

# **Knightscope, Inc. (KSCP) Q2 2024 Earnings Call Transcript**

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**Body**

Knightscope, Inc. (KSCP)

Q2 2024 Earnings Call Transcript

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Company Participants

William Li - Chairman, CEO

Apoorv Dwivedi - EVP, Chief Financial Officer

Stacy Stephens - EVP, Chief Client Officer

Conference Call Participants

Presentation

William Li

Welcome. Thank you, everyone, for attending the Knightscope Town Hall as well as the 2024 Annual Stockholder Meeting. We're grateful to each and every one of our investors and genuinely appreciate you taking time to tune in today.

Let me get straight to the point. Almost every company goes through difficult times, and the last couple of years have been quite challenging for Knightscope as a public company. I can tell you it's an odd situation because, internally, we believe we're doing profoundly better than when we were private. But as I often say, I believe Wall Street can be wrong in the short term and typically right in the long term. In the meantime, we'll continue to relentlessly work the issues, and I am confident, highly confident, we'll have a very, very bright future. This too shall pass.

We're making solid progress on all our internal goals and key ingredients to reach profitability, and I'm excited about the future of Knightscope in driving long-term stockholder value. A good amount of that has to do with the sweeping changes we're making to the business. Honestly, some days, it feels like we're changing everything except the color of the logo. Our aim is to leave no stone unturned and we are focusing on various opportunities to improve the company and its financial position. We still have a lot of work ahead for us, and we believe that we just need to focus on execution.

As Knightscope's largest stockholder, I have an unwavering belief in and support for the Knightscope team because our team shows up every day no matter how hard or how complex the challenges that we face maybe and just keep pushing forward our progress towards a brighter future. That relentless nature is what helped -- actually helped get Knightscope off the ground 11 years ago and led to us being one of the 5% of start-ups that succeed in getting off the ground and staying off the ground.

Listen, the sky is blue, tomorrow is just another sunset away, we just need to work the solutions, including instilling investor confidence and executing our plans. We have a plan, we have the right team working the plan and are making progress every single day. I believe the future is extremely bright for Knightscope, and I love our company, our team and our investors. I don't want to be working on anything else, and it's my honor and privilege to be fighting for Knightscope in our country every single day.

Today, I'll focus on my four personal reasons why I'm long on Knightscope and absolutely certainly short on the criminals: market, technology, operations and people. So let's get into that now.

Market, investors love to hear, love to hear that there's a large market ripe for disruption, especially if there is a unique technology and a business model to go with it. Well, in our case, we believe we're not just targeting a very large market, but one that has a recurring need. The public safety law enforcement and security markets are not only ripe for disruption, but we believe they're ripe for disruption utilizing robotics, AI and automation.

So let's work through maybe three different angles on sizing what we believe can be a multibillion dollar opportunity. So first, we often say, or I often say, robots will be everywhere. We believe the market's potential is very large. And in our case, we think it's a market that will not only -- will not collapse as crime is an ongoing recurring problem, unlike markets that can disappear. Think about typewriters, pagers, fax machines, flip phones and station wagons.

Remember, a property crime occurs every 4 seconds in our country and a violent crime every 26 seconds. We do not have to live this way. I believe every American has a basic and fundamental right to live in a safe community in a safe country.

Second, another angle will be some sort of unique triangulation or taking a few different data points to help draw a conclusion. So let me give you some numbers. There are approximately 1 million law enforcement professionals, about 1.5 million security guards, approximately 300,000 law enforcement vehicles and about 80 million security cameras in operation in the U.S. The answer in my eyes is certainly not small. It requires a large technology portfolio that we're just getting started building. So I don't believe it's tens or hundreds or thousands of robots. Millions is where we're focused in the long term.

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Third, you can take a percent augmentation approach to some of the numbers above and long term in our eyes, there's a potential for a $40 billion recurring revenue opportunity once everything is in place. And you can download the deck at knightscope.com/rise. If you want to take a closer look, but here is a screenshot of the relevant slide for you.

Now that you understand this is a huge opportunity, how do we tackle it and what progress have we made? Well, here are some things for you to think about. Potential for recurring revenue. Well, with our machine as a service subscriptions, we're demonstrating that a recurring revenue business model for recurring societal problem can work and has already generated millions and millions of dollars of revenue.

