us to a risk of loss or inappropriate use of proprietary and sensitive data, or the denial of access to this data. A real or perceived security breach could also result in a loss of confidence in the security of our service, disrupt our business, damage our reputation, lead to legal liability, negatively impact our future sales and significantly harm our growth prospects, operating results and financial condition.

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 U.S. and other countries. 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 to not renew our services or 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, and an increase in the expense and risk of litigation.

Defects in our products could reduce demand for our products 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 are subsequently discovered at any point in the life of the product. 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.

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 to grow internationally by acquiring existing entities or setting up new legal entities in new markets. In certain international markets, we have limited operating experience and may not benefit from any first-to-market advantages or otherwise succeed. In addition to risks described elsewhere in this section, our international operations expose us to other risks, including the following:

- Restrictions on foreign ownership and investments, and stringent foreign exchange controls that might prevent us from repatriating cash earned in countries outside the U.S.
- Import and export requirements, tariffs, trade disputes and barriers, product certification requirements, and customs classifications that may prevent us from offering products or providing services to a particular market or obtaining necessary parts and components to manufacture products, which may lead to decreased sales and may increase our operating costs.
- 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 as a result of local laws and lack of legal precedent.
- Different labor laws and customs, existence of workers' councils and labor unions, and other challenges caused by distance, language, and cultural differences, making it harder to do business in certain jurisdictions.

Additionally, changes in international local political, economic, regulatory, tax, social, and labor conditions may adversely harm our business and compliance with complex foreign and U.S. laws and regulations that apply to our international operations increases our cost of doing business. These numerous and sometimes conflicting laws and regulations include, among others, environmental 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.

Our business in the United Kingdom may be negatively impacted by the exit of the United Kingdom from the EU (commonly referred to as "Brexit"). The exit itself could negatively impact the United Kingdom and other economies, which could adversely affect sales of our products and services. We may also experience increased volatility in the value of the pound sterling, the euro and other European currencies. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations in the United Kingdom and the EU, and we may incur additional costs or need to make operational changes as we adapt to potentially divergent regulatory frameworks.

Violations of these laws and regulations could result in fines and penalties, criminal sanctions against us, our officers, or our employees, prohibitions on the conduct of our business and on our ability to offer our products and services in one or more countries, and could also materially affect our brand, our international growth efforts, our ability to attract and retain employees, our business, and our 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 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. 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.

We 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 approved by our shareholders. If we are unable to obtain shareholder approval, we may be unable to attract and retain top talent. The competition for our key employees is intense and market competition for top talent has increased since our introduction of our innovative performance-based stock compensation plans in 2018. The loss of the service of one or more of our key personnel could adversely impact our business, prospects, financial condition and operating results.

Global economic conditions could materially adversely affect our revenue and results of operations.

Our inability to offset price inflation in our materials, components, shipping, or labor through increased prices to customers with long-term fixed contracts and formula-based or long-term fixed price contracts with suppliers could adversely affect our business, financial condition and results of operations.

Our suppliers may fail to deliver components according to schedules, prices, quality and volumes that are acceptable to us, or we may be unable to manage these components effectively.

Our products contain many parts purchased globally from numerous suppliers, including single-source direct suppliers, which exposes us to multiple potential sources of component shortages. Unexpected changes in business

conditions, materials pricing, labor issues, wars, trade policies, natural disasters, health epidemics such as the global COVID-19 pandemic, trade and shipping disruptions, port congestions and other factors beyond our or our suppliers' control could also affect these suppliers' ability to deliver components to us or to remain solvent and operational. We have used alternative parts to mitigate the challenges caused by these shortages, but there is no guarantee we may be able to continually do so as we scale production to meet projected future sales activity. Additionally, if our suppliers do not accurately forecast and effectively allocate production or if they are not willing to allocate sufficient production to us, or they decommit to us previously agreed to supply levels, it may reduce our access to components and require us to search for new suppliers. The unavailability of any component or supplier could result in production delays, as well as impact our ability to fulfill our obligations under customer contracts. While we believe that we will be able to secure additional or alternate sources for most of our components, there is no assurance that we will be able to do so quickly or at all. 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 operating results.

Financial Risks

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

A growing portion of our sales are derived from subscription billing arrangements and on an open credit basis. While we record an estimate of expected credit losses and perform ongoing reviews of trade accounts receivables, if we become aware of information related to the creditworthiness of a major customer, or if future actual default rates on receivables in general differ from those currently anticipated, we may have to adjust our expected credit loss reserve, which could adversely affect our business, financial condition or operating results.

We may experience a decline in gross margins due to a shift in product sales from CEDs to software and sensors products and services which may continue to carry a lower gross margin.

We continue to invest in the growth of the Software and Sensors segment, and this expected growth may result in a higher percentage of total revenues being comprised of Software and Sensors products and services. Gross margin as a percentage of net sales for the Software and Sensors segment is currently lower than that of the TASER segment, and may continue to be lower in the future.

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

Our SaaS service revenue is generally recognized ratably over the terms of the contracts, which generally range from one to five 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 positive or negative trends in this portion of our business may not be fully reflected in our revenue results for several periods.

Most of our end-user customers are subject to budgetary and political constraints that may delay or prevent sales.

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.

Due to municipal government funding rules, certain of our contracts are subject to appropriation, termination for convenience, or similar cancellation clauses, which could allow our customers to cancel or not exercise options to renew contracts in the future.

Although we have entered into contracts for the delivery of products and services in the future and anticipate the contracts will be completed, if agencies do not appropriate money in future year budgets, terminate contracts for convenience or if other cancellation clauses are invoked, revenue and cash associated with these bookings will not ultimately be recognized, and could result in a reduction to bookings and revenue.

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

We maintain the majority of our cash and cash equivalents accounts at three depository institutions. As of December 31, 2021, the aggregate balances in such accounts at these three institutions were \$347.3 million. Our balances with these institutions regularly exceed Federal Deposit Insurance Corporation ("FDIC") insured limits for domestic deposits and various foreign deposit insurance programs covering our deposits in Australia, Canada, Finland, Germany, Hong Kong, India, Italy, the Netherlands, Spain, the United Kingdom, and Vietnam.

We could suffer losses with respect to the uninsured balances if the depository institutions failed 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 could have a material adverse effect on our liquidity, financial condition and results of operations.

Stock compensation expense may have a material, unpredictable impact on our results of operations.

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

For awards containing multiple service, performance and market conditions, where all conditions must be satisfied prior to vesting, compensation expense is recognized over the requisite service period, which is defined as the longest explicit, implicit or derived service period, based on management's estimate of the probability and timing of the performance criteria being satisfied, adjusted at each balance sheet date. 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.

If we achieve specific operational goals and the covered employees complete the requisite service conditions for the performance-based awards with multiple service, performance, and market conditions, including our CEO Performance Award and our eXponential Stock Performance Plan ("XSPP"), we will recognize stock compensation expense regardless of whether the market conditions are achieved and the underlying tranches vest.

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. Fluctuations in foreign

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

We also import selected components which 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.

We are subject to income taxes in the U.S. and various jurisdictions outside of the U.S. Our effective tax rate could fluctuate due to changes in the mix of earnings and losses in countries with differing statutory tax rates. Our tax expense could also be impacted by changes in non-deductible expenses, changes in excess tax benefits related to exercises of stock options and vesting of restricted stock units, 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 tax examinations in multiple jurisdictions. While we regularly evaluate new information that may change our judgment resulting in recognition, derecognition or change in measurement of a tax position taken, there can be no assurance that the final determination of any examinations will not have an adverse effect on our operating results and financial position.

Our tax provision could also be impacted by changes in federal, state or international tax laws including fundamental tax law changes applicable to corporate multinationals.

Additionally, we may be subject to additional tax liabilities due to changes in non-income-based taxes resulting from changes in federal, state, city or international tax laws, changes in taxing jurisdictions' administrative interpretations, decisions, policies, and positions, results of tax examinations, settlements or judicial decisions, changes in accounting principles, changes to the 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.

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

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

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

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.

Legal and Compliance Risks

We may face personal injury, wrongful death 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 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 theories including wrongful death, personal injury, negligent design, defective product or inadequate warning. We are currently subject to a number of such lawsuits and we have been subject to significant adverse judgments and settlements. We may also be subject to lawsuits involving allegations of misuse of our products. If successful, wrongful death, personal injury, misuse and other claims could have a material adverse effect on our operating results and financial condition and could result in negative publicity about our products. We incur significant legal expenses in defending these cases, and significant litigation could also result in a diversion of management's attention and resources, negative publicity and a potential award of monetary damages in excess of our insurance coverage. 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 may subject us to significant litigation costs and judgments and divert management attention from our business.

We have been or could in the future be involved in numerous other litigation matters relating to our products, contracts and business relationships, including litigation against persons whom we believe have infringed on our intellectual property, infringement litigation filed against us, litigation against a competitor, enforcement actions filed against us, and litigation involving the U.S. Federal Trade Commission ("FTC"). Such matters have resulted, and are expected to continue to result in, substantial costs to us, including in the form of attorneys' fees and costs, damages, fines or other penalties, whether pursuant to a judgment or settlement, and diversion of our management's attention, which could adversely affect our business, financial condition or operating results. There is also a risk of adverse judgments, as the outcome of litigation is inherently uncertain.

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

Many companies own intellectual property rights that are directly or indirectly related to public safety technologies. These companies periodically demand licensing agreements or engage in litigation based on allegations of infringement or other violations of their patents, trademarks, copyrights, or trade secrets. Non-practicing entities also have patents they have been granted or otherwise acquired, including patents that are directly or indirectly related to public safety technologies. These entities may seek compensation for perceived infringement of their patents, including by filing claims against us, independent of the merit of any such claims. As we enter new markets, expand into new product categories, and otherwise offer new products, services, and technologies, additional intellectual property claims may be filed against us by these companies, entities, and other third parties. Additional 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. Such royalty and licensing agreements may not be available on terms acceptable to us or at all. We could also be required to pay substantial damages, fines or other penalties, indemnify customers or distributors, cease the manufacture, use, or sale of infringing products or processes, make proprietary source code

publicly available, and/or expend significant resources to develop or acquire non-infringing technologies. Our suppliers may not provide, or we may not be able to obtain, intellectual property indemnification sufficient to offset all damages, fines or other penalties resulting from any claims of intellectual property infringement brought against us or our customers. There is no guarantee that our use of conventional technology searching and brand clearance searching will identify all potential rights holders. Rights holders may demand payment for past infringements and/or force us to accept costly license terms or discontinue use of protected technology and/or works of authorship that may include, for example, photos, videos, and software. Our current research and development focus on developing software-based products, including that which is related to artificial intelligence or virtual reality, 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. 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. Different intellectual property laws between different countries may lead to differences in protection between such countries. In certain countries in which our products are distributed, the ability to effectively enforce intellectual property rights may not exist. Patent requirements differ by country and certain domestic or foreign 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 our M26 and X26E models of CEDs, have expired or will expire due to statutory limits on patent term. Despite policies and efforts to maintain secrecy, trade secrets and other confidential information we maintain, or may choose to maintain in the future, 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”. 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 insufficient, may lead to loss of trademark and service mark rights, brand loyalty and notoriety among our customers and prospective customers.

Our intellectual property may also be at risk if we are unable to defend from enforcement actions, such as that filed by the FTC against us regarding our acquisition of Viewu LLC from Safariland LLC on May 3, 2018. For additional discussion of this matter, refer to Note 11 to the consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K. If successful, the FTC is seeking a divestiture of Viewu along with Axon assets sufficient to stand up a viable competitor.

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.

Internationally, we can enforce patent rights only in the jurisdictions in which our patent applications have been granted.

Our U.S. patents protect us from imported infringing products coming into the U.S. from abroad. We have made applications for patents in a few foreign countries; however, these may be inadequate to protect markets for our products in other 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. A patent in a foreign country may be subject to cancellation if the claimed invention has not been sold in that country. Meeting the requirements of working 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.

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

As detailed in “Business – Government Regulation,” we are subject to a variety of laws and regulations in the United States and abroad that involve matters central to our business, including privacy, data protection and personal information, rights of publicity, content, intellectual property, advertising, marketing, distribution, data security, data retention and deletion, electronic contracts and other communications, competition, consumer protection, telecommunications, product liability, taxation, labor and employment, economic or other trade prohibitions or sanctions, securities law compliance, and online payment services. The introduction of new products, expansion of our activities in certain jurisdictions, or other actions that we may take may subject us to additional laws, regulations, or other government scrutiny. In addition, foreign data protection, privacy, content, competition, and other laws and regulations can impose different obligations or be more restrictive than those in the United States.

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

The costs of compliance with these laws and regulation are high and are likely to increase in the future. Additionally, these laws and regulations, or any associated inquiries or investigations or other government actions, may delay or impede the development of new products, result in negative publicity, require significant management time and attention, and subject us to remedies that may harm our business, including fines or demands or orders that we modify or cease existing business practices.

TASER and Axon Devices

For our TASER products, we rely on the opinions of the U.S. Bureau of Alcohol, Tobacco, Firearms and Explosives, including the determination that a device that does not expel projectiles by the action of an explosive is not classified as a firearm. Changes in statutes, regulations, and interpretation outside of our control may result in our products being classified or reclassified as firearms. If this were to occur, our private citizen market 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 U.S.: Our currently offered CEDs are not firearms regulated by the U.S. Bureau of Alcohol, Tobacco, Firearms and Explosives, but our consumer products are regulated by the U.S. Consumer Product Safety Commission. Although there are currently no federal laws restricting sales of our core currently offered CED products in the U.S., future federal regulation could adversely affect sales of our products.

Our CED products are subject to regulation by testing, safety and other standard organizations. These regulations also affect CEDs with Axon Signal technology, including Signal Performance Power Magazine technology, and TASER 7 battery packs, and could impact future CEDs that feature wireless technology.

Federal regulation of international sales: Our CEDs are considered a “crime control” product by the U.S. DOC for export directly from the U.S. which requires us to obtain an export license from the DOC for the export of our CED devices from the U.S. 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 to our international customers could significantly and adversely affect our international sales.

Federal regulation of foreign national employees: Our intangible CED production is also considered controlled “technology” by the U.S. DOC and is categorized as a “deemed export” for any foreign national employees exposed to the technology within the U.S. Consequently, we must obtain an export license from the DOC for any deemed export within the U.S. made to a foreign national employee exposed to the deemed controlled technology. Deemed export licenses are subject to DOC approvals and issued licenses require annual status reports for the stated employees. Inability to obtain proper licensing could curtail the company’s 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 a number of state and local governments. Other jurisdictions may ban or restrict the sale of our CED products, 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.

International regulation of foreign imports and sales: Certain jurisdictions prohibit, restrict, or require a permit for the importation, sale, possession or use of CEDs, including in some countries by law enforcement agencies, limiting 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 U.S. Export of these components from abroad is subject to shifting regulatory landscapes imposed by both the foreign government and U.S. authorities upon import. Abrupt changes to these regulations can result in delays or interruptions to final product supplies.

International regulation of foreign-based operations: We maintain foreign operations in several countries globally for purposes of logistics, sales, and R&D support. Any failure to properly maintain or license could limit our ability to sell, support, or develop our products and services both internationally and in the U.S. market.

Radio Spectrum Devices

Certain of our products utilize the radio spectrum to provide wireless voice, data and video communications services. The allocation of spectrum is regulated in the U.S. and other countries and limited spectrum space is allocated to wireless services and specifically to public safety users. We manufacture and market products in spectrum bands already made available by regulatory bodies. If current products do not comply with the regulations set forth by these governing 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 FCC or regulatory agencies 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, fleet vehicle cameras and signal devices are subject to FCC’s rules and regulations. These regulations affect CEDs with Signal technology, including the TASER 7, SPPM, and future CEDs implementing wireless technology. Compliance with government regulations could increase our operations and product costs and impact our future financial results.

Environmental Regulations

We are subject to various state, federal and international laws and regulations governing the environment, including restricting the presence of certain substances in our products and making us financially responsible for the collection, treatment, recycling and disposal of such products. In addition, further environmental legislation may be

enacted in other jurisdictions, including the U.S. (under federal and state laws) and other countries, the cumulative impact of which could be significant.

We endeavor to comply with applicable environmental laws, yet compliance with such laws could increase our operations and product costs, increase the complexities of product design, procurement, and manufacturing, limit our ability to manage excess and obsolete non-compliant inventory, limit our sales activities, and impact our future financial results. Any violation of the various environmental regulations can subject us to significant liability, including fines, penalties, and prohibiting sales of our products into one or more states or countries and result in a material adverse effect on our financial condition or results of operations.

Privacy Regulations

We are subject to laws and regulations that dictate whether, how, and under what circumstances we can transfer, process and/or receive 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 U.S. 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 services or adversely affect our financial results. Additional countries may 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 services and expose us to significant penalties for non-compliance.

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

Our corporate headquarters and manufacturing facilities are based in an approximately 100,000 square foot facility in Scottsdale, Arizona, which we own. We also lease premises in Phoenix and Scottsdale, Arizona; East Point, Georgia; Charlotte, North Carolina; Topsfield, Massachusetts; Seattle and Spokane, Washington; Melbourne and Sydney, Australia; Toronto, Canada; Daventry and London, England; Tampere, Finland; Frankfurt, Germany; Mumbai, India; Rome, Italy; Amsterdam, Netherlands; and Ho Chi Minh City, Vietnam. In 2020, we purchased a parcel of land located in Scottsdale, Arizona on which we intend to construct a new manufacturing and office facility.

We believe our existing facilities are well maintained and in good operating condition. We also believe we have adequate manufacturing capacity for our existing product lines. To the extent that we introduce new products in the future, we will likely need to acquire additional facilities to locate the associated production lines. However, we believe we can acquire or lease such facilities on reasonable terms. We continue to make investments in capital equipment as needed to meet anticipated demand for our products.

The majority of our locations support both of our reportable segments, except for our Vietnam and Seattle, Washington locations, which primarily support our Software & Sensors segment.

Item 3. *Legal Proceedings*

See discussion of litigation in Note 11 to the consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K, which discussion is incorporated by reference herein.

Item 4. *Mine Safety Disclosures*

None.

PART II

Item 5. *Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Market Information

Our common stock is quoted under the symbol “AXON” on The NASDAQ Global Select Market.

Holders

As of December 31, 2021, there were 217 holders of record of our common stock.

Dividends

To date, we have not declared or paid cash dividends on our common stock. We do not intend to pay cash dividends in the foreseeable future.

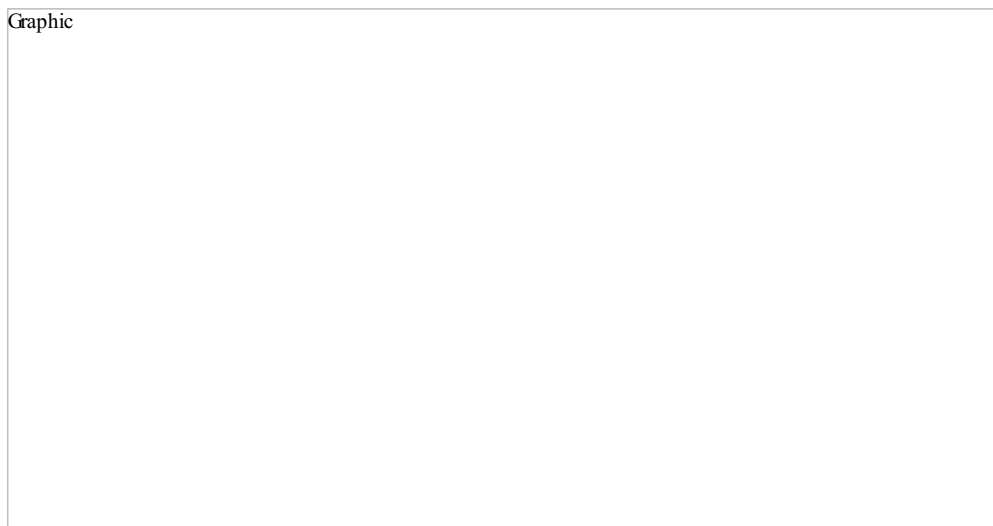
Issuer Purchases of Equity Securities

In February 2016, our Board of Directors authorized a stock repurchase program to acquire up to \$50.0 million of our outstanding common stock subject to stock market conditions and corporate considerations. The stock repurchase program does not have a stated expiration date. During the year ended December 31, 2021, no common shares were purchased under the program. As of December 31, 2021, \$16.3 million remained available under the plan for future purchases.

Stock Performance Graph

The following stock performance graph compares the performance of our common stock to the NASDAQ Composite Index, S&P 500 Index, and Russell 2000 Index.

The graph covers the period from December 31, 2016 to December 31, 2021. The graph assumes that the value of the investment in our stock and in each index was \$100 at December 31, 2016, and that all dividends were reinvested. We do not pay dividends on our common stock.



	2016	2017	2018	2019	2020	2021
Axon Enterprise, Inc.	\$ 100.00	\$ 109.32	\$ 180.49	\$ 302.31	\$ 505.49	\$ 647.69
NASDAQ Composite	100.00	129.64	125.96	172.18	249.51	304.85
S&P 500	100.00	121.83	116.49	153.17	181.35	233.41
Russell 2000	100.00	114.65	102.02	128.06	153.62	176.39

Note: Index data copyright NASDAQ OMX, Inc.; Russell Investments; and Standard and Poor's, Inc. Used with permission. All rights reserved.

Item 6. [Reserved]

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A")

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is designed to provide a reader of our consolidated financial statements with a narrative from the perspective of our management on our financial condition, results of operations, liquidity and certain other factors that may affect our future results. Our MD&A should be read in conjunction with the other sections of this Annual Report on Form 10-K, including Part I, Item 1A: "Risk Factors" and Part II, Item 8: "Financial Statements and Supplementary Data." The various sections of this MD&A contain a number of forward-looking statements, all of which are based on our current expectations and could be affected by the uncertainties and risk factors described throughout this filing. The tables in the MD&A sections below are derived from exact numbers and may have immaterial rounding differences.

This section discusses our results of operations for the year ended December 31, 2021 as compared to the year ended December 31, 2020. For a discussion and analysis of the year ended December 31, 2020, compared to the same period in 2019 please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations included in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2020, filed with the SEC on February 26, 2021.

Overview

Axon is a global network of devices, apps and people that helps public safety personnel become smarter and safer. With a mission of protecting life, our technologies give law enforcement the confidence, focus and time they need to protect their communities. Our products impact every aspect of a public safety officer's day-to-day experience with the goal of helping everyone get home safe.

Our revenues for the year ended December 31, 2021 were \$863.4 million, an increase of \$182.4 million, or 26.8%, from the prior year. We had a loss from operations of \$168.1 million compared to \$14.2 million in the prior year. The higher loss from operations was primarily the result of increased stock compensation expense for our CEO Performance Award and XSPP. In addition, operating expenses were higher in 2021 primarily due to an increase in headcount; these other cost increases were largely offset by higher revenue. For the year ended December 31, 2021, we recorded net loss of \$60.0 million compared to net loss of \$1.7 million for the prior year.

2022 Outlook

For the year ending December 31, 2022, we expect revenue of approximately \$1 billion. We anticipate capital expenditures of approximately \$135 million to \$160 million in 2022, including approximately \$85 million for development of our manufacturing facility and campus in Scottsdale, Arizona, approximately \$40 million to support capacity expansion and automation of TASER devices, and the remainder on additional investments to support our continued growth.

COVID-19

The COVID-19 pandemic has adversely affected workforces, economies, and financial markets globally, and led to an economic downturn. As an essential provider of products and services for law enforcement and other first responders, we remain focused on protecting the health and wellbeing of our employees while assuring the continuity of our business operations.

We have taken a number of actions in response to the pandemic:

Employee safety and manufacturing:

- We continue to allow for a remote work model for the majority of our office staff, with medical screening for any employees who do work in our offices; and
- We hosted several onsite vaccination clinics for our employees and their family members.

Supply chain:

- We previously took steps to diversify our supply chain and global manufacturing footprint, which have positioned us well to manage through the pandemic.

- We have proactively built up a safety stock of raw and finished goods inventory aligned to our strategic model to help meet strong product demand while also preparing us to stagger factory work schedules. We continue to adjust strategic inventory levels based on areas of risk to mitigate potential supply disruptions.
- In light of our broad geographic supplier base both domestic and international, we are continuously monitoring our supply chain to manage through potential impacts, identifying alternate sources as well as shipping / logistic sources and working with foreign regulators to ensure that our suppliers can provide parts.

Shareholder engagement:

- We have continued our shareholder engagement in a primarily virtual format.

Results of Operations

The following table presents data from our 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):

	Year Ended December 31,			
	2021		2020	
Net sales from products	\$ 608,525	70.5 %	\$ 500,250	73.5 %
Net sales from services	254,856	29.5	180,753	26.5
Net sales	863,381	100.0	681,003	100.0
Cost of product sales	260,098	30.1	224,131	32.9
Cost of service sales	62,373	7.2	40,541	6.0
Cost of sales	322,471	37.3	264,672	38.9
Gross margin	540,910	62.7	416,331	61.1
Operating expenses:				
Sales, general and administrative	515,007	59.7	307,286	45.1
Research and development	194,026	22.5	123,195	18.1
Total operating expenses	709,033	82.2	430,481	63.2
Loss from operations	(168,123)	(19.5)	(14,150)	(2.1)
Interest and other income, net	26,748	3.1	7,859	1.1
Loss before provision for income taxes	(141,375)	(16.4)	(6,291)	(1.0)
Benefit from income taxes	(81,357)	(9.4)	(4,567)	(0.7)
Net loss	\$ (60,018)	(7.0)%	\$ (1,724)	(0.3)%

Net sales to the U.S. and other countries are summarized as follows (dollars in thousands):

	Year Ended December 31,			
	2021		2020	
United States	\$ 686,914	80 %	\$ 535,079	79 %
Other Countries	176,467	20	145,924	21
Total	\$ 863,381	100 %	\$ 681,003	100 %

International revenue in 2021 increased compared to 2020, driven by strength in all of our international regions, particularly in the Americas and EMEA regions.

Our operations are comprised of two reportable segments: the manufacture and sale of CEDs, batteries, accessories and extended warranties and other products and services (collectively, the "TASER" segment); and software and sensors, which includes the sale of devices, wearables, applications, cloud and mobile products, and services (collectively, the "Software and Sensors" segment). In both segments, we report sales of products and services. Service revenue in both segments includes sales related to Axon Evidence. In the TASER segment, service revenue also includes digital subscription training content. In the Software and Sensors segment, service revenue also

includes other recurring cloud-hosted software revenue and related professional services. Collectively, this revenue is sometimes referred to as "Axon Cloud revenue." Revenue from our "products" in the Software and Sensors segment are generally from sales of sensors, including on-officer body cameras, Axon Fleet cameras, other hardware sensors, warranties on sensors, and other products, and is sometimes referred to as "Sensors and Other revenue." Within the Software and Sensors segment, we include only revenues and costs attributable to that segment which costs include: costs of sales for both products and services, direct labor, and product management and R&D for products included, or to be included, within the Software and Sensors segment. All other costs are included in the TASER segment.

For the Years Ended December 31, 2021 and 2020

Net Sales

Net sales by product line were as follows for the years ended December 31, 2021 and 2020 (dollars in thousands):

	Year Ended December 31,				Dollar	Percent
	2021		2020		Change	Change
TASER segment:						
TASER 7	\$ 135,906	15.7 %	\$ 107,506	15.8 %	\$ 28,400	26.4 %
TASER X26P	40,629	4.7	41,724	6.1	(1,095)	(2.6)
TASER X2	58,081	6.7	60,107	8.8	(2,026)	(3.4)
TASER Consumer devices	7,132	0.8	9,407	1.4	(2,275)	(24.2)
Cartridges	152,842	17.8	115,193	16.9	37,649	32.7
Axon Evidence and cloud services	9,159	1.1	2,935	0.4	6,224	212.1
Extended warranties	24,125	2.8	20,754	3.0	3,371	16.2
Other	9,053	1.0	8,926	1.3	127	1.4
TASER segment	<u>436,927</u>	<u>50.6</u>	<u>366,552</u>	<u>53.7</u>	<u>70,375</u>	<u>19.2</u>
Software and Sensors segment:						
Axon Body	75,484	8.8	57,150	8.4	18,334	32.1
Axon Flex	4,155	0.5	4,082	0.6	73	1.8
Axon Fleet	24,319	2.8	20,108	3.0	4,211	20.9
Axon Dock	24,441	2.8	19,723	2.9	4,718	23.9
Axon Evidence and cloud services	246,005	28.5	176,797	26.0	69,208	39.1
Extended warranties	33,686	3.9	24,408	3.6	9,278	38.0
Other	18,364	2.1	12,183	1.8	6,181	50.7
Software and Sensors segment	<u>426,454</u>	<u>49.4</u>	<u>314,451</u>	<u>46.3</u>	<u>112,003</u>	<u>35.6</u>
Total net sales	<u>\$ 863,381</u>	<u>100.0 %</u>	<u>\$ 681,003</u>	<u>100.0 %</u>	<u>\$ 182,378</u>	<u>26.8 %</u>

Net unit sales were as follows:

	Year Ended December 31,		Unit	Percent
	2021	2020	Change	Change
TASER 7	90,348	77,451	12,897	16.7 %
TASER X26P	30,083	37,391	(7,308)	(19.5)%
TASER X2	38,620	43,407	(4,787)	(11.0)%
TASER Consumer devices	26,958	33,158	(6,200)	(18.7)%
Cartridges	4,945,927	3,714,291	1,231,636	33.2 %
Axon Body	181,663	182,538	(875)	(0.5)%
Axon Flex	7,828	8,962	(1,134)	(12.7)%
Axon Fleet	11,264	11,304	(40)	(0.4)%
Axon Dock	25,584	25,422	162	0.6 %

Net sales for the TASER segment increased \$70.4 million, or 19.2%, primarily as a result of an increase of \$37.6 million in cartridge revenue and a \$28.4 million increase in TASER 7 devices. Cartridge revenue increased due to

increased unit sales. Consumer devices revenue decreased \$2.3 million or 24.2% driven by a decrease in retail sales due to a shift in consumer shopping behaviors, as well as lower average selling prices, and higher sales during the prior year due to civil unrest. We continue to see a shift to purchases of our latest generation device, TASER 7, from legacy devices, especially X26P devices. Sales of our TASER 7 device also drove the increase in revenue from Axon Evidence and cloud services. Revenue was also impacted by higher average selling prices for TASER devices other than TASER consumer devices. TASER 7 revenue for 2021 was impacted by approximately \$35.0 million for orders that were scheduled to ship prior to December 31, 2021, but could not be fulfilled due to the delayed receipt of a manufacturing component for our TASER 7 devices. We expect to recognize this revenue during the first half of 2022.

Net sales for the Software and Sensors segment increased \$112.0 million, or 35.6%. Revenue from Axon Evidence and cloud services increased \$69.2 million as we continued to add users and associated devices to our network during the year ended December 31, 2021. The increase in the aggregate number of users and devices also resulted in increased extended warranty revenues of \$9.3 million. Sales of our Axon Body 3 camera drove most of the \$18.3 million increase in Axon Body revenue and the \$4.7 million increase in Axon Dock revenue. Other revenue increased \$6.2 million or 50.7% due to increases in signal sidearm and signal performance power magazine (SPPM) attributable to increased sales of our TASER 7 devices. Axon Body revenue was impacted by approximately \$15.5 million for orders that were scheduled to ship prior to December 31, 2021, but could not be fulfilled due to supply chain constraints for our Axon Body 3 devices. We expect to recognize this revenue during the first half of 2022.

Backlog - As of December 31, 2021 compared to December 31, 2020

Our backlog for products and services includes all orders that have been received and are believed to be firm.

In the TASER segment, we define backlog as equal to deferred revenue. Deferred revenue represents amounts invoiced to customers for goods and services to be delivered in subsequent periods. We process orders within the TASER segment quickly, and our best estimate of firm orders outstanding as of period end represents those that have been invoiced but remain undelivered. The TASER segment backlog balance was \$73.9 million as of December 31, 2021. We expect to realize \$36.9 million of this deferred revenue balance as revenue during the next 12 months. This represents cash received and accounts receivable from customers on or prior to December 31, 2021 for products and services expected to be delivered in the next 12 months.

In the Software and Sensors segment, we define backlog as cumulative bookings, net of cancellations, less product and service revenue recognized to date. Bookings are generally realized as revenue over multiple years. The Software and Sensors backlog balance was \$2.4 billion as of December 31, 2021. This backlog balance includes \$377.4 million of deferred revenue, and \$2.0 billion that has been recorded as bookings but not yet invoiced, all as of December 31, 2021. We expect to realize approximately \$510.8 million of the December 31, 2021 backlog balance as revenue during the next 12 months.

	TASER	Software and Sensors	Total
		<i>(in thousands)</i>	
Balance, beginning of period	\$ 61,756	\$ 1,427,886	\$ 1,489,642
Add: additions to backlog, net of cancellations	449,048	1,350,696	1,799,744
Less: revenue recognized during period	(436,927)	(426,454)	(863,381)
Balance end of period	\$ 73,877	\$ 2,352,128	\$ 2,426,005

Our backlog of \$2.4 billion as of December 31, 2021 has increased significantly from \$1.5 billion as of December 31, 2020. The increase in TASER segment backlog is not expected to have a material impact on revenue or operating margins. Our significant increase in backlog, primarily in the Software and Sensors segment is indicative of expected revenue growth in this segment.

Cost of Product and Service Sales

Cost of product and services sales in dollars and as a percent of related segment sales (dollars in thousands):

	Year Ended December 31,		Year Ended December 31,		Dollar	Percent
	2021		2020		Change	Change
TASER segment:						
Cost of product sales	\$ 149,739	34.3 %	\$ 136,925	37.4 %	\$ 12,814	9.4 %
Cost of service sales	145	0.0 %	—	— %	\$ 145	N/A %
Total TASER cost of sales	149,884	34.3 %	136,925	37.4 %	12,959	9.5 %
Software and Sensors segment:						
Cost of product sales	110,359	25.9 %	87,206	27.7 %	23,153	26.5 %
Cost of service sales	62,228	14.6 %	40,541	12.9 %	21,687	53.5 %
Total Software and Sensors cost of sales	172,587	40.5 %	127,747	40.6 %	44,840	35.1 %
Total cost of product and service sales	\$ 322,471	37.3 %	\$ 264,672	38.9 %	\$ 57,799	21.8 %

Within the TASER segment, cost of product and service sales was \$149.9 million, an increase of \$13.0 million, or 9.5%, from 2020. Cost as a percentage of sales decreased to 34.3% from 37.4%. The improvement was primarily attributable to a combination of manufacturing cost improvement and strong demand for our premium TASER offerings, which resulted in a favorable product mix. We are building manufacturing capacity to support our TASER device and cartridge manufacturing lines in response to growing international and federal demand and an increased install base.

Within the Software and Sensors segment, cost of product and service sales was \$172.6 million, an increase of \$44.8 million, or 35.1%, from 2020. As a percentage of net sales, cost of product and service sales decreased slightly to 40.5% in 2021 from 40.6% in 2020. Cost of product sales increased \$23.2 million primarily driven by the impact of increased units, but decreased as a percentage of sales due to the fulfillment of several large shipments of lower-margin body camera hardware to our largest customers during the prior year. Cost of service sales increased \$21.7 million and increased as a percentage of sales. We are investing in scaling our cloud business, which includes standing up new cloud environments, cloud applications, and Long-Term Evolution ("LTE") costs, which can result in some margin compression in advance of anticipated revenue, as well as low-to-no margin professional services that support new installations for software customers.

Gross Margin

Gross Margin (dollars in thousands):

	Year Ended December 31,		Year Ended December 31,		Dollar	Percent
	2021		2020		Change	Change
TASER segment	\$ 287,043		\$ 229,627		\$ 57,416	25.0 %
Software and Sensors segment	253,867		186,704		67,163	36.0 %
Total gross margin	\$ 540,910		\$ 416,331		\$ 124,579	29.9 %
Gross margin as % of net sales	62.7 %		61.1 %			

Gross margin increased \$124.6 million to \$540.9 million for the year ended December 31, 2021 compared to \$416.3 million for 2020. As a percentage of net sales, gross margin increased to 62.7% for 2021 from 61.1% for 2020.

As a percentage of net sales, gross margin for the TASER segment increased to 65.7% for the year ended December 31, 2021 from 62.6% for the year ended December 31, 2020.

Within the Software and Sensors segment, gross margin as a percentage of total segment net sales was 59.5% and 59.4% for the years ended 2021 and 2020, respectively. Within the Software and Sensors segment, product gross

margin was 39.2% for the year ended December 31, 2021 and 36.6% for the same period in 2020, while the service margins were 74.6% and 77.1% during those same periods, respectively.

Sales, General and Administrative Expenses

Sales, General and Administrative ("SG&A") Expenses (dollars in thousands):

	Year Ended December 31,		Dollar	Percent
	2021	2020	Change	Change
Salaries, benefits and bonus	\$ 140,075	\$ 83,287	\$ 56,788	68.2 %
Stock-based compensation	238,813	103,860	134,953	129.9
Professional, consulting and lobbying	34,338	45,541	(11,203)	(24.6)
Sales and marketing	52,058	32,464	19,594	60.4
Office and building	8,137	9,076	(939)	(10.3)
Travel and meals	12,058	5,630	6,428	114.2
Depreciation and amortization	9,824	6,079	3,745	61.6
Other	19,704	21,349	(1,645)	(7.7)
Total sales, general and administrative expenses	\$ 515,007	\$ 307,286	\$ 207,721	67.6 %
SG&A expenses as a percentage of net sales	59.7 %	45.1 %		

SG&A expenses increased \$207.7 million, or 67.6%. Stock-based compensation expense increased \$135.0 million in comparison to the prior year comparable period, which was attributable to an increase of \$137.9 million in expense related to the CEO Performance Award and XSPP, partially offset by a decrease of \$1.9 million related to PSUs for certain key employees and executives that fully vested in March 2021. As of December 31, 2021, all twelve operational goals for the CEO Performance Award and XSPP are considered probable of attainment or have been attained; during the prior year comparable period, eleven operational goals were considered probable. Refer to Note 14 of the notes to our consolidated financial statements within this Annual Report on Form 10-K for additional discussion of the CEO Performance Award and XSPP.

Salaries, benefits and bonus expense increased \$56.8 million, primarily due to an increase in headcount and an increase in payroll taxes on a higher base of salaries and bonus expense. Salaries, benefits and bonus expense increased as a percentage of sales from 12.2% for 2020 to 16.2% for 2021.

Sales and marketing expenses increased \$19.6 million, driven by a \$10.5 million increase in commissions tied to higher revenues, and by higher spending on advertising, sponsorships, and customer samples. Included in this increase was \$3.4 million related to trade shows and seminars, including our inaugural VR roadshow and \$1.0 million attributable to our annual Axon Accelerate user conference being held in-person.

Professional, consulting and lobbying expenses decreased \$11.2 million, driven primarily by a decrease of \$18.3 million in expenses related to the FTC litigation. As discussed in Note 11 of the notes to our consolidated financial statements within this Annual Report on Form 10-K, we sued the FTC in the District of Arizona, and the FTC filed an enforcement action regarding our May 2018 acquisition of Viewu LLC. Offsetting the decrease in legal expenses was an increase in other professional and consulting expenses for costs related to the implementation of several phases of our enterprise resource planning and related systems.

Other SG&A expenses increased by \$7.6 million, primarily driven by the following:

- Travel expenses increased \$6.4 million, reflecting a return to pre-pandemic travel levels for certain of our employees.
- Depreciation and amortization increased \$3.7 million primarily due to an increase in depreciation and amortization expense following the implementation of several phases of our enterprise resource planning and related systems during 2021.

- Supplies expense increased \$3.5 million, primarily attributable to an increase in computer licenses and maintenance supporting increased headcount.

Research and Development Expenses

Research and Development ("R&D") Expenses (dollars in thousands):

	Year Ended December 31,		Dollar	Percent
	2021	2020	Change	Change
Salaries, benefits and bonus	\$ 95,057	\$ 71,488	\$ 23,569	33.0 %
Stock-based compensation	58,674	26,248	32,426	123.5
Professional and consulting	20,191	10,503	9,688	92.2
Travel and meals	1,344	594	750	126.3
Other	18,760	14,362	4,398	30.6
Total research and development expenses	\$ 194,026	\$ 123,195	\$ 70,831	57.5 %
R&D expenses as a percentage of net sales	22.5 %	18.1 %		

Within the TASER segment, R&D expenses increased \$30.8 million or 200%, reflecting increased stock-based compensation expense of \$10.8 million, of which \$5.7 million related to the XSPP. Salaries, benefits and bonus expense increased \$8.2 million, primarily due to an increase in headcount. Consulting expense increased \$7.9 million related to the development of next generation products.

R&D expense for the Software and Sensors segment increased \$40.1 million or 37.2% and increased slightly as a percentage of sales to 34.7% compared to 34.3% in the prior year. Of the increase, \$15.4 million related to salaries, benefits, and bonus attributable to increased headcount.

Stock-based compensation expense for the Software and Sensors segment increased \$21.6 million. Contributing to the increase was expense of \$12.9 million related to our XSPP. As of December 31, 2021, all twelve operational goals for the XSPP are considered probable of attainment or have been attained; during the prior year comparable period, eleven operational goals were considered probable. Stock-based compensation expense also increased over the prior year comparable period due to an increase in headcount.

Professional and consulting expenses increased \$9.7 million related to development of next generation products.

We expect R&D expense to continue to increase in absolute dollars as we focus on growing the Software and Sensors segment as we add headcount and additional resources to develop new products and services to further advance our scalable cloud-connected device platform. We are investing in technologies that include our CEDs, body cameras, in-car cameras and other sensors, artificial intelligence, digital evidence management, productivity software, communications software, and technologies that enable real-time situational awareness for public safety.

Interest and Other Income, Net

Interest and other income, net was \$26.7 million and \$7.9 million for the years ended December 31, 2021 and 2020, respectively.

For the year ended December 31, 2021, we recorded a gain of \$40.9 million related to observable price changes for our investments in certain strategic investments and related warrants. The gain was partially offset by a \$17.8 million unrealized loss on marketable securities related to our investment in Cellebrite DI Ltd. Interest and other income, net also reflected interest income of \$1.7 million, other income of \$0.9 million from a government grant, and gains from foreign currency transactions of \$0.4 million.

For the year ended December 31, 2020, we earned interest income of \$5.1 million and had losses from foreign currency transaction adjustments of \$0.2 million, other income, net of \$0.6 million, and interest expense of \$0.1 million.

Provision for Income Taxes

The provision for income taxes was a benefit of \$81.4 million for the year ended December 31, 2021. The effective income tax rate for 2021 was 57.5%. The benefits related to excess stock-based compensation of \$205.5 million and research and development credits of \$34.4 million were partially offset by the tax effects of permanently non-deductible expenses for executive compensation of \$180.5 million, an increase in uncertain tax benefits of \$10.2 million, and other permanently non-deductible expenses of \$1.8 million. Additionally, we recorded a \$9.0 million increase to our valuation allowance as of December 31, 2021 related to research and development tax credits that may not be utilized prior to expiration and an unrealized investment loss.

The provision for income taxes was a benefit of \$4.6 million for the year ended December 31, 2020. The effective income tax rate for 2020 was 72.6%. The benefits related to excess stock-based compensation of \$9.0 million, research and development credits of \$10.2 million, and a deduction for foreign derived intangible income ("FDII") of \$0.9 million were partially offset by the tax effects of permanently non-deductible expenses for executive compensation of \$15.5 million, an increase in uncertain tax benefits of \$1.0 million, other permanently non-deductible expenses of \$0.8 million and state tax expense of \$0.9 million. Additionally, we recorded a \$0.2 million increase to our valuation allowance as of December 31, 2020 related to research and development tax credits that may not be utilized prior to expiration, partially offset by changes in certain foreign jurisdictions.

Net Income

We recorded net loss of \$60.0 million for the year ended December 31, 2021 compared to a net loss of \$1.7 million in 2020. Net loss per basic and diluted share was \$0.91 for 2021, compared to net loss per basic and diluted share of \$0.03 for 2020.