High margins. We've demonstrated greater than 60% margins over a five-year period by analyzing data from numerous, numerous of our longest-serving clients for our autonomous security robots, which is a major, major milestone confirming our projections with real-world results. Now we just need to scale things up.

Renewals. Clients have renewed our subscription services, including for 2, 3, 4, 5, 6, 7, even 8 years, 8 consecutive years. Clients don't stick around that long without us providing real value for them.

Dwindling competition. We believe every major effort by a competitor, either a major corporation or a start-up, has effectively failed thus far, granting Knightscope a genuine first-mover advantage.

Federal. We believe we are currently the only autonomous security provider authorized to do business with the U.S. Federal Government. And we have successfully deployed our first K5 gov machine at a U.S. Department of Veterans Affairs Hospital in Texas. Super excited about that.

Moat. We've begun to build a strong moat with a combination of approximately 3 million hours of operating in the field, the federal authorization I just mentioned from the U.S. Federal Government, a growing technology and advanced technology portfolio in more than a decade of real-world experience.

Crime fighting wins. Our machines have done a lot of good for society already, and we're just getting started. We've helped apprehend an armed gunman, helped with a domestic abuse case, aided a victim of kidnapping, helped issue an arrest warrant for a sexual predator, stopped numerous car thefts and list goes on and on and on.

You can check it out at knightscope.com/crime. We envision that in the future, we'll be required to have autonomous security, no different than having a, I don't know, a smoke alarm or a fire detector. And that will be the tipping point for robots to be everywhere.

RTX, our newly established Risk & Threat Exposure department has proven to be a resounding success with [Technical Difficulty] keeping your loved ones safe. And the number of robot selfies continues to grow.

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So to sum it up, what's not to love? A massive market with a real problem every American can relate to. A potential path to recurring revenue with potential for high margins at scale, proven technology and a competitive landscape where none of our competitors have not yet succeeded. Interesting times.

Let's move on to technology. Knightscope is a technology company focused on public safety, building new tools to fight against those that seek to cause harm to everyday Americans. What we have achieved is not only technologically extremely difficult to build, but even more challenging to operate 24/7, 365 across an entire nation.

To emphasize this fact, literally, three major corporations, and just as many funded start-ups, have failed, given up or gone bankrupt. We now have a real advantage. We believe we've got it working, now we just need to optimize.

Now it's time to scale things up with a focus on driving growth, cost reductions, efficiencies, process improvements, et cetera. Kind of maybe the less glamorous stuff, but extremely important, and we'll continue to build our moat as we develop our portfolio of software, hardware and unique services that combine together will uniquely position us as leaders of public safety technology.

We believe that in order to address the nation's public safety problem, we need to put at least 1 million machines in network that can see, feel, hear, smell, speak and autonomously cooperate. They need to work 24/7, 365 and give the 2.5 million officers and guards real tools for them to be able to do their jobs effectively and keep you and your loved ones safe. I'll say it again. I believe that robots will be everywhere. And anyone who thinks that, that is not the case is in for a very, very rude autonomous awakening.

To give you a flavor of the future that we're planning for Knightscope, I thought it would be helpful to highlight our current portfolio of technologies and equally as important, as a technology company, share what the future might hold for Knightscope.

We currently have eight different machines and devices in the field as well as two software platforms.

K1 Hemisphere. When size and price matter, the K1 Hemisphere can be had for as low as $0.75 per hour, including being monitored remotely by our RTX team. K1 Tower has been popular at ingress and ingress points where there's a good amount of human or vehicle traffic. K3 Indoor has been proudly patrolling indoors at a large hospital in Houston for many, many years. K5 Outdoor, our most popular ASR and now on our fifth generation of the technology, providing both physical deterrent to negative behavior but also given officers and guards eyes, ears and voice on the ground in multiple locations at the same time.

K1 Blue Light Tower, a beacon of public safety across schools and corporate campuses. K1 Blue Light Emergency Phone, it's a compact emergency calling solution, very popular in parking structures. K1 Call Box. Thousands and thousands of these are deployed for emergency roadside assistance in remote locations. He, listen, no cellular? No problem. That's our thing with our K1 Call Boxes.