Three Months Ended December 31, 2021 Compared to September 30, 2021

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

	Three Months Ended December 31, 2021		Three Months Ended September 30, 2021		Dollar Change	Percent Change
TASER segment:						
TASER 7	\$ 23,146	10.6 %	\$ 50,641	21.8 %	\$ (27,495)	(54.3)%
TASER X26P	12,011	5.5	9,086	3.9	2,925	32.2
TASER X2	19,080	8.8	10,078	4.3	9,002	89.3
TASER Consumer devices	2,259	1.0	967	0.4	1,292	133.6
Cartridges	36,433	16.7	39,313	16.9	(2,880)	(7.3)
Axon Evidence and cloud services	3,350	1.5	2,711	1.2	639	23.6
Extended warranties	6,523	3.0	6,099	2.6	424	7.0
Other	1,107	0.7	2,596	1.3	(1,489)	(57.4)
TASER segment	103,909	47.8	121,491	52.4	(17,582)	(14.5)
Software and Sensors segment:						
Axon Body	14,939	6.9	20,862	9.0	(5,923)	(28.4)
Axon Flex	674	0.3	1,488	0.6	(814)	(54.7)
Axon Fleet	9,246	4.2	6,063	2.6	3,183	52.5
Axon Dock	5,552	2.5	6,460	2.8	(908)	(14.1)
Axon Evidence and cloud services	70,072	32.2	63,272	27.3	6,800	10.7
Extended warranties	9,054	4.2	8,983	3.9	71	0.8
Other	4,132	1.9	3,370	1.4	762	22.6
Software and Sensors segment	113,669	52.2	110,498	47.6	3,171	2.9
Total net sales	\$ 217,578	100.0 %	\$ 231,989	100.0 %	\$ (14,411)	(6.2)%

Net unit sales were as follows:

	Three Months Ended December 31, 2021		Three Months Ended September 30, 2021		Change	Change
TASER 7	12,927		36,350		(23,423)	(64.4)%
TASER X26P	8,246		6,596		1,650	25.0 %
TASER X2	14,432		5,562		8,870	159.5 %
TASER Consumer devices	8,733		3,232		5,501	170.2 %
Cartridges	1,194,867		1,327,971		(133,104)	(10.0)%
Axon Body	31,749		58,248		(26,499)	(45.5)%
Axon Flex	1,027		3,390		(2,363)	(69.7)%
Axon Fleet	4,609		2,753		1,856	67.4 %
Axon Dock	4,959		8,556		(3,597)	(42.0)%

Net sales for the TASER segment decreased \$17.6 million, or 14.5%, on a sequential basis primarily due to a \$27.5 million decrease in revenue from TASER 7 devices and a \$2.9 million decrease in cartridge revenue. The decrease in TASER 7 revenues was partially offset by a revenue increase of \$13.2 million of other TASER devices. The decrease in revenue is a result of decreased unit sales, partially offset by higher average selling prices on our TASER 7 devices. TASER 7 revenue for the three months ended December 30, 2021 was impacted by approximately \$35.0 million for orders that were scheduled to ship prior to December 31, 2021, but could not be fulfilled due to the delayed receipt of a manufacturing component for our TASER 7 devices. We expect to recognize this revenue during the first half of 2022.

Net sales for the Software and Sensors segment increased \$3.2 million, or 2.9%, on a sequential basis primarily due to a \$6.8 million increase in Axon Evidence and cloud services revenue and a \$3.2 million increase in Axon Fleet revenue. The increase in Axon Evidence and cloud services revenue was a result of the increase in the aggregate

number of users on our network. Axon Fleet revenue was driven primarily by increased unit sales, as well as an increase in the average selling price. Axon Body revenue was impacted by approximately \$15.5 million for orders that were scheduled to ship prior to December 31, 2021, but could not be fulfilled due to supply chain constraints for our Axon Body 3 devices. We expect to recognize this revenue during the first half of 2022.

International sales were \$48.7 million in for the three months ended December 31, 2021 as compared to \$39.2 million for the three months ended September 30, 2021, an increase of \$9.5 million, primarily driven by increased sales in the EMEA region.

Non-GAAP Financial Measures

To supplement our financial results presented in accordance with accounting principles generally accepted in the U.S. ("GAAP"), we present the non-GAAP financial measures of EBITDA and Adjusted EBITDA (CEO Performance Award). Our management uses these non-GAAP financial measures in evaluating our 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, taxes, depreciation and amortization.
- Adjusted EBITDA (CEO Performance Award) (Most comparable GAAP Measure: Net income) - Earnings before interest expense, investment interest income, taxes, depreciation, amortization and non-cash stock-based compensation expense.

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 Annual Report on Form 10-K were prepared under a comprehensive set of rules or principles.

EBITDA and Adjusted EBITDA (CEO Performance Award) reconcile to net income as follows (dollars in thousands):

	For the Years Ended December 31,	
	2021	2020
Net income (loss)	\$ (60,018)	\$ (1,724)
Depreciation and amortization	18,694	12,475
Interest expense	28	55
Investment interest income	(1,511)	(4,086)
Provision for (benefit from) income taxes	(81,357)	(4,567)
EBITDA	<u>\$ (124,164)</u>	<u>\$ 2,153</u>
Adjustments:		
Stock-based compensation expense	303,331	133,572
Adjusted EBITDA (CEO Performance Award)	<u>\$ 179,167</u>	<u>\$ 135,725</u>

Liquidity and Capital Resources

Summary

As of December 31, 2021, we had \$356.3 million of cash and cash equivalents, an increase of \$200.9 million from December 31, 2020. Cash and cash equivalents and investments totaled \$402.1 million, a decrease of \$250.6 million from December 31, 2020.

Cash Flows

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

	Year Ended December 31,	
	2021	2020
Operating activities	\$ 124,494	\$ 38,481
Investing activities	252,556	(356,526)
Financing activities	(174,181)	299,265
Effect of exchange rate changes on cash and cash equivalents	(1,982)	1,976
Net increase (decrease) in cash and cash equivalents and restricted cash	<u>\$ 200,887</u>	<u>\$ (16,804)</u>

Operating activities

Net cash provided by operating activities in 2021 of \$124.5 million consisted of \$60.0 million in net loss, the net add-back of non-cash income statement items totaling \$227.8 million and a \$43.3 million net change in operating assets and liabilities. Included in the non-cash items were \$18.7 million in depreciation and amortization expense, \$303.3 million in stock-based compensation expense, and an \$81.3 million increase in deferred income tax assets. Cash provided by operations was impacted by an increase of \$205.8 million in accounts and notes receivable and contract assets, which was largely attributable to increased sales in 2021, particularly for sales made under subscription plans. Cash provided by operations was also impacted by an increase of \$40.2 million in prepaid expenses and other assets, resulting primarily from an increase in deferred commissions expense and an increase in income tax receivable due to overpayments, and an increase of \$18.3 million in inventory on as we proactively built up inventory to help meet future product demand. Partially offsetting this activity was an increase in deferred revenue of \$175.6 million, which was primarily attributable to increased subscription payments for Software and Sensors hardware and services in advance of fulfillment, and a smaller increase in hardware deferred revenue from TASER subscription sales.

Investing activities

We generated \$252.6 million from investing activities in 2021. Proceeds from investments, net of purchases of investments and marketable securities, were \$356.1 million, and \$14.5 million of proceeds from the sale of a portion of one of our existing strategic investments. We also invested \$50.3 million in the purchase of property and equipment and intangibles, \$45.5 million for new or incremental strategic minority investments, and \$22.4 million in cash paid for business combinations.

Financing activities

Net cash used in financing activities was \$174.2 million for the year ended December 31, 2021. During the year ended December 31, 2021, certain restricted stock units ("RSUs") and stock options were net-share settled, such that we withheld shares to cover the employees' tax obligation for the applicable income and other employment taxes, and remitted the cash, which payments totaled \$331.3 million, to the appropriate taxing authorities. Net-settled stock awards included six tranches of our XSPP which vested during 2021 and 2.1 million stock options which were exercised during 2021. Partially offsetting this use of cash were net proceeds received from our ATM offering during 2021 of \$105.5 million in cash and \$51.6 million of proceeds from the exercise of stock options where shares were sold to cover the exercise price.

Liquidity and Capital Resources

Our most significant source of liquidity continues to be funds generated by operating activities and available cash and cash equivalents. In addition, our \$50.0 million revolving credit facility is available for additional working capital needs or investment opportunities. Under the terms of the line of credit, available borrowings are reduced by outstanding letters of credit. Advances under the line of credit bear interest at LIBOR plus 1.0 to 1.5% per year determined in accordance with a pricing grid based on our funded debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio.

As of December 31, 2021, we had letters of credit outstanding of \$6.1 million, leaving the net amount available for borrowing of \$43.9 million. The facility matures on December 31, 2023 and has an accordion feature which allows for an increase in the total line of credit up to \$100.0 million, subject to certain conditions, including the availability of additional bank commitments. There can be no assurance that we will continue to generate cash flows at or above current levels or that we will be able to maintain our ability to borrow under our revolving credit facility. At December 31, 2021 and 2020, there were no borrowings under the line.

Our agreement with the bank requires us to comply with a maximum funded debt to EBITDA ratio, as defined, of no greater than 2.50 to 1.00 based upon a trailing four fiscal quarter period. At December 31, 2021, the Company's funded debt to EBITDA ratio was 0.00 to 1.00.

On January 29, 2021, we entered into an amendment to the credit agreement which extends the maturity date to December 31, 2023 and increased the amount of the unsecured revolving line of credit which is available for letters of credit from \$10 million to \$20 million.

TASER subscription and installment purchase arrangements typically involve amounts invoiced in five equal installments at the beginning of each year of the five-year term. This is in contrast to a traditional CED sale in which 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 five annual installments rather than up front. It is our strategic intent to shift an increasing amount of our business to a subscription model, to better match the municipal budgeting process of our customers as well as to allow for multiple product offerings to be bundled into existing subscriptions. We carefully considered the cash flow impacts of this strategic shift and regularly revisit our cash flow forecast with the goal of maintaining a comfortable level of liquidity as we introduce commercial offerings in which we incur upfront cash costs to produce and fulfill hardware sales ahead of the cash inflows from our customers.

Based on our strong balance sheet and the fact that we had no long-term debt or financing lease obligations at December 31, 2021, we believe financing will be available, both through our existing credit line and possible additional financing. However, there is no assurance that such funding will be available on terms acceptable to us, or at all.

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

Contractual Obligations

The following table outlines our future contractual financial obligations by period in which payment is expected, as of December 31, 2021 (dollars in thousands):

	Total	Short Term	Long Term
Operating lease obligations	\$ 29,445	\$ 7,782	\$ 21,663
Purchase obligations	328,427	314,206	14,221
Total contractual obligations	\$ 357,872	\$ 321,988	\$ 35,884

Purchase obligations in the table above represent \$313.5 million of open purchase orders and \$14.9 million of other purchase obligations. The open purchase orders represent both cancelable and non-cancelable purchase orders with key vendors, which are included in this table due to our strategic relationships with these vendors.

On February 23, 2022, the Company entered into construction management agreement with Okland Construction Company, Inc. for construction of a new manufacturing and office campus on land the Company owns in Scottsdale, Arizona. The contract specifies a maximum guaranteed construction price of approximately \$149.7 million, of which approximately \$85.0 million is expected to be incurred in 2022. Construction is expected to start no later than May 3, 2022 with final completion by July 25, 2024.

We are subject to U.S. federal income tax as well as income taxes imposed by state and foreign jurisdictions. As of December 31, 2021, we had \$18.2 million of gross unrecognized tax benefits related to uncertain tax positions. The settlement period for these long-term income tax liabilities cannot be determined; however, the liabilities are expected to increase by approximately \$0.7 million within the next 12 months.

Critical Accounting Estimates

We have identified the following accounting estimates as critical to our business operations and the understanding of our results of operations. The preparation of this Annual Report on Form 10-K requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. 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. The effect of these estimates on our business operations is discussed below.

Product Warranties

We warranty our CEDs, Axon cameras and certain related accessories from manufacturing defects on a limited basis for a period of one year after purchase and, thereafter, will replace any defective unit for a fee. Estimated costs for the standard warranty are charged to cost of products sold when revenue is recorded for the related product. Future

warranty costs are estimated based on historical data related to warranty claims on a quarterly basis and this rate is applied to current product sales. Historically, reserve amounts have been increased if management becomes aware of a component failure or other issue that could result in larger than anticipated warranty claims from customers. The warranty reserve is reviewed quarterly to verify that it sufficiently reflects the remaining warranty obligations based on the anticipated expenditures over the balance of the warranty obligation period, and adjustments are made when actual warranty claim experience differs from estimates. As of December 31, 2021 and 2020, our warranty reserve was approximately \$2.8 million and \$0.8 million, respectively. Warranty expense for the years ended December 31, 2021, 2020 and 2019 was \$2.9 million, \$0.0 million and \$1.6 million, respectively. Warranty expense for the year ended December 31, 2021 was impacted by higher battery degradation resulting in shorter battery lives for the Axon Body 3 on-officer body camera and warranty claims for TASER 7 handles. Warranty expense for the year ended December 31, 2020, was impacted by lower than expected warranty claims for the Axon Body 3 on-officer body camera. Warranty expense for the year ended December 31, 2019 was impacted by higher than initially expected warranty claims for the Axon Flex2 on-officer body camera.

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 incurred.

Inventory

Inventories are stated at the lower of cost, determined on the first-in, first-out ("FIFO") basis, or net realizable value, net of an inventory valuation allowance. We use a standard cost methodology to determine the cost basis for its inventories. Costs include allocations for materials, labor, and overhead. All variances between actual costs and standard costs are apportioned to inventory and cost of goods sold based upon inventory turnover. We evaluate inventory on a quarterly basis for obsolete or slow-moving items to ascertain if the recorded allowance is reasonable and adequate. Additional provisions are made to reduce excess, obsolete or slow-moving inventories to their net realizable value.

During the year ended December 31, 2021, we recorded provisions to reduce inventories to their lower of cost and net realizable value of approximately \$0.9 million compared to \$3.8 million during the year ended December 31, 2020. The largest driver of the decrease in the provision in 2021 compared to 2020 was a one-time prior year reduction in the carrying amount of our trial and evaluation inventory to zero which was our estimate of its net realizable value. The provision in 2021 and in 2020 was driven by analyses for existing products resulting in adjustments to state inventories at their lower of cost and net realizable value.

Revenue Recognition, Deferred Revenue and Accounts and Notes Receivable

We derive revenue from two primary sources: (1) the sale of physical products, including CEDs, Axon cameras, Axon Signal enabled devices, corresponding hardware extended warranties, and related accessories such as Axon docks, cartridges and batteries, among others, and (2) subscriptions to our Axon Evidence digital evidence management SaaS (including data storage fees and other ancillary services), which includes varying levels of support. To a lesser extent, we also recognize training, professional services and revenue related to other software and SaaS services. We apply the five-step model outlined in Accounting Standards Codification ("ASC") Topic 606, Revenue from Contracts with Customers ("Topic 606").

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account in Topic 606. For contracts with multiple performance obligations, we allocate the contract transaction price to each performance obligation using our estimate of the standalone selling price ("SSP") of each distinct good or service in the contract.

Revenues are recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration we expect to receive in exchange for those products or services. We enter into contracts

that can include various combinations of products and services, each of which is generally distinct and accounted for as a separate performance obligation. Revenue is recognized net of allowances for returns.

Performance obligations to deliver products, including CEDs, cameras and related accessories such as cartridges, batteries and docks, are generally satisfied at the point in time we ship the product, as this is when the customer obtains control of the asset under our standard terms and conditions. In certain contracts with non-standard terms and conditions, these performance obligations may not be satisfied until formal customer acceptance occurs. Performance obligations to fulfill service-type extended warranties and provide our SaaS offerings, including Axon Evidence and other cloud services, are generally satisfied over time as the customer receives and consumes the benefits of these services over the stated service period.

Many of our products and services are sold on a standalone basis. We also bundle our hardware products and services together and sell them to our customers in single transactions, where the customer can make payments over a multi-year period. For the years ended December 31, 2021, 2020 and 2019, the composition of revenue recognized from contracts containing multiple performance obligations and those not containing multiple performance obligations was as follows (dollars in thousands):

	For the Year Ended December 31, 2021					
	TASER		Software and Sensors		Total	
Contracts with Multiple Performance Obligations	\$ 271,333	62.1 %	\$ 418,516	98.1 %	\$ 689,849	79.9 %
Contracts without Multiple Performance Obligations	165,594	37.9	7,938	1.9	173,532	20.1
Total	<u>\$ 436,927</u>	<u>100.0 %</u>	<u>\$ 426,454</u>	<u>100.0 %</u>	<u>\$ 863,381</u>	<u>100.0 %</u>

	For the Year Ended December 31, 2020					
	TASER		Software and Sensors		Total	
Contracts with Multiple Performance Obligations	\$ 186,427	50.9 %	\$ 311,187	99.0 %	\$ 497,614	73.1 %
Contracts without Multiple Performance Obligations	180,125	49.1	3,264	1.0	183,389	26.9
Total	<u>\$ 366,552</u>	<u>100.0 %</u>	<u>\$ 314,451</u>	<u>100.0 %</u>	<u>\$ 681,003</u>	<u>100.0 %</u>

	For the Year Ended December 31, 2019					
	TASER		Software and Sensors		Total	
Contracts with Multiple Performance Obligations	\$ 130,761	46.4 %	\$ 245,416	98.5 %	\$ 376,177	70.9 %
Contracts without Multiple Performance Obligations	150,900	53.6	3,783	1.5	154,683	29.1
Total	<u>\$ 281,661</u>	<u>100.0 %</u>	<u>\$ 249,199</u>	<u>100.0 %</u>	<u>\$ 530,860</u>	<u>100.0 %</u>

Additionally, we offer customers the ability to purchase CED cartridges and certain services on an unlimited basis over the contractual term. Due to the unlimited nature of these arrangements whereby we are obligated to deliver unlimited products at the customer's request, we account for these arrangements as stand-ready obligations, and recognize revenue ratably over the contract period. Cost of product sales is recognized as the products are shipped to the customer.

We have elected to recognize shipping costs as an expense in cost of product sales when the control of hardware products or accessories have transferred to the customer.

Sales tax collected on sales is netted against government remittances and thus, recorded on a net basis.

Deferred revenue consists of payments received in advance related to products and services for which the criteria for revenue recognition have not yet been met. Deferred revenue that will be recognized during the subsequent twelve month period from the balance sheet date is recorded as current deferred revenue and the remaining portion is recorded as long-term. Generally, customers are billed in annual installments.

Sales are typically made on credit, and we generally do not require collateral.

Valuation of Goodwill, Intangible and Long-lived Assets

We do not amortize goodwill and intangible assets with indefinite useful lives; rather, such assets are required to be tested for impairment at least annually, or sooner whenever events or changes in circumstances indicate that the assets may be impaired. We perform our annual impairment assessment in the fourth quarter of each year. Finite-lived intangible assets and other long-lived assets are amortized over their estimated useful lives. Management evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets and intangible assets may warrant revision or that the remaining balance of these assets, including intangible assets with indefinite lives, may not be recoverable.

Circumstances that might indicate long-lived assets might not be recoverable could include, but are not limited to, a change in the product mix, a change in the way products and services are created, produced or delivered, or a significant change in the way our products are branded and marketed. When performing a review for recoverability, management estimates the future undiscounted cash flows expected to result from the use of the assets and their eventual disposition. The amount of the impairment loss, if impairment exists, is calculated based on the excess of the carrying amounts of the assets over their estimated fair value computed using discounted cash flows. During the year ended December 31, 2021, we recorded an immaterial amount of impairment charges. During the year ended December 31, 2020, we abandoned certain planning and site development activities related to our planned new headquarters, resulting in an impairment charge of \$0.7 million. Additionally, we recognized impairment charges totaling \$0.5 million related to improvements and remodeling of certain of our offices. Both charges were included in sales, general and administrative expense in the accompanying consolidated statements of operations. During the year ended December 31, 2019, we abandoned certain capitalized software related to implementation work on an enterprise resource planning system conversion, resulting in an impairment charge of \$1.3 million, and certain planning and site development activities related to our planned new headquarters, resulting in an impairment charge of \$0.7 million, both of which were included in sales, general and administrative expense in the accompanying consolidated statements of operations and comprehensive income (loss).

Income Taxes

We recognize federal, state and foreign current tax liabilities or assets based on our estimate of taxes payable or refundable in the current fiscal year by tax jurisdiction. We also recognize federal, state and foreign deferred tax assets or liabilities, as appropriate, for our estimate of future tax effects attributable to temporary differences and carry forwards.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such positions are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. We must also assess whether uncertain tax positions as filed could result in the recognition of a liability for possible interest and penalties if any. We have completed research and development tax credit studies for each year a tax credit was claimed for federal and state income tax purposes. We determined that it was more likely than not that the full benefit of the research and development tax credit would not be sustained on examination and accordingly, have established a liability for unrecognized tax benefits of \$18.2 million as of December 31, 2021. We expect the amount of the unrecognized tax benefit to increase by approximately \$0.7 million within the next 12 months. Should the unrecognized tax benefit of \$18.2 million be recognized, our effective tax rate would be favorably impacted. Our estimates are based on information available to us at the time we prepare the income tax provision. Our income tax returns are subject to audit by federal, state, and local governments, generally years

after the returns are filed. These returns could be subject to material adjustments or differing interpretations of the tax laws. During 2021, we completed an audit of our 2018 Illinois income tax return. Additionally, we have been notified that an audit will commence for Axon Public Safety Southeast Asia LLC, our entity in Vietnam. The tax period has not yet been defined.

Our calculation of current and deferred tax assets and liabilities is based on certain estimates and judgments and involves dealing with uncertainties in the application of complex tax laws. Our estimates of current and deferred tax assets and liabilities may change based, in part, on added certainty or finality to an anticipated outcome, changes in accounting or tax laws in the U.S. and internationally, or changes in other facts or circumstances. In addition, we recognize liabilities for potential tax contingencies based on our estimate of whether, and the extent to which, additional taxes may be due. If we determine that payment of these amounts is unnecessary, or if the recorded tax liability is greater than our current assessment, we may be required to recognize an income tax benefit, or additional income tax expense, respectively, in our consolidated financial statements.

In preparing our consolidated financial statements, we assess the likelihood that our deferred tax assets will be realized from future taxable income. In evaluating our ability to recover our deferred income tax assets, we consider all available positive and negative evidence, including operating results, ongoing tax planning and forecasts of future taxable income on a jurisdiction by jurisdiction basis. A valuation allowance is established if we determine that it is more likely than not that some portion or all of the net deferred tax assets will not be realized. Although we believe that our tax estimates are reasonable, the ultimate tax determination involves significant judgments that could become subject to audit by tax authorities in the ordinary course of business.

We have federal net operating losses ("NOLs") of \$259.0 million, which either carryforward indefinitely or expire in 2036 and \$0.1 million of which is subject to limitation under Internal Revenue Code ("IRC") Section 382. Additionally, we have state NOLs of \$251.4 million, which expire at various dates between 2026 and 2041 or carryforward indefinitely. We anticipate sufficient future pre-tax book income to realize a large portion of our deferred tax assets. However, based on expected income for years in which Arizona R&D tax credits are set to expire, unrealized investment loss for which realization is uncertain, and specific identified intangibles with an indefinite life, a reserve of \$16.2 million has been recorded as a valuation allowance against deferred tax assets as of December 31, 2021.

Stock-Based Compensation

We have historically granted stock-based compensation to key employees and non-employee directors as a means of attracting and retaining highly qualified personnel. Stock-based compensation awards primarily consist of service-based RSUs, performance-based RSUs, and performance-based stock options. Our stock-based compensation awards are classified as equity and measured at the fair market value of the underlying stock at the grant date. For service-based awards, we recognize RSU expense using the straight-line attribution method over the requisite service period. Vesting of performance-based RSUs is contingent upon the achievement of certain performance criteria related to our operating performance, as well as successful and timely development and market acceptance of future product introductions. For performance-based RSUs containing only performance conditions, compensation cost is recognized using the graded attribution model over the explicit or implicit service period. For awards containing multiple service, performance or market conditions, where all conditions must be satisfied prior to vesting, compensation expense is recognized over the requisite service period, which is defined as the longest explicit, implicit or derived service period, based on management's estimate of the probability and timing of the performance criteria being satisfied, adjusted at each balance sheet date. For both service-based and performance-based RSUs, we account for forfeitures as they occur as a reduction to stock-based compensation expense and additional paid-in-capital.

For performance-based options, stock-based compensation expense is recognized over the expected performance achievement period of individual performance goals when the achievement of each individual performance goal becomes probable. For performance-based awards with a vesting schedule based entirely on the attainment of both performance and market conditions, stock-based compensation expense is recognized over the longer of the expected achievement period of the performance and market conditions, beginning at the point in time that the relevant

performance condition is considered probable of achievement. The fair value of such awards is estimated on the grant date using Monte Carlo simulations. Refer to Note 14 of the notes to our consolidated financial statements within this Annual Report on Form 10-K.

We have granted a total of approximately 15.1 million performance-based awards (options and restricted stock units) of which approximately 3.9 million are outstanding as of December 31, 2021, the vesting of which is contingent upon the achievement of certain performance criteria including the successful development and market acceptance of future product introductions as well as our future sales targets and operating performance and market capitalization. Of the 3.9 million performance-based awards that are outstanding, 1.4 million are options that are exercisable. Compensation expense for performance awards will be recognized based on management's best estimate of the probability of the performance criteria being satisfied using the most currently available projections of future product adoption and operating performance, adjusted at each balance sheet date. 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 and consequently, the related amount recognized in our statements of operations and comprehensive income.

Contingencies and Accrued Litigation Expense

We are subject to the possibility of various loss contingencies arising in the ordinary course of business, including product-related and other litigation. We consider the likelihood of loss or impairment of an asset or the incurrence of a liability, as well as our ability to reasonably estimate the amount of loss in determining loss contingencies. An estimated loss contingency is accrued when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. We regularly evaluate current information available to us to determine whether such accruals should be adjusted and whether new accruals are required. Refer to Note 11 of our consolidated financial statements within this Annual Report on Form 10-K.

Reserve for Expected Credit Losses

We are exposed to the risk of credit losses primarily through sales of products and services. Our expected credit loss allowance for accounts receivable, notes receivable, and contract assets represents management's best estimate and application of judgment considering a number of factors, including 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 reserve 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.

A majority of our customers are governmental agencies. Due to municipal government funding rules, certain of our contracts are subject to appropriation, termination for convenience, or similar cancellation clauses, which could allow our customers to cancel or not exercise options to renew contracts in the future. Economic slowdowns that negatively affect municipal tax collections and put pressure on law enforcement may increase this risk and negatively impact the realizability of our accounts and notes receivable and contract assets. We considered the current and expected future economic and market conditions surrounding the COVID-19 pandemic and reversed our previously-recorded additional reserve for credit losses of approximately \$1.3 million during the year ended December 31, 2021.

Based on the balances of our financial instruments as of December 31, 2021, a hypothetical 25 percent increase in expected credit loss rates across all pools would result in a \$0.7 million increase in the allowance for expected credit losses.

Item 7A. *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 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, net within the 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 consolidated statements of operations. Credit losses are recognized through the use of an allowance for credit losses account in the 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 consolidated statements of operations. Based on investment positions as of December 31, 2021, a hypothetical 100 basis point increase in interest rates across all maturities would result in a \$0.5 million decline in the fair market value of the portfolio. Such losses would only be realized if we sold the investments prior to maturity.

Additionally, we have access to a \$50.0 million line of credit borrowing facility which bears interest at LIBOR plus 1.0 to 1.5% per year determined in accordance with a pricing grid based on our funded debt to EBITDA ratio. Under the terms of the line of credit, available borrowings are reduced by outstanding letters of credit, which totaled \$6.1 million at December 31, 2021. At December 31, 2021, there was no amount outstanding under the line of credit, and the available borrowing under the line of credit was \$43.9 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 8. Financial Statements and Supplementary Data

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

	December 31, 2021	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 356,332	\$ 155,440
Marketable securities	72,180	—
Short-term investments	14,510	406,525
Accounts and notes receivable, net of allowance of \$2,203 and \$2,105 as of December 31, 2021 and December 31, 2020 respectively	320,819	229,201
Contract assets, net	180,421	63,945
Inventory, net	108,688	89,958
Prepaid expenses and other current assets	56,540	36,883
Total current assets	1,109,490	981,952
Property and equipment, net	138,457	105,494
Deferred tax assets, net	127,193	45,770
Intangible assets, net	15,470	9,448
Goodwill	43,592	25,205
Long-term investments	31,232	90,681
Long-term notes receivable, net	11,256	22,457
Long-term contract assets, net	29,753	20,099
Strategic investments	83,520	11,711
Other long-term assets	98,247	68,206
Total assets	\$ 1,688,210	\$ 1,381,023
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 32,220	\$ 24,142
Accrued liabilities	103,707	59,843
Current portion of deferred revenue	265,591	163,959
Customer deposits	10,463	2,956
Other current liabilities	6,540	5,431
Total current liabilities	418,521	256,331
Deferred revenue, net of current portion	185,721	111,222
Liability for unrecognized tax benefits	3,797	4,503
Long-term deferred compensation	5,679	4,732
Deferred tax liabilities, net	811	649
Other long-term liabilities	25,832	27,331
Total liabilities	640,361	404,768
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Preferred stock, \$0.00001 par value; 25,000,000 shares authorized; no shares issued and outstanding as of December 31, 2021 and December 31, 2020, respectively	—	—
Common stock, \$0.00001 par value; 200,000,000 shares authorized; 70,896,856 and 63,766,555 shares issued and outstanding as of December 31, 2021 and December 31, 2020, respectively	1	1
Additional paid-in capital	1,095,229	962,159
Treasury stock at cost, 20,220,227 shares as of December 31, 2021 and December 31, 2020	(155,947)	(155,947)
Retained earnings	109,883	169,901
Accumulated other comprehensive income (loss)	(1,317)	141
Total stockholders' equity	1,047,849	976,255
Total liabilities and stockholders' equity	\$ 1,688,210	\$ 1,381,023

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

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

	For the Years Ended December 31,		
	2021	2020	2019
Net sales from products	\$ 608,525	\$ 500,250	\$ 399,474
Net sales from services	254,856	180,753	131,386
Net sales	863,381	681,003	530,860
Cost of product sales	260,098	224,131	190,683
Cost of service sales	62,373	40,541	32,891
Cost of sales	322,471	264,672	223,574
Gross margin	540,910	416,331	307,286
Sales, general and administrative	515,007	307,286	212,959
Research and development	194,026	123,195	100,721
Total operating expenses	709,033	430,481	313,680
Loss from operations	(168,123)	(14,150)	(6,394)
Interest and other income, net	26,748	7,859	8,464
Income (loss) before provision (benefit) for income taxes	(141,375)	(6,291)	2,070
Provision (benefit) for income taxes	(81,357)	(4,567)	1,188
Net income (loss)	\$ (60,018)	\$ (1,724)	\$ 882
Net income (loss) per share:			
Basic	\$ (0.91)	\$ (0.03)	\$ 0.01
Diluted	\$ (0.91)	\$ (0.03)	\$ 0.01
Weighted average shares outstanding:			
Basic	66,191	61,782	59,190
Diluted	66,191	61,782	60,018
Net income (loss)	\$ (60,018)	\$ (1,724)	\$ 882
Foreign currency translation adjustments	(1,251)	1,237	417
Unrealized gains (losses) on available-for-sale investments	(207)	—	—
Comprehensive income (loss)	\$ (61,476)	\$ (487)	\$ 1,299

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

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

	Common Stock		Additional	Treasury Stock		Retained	Accumulated	Total
	Shares	Amount	Paid-in	Shares	Amount	Earnings	Other	Stockholders'
			Capital				Comprehensive	Equity
							Income (Loss)	
Balance, December 31, 2018	58,810,637	\$ 1	\$ 453,400	20,220,227	\$(155,947)	\$ 171,383	\$ (1,513)	\$ 467,324
Issuance of common stock under employee plans, net of shares withheld for payroll taxes	616,509	—	(3,937)	—	—	—	—	(3,937)
Stock-based compensation	—	—	78,809	—	—	—	—	78,809
Issuance of common stock for business combination contingent consideration	70,613	—	—	—	—	—	—	—
Net income	—	—	—	—	—	882	—	882
Other comprehensive income	—	—	—	—	—	—	417	417
Balance, December 31, 2019	59,497,759	\$ 1	\$ 528,272	20,220,227	\$(155,947)	\$ 172,265	\$ (1,096)	\$ 543,495
Cumulative effect of applying a change in accounting principle	—	—	—	—	—	(640)	—	(640)
Issuance of common stock	3,450,000	—	306,779	—	—	—	—	306,779
Issuance of common stock under employee plans, net of shares withheld for payroll taxes	748,183	—	(7,514)	—	—	—	—	(7,514)
Stock-based compensation	—	—	133,572	—	—	—	—	133,572
Issuance of common stock for business combination contingent consideration and related tax effects	70,613	—	1,050	—	—	—	—	1,050
Net loss	—	—	—	—	—	(1,724)	—	(1,724)
Other comprehensive income	—	—	—	—	—	—	1,237	1,237
Balance, December 31, 2020	63,766,555	\$ 1	\$ 962,159	20,220,227	\$(155,947)	\$ 169,901	\$ 141	\$ 976,255
Issuance of common stock	577,956	—	105,514	—	—	—	—	105,514
Issuance of common stock under employee plans, net of shares withheld for payroll taxes	2,624,446	—	(331,309)	—	—	—	—	(331,309)
Stock options exercised	3,927,899	—	51,614	—	—	—	—	51,614
Stock-based compensation	—	—	303,331	—	—	—	—	303,331
Issuance of common stock for business combination contingent consideration	—	—	3,920	—	—	—	—	3,920
Net loss	—	—	—	—	—	(60,018)	—	(60,018)
Other comprehensive loss	—	—	—	—	—	—	(1,458)	(1,458)
Balance, December 31, 2021	<u>70,896,856</u>	<u>\$ 1</u>	<u>\$1,095,229</u>	<u>20,220,227</u>	<u>\$(155,947)</u>	<u>\$ 109,883</u>	<u>\$ (1,317)</u>	<u>\$ 1,047,849</u>

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

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

	For the Years Ended December 31,		
	2021	2020	2019
Cash flows from operating activities:			
Net income (loss)	\$ (60,018)	\$ (1,724)	\$ 882
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation and amortization	18,694	12,475	11,361
Loss on disposal and abandonment of intangible assets	146	320	67
Loss on disposal and impairment of property and equipment, net	92	1,722	2,542
Net gain on strategic investments and marketable securities	(23,035)	—	—
Stock-based compensation expense	303,331	133,572	78,495
Deferred income taxes	(81,303)	(16,528)	(7,987)
Unrecognized tax benefits	(706)	671	983
Bond amortization	5,217	3,345	361
Noncash lease expense	5,573	4,104	3,567
Provision for expected credit losses	(214)	1,302	—
Change in assets and liabilities:			
Accounts and notes receivable and contract assets	(205,769)	(107,762)	(38,830)
Inventory	(18,272)	(52,156)	(4,903)
Prepaid expenses and other assets	(40,158)	(14,885)	(9,845)
Accounts payable, accrued and other liabilities	45,301	8,886	4,967
Deferred revenue	175,615	65,139	24,013
Net cash provided by operating activities	124,494	38,481	65,673
Cash flows from investing activities:			
Purchases of investments and marketable securities	(362,479)	(656,522)	(354,477)
Proceeds from call, maturity, or sale of investments	718,617	379,839	130,083
Proceeds from sale of strategic investments	14,546	—	—
Purchases of property and equipment	(49,886)	(72,629)	(15,939)
Proceeds from disposal of property and equipment	43	95	—
Purchases of intangible assets	(392)	(241)	(404)
Purchases of strategic investments	(45,500)	(7,068)	—
Business acquisitions, net of cash acquired	(22,393)	—	—
Net cash provided by (used in) investing activities	252,556	(356,526)	(240,737)
Cash flows from financing activities:			
Net proceeds from equity offering	105,514	306,779	—
Proceeds from options exercised	51,614	295	114
Income and payroll tax payments for net-settled stock awards	(331,309)	(7,809)	(4,051)
Net cash provided by (used in) financing activities	(174,181)	299,265	(3,937)
Effect of exchange rate changes on cash and cash equivalents	(1,982)	1,976	329
Net increase (decrease) in cash and cash equivalents	200,887	(16,804)	(178,672)
Cash and cash equivalents and restricted cash, beginning of period	155,551	172,355	351,027
Cash and cash equivalents and restricted cash, end of period	\$ 356,438	\$ 155,551	\$ 172,355

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

**AXON ENTERPRISE, INC.
NOTES TO 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 law enforcement technology solutions. Our core mission is to protect life. We fulfill that mission through developing hardware and software products that advance the long term objectives of a) obsoleting the bullet, b) reducing social conflict, and c) enabling a fair and effective justice system.

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

Basis of Presentation and Use of Estimates

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions in these consolidated financial statements include:

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

Actual results could differ materially from those estimates.

Cash, Cash Equivalents and Investments

Cash, cash equivalents and investments include cash, money market funds, corporate bonds, municipal bonds, and agency bonds. We place our cash and cash equivalents with high quality financial institutions. Although we deposit our cash with multiple financial institutions, our deposits regularly exceed federally insured limits. Cash and cash equivalents include funds on hand and highly liquid investments purchased with initial maturity of three months or less. Short-term investments include securities with an expected maturity date within one year of the balance sheet date that do not meet the definition of a cash equivalent, and long-term investments are securities with an expected maturity date greater than one year.

During the quarter ended December 31, 2021, upon the sale of a portion of our held-to-maturity security portfolio, we reclassified all remaining held-to-maturity securities to available-for-sale. We do not anticipate using the held-to-maturity classification in the future. The transfers to available-for-sale were made as a result of a change in management's objectives with respect to its investment portfolio, which was implemented in the fourth quarter.

We report available-for-sale investments at fair value as of each balance sheet date and record any unrealized gains or losses 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, net within the consolidated statements of operations. When the fair value is below the amortized cost of a marketable security, an estimate of expected credit losses

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

is made. The credit-related impairment amount is recognized in the consolidated statements of operations. Credit losses are recognized through the use of an allowance for expected credit losses account in the 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 consolidated statements of operations. 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. There were no credit losses recorded on our investment portfolio during the year ended December 31, 2021.

Restricted Cash

Restricted cash balances of \$0.1 million and \$0.1 million as of December 31, 2021 and 2020, 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. Approximately half of the balance was included in prepaid expenses and other current assets on our consolidated balance sheets, with the remainder included in other assets.

Inventory

Inventories are stated at the lower of cost, determined on the first-in, first-out (“FIFO”) basis, or net realizable value, net of an inventory valuation allowance. We use a standard cost methodology to determine the cost basis for our inventories. Costs include allocations for materials, labor, and overhead. All variances between actual costs and standard costs are apportioned to inventory and cost of product sales based upon inventory turnover. 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.

Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation and amortization. Additions and improvements are capitalized, while ordinary maintenance and repair expenditures are charged to expense as incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Land is not depreciated.

Software Development Costs

We expense software development costs, including costs to develop software products or the software component of products and services to be marketed to external users, before technological feasibility of such products is reached. We have determined that technological feasibility is reached shortly before the release of those products and as a result, the development costs incurred after the establishment of technological feasibility and before the release of those products are not material.

Software development costs also include costs to develop software programs to be used solely to meet our internal needs and applications. We capitalize development costs related to these software applications once the preliminary project stage is complete and it is probable that the project will be completed and the software will be used to perform the intended function. Additionally, we capitalize qualifying costs incurred for upgrades and enhancements to existing software that result in additional functionality. Costs related to preliminary project planning activities, post-implementation activities, maintenance and minor modifications are expensed as incurred. Internal-use software development costs are amortized on a straight line basis over the estimated useful life of the software.

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We evaluate the useful lives of these assets on an annual basis and test for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets.

Valuation of Goodwill, Intangible and Long-lived Assets

Finite-lived intangible assets and other long-lived assets are amortized over their estimated useful lives. We do not amortize goodwill and intangible assets with indefinite useful lives; rather, such assets are required to be tested for impairment at least annually, or sooner whenever events or changes in circumstances indicate that the assets may be impaired. We perform our annual impairment assessment in the fourth quarter of each year. Management evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets and intangible assets may warrant revision or that the remaining balance of these assets, including intangible assets with indefinite lives, may not be recoverable.

Circumstances that might indicate long-lived assets might not be recoverable could include, but are not limited to, a change in the product mix, a change in the way products and services are created, produced or delivered, or a significant change in the way our products are branded and marketed. When performing a review for recoverability, management estimates the future undiscounted cash flows expected to result from the use of the assets and their eventual disposition. The amount of the impairment loss, if impairment exists, is calculated based on the excess of the carrying amounts of the assets over their estimated fair value computed using discounted cash flows. During the year ended December 31, 2021, we recorded an immaterial amount of impairment charges. During the year ended December 31, 2020, we abandoned certain planning and site development activities related to our planned new headquarters, resulting in an impairment charge of \$0.7 million. Additionally, we recognized impairment charges totaling \$0.5 million related to improvements and remodeling of certain of our offices. Both charges were included in sales, general and administrative expense in the accompanying consolidated statements of operations. During the year ended December 31, 2019, we abandoned certain capitalized software related to implementation work on an enterprise resource planning system conversion, resulting in an impairment charge of \$1.3 million, and certain planning and site development activities related to our planned new headquarters, resulting in an impairment charge of \$0.7 million, both of which were included in sales, general and administrative expense in the accompanying consolidated statements of operations and comprehensive income.

Customer Deposits

We require deposits in advance of shipment for certain customer sales orders. Additionally, customers may elect to make deposits with us related to contracts for our products and services that were not executed as of the end of a reporting period. Customer deposits are included in other current liabilities in the accompanying consolidated balance sheets.

Revenue Recognition, Deferred Revenue and Accounts and Notes Receivable

We derive revenue from two primary sources: (1) the sale of physical products, including conducted energy devices ("CEDs"), Axon cameras, Axon Signal enabled devices, corresponding hardware extended warranties, and related accessories such as Axon docks, cartridges and batteries, among others, and (2) subscriptions to our Axon Evidence digital evidence management software-as-a-service ("SaaS") (including data storage fees and other ancillary services), which includes varying levels of support. To a lesser extent, we also recognize revenue from training, professional services and other software and SaaS services. We apply the five-step model outlined in Accounting Standards Codification ("ASC") Topic 606, Revenue from Contracts from Customers ("Topic 606"). For additional discussion of the adoption of Topic 606, see Note 2.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account in Topic 606. For contracts with multiple performance obligations, we allocate the contract transaction price to each performance obligation using our estimate of the standalone selling price ("SSP") of each distinct good or service in the contract.

AXON ENTERPRISE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Revenues are recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration we expect to receive in exchange for those products or services. We enter into contracts that can include various combinations of products and services, each of which is generally distinct and accounted for as a separate performance obligation. Revenue is recognized net of allowances for returns.

Performance obligations to deliver products, including CEDs, cameras and related accessories such as cartridges, batteries and docks, are generally satisfied at the point in time we ship the product, as this is when the customer obtains control of the asset under our standard terms and conditions. In certain contracts with non-standard terms and conditions, these performance obligations may not be satisfied until formal customer acceptance occurs. Performance obligations to fulfill service-type extended warranties and provide our SaaS offerings, including Axon Evidence and other cloud services, are generally satisfied over time as the customer receives and consumes the benefits of these services over the stated service period.

Many of our products and services are sold on a standalone basis. We also bundle our hardware products and services together and sell them to our customers in single transactions, where the customer can make payments over a multi-year period. These sales may include payments for upfront hardware and services, as well as payments for hardware and services to be provided by us at a future date. Additionally, we offer customers the ability to purchase CED cartridges and certain services on an unlimited basis over the contractual term. Due to the unlimited nature of these arrangements whereby we are obligated to deliver unlimited products at the customer's request, we account for these arrangements as stand-ready obligations, and recognize revenue ratably over the contract period. Cost of product sales is recognized when control of hardware products or accessories have transferred to the customer.

We have elected to recognize shipping costs as an expense in cost of product sales when the control of hardware products or accessories have transferred to the customer.

Sales tax collected on sales is netted against government remittances and thus, recorded on a net basis.

The timing of revenue recognition may differ from the timing of invoicing to customers. We generally have an unconditional right to consideration when we invoice our customers and record a receivable. We record a contract asset when revenue is recognized prior to invoicing, or a contract liability (deferred revenue) when revenue will be recognized subsequent to invoicing. Contract asset amounts that will be invoiced during the subsequent twelve month period from the balance sheet date are classified as current assets and the remaining portion is recorded within other assets on our consolidated balance sheets. Deferred revenue that will be recognized during the subsequent twelve month period from the balance sheet date is recorded as current deferred revenue and the remaining portion is recorded as long-term deferred revenue. Generally, customers are billed in annual installments. See Note 2 for further disclosures about our contract assets.

Sales are typically made on credit, and we generally do not require collateral. We are exposed to credit losses primarily through sales of products and services. Our expected loss allowance methodology for accounts receivable, notes receivable, and contract assets 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. We review receivables for U.S. and international customers separately to better reflect different published credit default rates and economic and market conditions. Additionally, specific reserve 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. Accounts and notes receivable and contract assets are presented net of a reserve for expected credit losses, which totaled \$3.3 million and \$3.4 million as of December 31, 2021 and 2020, respectively. This reserve represents management's best estimate and application of judgment considering a number of factors, including those listed above. In the event that actual uncollectible amounts differ from our estimates, additional expense could be necessary.

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Cost of Product and Service Sales

Cost of product sales represents manufacturing costs, consisting of materials, labor and overhead related to finished goods and components. Shipping costs incurred related to product delivery are also included in cost of products sold. Cost of service sales includes third-party cloud services, and software maintenance and support costs, including personnel costs, associated with supporting Evidence.com and other software related services.

Advertising Costs

We expense advertising costs in the period in which they are incurred. We incurred advertising costs of \$2.6 million, \$1.3 million and \$0.9 million in the years ended December 31, 2021, 2020 and 2019, respectively. Advertising costs are included in sales, general and administrative expenses in the accompanying statements of operations.