K1 Retrofit Kit. It's an opportunity to upgrade solar power, wireless connectivity with self-monitoring software and support. And on the software side of things, we've got the Knightscope Security Operations Center. This is our browser-based user interface that provides a unique format for humans to interact with our autonomous security robots and the over 90 terabytes of data they generate annually.

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Knightscope Emergency Management Systems, or KEMS, launched a year ago that helps monitor our nearly 10,000 fleet of K1B devices in the field operating 24/7. Additionally, and through strategic partnerships, we've added Automated Gunshot Detection, 100% automated for indoor or outdoor usage reporting a gunshot within 2 seconds, providing the 3D shooter location accuracy within 2 meters. Autonomous drones, a partnership with our friends at Draganfly, forming a unified offering both in the air and on the ground.

And the recently announced K1 Laser, using lasers to fight against criminals, especially for perimeter security. The K1 Lasers operate under adverse weather conditions and low or no lights, reliably delivering advanced details that the 80 million-plus security cameras in the U.S. cannot.

All of these actions enhance our offerings for our clients on our mission to better securing our country. This is just the start of what we anticipate will be a wide, a very wide portfolio of technologies to better protect the places people live, work, study and visit. We plan to do that by building new technologies organically through partnerships and through acquisitions.

In the near future, we're focused on two key strategic initiatives. First one being platform commonality. To drive engineering efficiencies, improve quality, speed up manufacturing throughput, increase economies of scale and drive innovation, we must, we must consolidate our wide ranging of technical architectures, hardware, software, firmware, telecom and electrical systems into a single common company-wide platform.

To that end, we've kicked off a very ambitious project called ICM, or Intelligence Control Module, that we intend to eventually become the backbone of the entire lineup, handling all things AI, all things video, audio, lighting control and telecommunications. We believe this software-firmware-hardware platform designed to provide a seamlessly unified customer and operating experience across all our products will not only drive significant, significant cost reductions, but numerous benefits in manufacturing quality and operations at scale. We're targeting the ICM to go into production during 2025.

Portfolio expansion. In the medium term, we intend for the aforementioned ICM module to go into the future K1 Super Tower and the all-new and super exciting K7 ASR that we highlighted during our Innovation Week. Concurrently, we intend to tackle additional growth opportunities through a methodical approach long term. In some cases, organically, and as I mentioned, in other cases, through partnerships and acquisitions. We certainly have our sights set on the K10 Patrol and future K15 Tactical vehicles.

Although the industry is not yet ready for this level of technology, Knightscope seeks to become that trusted adviser that trusted technology adviser over time for our clients to help bridge the gap between those on the front lines and cutting-edge new technologies. We need to work in the future to deliver the future. This is an exciting time where we think technology can genuinely and positively help society, help our communities and help your community and your loved ones. And we believe all that we envision is technically possible with the right people, cash and time to execute.

So you may be asking, what about artificial intelligence? How does AI play a role in Knightscope's future? Well, first, some of the basics involved in AI already have been implemented at Knightscope and working in the field. I often kid around or tease folks, like do you think there's like a little guy inside of robots and pedaling away like crazy to get the machine to move around by itself? That's all AI.

That is real-world practical implementation of AI, and so is autonomous recharging, facial recognition, license plate detection, people detection, object tracking. All that is AI. We intend to integrate AI into everything we do as we have already, and it is part of our core.

The exciting part in my mind is the latest breakthroughs in AI are only going to accelerate our efforts at Knightscope. When we say we need 1 million machines in network and they need to see, feel, hear, smell, speak and autonomously cooperate, we believe that will all, all of it will be accelerated dramatically by AI. So let's go through them.

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What do we mean by see? Well, process vast amounts of video data for object and scene classification to detect humans, vehicles, animals, bicycles, behaviors and threats. Feel. Run machine learning models on live-streaming thermal data or analyze emotions in a crowd of people or detect a fire. Hear, automatically conduct sound classification and localization for acoustic event detection, which could include gunshots, cars starting, glass breaking, a yell for help or an accident.

Smell, figuratively place a dog's nose on a chip to detect pathogens or chemical, biological, radiation or other similar risks. Speak. Utilize generative AI to allow the public to conduct a value-added conversation with the robots, which could be used for basic information, directions, call for help or details on a point of interest.