Standard Warranties

We warranty our CEDs, Axon cameras and certain related accessories from manufacturing defects on a limited basis for a period of one year after purchase and, thereafter, will replace any defective unit for a fee. Estimated costs for the standard warranty are charged to cost of products sold when revenue is recorded for the related product. Future warranty costs are estimated on a quarterly basis based on historical data related to warranty claims and this rate is applied to current product sales. Historically, reserve amounts have been increased if management becomes aware of a component failure or other issue that could result in larger than anticipated warranty claims from customers. The warranty reserve is reviewed quarterly to verify that it sufficiently reflects the remaining warranty obligations based on the anticipated expenditures over the balance of the warranty obligation period, and adjustments are made when actual warranty claim experience differs from estimates. The warranty reserve is included in accrued liabilities on the accompanying consolidated balance sheets.

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

	Year Ended December 31,	
	2021	2020
Balance, beginning of period	\$ 769	\$ 1,476
Utilization of reserve	(873)	(700)
Warranty expense (benefit)	2,926	(7)
Balance, end of period	<u>\$ 2,822</u>	<u>\$ 769</u>

Research and Development Expenses

We expense as incurred research and development costs that do not meet the qualifications to be capitalized. We incurred research and development expense of \$194.0 million, \$123.2 million and \$100.7 million in 2021, 2020 and 2019, respectively.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement amounts of assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in future years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rate is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced through the establishment of a valuation allowance if, based upon available evidence, it is determined that it is more likely than not that the deferred tax assets will not be realized.

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We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. We also assess whether uncertain tax positions, as filed, could result in the recognition of a liability for possible interest and penalties. Our policy is to include interest and penalties related to unrecognized tax benefits as a component of income tax expense. Refer to Note 12 for additional information regarding the change in unrecognized tax benefits.

Concentration of Credit Risk and Major Customers / Suppliers

Financial instruments that potentially subject us to concentrations of credit risk consist of accounts and notes receivable, contract assets, and cash. Historically, we have experienced an immaterial level of write-offs related to uncollectible accounts.

We maintain the majority of our cash at three depository institutions. As of December 31, 2021, the aggregate balances in such accounts were \$347.3 million. Our balances with these three institutions regularly exceed Federal Deposit Insurance Corporation ("FDIC") insured limits for domestic deposits and various deposit insurance programs covering our deposits in Australia, Canada, Finland, Germany, Hong Kong, India, Italy, the Netherlands, Spain, the United Kingdom, and Vietnam. To manage the related credit exposure, management continually monitors the creditworthiness of the financial institutions where we have deposits.

No customer represented more than 10% of total net sales for the years ended December 31, 2021, 2020 or 2019. At December 31, 2021, and 2020, 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, but not limited to, finished circuit boards, injection-molded plastic components, small machined parts, custom cartridge components, electronic components, and off the shelf sub-assemblies from suppliers located in the U.S., Canada, China, Mexico, Republic of Korea, Sri Lanka, Taiwan, and Vietnam. We may source from other countries as well. Although we currently obtain many of these components from single source suppliers, we own the injection molded component tooling, most of the 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.

Fair Value of 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.

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- Level 2 – Valuation techniques in which significant inputs include quoted prices from active markets for assets or liabilities that are similar to the assets or liabilities being measured and/or quoted prices for assets or liabilities that are identical or similar to the assets or liabilities being measured from markets that are not active. Also, model-derived valuations in which all significant inputs and significant value drivers are observable in active markets are Level 2 valuation techniques.
- 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 December 31, 2021 and 2020, were comprised of money market funds, agency bonds, certificates of deposit, commercial paper, corporate bonds, municipal bonds, U.S. Treasury bills, U.S. Treasury repurchase agreements, and U.S. Treasury inflation-protected securities. See additional disclosure regarding the fair value of our cash equivalents and investments in Note 3. Included in the balance of other assets as of December 31, 2021 and 2020 was \$5.3 million and \$4.7 million, respectively, related to corporate-owned life insurance policies which are used to fund our deferred compensation plan. We determine the fair value of our insurance contracts by obtaining the cash surrender value of the contracts from the issuer, a Level 2 valuation technique.

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

We have strategic investments in four unconsolidated affiliates. The estimated fair value of the investments was determined based on Level 3 inputs. As of December 31, 2021, management estimated that the fair value of the investments equaled the carrying value.

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 balance sheet.

Segment and Geographic Information

Our operations are comprised of two reportable segments: the manufacture and sale of CEDs, batteries, accessories, extended warranties and other products and services (the "TASER" segment); and the development, manufacture and sale of software and sensors, which includes the sale of devices, wearables, applications, cloud and mobile products, and services (collectively, the "Software and Sensors" segment). 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. Additional information related to our business segments is summarized in Note 19.

For a summary of net sales by geographic area, see Note 2. The majority of our sales to international customers are transacted in foreign currencies and are attributed to each country based on the shipping address of the distributor or customer. For the years ended December 31, 2021, 2020 and 2019, no individual country outside the U.S. represented more than 10% of net sales. Substantially all of our assets are located in the U.S.

Stock-Based Compensation

We recognize expense related to stock-based compensation transactions in which we receive services in exchange for equity instruments of the Company. Stock-based compensation expense for restricted stock units ("RSUs") is measured based on the closing fair market value of our common stock on the date of grant. We recognize stock-based compensation expense over the award's requisite service period on a straight-line basis for time-based RSUs. For performance-based

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RSUs, stock-based compensation expense is recognized over the requisite service period, which is defined as the longest explicit, implicit or derived service period based on management's estimate of the probability of the performance criteria being satisfied, adjusted at each balance sheet date. For performance-based options with a vesting schedule based entirely on the attainment of both performance and market conditions, stock-based compensation expense is recognized over the longer of the expected achievement period of the performance and market conditions, beginning at the point in time that the relevant performance condition is considered probable of achievement. For both time-based and performance-based RSUs, we recognize forfeitures as they occur as a reduction to stock-based compensation expense and to additional paid-in-capital.

eXponential Stock Performance Plan

On February 12, 2019, our shareholders approved the 2019 Stock Incentive Plan (the "2019 Plan"), which was adopted by the Board of Directors to reserve a sufficient number of shares to facilitate our eXponential Stock Performance Plan ("XSPP") and grants of eXponential Stock Units ("XSUs") under the plan. The XSUs are grants of restricted stock units, each with a term of approximately nine years, that vest in 12 equal tranches. Each of the 12 tranches will vest upon certification by the Compensation Committee of the Board of Directors that both (i) the market capitalization goal for such tranche, which begins at \$2.5 billion for the first tranche and increases by increments of \$1.0 billion thereafter, and (ii) any one of eight operational goals focused on revenue or eight operational goals focused on Adjusted EBITDA (CEO Performance Award) have been met for the previous four consecutive fiscal quarters. A total of less than 0.1 million XSUs were granted during the year ended December 31, 2021.

Stock-based compensation expense associated with XSU awards is recognized over the longest explicit, implicit or derived service period for each pair of market capitalization and operational goals, beginning at the point in time when the relevant operational goal is considered probable of being met. The market capitalization goal period and the valuation of each tranche are determined using a Monte Carlo simulation, which is also used as the basis for determining the expected achievement period of the market capitalization goal. The probability of meeting an operational goal and the expected achievement point in time for meeting a probable operational goal are based on a subjective assessment of our forward-looking financial projections, taking into consideration statistical analysis. Even though no tranches of the XSU awards vest unless a market capitalization and a matching operational goal are both achieved, stock-based compensation expense is recognized when an operational goal is considered probable of achievement regardless of whether a market capitalization goal is actually achieved.

Given the complexity of the awards, we utilized Monte Carlo simulations to simulate a range of possible future market capitalizations for the Company over the term of the awards at each of the respective grant dates. The average of all iterations of the simulation was used as the basis for the valuation and market capitalization goal derived service period for each tranche. Additionally, we applied an illiquidity discount of between 10.5% and 17.6% to the valuation of XSUs because the awards specify a post-vest holding period of 2.5 years for the acquired shares that vest. Certain of the XSU awards specify a post-vest holding period of the longer of 2.5 years or until the next tranche vests. The illiquidity discounts were estimated using the Finnerty model and reduced by the impact of expected payroll and income taxes due upon vesting of the awards, as the related proportion of shares are expected to be sold to satisfy such obligations. We measured the grant date fair value of the XSU awards with the following assumptions: risk-free interest rate of between 0.85% and 1.24%, expected term of between 6.5 and 7.0 years, expected volatility of between 47.28% and 55.79%, and dividend yield of 0.00%.

Stock Options

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

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compensation expense associated with the CEO Performance Award is recognized over the requisite service period, which is defined as the longer of the expected achievement period for each pair of market capitalization and operational goals, beginning at the point in time when the relevant operational goal is considered probable of being met.

No options were awarded during the years ended December 31, 2021, 2020, or 2019.

Income (Loss) per Common Share

Basic income or loss per common share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the periods presented. Diluted income (loss) per share reflects the potential dilution from outstanding stock options and unvested restricted stock units. The calculation of the weighted average number of shares outstanding and earnings per share are as follows (in thousands except per share data):

	For the Year Ended December 31,		
	2021	2020	2019
Numerator for basic and diluted earnings per share:			
Net income (loss)	\$ (60,018)	\$ (1,724)	\$ 882
Denominator:			
Weighted average shares outstanding-basic	66,191	61,782	59,190
Dilutive effect of stock-based awards	—	—	828
Diluted weighted average shares outstanding	66,191	61,782	60,018
Anti-dilutive stock-based awards excluded	7,690	12,150	12,627
Net income (loss) per share:			
Basic	\$ (0.91)	\$ (0.03)	\$ 0.01
Diluted	\$ (0.91)	\$ (0.03)	\$ 0.01

Recently Issued Accounting Guidance

Recently Adopted Accounting Pronouncements

In December 2019, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2019-12, Simplifying the Accounting for Income Taxes. Adoption of this ASU on January 1, 2021 did not have a material impact on our consolidated financial statements.

In January 2020, the FASB issued ASU No. 2020-01, Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) – Clarifying the Interactions Between Topic 321, Topic 323, and Topic 815 (a Consensus of the Emerging Issues Task Force). The guidance clarifies the interaction between ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities and the ASU on equity method investments. ASU 2016-01 provides companies with an alternative to measure certain equity securities without a readily determinable fair value at cost, minus impairment, if any, unless an observable transaction for an identical or similar security occurs. ASU 2020-01 clarifies that for purposes of applying the Topic 321 measurement alternative, an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting under Topic 323, immediately before applying or upon discontinuing the equity method. In addition, this new ASU provides direction that a company should not consider whether the underlying securities would be accounted for under the equity method or the fair value option when it is determining the accounting for certain forward contracts and purchased options, upon either settlement or exercise. Adoption of this ASU on January 1, 2021 did not have a material impact on our consolidated financial statements.

In October 2021, the FASB issued ASU No. 2021-08, Business Combinations (Topic 805) – Accounting for Contract Assets and Contract Liabilities from Contracts with Customers. The guidance improves the accounting for acquired revenue contracts with customers in a business combination by addressing diversity in practice and certain inconsistencies.

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in application. Under current GAAP, an acquirer generally recognizes contract assets acquired and liabilities assumed in a business combination at fair value on the acquisition date. The amendments in this update require that an acquirer recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606 as if it had originated the contracts. Early adoption of this ASU effective October 1, 2021 did not have a material impact on our consolidated financial statements.

Reclassification of Prior Year Presentation

Certain prior year amounts, including strategic investments, 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.

Risks and Uncertainties

COVID-19 related risks have had and continue to have an impact on our 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 the COVID-19 pandemic, but there can be no assurances that we will be successful in doing so.

Note 2 - Revenues

Nature of Products and Services

The following table presents our revenues by primary product and service offering (in thousands):

	Year Ended December 31, 2021			Year Ended December 31, 2020		
	TASER	Software and Sensors	Total	TASER	Software and Sensors	Total
TASER 7	\$ 135,906	\$ —	\$ 135,906	\$ 107,506	\$ —	\$ 107,506
TASER X26P	40,629	—	40,629	41,724	—	41,724
TASER X2	58,081	—	58,081	60,107	—	60,107
TASER Consumer devices	7,132	—	7,132	9,407	—	9,407
Cartridges	152,842	—	152,842	115,193	—	115,193
Axon Body	—	75,484	75,484	—	57,150	57,150
Axon Flex	—	4,155	4,155	—	4,082	4,082
Axon Fleet	—	24,319	24,319	—	20,108	20,108
Axon Dock	—	24,441	24,441	—	19,723	19,723
Axon Evidence and cloud services	9,159	246,005	255,164	2,935	176,797	179,732
Extended warranties	24,125	33,686	57,811	20,754	24,408	45,162
Other	9,053	18,364	27,417	8,926	12,183	21,109
Total	<u>\$ 436,927</u>	<u>\$ 426,454</u>	<u>\$ 863,381</u>	<u>\$ 366,552</u>	<u>\$ 314,451</u>	<u>\$ 681,003</u>

AXON ENTERPRISE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Year Ended December 31, 2019		
	TASER	Software and Sensors	Total
TASER 7	\$ 56,652	\$ —	\$ 56,652
TASER X26P	52,524	—	52,524
TASER X2	55,920	—	55,920
TASER Consumer devices	4,089	—	4,089
Cartridges	85,987	—	85,987
Axon Body	—	44,039	44,039
Axon Flex	—	5,928	5,928
Axon Fleet	—	16,182	16,182
Axon Dock	—	20,449	20,449
Axon Evidence and cloud services	704	130,265	130,969
Extended warranties	18,074	19,188	37,262
Other	7,711	13,148	20,859
Total	\$ 281,661	\$ 249,199	\$ 530,860

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

	Year Ended December 31,					
	2021		2020		2019	
United States	\$ 686,914	80 %	\$ 535,079	79 %	\$ 446,100	84 %
Other Countries	176,467	20	145,924	21	84,760	16
Total	\$ 863,381	100.0 %	\$ 681,003	100.0 %	\$ 530,860	100.0 %

Contract Balances

The timing of revenue recognition may differ from the timing of invoicing to customers. We generally have an unconditional right to consideration when we invoice our customers and record a receivable. We record a contract asset when revenue is recognized prior to invoicing, or a contract liability (deferred revenue) when revenue will be recognized subsequent to invoicing.

Contract assets generally result from our subscription programs where we satisfy a hardware performance obligation upon shipment to the customer, and the right to the portion of the transaction price allocated to that hardware performance obligation is conditional on our future performance of a SaaS service obligation under the contract. We recognize a portion of the amount allocated to hardware products shipped to the customer as accounts receivable when invoiced to the customer, and record the remaining allocated value as a contract asset as we have generally fulfilled our hardware performance obligation upon shipment. Unbilled accounts receivable expected to be invoiced and collected within twelve months was \$13.9 million as of December 31, 2021, and was included in accounts and notes receivable, net on our consolidated balance sheet.

Contract liabilities generally consist of deferred revenue on our subscription programs where we generally invoice customers at the beginning of each annual contract period and record a receivable at the time of invoicing when there is an unconditional right to consideration.

Deferred revenue is comprised mainly of unearned revenue related to our Axon Evidence SaaS platform, secure cloud-based storage, service-type extended warranties, stand-ready obligations in our cartridge programs, and rights to future CED, camera and related accessories hardware in our subscription programs. Revenue for Axon Evidence and cloud-based storage, our service-type extended warranties and stand-ready cartridge programs is generally recognized on a straight-line basis over the subscription term. Revenue for the rights to future hardware is generally recognized at the point in time the hardware products are shipped to the customer.

AXON ENTERPRISE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Payment terms and conditions vary by contract type and geography, but our standard terms are that payments are due within 30 days from the date of invoice.

The following table presents our contract assets, contract liabilities and certain information related to these balances as of and for the year ended December 31, 2021 (in thousands):

	Year Ended December 31,		
	2021	2020	2019
Contract assets, net	\$ 210,174	\$ 84,044	\$ 47,746
Contract liabilities (deferred revenue)	451,312	275,181	205,800
Revenue recognized in the period from:			
Amounts included in contract liabilities at the beginning of the period	177,812	135,513	101,768

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

	December 31, 2021			December 31, 2020		
	Current	Long-Term	Total	Current	Long-Term	Total
Warranty:						
TASER	\$ 21,257	\$ 4,766	\$ 26,023	\$ 11,635	\$ 16,953	\$ 28,588
Software and Sensors	23,175	18,137	41,312	13,926	5,025	18,951
	44,432	22,903	67,335	25,561	21,978	47,539
Hardware:						
TASER	12,944	28,727	41,671	16,314	14,304	30,618
Software and Sensors	34,862	81,223	116,085	25,181	50,981	76,162
	47,806	109,950	157,756	41,495	65,285	106,780
Services:						
TASER	2,701	3,482	6,183	996	1,554	2,550
Software and Sensors	170,652	49,386	220,038	95,907	22,405	118,312
	173,353	52,868	226,221	96,903	23,959	120,862
Total	\$ 265,591	\$ 185,721	\$ 451,312	\$ 163,959	\$ 111,222	\$ 275,181

	December 31, 2021			December 31, 2020		
	Current	Long-Term	Total	Current	Long-Term	Total
TASER	\$ 36,902	\$ 36,975	\$ 73,877	\$ 28,945	\$ 32,811	\$ 61,756
Software and Sensors	228,689	148,746	377,435	135,014	78,411	213,425
Total	\$ 265,591	\$ 185,721	\$ 451,312	\$ 163,959	\$ 111,222	\$ 275,181

Remaining Performance Obligations

As of December 31, 2021, we had approximately \$2.80 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 Topic 606 as of December 31, 2021. We expect to recognize between 15% - 20% of this balance over the next twelve months, and expect the remainder to be recognized over the following five to seven years, subject to risks related to delayed deployments, budget appropriation or other contract cancellation clauses.

Costs to Obtain a Contract

We recognize an asset for the incremental costs of obtaining a contract with a customer, which consist primarily of sales commissions. These costs are ascribed to or allocated to the underlying performance obligations in the contract and amortized consistent with the recognition timing of the revenue for the underlying performance obligations.

AXON ENTERPRISE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

For contract costs related to performance obligations with an amortization period of one year or less, we apply the practical expedient to expense these sales commissions when incurred. These costs are recognized as incurred within sales, general and administrative expenses on the accompanying consolidated statements of operations and comprehensive income.

As of December 31, 2021, our assets for costs to obtain contracts were as follows (in thousands):

	December 31, 2021	December 31, 2020
Current deferred commissions (1)	\$ 19,962	\$ 13,316
Deferred commissions, net of current portion (2)	54,028	32,455
	<u>\$ 73,990</u>	<u>\$ 45,771</u>

(1) Current deferred commissions are included within prepaid expenses and other current assets on the accompanying consolidated balance sheet.

(2) Deferred commissions, net of current portion, are included in other assets on the accompanying consolidated balance sheet.

During the years ended December 31, 2021, 2020 and 2019, we recognized \$16.6 million, \$11.3 million, and \$8.2 million, respectively, of amortization related to deferred commissions. These costs are recorded within sales, general and administrative expenses on the accompanying consolidated statements of operations and comprehensive income (loss).

Significant Judgments

Our contracts with certain municipal government customers may be subject to budget appropriation, other contract cancellation clauses or future periods which are optional. In contracts where the customer's performance is subject to budget appropriation clauses, we generally consider the likelihood of non-appropriation to be remote when determining the contract term and transaction price. Contracts with other cancellation provisions or optional periods may require judgment in determining the contract term, including the existence of material rights, determining transaction price and identifying the performance obligations.

At times, customers may request changes that either amend, replace or cancel existing contracts. Judgment is required to determine whether the specific facts and circumstances within the contracts require the changes to be accounted for as a separate contract or as a modification. Generally, contract modifications containing additional goods and services that are determined to be distinct and sold at their SSP are accounted for as a separate contract. For contract modifications where both criteria are not met, the original contract is updated and the required adjustments to revenue and contract assets, liabilities, and other accounts are made accordingly.

Our contracts with customers often include promises to transfer multiple products and services to a customer. Determining whether products and services are considered distinct performance obligations that should be accounted for separately rather than together may require significant judgment. We consider CED devices and related accessories, as well as cameras and related accessories, to be separately identifiable from each other as well as from extended warranties on these products and the SaaS subscriptions to Axon Evidence and other cloud services.

In contracts where there are timing differences between when we transfer a promised good or service to the customer and when the customer pays for that good or service, we have determined that, with the exception of our TASER 60 installment purchase arrangements, our contracts generally do not include a significant financing component. For the years ended December 31, 2021, 2020, and 2019, we recorded interest income of \$1.0 million, \$1.5 million, and \$1.6 million, respectively.

AXON ENTERPRISE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Judgment is required to determine the SSP for each distinct performance obligation. We analyze separate sales of our products and services as a basis for estimating the SSP of our products and services and then use that SSP as the basis for allocating the transaction price when our products and services are sold together in a contract with multiple performance obligations. In instances where the SSP is not directly observable, such as when we do not sell the product or service separately, we determine the SSP using information that may include market conditions, time value of money and other observable inputs. We typically have more than one SSP for individual products and services due to the stratification of those products and services by customers and circumstances. In these instances, we may use information such as geographic region and distribution channel in determining the SSP.

Note 3 - Cash, Cash Equivalents and Investments

The following table summarizes our cash, cash equivalents, marketable securities, and available-for-sale investments at December 31, 2021 (in thousands):

	As of December 31, 2021							
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash and Cash Equivalents	Marketable Securities	Short-Term Investments	Long-Term Investments
Cash	\$ 353,488	\$ —	\$ —	\$ 353,488	\$ 353,488	\$ —	\$ —	\$ —
Level 1:								
Money market funds	2,844	—	—	2,844	2,844	—	—	—
Agency bonds	10,700	4	—	10,704	—	—	10,704	—
Marketable securities	90,000	—	(17,820)	72,180	—	72,180	—	—
Subtotal	103,544	4	(17,820)	85,728	2,844	72,180	10,704	—
Level 2:								
State and municipal obligations	2,570	—	(5)	2,565	—	—	1,400	1,165
Corporate bonds	32,748	1	(276)	32,473	—	—	2,406	30,067
Subtotal	35,318	1	(281)	35,038	—	—	3,806	31,232
Total	\$ 492,350	\$ 5	\$ (18,101)	\$ 474,254	\$ 356,332	\$ 72,180	\$ 14,510	\$ 31,232

During the year ended December 31, 2021, we acquired 9,000,000 shares of common stock of Cellebrite DI Ltd (“CLBT”) with a fair value of \$90.0 million. The CLBT common stock is recorded as marketable securities in the accompanying consolidated balance sheets and its fair value is adjusted every reporting period. Changes in fair value are recorded in the consolidated statement of operations as unrealized gain or (loss) on marketable securities, which is included in interest and other income, net. During the year ended December 31, 2021, we recorded a \$17.8 million unrealized loss on marketable securities from our investment in CLBT.