And what do we mean by autonomously cooperate? Well, utilize AI to enable autonomous cooperation, swarming, data transfer and data sharing for scene or incident analysis, planning and investigation amongst all the machines. For example, imagine the FBI putting up their Most Wanted List and the machine is being able to track that suspect down anywhere in the country within minutes.

Here's another example. We need to build a state-of-the-art AI-driven mission control software platform to be able to facilitate cooperation between all these machines. Today, there is a stand-alone user interface for each of the autonomous security robots, our K1B portfolio, the drones, automated gunshot detection and the recently announced K1 Laser.

For our clients and our team to get the most out of all these systems, we need them to be able to effectively communicate, share data, plan missions, conduct investigations and autonomously cooperate with each other. That is going to be a hell of a software marvel to build. We think the opportunities with AI are endless and the possibility to build game-changing technology for the benefit of our communities and our country is invigorating and what gets us up every morning here in Silicon Valley.

Operations, the team spent years and years getting all this stuff to work, and we were not necessarily focused on optimizing for material costs, labor efficiencies, processes, et cetera. Honestly, the priority was just to get all this stuff to work and prove that a client would pay for it. Now having done that, we can now focus on refining. The work to optimize things is not glamorous as I mentioned, but it is a known quantity. We know what to do and are doing it. Now we simply need to increase revenue, reduce costs and scale up, after which we believe the profits will come.

Let me provide you some specifics so you get a better understanding of flavor of where we're focused and the progress we're making. Reduction in machine downtime across the fleet through design changes, material changes, improved quality assurance, burn-in testing and software and firmware improvements. Reduction in service costs through more carefully managing the service process, documentation and escalation procedures. Reduction in service costs through more outsourcing technician work and eliminating our fleet of trucks. Reduction in false positives through improvements in machine learning and algorithms as well as diagnostics.

Reduction in the bill of materials through changing suppliers, changing materials, eliminating parts and significant design changes. Reduction in labor hours through improved processes, documentation and use of contract manufacturing for select subassemblies. A reduction in number of facilities through ongoing consolidation. A reduction in cellular costs through contract negotiations and technical changes as well as an increased usage of private LTE. Reduction in operating expenses through numerous optimization techniques, elimination of processes and head count optimization.

At the same time as we're making all those reductions, we've also made the following improvements. Improvement in purchasing controls and improvements in production planning and sign-off authorities, improvements in production throughput where, for example, we used to ship maybe one K5 perhaps every week, or 2, and now consistently shipping about 3 a week. Improvements in QA processes throughout the production process and the line test documentation. Again and again, again, strict controls on authority to ship. Improvement in decision-making by eliminating a significant portion of the management team.

Improvement in root cause analysis by driving decisions based on collection of data from the field and not just going to fix the problem and not analyzing it. Improvement in client retention through both upgrades to the fifth generation K5, but also implementation of the aforementioned RTX team, or the Risk & Threat Exposure team. Improvement in team alignment, which is really important, where we now have a solid cadence of engineering and production changes underway.

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We want to work to squeeze out as many efficiencies as possible, cleaning house, improving business and technical processes while focusing on the bottom line. As a result, we think that these improvements will begin to show up in the financials in the coming months, quarters and years, setting ourselves for what we believe will be profitable growth and in a very exciting future.

People, one of the keys to success here is the absolute relentless nature of the Knightscope team. We've made a lot of changes, but not limited to, cutting a third of the management team to streamline decision-making, recruited an all-new board of directors, on track to cut up to 30% of the payroll expense and we're focused on building a very cohesive team. One team, one fight.

And did you know that third of Knightscope employees have been with the company between 3 and 11 years? Frankly, that is a bit of a miracle here in Silicon Valley, where typically folks last maybe a year or 2 max at an employer. These are smart-driven people that could work anywhere but they're given that they're all against all odds to make Knightscope successful and achieve our mission. My bet is and will always be on the Knightscope team.

I also consider our thousands of retail investors part of our team. Without your steadfast support, we wouldn't have been -- had the fuel to build the company and get this far in the first place. A heartfelt thank you to you all.