During the year ended December 31, 2021, we sold held-to-maturity securities with a net carrying amount of \$165.4 million prior to their maturity.

AXON ENTERPRISE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table summarizes our cash, cash equivalents, and held-to-maturity investments at December 31, 2020 (in thousands):

As of December 31, 2020							
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-Term Investments	Long-Term Investments
Cash	\$ 116,107	\$ —	\$ —	\$ 116,107	\$ 116,107	\$ —	\$ —
Level 1:							
Money market funds	23,611	—	—	23,611	23,611	—	—
Agency bonds	63,794	122	—	63,916	—	23,794	40,000
Treasury bills	96,384	6	—	96,390	—	96,384	—
Subtotal	183,789	128	—	183,917	23,611	120,178	40,000
Level 2:							
State and municipal obligations	77,130	25	(28)	77,127	—	66,519	10,611
Certificates of deposit	500	—	—	500	—	500	—
Corporate bonds	212,825	232	(100)	212,957	2,525	170,205	40,095
U.S. Treasury repurchase agreements	13,200	—	—	13,200	13,200	—	—
Treasury inflation-protected securities	3,291	16	—	3,307	—	3,291	—
Commercial paper	45,974	—	—	45,974	—	45,974	—
Subtotal	352,920	273	(128)	353,065	15,725	286,489	50,706
Total	\$ 652,816	\$ 401	\$ (128)	\$ 653,089	155,443	406,667	90,706
Expected credit loss reserve					(3)	(142)	(25)
Total, net of reserve for expected credit losses					\$ 155,440	\$ 406,525	\$ 90,681

Because we do not have any history of losses for our held-to-maturity investments, our expected credit loss reserve methodology for held-to-maturity investments is developed using published or estimated credit default rates for similar investments and current and future economic and market conditions. At December 31, 2020, our credit loss reserve for held-to-maturity investments was approximately \$0.2 million.

AXON ENTERPRISE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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, notes receivable, and contract assets 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 considered the current and expected future economic and market conditions surrounding the COVID-19 pandemic and reversed our previously-recorded additional reserve for credit losses of approximately \$1.3 million during the year ended December 31, 2021.

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 that is deducted from the amortized cost basis of accounts receivable, notes receivable, and contract assets to present the net amount expected to be collected (in thousands):

	Year Ended December 31, 2021			December 31, 2020		
	United States	Other countries	Total	United States	Other countries	Total
Balance, beginning of period	\$ 2,902	\$ 474	\$ 3,376	\$ 1,395	\$ 172	\$ 1,567
Adoption of Topic 326, cumulative-effect adjustment to retained earnings	—	—	—	767	1	768
Provision for (recovery of) expected credit losses	245	(291)	(46)	824	391	1,215
Amounts written off charged against the allowance	(54)	—	(54)	(84)	(33)	(117)
Other, including dispositions and foreign currency translation	78	(5)	73	—	(57)	(57)
Balance, end of period	<u>\$ 3,171</u>	<u>\$ 178</u>	<u>\$ 3,349</u>	<u>\$ 2,902</u>	<u>\$ 474</u>	<u>\$ 3,376</u>

As of December 31, 2021 and December 31, 2020, the allowance for expected credit losses for each type of customer receivable was as follows (in thousands):

	December 31, 2021	December 31, 2020
Accounts receivable and notes receivable, current	\$ 2,203	\$ 2,105
Contract assets, net	1,010	794
Long-term notes receivable, net of current portion	136	477
Total allowance for expected credit losses on customer receivables	<u>\$ 3,349</u>	<u>\$ 3,376</u>

AXON ENTERPRISE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Note 5 - Inventory

Inventory consisted of the following at December 31, 2021 and December 31, 2020 (in thousands):

	December 31, 2021	December 31, 2020
Raw materials	\$ 38,267	\$ 39,194
Finished goods	70,421	50,764
Total inventory	<u>\$ 108,688</u>	<u>\$ 89,958</u>

Note 6 - Property and Equipment

Property and equipment consisted of the following at December 31 (in thousands):

	Estimated Useful Life	December 31, 2021	December 31, 2020
Land	N/A	\$ 54,868	\$ 57,052
Building and leasehold improvements	3 - 39 years	25,712	20,912
Production equipment	3 - 5 years	54,090	37,539
Computers, equipment and software	3 - 5 years	15,343	10,889
Furniture and office equipment	3 - 5 years	6,838	6,954
Vehicles	5 years	2,932	1,980
Website development costs	3 years	204	204
Capitalized internal-use software development costs	3 - 5 years	11,996	3,670
Construction-in-process	N/A	25,258	13,479
Total cost		197,241	152,679
Less: Accumulated depreciation		(58,784)	(47,185)
Property and equipment, net		<u>\$ 138,457</u>	<u>\$ 105,494</u>

During the year ended December 31, 2021, we completed an implementation of several phases of our Enterprise Resource Planning ("ERP") system. Following the implementation, we placed \$6.6 million of related internal-use software development cost assets into service.

Depreciation and amortization expense related to property and equipment was \$15.8 million, \$9.2 million and \$7.9 million for the years ended December 31, 2021, 2020 and 2019, respectively, of which \$6.3 million, \$4.0 million and \$3.5 million was included in cost of sales for the respective years.

Note 7 - Goodwill and Intangible Assets

The changes in the carrying amount of goodwill for the year ended December 31, 2021 were as follows (in thousands):

	TASER	Software and Sensors	Total
Balance, December 31, 2020	\$ 1,450	\$ 23,755	\$ 25,205
Goodwill acquired	—	18,495	18,495
Foreign currency translation adjustments	(54)	(54)	(108)
Balance, December 31, 2021	<u>\$ 1,396</u>	<u>\$ 42,196</u>	<u>\$ 43,592</u>

AXON ENTERPRISE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Intangible assets (other than goodwill) consisted of the following (in thousands):

	Useful Life	December 31, 2021			December 31, 2020		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable (definite-lived) intangible assets:							
Domain names	5 - 10 years	\$ 3,043	\$ (1,518)	\$ 1,525	\$ 3,036	\$ (1,339)	\$ 1,697
Issued patents	5 - 25 years	3,061	(1,457)	1,604	3,232	(1,567)	1,665
Issued trademarks	3 - 15 years	1,130	(643)	487	1,002	(227)	775
Customer relationships	4 - 8 years	4,985	(2,439)	2,546	3,780	(1,955)	1,825
Non-compete agreements	3 - 4 years	454	(444)	10	460	(429)	31
Developed technology	3 - 5 years	18,060	(10,465)	7,595	10,660	(8,713)	1,947
Total amortizable		30,733	(16,966)	13,767	22,170	(14,230)	7,940
Non-amortizable (indefinite-lived) intangible assets:							
TASER trademark		900	—	900	900	—	900
My90 trademark		168	—	168	—	—	—
Patents and trademarks pending		635	—	635	608	—	608
Total non-amortizable		1,703	—	1,703	1,508	—	1,508
Total intangible assets		\$ 32,436	\$ (16,966)	\$ 15,470	\$ 23,678	\$ (14,230)	\$ 9,448

Amortization expense of intangible assets was \$2.9 million, \$3.3 million and \$3.5 million for the years ended December 31, 2021, 2020 and 2019, respectively. Estimated amortization for intangible assets with definitive lives for the next five years ended December 31, and thereafter, is as follows (in thousands):

2022	\$ 3,908
2023	3,620
2024	3,546
2025	824
2026	682
Thereafter	1,187
Total	<u>\$ 13,767</u>

Note 8 – Strategic Investments

Strategic investments include investments in a number of non-public technology-driven companies. We account for strategic investments under the ASC 321 measurement alternative for equity securities without readily determinable fair values, as there are no quoted market prices for the investments. The investments are measured at cost less impairment, adjusted for observable price changes and are assessed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

In conjunction with certain of our strategic investments, we have the ability to commit additional capital over time through warrants where the exercisability and exercise prices are conditional on the achievement of certain channel partnership performance metrics. The amount recorded on our consolidated balance sheets represents the fair value of the preferred stock warrants as of December 31, 2021.

AXON ENTERPRISE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

	Year Ended December 31, 2021		
	Strategic investments	Warrants for strategic investment	Total
Balance, beginning of period	\$ 9,500	\$ 2,211	\$ 11,711
Investments	45,500	—	45,500
Observable price changes	40,321	534	40,855
Sales	(14,546)	—	(14,546)
Balance, end of period	<u>\$ 80,775</u>	<u>\$ 2,745</u>	<u>\$ 83,520</u>

	Inception to date		
	Strategic investments	Warrants for strategic investment	Total
Investments	\$ 52,568	\$ 2,588	\$ 55,156
Observable price changes	42,753	157	42,910
Sales	(14,546)	—	(14,546)
Balance, end of period	<u>\$ 80,775</u>	<u>\$ 2,745</u>	<u>\$ 83,520</u>

In December 2021, we made a \$25.0 million minority investment in and entered into a channel partnership agreement with Dedrone, Inc., a provider of anti-drone and counter-drone solutions. In conjunction with the equity investment in and channel partnership with Dedrone, Inc., we have the ability to commit additional capital over time through warrants where the exercisability and exercise prices are conditional on the achievement of certain partnership performance metrics. In February 2021, we made a \$20.0 million minority investment in RapidSOS, Inc.

During the year ended December 31, 2021, certain of our strategic investees issued new equity to us and/or other investors. These events represented observable price changes for our existing investments and related warrants. Of the total observable price changes, we realized a gain of approximately \$12.3 million on the sale of a portion of one of our existing investments. The estimated fair value of the retained existing investments was calculated using valuation techniques that included both observable and unobservable inputs, and was lower than the issue per share of the new equity issued by the strategic investee because of different characteristics of the newly issued equity instruments compared to our existing investments. The valuation techniques included both Level 2 and Level 3 inputs as defined by ASC Topic 820.

Subsequent Event

In January 2022, one of our strategic investees issued new preferred stock to other investors. We determined that the preferred shares issued were similar to the shares we own, and the shares underlying our warrants in the strategic investee. Accordingly, the preferred share issuance represents an observable price change for our existing prior investments and related warrants, and we estimated the fair value of our investments and warrants as of the date of the observable price change. We are still finalizing the accounting impact of the transaction, but preliminarily expect to recognize an increase of at least \$41.5 million to the carrying value of our strategic investments and related warrants, which we would recognize in earnings during the quarter ending March 31, 2022.

AXON ENTERPRISE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Note 9 - Other Long-Term Assets

Other long-term assets consisted of the following at December 31 (in thousands):

	December 31, 2021	December 31, 2020
Cash surrender value of corporate-owned life insurance policies	\$ 5,276	\$ 4,654
Deferred commissions ⁽¹⁾	54,028	32,455
Restricted cash	57	62
Operating lease assets	23,270	22,308
Deferred implementation costs ⁽²⁾	3,915	—
Prepaid expenses, deposits and other ⁽³⁾	11,701	8,727
Total other long-term assets	\$ 98,247	\$ 68,206

- (1) Represents the incremental costs of obtaining contracts with customers, which consist primarily of sales commissions. These costs are ascribed to or allocated to the underlying performance obligations in the contracts and amortized consistent with the recognition timing of the revenue for the underlying performance obligations. See Note 2 “Costs to Obtain a Contract”.
- (2) During the year ended December 31, 2021, we completed an implementation of several software-as-a-service applications supporting our internal operations. Following the implementation, we placed \$4.3 million of deferred implementation costs assets related to these applications into service.
- (3) During the year ended December 31, 2021, we recorded a government grant receivable totaling \$0.9 million in connection with the Arizona Qualified Facility Tax Credit (“QFTC”). Because U.S. GAAP does not contain authoritative accounting standards on this topic, we determined it most appropriate to account for the QFTC by analogy to International Accounting Standards 20 (“IAS 20”), Accounting for Government Grants and Disclosure of Government Assistance. Under IAS 20, the grant is initially recorded as other assets on the balance sheet and other income is recognized on a systematic basis over the periods in which the qualifying expenses are incurred when we determine that grant assets are no longer contingent. As of December 31, 2021, approximately \$0.5 million was recorded in other assets with the remainder recorded in prepaid expenses and other current assets on our consolidated balance sheets.

Note 10 - Accrued Liabilities

Accrued liabilities consisted of the following at December 31 (in thousands):

	December 31, 2021	December 31, 2020
Accrued salaries, benefits and bonus	\$ 62,425	\$ 36,892
Accrued professional, consulting and lobbying fees	7,152	3,055
Accrued warranty expense	2,822	769
Accrued income and other taxes	3,736	3,848
Accrued inventory in transit	9,945	4,597
Other accrued expenses	17,627	10,682
Accrued liabilities	\$ 103,707	\$ 59,843

AXON ENTERPRISE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Note 11 - Commitments and Contingencies

Data Storage Purchase Commitment

In 2019, we entered into a purchase agreement for cloud data storage with a 3 year term beginning July 1, 2019. The purchase agreement includes a total commitment of \$50.0 million, with an up-front prepayment of \$15.0 million that was made in July 2019. Storage fees under this agreement were \$22.4 million for the year ended December 31, 2021 and were recorded in cost of service sales. There is no remaining purchase commitment as of December 31, 2021.

Purchase commitments

We routinely enter into cancelable and non-cancelable purchase orders with many of our key vendors. Based on the strategic relationships with many of these vendors, our ability to cancel these purchase orders and maintain a favorable relationship would be limited. As of December 31, 2021, we had approximately \$313.5 million of open purchase orders and \$14.9 million of other purchase obligations.

Subsequent Event

On February 23, 2022, the Company entered into construction management agreement with Okland Construction Company, Inc. for construction of a new manufacturing and office campus on land the Company owns in Scottsdale, Arizona. The contract specifies a maximum guaranteed construction price of approximately \$149.7 million. Construction is expected to start no later than May 3, 2022 with final completion by July 25, 2024.

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 two lawsuits in which the plaintiffs allege either wrongful death or personal injury in situations in which a TASER CED was used by law enforcement officers in connection with arrests or training. While the facts vary from case to case, these product liability claims typically allege defective product design, manufacturing, and/or failure to warn. They seek compensatory and sometimes punitive damages, often in unspecified amounts.

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

U.S. Federal Trade Commission Litigation

The U.S. Federal Trade Commission ("FTC") filed an enforcement action on January 3, 2020 regarding Axon's May 2018 acquisition of Viewu LLC from Safariland LLC. The FTC alleges the merger was anticompetitive and adversely affected the body worn camera ("BWC") and digital evidence management systems ("DEMS") market for "large metropolitan police departments." The administrative hearing is presently stayed pending Axon's Supreme Court challenge (see below). If ultimately successful, the FTC may require Axon to divest Viewu and other assets or take other remedial measures, any of which could be material to Axon. We are vigorously defending the matter. At this time, we

AXON ENTERPRISE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

cannot predict the eventual scope, duration, or outcome of the proceeding and accordingly we have not recorded any liability in the accompanying consolidated financial statements.

Prior to the FTC's enforcement action, Axon sued the FTC in federal court in the District of Arizona for declaratory and injunctive relief alleging the FTC's structure and administrative processes violate Article II of the U.S. Constitution and our Fifth Amendment rights to due process and equal protection. The district court dismissed the action, without prejudice, for lack of jurisdiction. The Ninth Circuit affirmed in a split decision but granted Axon's motion to stay the appellate mandate pending the filing of its petition for certiorari with the U.S. Supreme Court. On January 24, 2022, the Supreme Court granted Axon's petition. Merits briefing will occur over the next several months with oral argument likely in October 2022. A decision is not likely until early 2023. The FTC's administrative case will remain stayed pending resolution of the Supreme Court proceedings.

In parallel to these matters, we are evaluating strategic alternatives to litigation, which we might pursue if determined to be in the best interests of shareholders and customers. This could include a divestiture of the Viewu entity and/or related assets and the licensure of certain intellectual and other intangible property. While we continue to believe the acquisition of Viewu was lawful and a benefit to Viewu's customers, the cost, risk and distraction of protracted litigation merit consideration of settlement if achievable on terms agreeable to the FTC and the Company.

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. It is our policy to not disclose the specifics of any claim or threatened lawsuit until the summons and complaint are actually served on 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 December 31, 2021, we have determined that it is not reasonably possible that these 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 December 31, 2021, we had outstanding letters of credit of \$6.1 million that are expected to expire in June 2022. We also had outstanding letters of credit and bank guarantees of \$1.3 million that do not draw against our credit facility. These outstanding letters of credit and bank guarantees are expected to expire May 2022. Additionally, we had \$21.5 million of outstanding surety bonds at December 31, 2021, with \$3.5 million expiring in 2022, \$7.5 million expiring in 2023 and the remaining \$10.5 million expiring in 2024.

AXON ENTERPRISE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Note 12 - Income Taxes

Income (loss) before provision (benefit) for income taxes included the following components for the years ended December 31 (in thousands):

	2021	2020	2019
United States	\$ (146,995)	\$ (11,529)	\$ (1,449)
Foreign	5,620	5,238	3,519
Total	<u>\$ (141,375)</u>	<u>\$ (6,291)</u>	<u>\$ 2,070</u>

Significant components of the provision (benefit) for income taxes are as follows for the years ended December 31 (in thousands):

	2021	2020	2019
Current:			
Federal	\$ (331)	\$ 5,277	\$ 4,247
State	85	3,886	2,414
Foreign	(60)	1,943	1,533
Total current	<u>(306)</u>	<u>11,106</u>	<u>8,194</u>
Deferred:			
Federal	(65,557)	(10,175)	(6,060)
State	(15,266)	(3,111)	(1,665)
Foreign	478	(3,131)	(264)
Total deferred	<u>(80,345)</u>	<u>(16,417)</u>	<u>(7,989)</u>
Tax impact of unrecorded tax benefits liability	<u>(706)</u>	<u>744</u>	<u>983</u>
Provision (benefit) for income taxes	<u>\$ (81,357)</u>	<u>\$ (4,567)</u>	<u>\$ 1,188</u>

A reconciliation of our effective income tax rate to the federal statutory rate follows for the years ended December 31 (in thousands):

	2021	2020	2019
Federal income tax at the statutory rate	\$ (29,691)	\$ (1,321)	\$ 435
State income taxes, net of federal benefit	(12,717)	935	526
Difference between statutory and foreign tax rates	(155)	(86)	43
Other permanent differences ⁽¹⁾	1,842	794	1,356
Foreign derived intangible income deduction	—	(902)	(217)
Executive compensation limitation	180,509	15,463	7,596
Research and development	(34,376)	(10,246)	(4,911)
Return to provision adjustment	204	(1,078)	(9)
Change in liability for unrecognized tax benefits	10,188	987	1,191
Excess stock-based compensation benefit	(205,483)	(9,002)	(4,999)
Change in valuation allowance	8,961	163	368
Tax effects of intercompany transactions	96	(389)	16
Other	(735)	115	(207)
Provision for income taxes (Income tax benefit)	<u>\$ (81,357)</u>	<u>\$ (4,567)</u>	<u>\$ 1,188</u>
Effective tax rate	<u>57.5 %</u>	<u>72.6 %</u>	<u>57.4 %</u>

- (1) Other permanent differences include certain expenses that are not deductible for tax purposes including meals and entertainment, lobbying fees, and taxable income as a result of global intangible low-tax income ("GILTI").

AXON ENTERPRISE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Significant components of our deferred income tax assets and liabilities are as follows at December 31 (in thousands):

	2021	2020
Deferred income tax assets:		
Net operating loss carryforward	\$ 68,353	\$ 1,834
Deferred revenue	27,031	21,055
Deferred compensation	1,414	1,175
Lease liability	5,886	5,730
Inventory reserve	684	511
Stock-based compensation	10,913	18,890
Amortization	2,672	2,436
Research and development tax credit carryforward	29,249	6,654
Reserves, accruals, and other	14,717	7,274
Total deferred income tax assets	160,919	65,559
Deferred income tax liabilities:		
Contract asset	(1,104)	(1,150)
Right of use asset	(5,008)	(5,237)
Depreciation	(8,938)	(5,363)
Strategic investments	(2,653)	(321)
Prepaid expenses	(594)	(874)
Other	(72)	(185)
Total deferred income tax liabilities	(18,369)	(13,130)
Net deferred income tax assets before valuation allowance	142,550	52,429
Valuation allowance	(16,168)	(7,308)
Net deferred income tax assets	\$ 126,382	\$ 45,121

We have a federal net operating loss (“NOL”) of \$259.0 million which will carry forward indefinitely. We also have a federal NOL of \$0.1 million that will expire in 2036, which is subject to limitation under Internal Revenue Code (“IRC”) Section 382. Additionally, we have \$251.4 million of state NOLs which will expire at various dates between 2026 and 2041 or carry forward indefinitely. We have \$27.6 million of federal R&D credits, which expire between 2034 and 2041, and \$0.1 million of which is subject to limitation under IRC Section 382. We have \$19.1 million of state R&D credits carrying forward, which expire at various dates between 2022 and 2036, or carry forward indefinitely. In the U.K., Canada, and Finland, we have \$1.5 million, \$0.3 million, and \$0.2 million of NOLs, respectively, which expire at various dates or may be carried forward indefinitely.

In preparing our consolidated financial statements, we have assessed the likelihood that deferred income tax assets will be realized from future taxable income. In evaluating the ability to recover deferred income tax assets, we consider all available evidence, positive and negative, 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 income tax assets will not be realized. We exercise significant judgment in determining our provision for income taxes, our deferred income tax assets and liabilities, and our future taxable income for purposes of assessing our ability to utilize any future tax benefit from our deferred income tax assets.

As of December 31, 2021, management continues to believe the positive evidence from projected future earnings outweighs the negative evidence and a valuation allowance is not needed. We have concluded that a valuation allowance is necessary against an unrealized loss on an investment in marketable securities as well as transaction costs incurred in connection with certain investments. Additionally, we do have Arizona R&D tax credits expiring unutilized each year; therefore, management has concluded that it is more likely than not that our Arizona R&D deferred tax asset will not be realized, and a valuation allowance has been recorded against this net asset.

AXON ENTERPRISE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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 have a partial valuation allowance for Australia.

We consider the undistributed earnings of certain non-U.S. subsidiaries to be indefinitely reinvested outside of the United States on the basis of estimates that future domestic cash generation will be sufficient to meet future domestic cash needs and our specific plans for reinvestment of those subsidiary earnings. We project that our foreign earnings will be utilized offshore for working capital and future foreign growth and we have not made a provision for U.S. or additional foreign withholding taxes of the excess of the amount for financial reporting over the tax basis of investments in foreign subsidiaries that is indefinitely reinvested. Generally, such amounts become subject to U.S. taxation upon the remittance of dividends and under certain other circumstances. We have determined the amount of deferred tax liability related to investments in these foreign subsidiaries is immaterial. If we decide to repatriate the undistributed foreign earnings, we will recognize the income tax effects in the period we change our assertion on indefinite reinvestment.

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 \$18.2 million as of December 31, 2021. Should the unrecognized tax benefit of \$18.2 million be recognized, our effective tax rate would be favorably impacted.

The following table presents a roll forward of our liability for unrecognized tax benefits, exclusive of accrued interest, as of December 31 (in thousands):

	2021	2020	2019
Balance, beginning of period	\$ 7,657	\$ 6,861	\$ 6,058
Increase (decrease) in previous year tax positions	22	(34)	(615)
Increase in current year tax positions	11,416	950	1,749
Decrease due to lapse of statutes of limitations	(846)	(120)	(331)
Balance, end of period	<u>\$ 18,249</u>	<u>\$ 7,657</u>	<u>\$ 6,861</u>

Federal income tax returns for 2018 through 2020 remain open to examination by the U.S. Internal Revenue Service (the “IRS”), while state and local income tax returns for 2017 through 2020 also generally remain open to examination by state taxing authorities. The 2007 through 2016 income tax returns are only open to the extent that net operating loss or other tax attributes carrying forward from those years were utilized in 2017 through 2020. The foreign tax returns for 2017 through 2020 also generally remain open to examination. During 2021, we started and completed an audit of our 2018 Illinois income tax return. Additionally, we have been notified that an audit will commence for Axon Public Safety Southeast Asia LLC, our entity in Vietnam. The tax period has not yet been defined.

We recognize interest and penalties related to unrecognized tax benefits within the provision (benefit) for income tax expense line in the accompanying consolidated statements of operations and comprehensive income (loss). As of December 31, 2021, and 2020, we had accrued interest of \$0.2 million and \$0.2 million, respectively.

Note 13 - Line of Credit

We have a \$50.0 million unsecured revolving line of credit with a domestic bank, of which \$20.0 million is available for letters of credit. The credit agreement matures on December 31, 2023 and has an accordion feature which allows for an increase in the total line of credit up to \$100.0 million, subject to certain conditions, including the availability of additional bank commitments.

At December 31, 2021 and 2020, there were no borrowings under the line. Under the terms of the line of credit, available borrowings are reduced by outstanding letters of credit. As of December 31, 2021, we had letters of credit

AXON ENTERPRISE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

outstanding of approximately \$6.1 million under the facility and available borrowing of \$43.9 million. Advances under the line of credit bear interest at LIBOR plus 1.0 to 1.5% per year determined in accordance with a pricing grid based on our funded debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio.

We are required to comply with a maximum funded debt to EBITDA ratio of no greater than 2.50 to 1.00 based upon a trailing four fiscal quarter period. At December 31, 2021, our funded debt to EBITDA ratio was 0.00 to 1.00.

Note 14 - Stockholders' Equity

At-the-Market equity offering

During the year ended December 31, 2021, we sold 577,956 shares of our common stock under our "at-the-market" equity offering program (the "ATM"). We generated approximately \$ 107.6 million in aggregate gross proceeds from sales under the ATM. Aggregate net proceeds from the ATM were \$ 105.5 million after deducting related expenses, including commissions to the sales agent of \$1.6 million and issuance costs of \$0.4 million.

We may sell up to a total of 3.0 million shares of our common stock under the ATM. The ATM expires on April 20, 2024. We intend to use the net proceeds from this offering for general corporate purposes, which may include, among other things, providing capital to satisfy a portion of the tax obligations related to the vesting and settlement of stock compensation awards granted to our executive officers and other employees under our stock incentive plans, to support our growth, and to acquire or invest in product lines, products, services, technologies or facilities.

Common Stock and Preferred Stock

We have authorized the issuance of two classes of stock designated as "common stock" and "preferred stock," each having a par value of \$0.00001 per share. We are authorized to issue 200 million shares of common stock and 25 million shares of preferred stock.

Stock-based Compensation Plans

We have historically utilized stock-based compensation, consisting of RSUs and stock options, for key employees and non-employee directors as a means of attracting and retaining talented personnel. Service-based grants generally have a vesting period of 2 to 5 years and a contractual maturity of ten years. Performance-based grants generally have vesting periods ranging from 1 to 10 years and a contractual maturity of ten years.

On February 12, 2019, our shareholders approved the 2019 Plan, which was adopted by the Board of Directors to reserve a sufficient number of shares to facilitate our XSPP and grants of XSUs under the plan. Under the 2019 Plan, we reserved for future grants: (i) 6.0 million shares of common stock, plus (ii) the number of shares of common stock that were authorized but unissued under our 2018 Stock Incentive Plan (the "2018 Plan") and all prior Company equity plans as of the effective date of the 2019 Plan, and (iii) the number of shares of stock that have been granted under the prior plans that either terminate, expire or lapse for any reason after the effective date of the 2019 Plan. As of December 31, 2021, approximately 1.0 million shares remain available for future grants. Shares issued upon exercise of stock awards from these plans have historically been issued from our authorized unissued shares.

Performance-based stock awards

We have issued performance-based stock options and performance-based RSUs, the vesting of which is generally contingent upon the achievement of certain performance criteria related to our operating performance, as well as successful and timely development and market acceptance of future product introductions. In addition, certain of the performance RSUs have additional service requirements subsequent to the achievement of the performance criteria. Compensation expense is recognized over the requisite service period, which is defined as the longest explicit, implicit or derived service

AXON ENTERPRISE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

period based on management's estimate of the probability of the performance criteria being satisfied, adjusted at each balance sheet date. For both service-based and performance-based RSUs, we account for forfeitures as they occur as a reduction to stock-based compensation expense and additional paid-in-capital

CEO Performance Award

On May 24, 2018, our stockholders approved the CEO Performance Award of 6,365,856 stock option awards. The CEO Performance Award consists of 12 vesting tranches with a vesting schedule based entirely on the attainment of both operational goals (performance conditions) and market capitalization goals (market conditions), assuming continued employment either as the CEO or as both Executive Chairman and Chief Product Officer and service through each attainment date. Each of the 12 vesting tranches of the CEO Performance Award have a 10-year contractual term and will vest upon certification by the Compensation Committee of the Board of Directors (the "Compensation Committee") that both (i) the market capitalization goal for such tranche, which begins at \$2.5 billion for the first tranche and increases by increments of \$1.0 billion thereafter, and (ii) any one of the following eight operational goals focused on revenue or eight operational goals focused on Adjusted EBITDA have been met for the previous four consecutive fiscal quarters. Adjusted EBITDA for purposes of the CEO Performance Award ("Adjusted EBITDA (CEO Performance Award)") is defined as net income (loss) attributable to common stockholders before interest expense, investment interest income, provision (benefit) for income taxes, depreciation and amortization, and stock-based compensation expense.

Revenue Goal ⁽¹⁾ (in thousands)	Achievement Status	Adjusted EBITDA (in thousands)	Achievement Status
Goal #1, \$710,058	Achieved	Goal #1 \$125,000	Achieved
Goal #2, \$860,058	Achieved	Goal #2, \$155,000	Achieved
Goal #3, \$1,010,058	Probable	Goal #3 \$175,000	Achieved
Goal #4, \$1,210,058	Probable	Goal #4, \$190,000	Achieved
Goal #5, \$1,410,058	Not Applicable	Goal #5 \$200,000	Achieved
Goal #6, \$1,610,058	Not Applicable	Goal #6, \$210,000	Achieved
Goal #7, \$1,810,058	Not Applicable	Goal #7, \$220,000	Achieved
Goal #8, \$2,010,058	Not Applicable	Goal #8 \$230,000	Achieved

(1) In connection with the business acquisition that was completed during the three months ended June 30, 2018, the revenue goals were adjusted for the acquiree's Target Revenue, as defined in the CEO Performance Award agreement.

Stock-based compensation expense associated with the CEO Performance Award is recognized over the longer of the expected achievement period for each pair of market capitalization and operational goals, beginning at the point in time when the relevant operational goal is considered probable of being met. The probability of meeting an operational goal and the expected achievement point in time for meeting a probable operational goal are based on a subjective assessment of our forward-looking financial projections, taking into consideration statistical analysis. Even though no tranches of the CEO Performance Award vest unless a market capitalization and a matching operational goal are both achieved, stock-based compensation expense is recognized when an operational goal is considered probable of achievement regardless of whether a market capitalization goal is actually achieved. Stock-based compensation represents a non-cash expense and is recorded in sales, general, and administrative operating expense on our consolidated statements of operations and comprehensive income.

The first ten market capitalization goals have been achieved as of December 31, 2021. As of December 31, 2021, 5.3 million stock options have been certified by the Compensation Committee and vested. As twelve operational goals have been achieved or are considered probable of achievement, we recorded stock-based compensation expense of \$230.3 million related to the CEO Performance Award from the grant date through December 31, 2021. The number of stock options that would vest related to the remaining unvested tranches is approximately 1.1 million shares. As of December 31, 2021, we had \$15.7 million of total unrecognized stock-based compensation expense for the performance

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

goals that were considered probable of achievement, which will be recognized over a weighted-average period of 1.51 years.

eXponential Stock Performance Plan

On February 12, 2019, our shareholders approved the 2019 Stock Incentive Plan (the “2019 Plan”), which was adopted by the Board of Directors to reserve a sufficient number of shares to facilitate our eXponential Stock Performance Plan (“XSPP”) and grants of eXponential Stock Units (“XSUs”) under the plan. Initial awards under the plan were granted in January 2019, with additional employee awards granted since that date. During the year ended December 31, 2021 we granted an additional forty thousand XSUs.

The XSUs are grants of restricted stock units, each with a term of approximately nine years, that vest in 12 equal tranches. Each of the 12 tranches will vest upon certification by the Compensation Committee that both (i) the market capitalization goal for such tranche, which begins at \$2.5 billion for the first tranche and increases by increments of \$1.0 billion thereafter, and (ii) any one of eight operational goals focused on revenue or eight operational goals focused on Adjusted EBITDA (CEO Performance Award) have been met for the previous four consecutive fiscal quarters. Beginning with the quarter ended June 30, 2021, new XSU grants are divided into a reduced number of tranches depending on employee eligibility and current market capitalization attainment.

The XSPP contains an anti-dilution provision incorporated into the plan based on shareholder feedback, which affects the calculation of the market capitalization goals in the plan. The plan defines a maximum number of shares outstanding that may be used in the calculation of the market capitalization goals (the “XSU Maximum”). If the actual number of shares outstanding exceeds the XSU Maximum guardrail, then the lower pre-defined number of shares in the XSU Maximum, rather than the higher actual number of shares outstanding, is used to calculate market capitalization for the determination of the market capitalization goals in the XSPP, which, together with the operational goals, determines whether XSUs vest for participating employees.

The XSU Maximum is defined as the actual number of shares outstanding on the original XSU grant date of January 2, 2019, increased by a 3% annual rate over the term of the XSPP and by shares issued upon the exercise of CEO Performance Award options. The XSU Maximum is also adjusted for acquisitions, spin-offs or other changes in the number of outstanding shares of common stock, if such changes have a corresponding adjustment on the market capitalization goals.

New shares issued for any other reasons, including shares issued upon vesting of XSUs, RSUs, and Performance Stock Units (“PSUs”) as well as shares issued to raise capital through equity issuances or in other transactions, do not increase the XSU Maximum.

The market capitalization and operational goals are identical to the CEO Performance Award, but a different number of shares is used to calculate the market capitalization goals if shares outstanding exceed the XSU Maximum. Additionally, because the grant date is different than that of the CEO Performance Award, the measurement period for market capitalization is not identical.

The first nine market capitalization goals have been achieved as of December 31, 2021. The tenth market capitalization goal has not yet been attained, though the related operational goal was achieved as of September 30, 2021. The first XSU tranche vested in March 2021, the second and third tranches vested in May 2021, five tranches vested in September 2021, and one tranche vested in December 2021. As all twelve operational goals have been achieved or are considered probable of achievement, we recorded stock-based compensation expense of \$177.4 million related to the XSU awards from their respective grant dates through December 31, 2021. The number of XSU awards that would vest related to the remaining three tranches is approximately 1.3 million shares. As of December 31, 2021, we had \$21.6 million of total unrecognized stock-based compensation expense, which will be recognized over a weighted-average period of 2.02 years.

AXON ENTERPRISE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Restricted Stock Units

The following table summarizes RSU activity for the years ended December 31 (number of units and aggregate intrinsic value in thousands):

	2021		2020		2019	
	Number of Units	Weighted Average Grant-Date Fair Value	Number of Units	Weighted Average Grant-Date Fair Value	Number of Units	Weighted Average Grant-Date Fair Value
Units outstanding, beginning of year	1,107	\$ 76.10	1,249	\$ 45.47	1,244	\$ 28.52
Granted	686	165.67	577	100.76	718	59.09
Released	(554)	66.23	(598)	40.68	(547)	27.38
Forfeited	(124)	100.64	(121)	52.40	(166)	36.91
Units outstanding, end of year	1,115	133.40	1,107	76.10	1,249	45.47
Aggregate intrinsic value at year end	\$ 174,999					

Aggregate intrinsic value represents our closing stock price on the last trading day of the period, which was \$157.00 per share at December 31, 2021, multiplied by the number of RSUs. The fair value as of the respective vesting dates of RSUs that vested during the year was \$96.4 million, \$56.0 million, and \$39.4 million for the years ended December 31, 2021, 2020, and 2019, respectively.

Certain RSUs that vested in the year ended December 31, 2021 were net-share settled, such that we withheld shares to cover the employees' tax obligation for the applicable income and other employment taxes, and remitted the cash to the appropriate taxing authorities. Total shares withheld during 2021 were 0.1 million and had a value of approximately \$11.1 million on their respective vesting dates as determined by the closing stock price of our stock. Payments for the employees' tax obligations are reflected as a financing activity within the consolidated statements of cash flows. We record a liability for the tax withholding to be paid by us as a reduction to additional paid-in capital.

As of December 31, 2021, we had \$128.1 million of total unrecognized stock-based compensation expense related to RSUs under our stock plans for shares that are expected to vest. We expect to recognize the cost related to the RSUs over a weighted average period of 2.38 years. RSUs are released when vesting requirements are met.

Performance Stock Units

The following table summarizes PSU activity, inclusive of XSUs, for the years ended December 31 (number of units and aggregate intrinsic value in thousands):

	2021		2020		2019	
	Number of Units	Weighted Average Grant-Date Fair Value	Number of Units	Weighted Average Grant-Date Fair Value	Number of Units	Weighted Average Grant-Date Fair Value
Units outstanding, beginning of year	5,618	\$ 35.71	6,033	\$ 34.47	411	\$ 27.82
Granted	309	77.53	417	58.11	6,041	34.61
Released	(4,345)	37.16	(184)	27.79	(103)	17.14
Forfeited	(83)	40.91	(648)	40.83	(316)	33.99
Units outstanding, end of year	1,499	39.86	5,618	35.71	6,033	34.47
Aggregate intrinsic value at year end	\$ 235,325					

Aggregate intrinsic value represents our closing stock price on the last trading day of the period, which was \$157.00 per share, multiplied by the number of PSUs outstanding. As of December 31, 2021, there was \$33.5 million in

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

unrecognized compensation costs related to PSUs under our stock plans for shares that are expected to vest. We expect to recognize the cost related to the PSUs over a weighted average period of 2.21 years. PSUs are released when vesting requirements are met.

As of December 31, 2021, the performance criteria had been met for approximately seven thousand of the 1.5 million PSUs outstanding.

On March 8, May 17, and September 9, 2021, the Compensation Committee of our Board of Directors approved waivers of the holding period requirements for each XSPP participant who is an Arizona resident and elected to receive XSUs in lieu of On-Target Earnings. This waiver releases the holding period requirements to allow participants the ability to choose to sell a portion of their vested shares to satisfy new income tax obligations pursuant to Arizona Proposition 208, which was passed in the November 2020 state-wide election. This waiver applied to approximately 4% of the XSUs for the impacted participants which vested on March 8, May 17 and September 9, 2021, amounting to approximately 99 thousand shares. The remainder of the shares not sold to satisfy tax obligations are subject to a 2.5 year minimum holding period. We accounted for this change as a Type I modification under ASC 718 since there was no impact on attainment of the operational or market capitalization goals. We recognized additional stock-based compensation expense \$2.8 million for the year ended December 31, 2021, respectively, because of this modification.

On December 3, 2021, the Compensation Committee approved a modification to allow for the transfer of certain shares from vested XSUs to a qualified charitable organization, including donor-advised funds. This one-time waiver of the post-vesting holding period requirement allowed for the transfer of up to one tranche of after-tax shares from vested XSUs through December 31, 2022, and allows for the charitable organization or donor-advised fund to sell the transferred shares. Award agreements were only modified with respect to the after-tax vested shares with which employees elected to participate in the charitable contribution initiative. The waiver was accounted for as a Type I modification under ASC 718, since there was no impact on attainment of the operational or market capitalization goals. The company recognized approximately \$3.4 million in additional stock-based compensation expense for the year ended December 31, 2021 because of this modification.

Certain PSUs that vested in the year ended December 31, 2021 were net-share settled such that we withheld shares to cover the employees' tax obligation for the applicable income and other employment taxes, and remitted the cash to the appropriate taxing authorities. Total shares withheld related to PSUs were approximately 1.2 million and had a value of \$204.3 million on their respective vesting dates as determined by the closing stock price on such dates. Of this amount, approximately 1.1 million related to the release of tranches four through nine of the XSPP. Payments for the employees' tax obligations are reflected as a financing activity within the consolidated statements of cash flows. We record a liability for the tax withholding to be paid by us as a reduction to additional paid-in capital. Payments for the employees' tax obligations are reflected as a financing activity within the consolidated statements of cash flows. We record a liability for the tax withholding to be paid by us as a reduction to additional paid-in capital.

AXON ENTERPRISE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Stock Option Activity

The following table summarizes stock option activity for the years ended December 31 (number of options in thousands):

	2021		2020		2019	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding, beginning of year	6,366	\$ 28.58	6,431	\$ 28.34	6,458	\$ 28.24
Granted	—	—	—	—	—	—
Exercised	(3,928)	28.58	(65)	4.52	(27)	4.27
Expired / terminated	—	—	—	—	—	—
Options outstanding, end of year	2,438	28.58	6,366	28.58	6,431	28.34
Options exercisable, end of year	1,377	28.58	530	28.58	65	4.52

We did not grant any stock options in 2021, 2020 or 2019. The total intrinsic value of options exercised was \$571.4 million, \$5.1 million and \$1.2 million for the years ended December 31, 2021, 2020 and 2019, respectively. The intrinsic value for options exercised was calculated as the difference between the exercise price of the underlying stock option awards and the market price of our common stock on the date of exercise.

Of the total stock options exercised during the year ended December 31, 2021, 0.6 million were sold to cover the CEO's tax obligation for the applicable income and other employment taxes, and remitted the cash to the appropriate taxing authorities. Additionally, 0.3 million were sold to cover the strike price of the exercised options. Total shares sold related to the exercised options had a value of \$160.6 million on their respective exercise dates. Additionally, 2.1 million options exercised were net-share settled such that we withheld shares to cover the CEO's tax obligation and strike price. Total shares withheld related to the exercised options were 1.1 million and had a value of \$176.6 million on the exercise date as determined by the closing stock price on such date. Payments for the employee's tax obligations are reflected as a financing activity within the statement of cash flows. We recorded a liability for the tax withholding to be paid by us as a reduction to additional paid-in capital.

The following table summarizes information about stock options that were fully vested or expected to vest as of December 31, 2021 (number of options in thousands):

Range of Exercise Price	Options Outstanding			Options Exercisable		
	Number of Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Weighted Number of Options Exercisable	Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
\$28.58	1,377	\$ 28.58	6.15	1,377	\$ 28.58	6.15

The aggregate intrinsic value of options exercisable at December 31, 2021 was \$176.8 million, respectively. Aggregate intrinsic value represents the difference between the exercise price of the underlying stock option awards and the closing market price of our common stock of \$157.00 on December 31, 2021.

At December 31, 2021, we had 1.1 million unvested options outstanding with a weighted average exercise price of \$28.58 per share, weighted average grant-date fair value of \$35.80 per share and weighted average remaining contractual life of 6.2 years. The aggregate intrinsic value of unvested options at December 31, 2021 was \$136.3 million.

AXON ENTERPRISE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Stock-based Compensation Expense

We account for stock-based compensation using the fair-value method. Reported stock-based compensation expense was classified as follows for the years ended December 31 (in thousands):

	2021	2020	2019
Cost of product and service sales	\$ 5,844	\$ 3,464	\$ 1,565
Sales, general and administrative expenses	238,813	103,860	59,342
Research and development expenses	58,674	26,248	17,588
Total stock-based compensation expense	\$ 303,331	\$ 133,572	\$ 78,495
Income tax benefit	\$ 30,586	\$ 29,329	\$ 11,457

Stock Inducement Plan

In September 2019, our Board of Directors adopted the Axon Enterprise, Inc. 2019 Stock Inducement Plan (the “2019 Inducement Plan”) pursuant to which we reserved 500,000 shares of common stock for issuance under the Inducement Plan. The 2019 Inducement Plan was adopted without stockholder approval pursuant to Rule 5635(c)(4) and Rule 5635(c)(3) of the Nasdaq Listing Rules. The Inducement Plan provides for the grant of equity-based awards, including restricted stock units, restricted stock, performance shares and performance units, and its terms are substantially similar to our stockholder-approved 2019 Plan. In accordance with Rule 5635(c)(4) and Rule 5635(c)(3) of the Nasdaq Listing Rules, awards under the Inducement Plan may only be made to individuals not previously employees or non-employee directors of the Company (or following such individuals’ bona fide period of non-employment with the Company), as an inducement material to the individuals’ entry into employment with the Company.

As of December 31, 2021, there were 29,600 shares available for grant under the 2019 Inducement Plan.

Stock Repurchase Plan

In February 2016, our Board of Directors authorized a stock repurchase program to acquire up to \$50.0 million of our outstanding common stock subject to stock market conditions and corporate considerations. As of December 31, 2021 and 2020, \$16.3 million remained available under the plan for future purchases.

Note 15 – Accumulated Other Comprehensive Income (loss)

The following table reflects 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, 2019	\$ —	\$ (1,096)	\$ (1,096)
Other comprehensive income	—	1,237	1,237
Balance, December 31, 2020	\$ —	\$ 141	\$ 141
Other comprehensive loss	(207)	(1,251)	(1,458)
Balance, December 31, 2021	\$ (207)	\$ (1,110)	\$ (1,317)

AXON ENTERPRISE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Note 16 - Leases

Lease Obligations

We determine if an arrangement is a lease at inception. Operating lease right-of-use (“ROU”) assets and liabilities are recognized based on the present value of future minimum lease payments over the lease term at commencement date. As most of our leases do not provide an implicit rate, we use our estimated incremental borrowing rate based on the information available at the commencement date in determining the present value of future payments. Additionally, we use the portfolio approach in determining the discount rate used to present value lease payments. We give consideration to our line of credit as well as publicly available data for instruments with similar characteristics when estimating our incremental borrowing rates. The ROU asset also includes any lease payments made and initial direct costs incurred and excludes lease incentives.