My model has been, life is short, do what you love and make a big impact. And what I love is working on our honorable mission here at Knightscope that everyone says is impossible. That fuels a deep fire within me and the entire team. This country gave my parents a chance for a better life, coming from South America and Asia.

My mom was from Bogota, Colombia and my dad was from outside of Shanghai, China, and they met in the melting part of New York City, where I was born. And here in America, they were able to build a positive life together and provide me a chance to grow, learn and succeed. I feel a deep need to repay that debt to our country. I believe in America, and I believe we can make it the safest in the world. Well, for that to potentially happen, I need you to continue to believe in Knightscope and the Knightscope team. Together, we can do this.

What many investors don't understand is that, after 9/11, I committed to dedicate the rest of my life to better securing the U.S. And so the drive here is deeply personal with me. We're not going away no matter how hard so many try to trip us up. I'm going to do whatever it takes so long as it's legal, ethical and moral to force a win for our country and for our stockholders. If we can't run, we will walk. If we can't walk, we will crawl, but nothing is going to stop us from moving forward. And I mean nothing.

Having put in over a decade working the same problem over and over and over again gets us several steps closer to a victory. What is crazy is it's actually indeed possible to achieve the mission, as crazy as that might sound, and making the U.S. the safest country in the world sounds outrageous. But that deep change in public safety requires investment in building of new technologies. You're not just going to download the solution off the cloud and the federal, state and local government are not going to fix this problem. It requires real work by serious people, backed by serious investors, and I know we can do it together.

Listen, Americans love a comeback story, and I hope you'll be a meaningful part of it. So join us, and be a force for good. Onward.

Apoorv Dwivedi

Thanks, Bill. We know that this journey is challenging, but Knightscope is well positioned for long-term success.

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With that, let's jump into our second quarter financial performance results. I'm Apoorv Dwivedi, EVP and CFO at Knightscope. For the second quarter of 2024, we reported total net revenues of $3.2 million. This represents a decrease of $0.4 million or a 10% decline compared the same period prior year, primarily because the gain in our services business was offset by lower year-over-year product revenue.

Services revenue increased by $0.1 million to reach approximately $2 million for the quarter, primarily due to ASR subscriptions and as more clients in the K1B product line signed up for recurring maintenance. However, total product revenue, which currently consists mainly of the K1B product, declined by $0.5 million, coming in at approximately $1.3 million because a large onetime sale in the prior year did not repeat.

Moving on to costs. If you recall, the company made a few strategic changes in the first quarter aimed at setting a path to profitability. Many of these were directly aimed at reducing our cost of goods and our cost of services. We also acknowledged that these initiatives would initially result in higher short-term costs and that we also expect the disruptions in the impacted activities at the business to directly affect our P&L throughout the year. As a result, we fully expect 2024 to continue to be a transition year.

Our cost of revenues came in at $3.8 million, which is an increase of approximately $200,000 from the prior year. This was driven primarily by cost savings that include $0.5 million in lower cost of materials and $0.5 million -- $0.4 million in head count savings that were offset by $0.6 million in higher third-party costs, $0.3 million in scrap fees and $0.2 million in other costs associated with the transition.

On to gross profit. This quarter, we recorded a gross loss of $0.6 million, a significant change from the gross profit of 9,000 reported in the prior year second quarter. The decrease in gross margin was driven by $0.4 million in lower year-over-year revenues and $0.2 million in higher cost of revenues. It's important to note that our gross loss would have been between $0.1 million and $0.3 million if we exclude the onetime scrap fees of $0.3 million and the onetime transition costs of $0.2 million.

Moving on to OpEx. Total operational expenses came in at $6.2 million for the quarter ended June 30. Excluding the $0.3 million in restructuring charges that we took, our OpEx was flat to prior year as it came in at $5.9 million for this quarter. Overall, we saw head count savings of $0.6 million offset by $0.4 million in higher third-party expenses, primarily legal and financial support costs and $0.2 million in higher R&D costs related to product development as the firm explores a new generation of product design.

Restructuring charges of $0.3 million were primarily related to severance costs and moving fees as we closed down the Irvine, California facility to move our production to Mountain View, California. Loss from operations of $6.8 million was approximately $0.9 million higher than prior year because of the drivers discussed earlier. It's important to note that excluding the onetime restructuring costs of $0.3 million and the scrap fees of $0.3 million and investment in new product development of $0.2 million, our OpEx -- or operating loss would be flat to prior year on $0.4 million in lower revenues, indicating that the company is working hard to deliver on its operational efficiencies.

Net loss of $6.3 million for the quarter came in approximately $1.5 million higher than prior year, primarily due to the $0.7 million increase in other expenses, coupled with the $0.8 million higher OpEx versus prior year. The increase in other expenses includes $0.5 million in higher non-cash warrant valuation losses and $0.2 million in interest on the bonds that we closed in the first quarter. Finally, Knightscope's basic and diluted net loss per common share was $0.05 as compared to a loss per share of $0.08 prior year.

With that, I'll pass it back to Bill.

Stacy Stephens

Good afternoon, everybody. Thank you so much for joining the Knightscope Q2 Town Hall. I'm Stacy Stephens, Executive Vice President and Chief Client Officer here at Knightscope. I want to thank Bill and Apoorv. They're going to be joining us live momentarily.

I want to go through some quick housekeeping measures. First and foremost, all of your questions, please put them into the chat window so that we can address them. If it's stuff that are just comments and things like that, if you see your comments disappear, it's only because I'm deleting them so I can keep track of the questions. And then I will tee those up for Bill and Apoorv, so you guys can ask them the live questions.

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So to go ahead and get started. Bill, why don't you, and Apoorv, talk about some of the highlights and accomplishments for the quarter that we're talking about right now, just so people kind of know some of the positive stuff. Obviously, we've got to go through all the financials and everything else. But it's not all doom and gloom. So let's talk about some of the positive changes that have been made. Bill?

William Li

Good to see you, Stacy and Apoorv. Thanks, everybody. Only a few hundred people online with only a few hundred questions, so we're going to be here a little bit. We'll try to answer as many as possible. As we mentioned, we're -- this year is kind of a clean house turnaround year to make a lot of fundamental changes.

We expect that those numbers will be choppy. It's not going to be a linear kind of progression as we make substantial changes throughout the entire organization. And as I mentioned in the video, some days, honestly, it feels like we're changing everything except the color of the logo. But I think Apoorv and I and the team are pretty excited despite all the red stuff that you see.

On the share price side of things, I think the future is looking pretty good, and we're excited to move things forward. There are things that are less obvious that don't show up in regulatory filings. Obviously, we're not going to share any material nonpublic information here, but we may highlight a few things. Sometimes in all the regulatory filings, things get lost, or frankly, a little too complicated.

But I'll turn it over to Apoorv, if you want to kick off some things that will help answer a ton of questions that are flying in here, on things that we have changed that may not be so obvious for folks.

Apoorv Dwivedi

Absolutely. Absolutely. We started off this quarter by focusing on cleaning up our cap table. Primarily when we looked at our balance sheet, you look at prior years, you saw that there was this -- on our shareholders' equity section, there was this about $34 million in preferred shares that kind of sat there. And what that did is that's normally not common when you are a public company.

Most preferred shares convert automatically into common upon an IPO liquidation event. In our case, because we did a direct listing, that did not occur. So that kind of made us a little bit of an anomaly in being a public company. So the first thing we did in the second quarter was convince all the majority of the preferred shareholders to -- both to convert.

By doing so, a couple of things happened. One, we got -- we aligned ourselves more with the -- with public company structure. Secondly, we also were allowed to or able to put that $34 million into our stockholders' equity number. So that wasn't -- before that wasn't being calculated. So we had this negative stockholders' equity or stockholders' deficit on our balance sheet.

By making that change and cleaning that up, we were able to now show, as you guys can probably see on our recent filings, we had $11.2 million of shareholders' equity. Now what's good about that is that, one, again, it cleans up our balance sheet; two, on a NASDAQ perspective, it allows us to qualify for or continue listing under their stockholders' equity requirement. NASDAQ has three requirements: revenue requirement -- sorry, market cap requirement and equity requirement and a net income requirement. We were previously only able to qualify into the market cap requirement, now we have this equity requirement, which is great for us.