We have operating leases for office space. Leases with an initial term of 12 months or less are not recorded on the balance sheet; we recognize lease expense for these leases on a straight-line basis over the lease term. For leases beginning on or after January 1, 2019, we account for lease components separately from non-lease components for all asset classes.

Our leases have remaining terms of less than 1 to approximately 7 years, some of which include one or more options to renew for up to 5 years, and some of which include options to terminate the leases within 1 year. The exercise of lease renewal options is at our sole discretion and such options are included in ROU assets and liabilities for renewal periods that are reasonably certain of exercise. Certain of our lease agreements include stated rental payment escalations. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants. Finance leases as of December 31, 2021 were immaterial.

Leases (in thousands)	Classification	December 31, 2021	December 31, 2020
Assets			
Operating lease assets	Other assets	\$ 23,270	\$ 22,308
Liabilities			
Current			
Operating	Other current liabilities	\$ 6,540	\$ 5,431
Noncurrent			
Operating	Other long-term liabilities	20,439	18,952
Total lease liabilities		\$ 26,979	\$ 24,383

The components of lease expense were as follows (in thousands):

	Classification	Twelve Months Ended December 31, 2021	Twelve Months Ended December 31, 2020
Operating lease expense ⁽¹⁾	Sales, general and administrative ⁽²⁾	\$ 7,495	\$ 6,757
Sublease income	Interest and other income, net	—	(55)
Net lease expense		\$ 7,495	\$ 6,702

(1) Includes short-term leases, which are immaterial.

(2) An immaterial portion of operating lease expense is included within research and development expenses and cost of sales.

AXON ENTERPRISE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Other information related to leases was as follows (in thousands, except lease term and discount rate):

	Twelve Months Ended December 31, 2021	Twelve Months Ended December 31, 2020
Supplemental Cash Flows Information		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	\$ 7,506	\$ 4,666
Right-of-use assets obtained in exchange for lease liabilities:		
Operating leases	6,726	17,390
Weighted average remaining lease term:		
Operating leases	4.2 years	4.4 years
Weighted average discount rate:		
Operating leases	2.73 %	3.36 %

Future minimum lease payments under non-cancellable leases as of December 31, 2021 were as follows (in thousands):

	Operating
2022	7,782
2023	7,397
2024	5,961
2025	5,915
2026	2,176
Thereafter	214
Total minimum lease payments	29,445
Less: Amount representing interest	(2,466)
Present value of lease payments	\$ 26,979

As of December 31, 2021, we do not have any leases that have not yet commenced that create significant rights and obligations for us.

Note 17 - Employee Benefit Plans

We have a defined contribution profit sharing 401(k) plan for eligible employees, which is qualified under Sections 401(a) and 401(k) of the Internal Revenue Code of 1986, as amended. Employees are entitled to make tax-deferred contributions of up to the maximum allowed by law of their eligible compensation.

We also have a non-qualified deferred compensation plan for certain executives, key employees and non-employee directors through which participants may elect to postpone the receipt and taxation of a portion of their compensation, including stock-based compensation, received from us. The non-qualified deferred compensation plan allows eligible participants to defer up to 80% of their base salary and up to 100% of other types of compensation. The plan also allows for matching and discretionary employer contributions. Employee deferrals are deemed 100% vested upon contribution. Distributions from the plan generally commence upon retirement, death, separation of service, specified date or upon the occurrence of an unforeseeable emergency. Distributions can be paid in a variety of forms from lump sum to installments over a period of years. Participants in the plan are entitled to select from a wide variety of investments available under the plan and are allocated gains or losses based upon the performance of the investments selected by the participant. All gains or losses are allocated fully to plan participants and we do not guarantee a rate of return on deferred balances. Assets related to this plan consist of corporate-owned life insurance contracts and are included in other assets in the consolidated

AXON ENTERPRISE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

balance sheets; see Note 9 for balances. Participants have no rights or claims with respect to any plan assets and any such assets are subject to the claims of our general creditors.

Contributions to the plans are made by both the employee and us. Our contributions to the 401(k) plan are based on the level of employee contributions and are immediately vested. Future matching contributions to the plans are at our sole discretion.

We also sponsor defined contribution plans in Australia, Finland, and the United Kingdom.

Our matching contributions for all defined contribution plans for the years ended December 31, 2021, 2020 and 2019, were approximately \$7.4 million, \$5.6 million and \$4.8 million, respectively.

Note 18 - Business Acquisitions

Occam Video Solutions, LLC

On December 22, 2021, we acquired all of the outstanding membership interests of Occam Video Solutions LLC, a developer of forensic video solutions software. The primary reason for the acquisition was to acquire technologies and know-how to enable Axon to serve customers more effectively.

The purchase price of \$26.0 million consisted of \$22.0 million in cash, net of cash acquired of \$0.3 million, \$1.5 million, or 9,381 shares, of Axon shares which vest ratably over 3 years, and up to \$2.5 million, or 15,635 shares, of contingent consideration, which vest in two even tranches if specified financial targets are achieved by March 31, 2025.

The final purchase price and purchase price allocation will be finalized at the end of the measurement period when we have completed the detailed valuations and necessary calculations. Based on the preliminary purchase price allocation, we recorded \$18.0 million of goodwill, \$8.6 million of identifiable intangible assets, and \$0.7 million in net liabilities. The goodwill was primarily attributed to increased synergies that are expected to be achieved from the integration of the business and is deductible for tax purposes. We have assigned the goodwill to the Software and Sensors segment. Identifiable definite-lived intangible assets were assigned a total weighted average amortization period of 3.6 years.

Note 19 - Segment Data

Our operations are comprised of two reportable segments: the TASER segment and the Software and Sensors segment. In both segments, we report sales of products and services. Service revenue in both segments includes sales related to Axon Evidence. In the TASER segment, service revenue also includes digital subscription training content. In the Software and Sensors segment, service revenue also includes other recurring cloud-hosted software revenue and related professional services. Collectively, this revenue is sometimes referred to as "Axon Cloud revenue." Our Chief Executive Officer, who is the CODM, is not provided asset information or sales, general, and administrative expense by segment.

AXON ENTERPRISE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

For the year ended December 31, 2021			
	TASER	Software and Sensors	Total
Net sales from products	\$ 426,916	\$ 181,609	\$ 608,525
Net sales from services	10,011	244,845	254,856
Net sales	436,927	426,454	863,381
Cost of product sales	149,739	110,359	260,098
Cost of service sales	145	62,228	62,373
Cost of sales	149,884	172,587	322,471
Gross margin	\$ 287,043	\$ 253,867	\$ 540,910
Research and development	\$ 46,136	\$ 147,890	\$ 194,026

For the year ended December 31, 2020			
	TASER	Software and Sensors	Total
Net sales from products	\$ 362,649	\$ 137,601	\$ 500,250
Net sales from services	3,903	176,850	180,753
Net sales	366,552	314,451	681,003
Cost of product sales	136,925	87,206	224,131
Cost of service sales	—	40,541	40,541
Cost of sales	136,925	127,747	264,672
Gross margin	\$ 229,627	\$ 186,704	\$ 416,331
Research and development	\$ 15,380	\$ 107,815	\$ 123,195

For the year ended December 31, 2019			
	TASER	Software and Sensors	Total
Net sales from products	\$ 280,554	\$ 118,920	\$ 399,474
Net sales from services	1,107	130,279	131,386
Net sales	281,661	249,199	530,860
Cost of product sales	107,188	83,495	190,683
Cost of service sales	—	32,891	32,891
Cost of sales	107,188	116,386	223,574
Gross margin	\$ 174,473	\$ 132,813	\$ 307,286
Research and development	\$ 14,469	\$ 86,252	\$ 100,721

AXON ENTERPRISE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Note 20 - Supplemental Disclosure to Cash Flows

Supplemental non-cash and other cash flow information were as follows as of and for the years ended December 31 (in thousands):

	2021	2020	2019
Supplemental disclosures:			
Cash and cash equivalents	\$ 356,332	\$ 155,440	\$ 172,250
Restricted cash	\$ 106	\$ 111	\$ 105
Total cash, cash equivalents and restricted cash shown in the statements of cash flows	<u>\$ 356,438</u>	<u>\$ 155,551</u>	<u>\$ 172,355</u>
Cash paid for income taxes, net of refunds	\$ 5,108	\$ 10,893	\$ 3,669
Non-cash transactions:			
Property and equipment purchases in accounts payable	1,994	878	834
Non-cash purchase consideration related to business combinations	3,920	—	—
Commission payable converted to stock-based award	—	—	314

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Axon Enterprise, Inc.

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of Axon Enterprise, Inc. (a Delaware corporation) and subsidiaries (the “Company”) as of December 31, 2021 and 2020, the related consolidated statements of operations and comprehensive income (loss), stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2021, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2021, based on criteria established in the 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”), and our report dated February 24, 2022 expressed an unqualified opinion.

Basis for opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical audit matters

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

Revenue Recognition – Bundled Arrangements with Multiple Performance Obligations

As described further in Notes 1 and 2 to the financial statements, the Company derives revenue from two primary sources: the sale of physical products (including conducted energy devices (CEDs), cameras, corresponding hardware extended warranties, and related accessories), and subscriptions to the Axon Evidence digital evidence management software as a service and support. To a lesser extent, the Company also recognizes revenue related to training, professional services and other software services. Many of the Company’s products are sold on a stand-alone basis; however, the Company also bundles its hardware product and service performance obligations and sells them to customers as part of a single transaction.

We consider the identification of performance obligations, treatment of contract term assessments, the determination of the stand-alone selling price and allocation of the transaction price to multiple performance obligations, including the determination as to whether any amendments to an existing contract result in a modification, to be a critical audit matter.

The principal consideration for our determination that these revenue recognition matters are a critical audit matter is that significant judgment is exercised by the Company in determining revenue recognition for contracts with multiple performance obligations, and includes the following:

- Judgment in modification assessment and conclusions resulting from amendments to existing contracts.
- Identification and treatment of contract terms that may impact the timing and amount of revenue recognized (e.g., substantive termination penalties).
- Determination of whether products and services are considered distinct performance obligations that should be accounted for separately or in combination, and identification of all promises in the contract and whether such promises are limited to distinct explicit goods or services or whether they may be implied.
- Determination of stand-alone selling prices for each distinct performance obligation and for products and services that are not sold separately, which may include a market assessment of what the customer would be willing to pay for each performance obligation or an estimate of the expected cost plus an appropriate estimated margin of the performance obligation.

These judgments require significant auditor subjectivity in evaluating the reasonableness of those judgments. Our audit procedures related to the revenue recognition for contracts with multiple performance obligations included the following, among others:

- We tested the design and operating effectiveness of controls over the Company's contract review process, including those over the assessment of amendments to existing contracts, treatment of contract term assessments, the identification of distinct performance obligations included in the initial or amended contract, and the establishment and monitoring of stand-alone selling prices.
- We evaluated management's judgment in significant accounting policies related to these arrangements for reasonableness.
- For a sample of contracts, we performed the following procedures:
 - Obtained and analyzed the contract source documents for each selection, and other documents deemed a component of the arrangement, in order to test the appropriateness of management's identification and determination of contract terms.
 - Assessed contractual terms and the appropriateness of material right determinations.
 - Obtained management's contract review assessment and corroborate the judgments applied in accounting for the arrangements.
 - Assessed the terms in the arrangement and evaluated the appropriateness of management's application of their accounting policies, along with their use of estimates, in the determination of revenue recognition conclusions.
 - Traced the term of the revenue recognition period to the contract and recalculated the expected revenue recognized during the period.
- We evaluated the reasonableness of management's estimate of stand-alone selling prices for products and services by comparing the stand-alone prices to historic stand-alone transactions and other data.

/s/ GRANT THORNTON LLP

We have served as the Company's auditor since 2005.
Phoenix, Arizona
February 24, 2022

Item 9. *Changes in and Disagreements With Accountants on Accounting and Financial Disclosure*

None.

Item 9A. *Controls and Procedures*

Attached as exhibits to this Form 10-K are certifications of the Chief Executive Officer (as the principal executive officer) and Chief Financial Officer (as the principal financial and accounting officer), which are required in accordance with Rule 13a-14 of the Exchange Act. This “Controls and Procedures” section includes information concerning the controls and controls evaluation referred to in the certifications. This section should be read in conjunction with the certifications and the Grant Thornton LLP attestation report for a more complete understanding of the topics presented. Grant Thornton LLP has independently assessed the effectiveness of our internal control over financial reporting and its report is included below.

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) under the Exchange Act) as of the end of the period covered by this Annual Report on Form 10-K. 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 this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that as of December 31, 2021 our disclosure controls and procedures were effective.

Management Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2021 based on criteria set forth in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). As a result of this assessment, management concluded that, as of December 31, 2021, our internal control over financial reporting was effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Grant Thornton LLP has independently assessed the effectiveness of our internal control over financial reporting and its report is included below.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting during the fiscal quarter ended December 31, 2021, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Axon Enterprise, Inc.

Opinion on internal control over financial reporting

We have audited the internal control over financial reporting of Axon Enterprise, Inc. (a Delaware corporation) and subsidiaries (the “Company”) as of December 31, 2021, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in the 2013 Internal Control—Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated financial statements of the Company as of and for the year ended December 31, 2021, and our report dated February 24, 2022 expressed an unqualified opinion on those financial statements.

Basis for opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control over Financial Reporting (“Management’s Report”). Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and limitations of internal control over financial reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ GRANT THORNTON LLP
Phoenix, Arizona
February 24, 2022

Item 9B. Other Information
Item 1.01 Entry into a Material Definitive Agreement

On February 23, 2022, the Company entered into construction management agreement with Okland Construction Company, Inc. for construction of a new manufacturing and office campus on land the Company owns in Scottsdale, Arizona. The contract specifies a maximum guaranteed construction price of approximately \$149.7 million. Construction is expected to start no later than May 3, 2022 with final completion by July 25, 2024.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

None.

PART III
Item 10. Directors, Executive Officers and Corporate Governance

The information required to be disclosed by this item is incorporated herein by reference to our definitive proxy statement for the 2022 Annual Meeting of Stockholders (the “2022 Proxy Statement”), which proxy statement we expect to file with the SEC within 120 days after the end of our fiscal year ended December 31, 2021.

Item 11. Executive Compensation

The information required to be disclosed by this item is incorporated herein by reference to our 2022 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters
Equity Compensation Plan Information

A description of our equity compensation plans approved by our stockholders is included in Note 14 to the consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K. The following table provides details of our equity compensation plans at December 31, 2021:

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (b) (1)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	4,940,286	\$ 28.58	1,021,160
Equity compensation plans not approved by security holders ⁽²⁾	111,200		29,600
Total	5,051,486		1,050,760

(1) The weighted average exercise price is calculated based solely on the exercise prices of the outstanding options and does not reflect the shares that will be issued upon the vesting of outstanding awards of RSUs which have no exercise price.

(2) In September 2019, our Board of Directors adopted the Axon Enterprise, Inc. 2019 Stock Inducement Plan (the “2019 Inducement Plan”) pursuant to which we reserved 500,000 shares of common stock for issuance under the Inducement Plan. The 2019 Inducement Plan was adopted without stockholder approval pursuant to Rule 5635(c)(4) and Rule 5635(c)(3) of the Nasdaq Listing Rules. The Inducement Plan provides for the grant of equity-based awards, including

restricted stock units, restricted stock, performance shares and performance units, and its terms are substantially similar to our stockholder-approved 2019 Plan. In accordance with Rule 5635(c)(4) and Rule 5635(c)(3) of the Nasdaq Listing Rules, awards under the Inducement Plan may only be made to individuals not previously employees or non-employee directors of the Company (or following such individuals' bona fide period of non-employment with the Company), as an inducement material to the individuals' entry into employment with the Company.

All other information required to be disclosed by this item is incorporated herein by reference to our 2022 Proxy Statement.

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

The information required to be disclosed by this item is incorporated herein by reference to our 2022 Proxy Statement.

Item 14. *Principal Accountant Fees and Services*

The information required to be disclosed by this item is incorporated herein by reference to our 2022 Proxy Statement.

PART IV

Item 15. *Exhibits, Financial Statement Schedules*

(a) The following documents are filed as part of this report:

1. Consolidated financial statements: All consolidated financial statements as set forth under Part II, Item 8 of this report.
2. Supplementary Financial Statement Schedules: Supplementary schedules have not been included because they are not applicable or because the information is included elsewhere in this report.
3. Exhibits:

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporated (incorporated by reference to Exhibit 3.1 to the Quarterly Report on Form 10-Q, filed August 6, 2021)
3.2	Bylaws, as amended and restated (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K, filed January 31, 2022)
4.1	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.2 to Registration Statement on Form SB-2, effective May 11, 2001 (Registration No. 333-55658))
4.2	Description of securities of Axon Enterprise, Inc. registered under Section 12 of the Exchange Act (incorporated by reference to Exhibit 4.2 to the Annual Report on Form 10-K, filed February 28, 2020)
10.1+	Form of Indemnification Agreement between the Company and its directors (incorporated by reference to Exhibit 10.4 to Registration Statement on Form SB-2, effective May 11, 2001 (Registration No. 333-55658))
10.2+	Form of Indemnification Agreement between the Company and its officers (incorporated by reference to Exhibit 10.15 to Registration Statement on Form SB-2, effective May 11, 2001 (Registration No. 333-55658))
10.3+	TASER International, Inc. Deferred Compensation Plan (incorporated by reference to Exhibit 10.1 to Form 8-K, filed on July 12, 2013)
10.4+	2016 Stock Incentive Plan (incorporated by reference to Annex B of 2016 Proxy Statement, filed on April 15, 2016)
10.5+	Axon Enterprise, Inc. 2018 Stock Incentive Plan (incorporated by reference to Annex B of the Company's Proxy Statement, filed on April 13, 2018)
10.6+	CEO Performance Award (incorporated by reference to Annex A of the Company's Proxy Statement, filed on April 13, 2018)
10.7+	Axon Enterprise, Inc. 2019 Stock Incentive Plan (incorporated by reference to Annex A of the Company's Proxy Statement, filed on December 31, 2018)

Exhibit Number	Description
10.8+	Axon Enterprise, Inc. 2019 Stock Incentive Plan Exponential Stock Unit Grant Notice (incorporated by reference to Annex B of the Company's Proxy Statement, filed on December 31, 2018)
10.9	Amended and Restated Credit Agreement dated December 31, 2018 between the Company and JP Morgan Chase Bank, N.A. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed January 7, 2019)
10.10+	Executive Employment Agreement by and between Axon Enterprise, Inc. and Jawad A. Ahsan (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K, filed June 4, 2019)
10.11+	Executive Employment Agreement by and between Axon Enterprise, Inc. and Luke S. Larson (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed June 4, 2019)
10.12+	Executive Employment Agreement by and between Axon Enterprise, Inc. and Joshua M. Isner (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K, filed June 4, 2019)
10.13+	Executive Employment Agreement by and between Axon Enterprise, Inc. and Jeffrey C. Kunins, dated September 23, 2019 (incorporated by reference to Exhibit 10.16 to the Annual Report on Form 10-K, filed February 28, 2020)
10.14+	Axon Enterprise, Inc. 2019 Stock Inducement Plan (incorporated by reference to Exhibit 99.1 to the registration statement on Form S-8, filed September 23, 2019)
10.15	Auction Statement from the Company to the Arizona State Land Department (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q, filed November 6, 2020)
10.16	Amendment to the Amended and Restated Credit Agreement between the Company and JP Morgan Chase Bank, N.A. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed February 3, 2021)
10.17	Letter Amendment to the Amended and Restated Credit Agreement between the Company and JPMorgan Chase Bank, N.A. (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q, filed November 15, 2021)
10.18	Distribution Agreement, dated August 10, 2021, by and between Axon Enterprise, Inc. and J.P. Morgan Securities LLC (incorporated by reference to Exhibit 1.1 to the Current Report on Form 8-K, filed August 10, 2021)
10.19*±	Construction Management Agreement, dated February 23, 2022, by and between Axon Enterprise, Inc. and Okland Construction Company, Inc.
21.1*	List of Subsidiaries
23.1*	Consent of Grant Thornton, LLP, independent registered public accounting firm
24.1*	Powers of attorney (see signature page)
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 Calculation Linkbase Document
101.LAB*	Inline XBRL Taxonomy Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Presentation Linkbase Document
104	The cover page from the Company's Annual Report for the year ended December 31, 2021, formatted in Inline XBRL

+ Management contract or compensatory plan or arrangement

* Filed herewith

** Furnished herewith

- ± Certain confidential portions of this Exhibit were omitted by means of marking such portions with brackets (“[***]”) because the identified confidential portions (i) are not material and (ii) would be competitively harmful if publicly disclosed.

Item 16. *Form 10-K Summary*

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AXON ENTERPRISE, INC.

Date: February 24, 2022

By: /s/ PATRICK W. SMITH
Chief Executive Officer, Director
(Principal Executive Officer)

Date: February 24, 2022

By: /s/ JAWAD A. AHSAN
Chief Financial Officer
(Principal Financial and Accounting Officer)

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Patrick W. Smith his or her true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him or her in any and all capacities, to sign any amendments to this Annual Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
<u>/s/ PATRICK W. SMITH</u> Patrick W. Smith	Chief Executive Officer, Director (Principal Executive Officer)	February 24, 2022
<u>/s/ JAWAD A. AHSAN</u> Jawad A. Ahsan	Chief Financial Officer (Principal Financial and Accounting Officer)	February 24, 2022
<u>/s/ ADRIANE M. BROWN</u> Adriane M. Brown	Director	February 24, 2022
<u>/s/ RICHARD H. CARMONA</u> Richard H. Carmona	Director	February 24, 2022
<u>/s/ JULIE A. CULLIVAN</u> Julie A. Cullivan	Director	February 24, 2022
<u>/s/ MICHAEL GARNREITER</u> Michael Gamreiter	Director	February 24, 2022
<u>/s/ CAITLINE E. KALINOWSKI</u> Caitlin E. Kalinowski	Director	February 24, 2022
<u>/s/ MARK W. KROLL</u> Mark W. Kroll	Director	February 24, 2022
<u>/s/ MATTHEW R. MCBRADY</u> Matthew R. McBrady	Director	February 24, 2022
<u>/s/ HADI PARTOVI</u> Hadi Partovi	Director	February 24, 2022