On top of that, we also, on NASDAQ, moved to Capital Markets tier, which better aligns us for our company. We raised over $5 million in funding. We continue to do so. I see many questions on how do you continue to stay funded. We have an active ATM program that we use whenever we can. And we continue to find that to be useful. It's the cheapest form of capital that you can get without going into some of the more exotic types of fundings that are available sometimes.

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We have some of the best quarter this quarter. Actually, in terms of revenue, the best quarter in the last three quarters. 40% growth versus prior quarter. Again, this is -- some of this is choppiness that we're seeing, timing, but we think we're taking the right steps to get there. And then some of the things, Bill, maybe you want to talk about our partnerships and product developments and some of the things we're doing on the experience side.

William Li

Yeah. I think we need to obviously get the revenues up and the cost down and you can't just put Band-Aids on some of the stuff. Some of this through acquisition or through our own organic technology development. We're a technology company, and there are significant opportunities as we scale up, where perhaps we were 3D printing stuff before, now we should do something a little bit more efficient and low cost and better for higher volumes and get some consistency.

One of the things I'm super excited about is the Intelligence Control Module. Because if you look at the -- all the products that we have that are behind me here, we have different architectures, different software, different firmware and everything else. And that requires a lot of staff and a lot of engineering, maintenance, service support, production, QA. And it's a huge drag on throughput, on addressing service issues, service costs, et cetera.

And so with one fell swoop, we're looking to commonize that across the entire platform so we can build faster, we can QA faster, we can ship faster, we service a lot less, and then that starts and has with the K5 v5, replacing the K5 v3. I saw a question on here, well, how are you going to do all this with no massive incremental resources? Well, if we can be a lot more efficient with what we're doing here, and not have people working on older technology that needs a lot of babysitting, and we can permanently fix that stuff, that alleviates and relieves the team to go work on actual new product development. And I think that's going to be certainly one of the most exciting things for me.

I used to be an engineer in a former life. It gets me kind of excited, but it's going to have a dramatic effect, I think, on overall quality, throughput and our financial performance. As we keep saying, this is going to be a little choppy because you go make a change like that, but it doesn't necessarily time with when we're going to shut down a certain facility.

And then when that lease is up versus when you terminated that person, and so it's going to be a little messy. But overall, I think we're trending in the right direction, and we're going to take some lumps along the way, but we need to set this up for long-term success. And I think we've got the right strategy with the right team, now it's just time to execute.

Stacy Stephens

Let's get into some of the questions then.

William Li

Yes, because there is a lot questions, and thanks, everybody, for tuning in. I know all of you are pretty busy and have pretty busy lives. So we are grateful for that. The two videos that we just played will show up on YouTube here in a couple of hours or so, on our YouTube channel, and we'll post them on social media. So in case you missed something or you wanted to go back, or like what did Apoorv say? Rewind, you'll be able to do that here shortly. But let's get to the questions you've got here.

Question-and-Answer Session

A - Stacy Stephens

All right. So just everybody knows, I'm not going to be coming back on video just simply because I'm navigating multiple screens here, and I don't want to be a distraction. Starting at the top, what were the orders for, I'm assuming this means Hemisphere H1 -- K1 Hemisphere versus a year ago?

William Li

A year ago, we didn't have it in production. So it's been an initial growth driver. I think we're also learning where the best applications might be. We've had apartment complexes, warehouses, monitoring mailboxes for HOAs, and there's more coming. So we've delivered more than a bunch, and there's a bunch more to go out. And we want to make improvements to that. But I think there's a genuine market there for the Hemisphere. It took a little longer than we wanted to get out the door. But I guess versus last year, last year was zero.

Stacy Stephens

For those of you raising your hands, please just put your questions into the chat window. We do not have the video enabled this time like we have in times past. So raising your hand, unfortunately, will not get us to be able to interact with you directly.

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What percentage of sales are ASRs versus the Blue Light products?

William Li

So obviously, we would refer you to, for the specific numbers, to our regulatory filings. And this varies every quarter, but plus or minus, just to give you a flavor about, and Apoorv is going to correct me here in a minute, about two thirds of the business is K1B-related and about a third of it is ASR-related. It will be fascinating what that looks like three or five years from now. Depending on how things mature, but two thirds versus one third. Did I get that right?

Apoorv Dwivedi

Yeah, you did. It's about 68% for this quarter. And the reality is our K1 base of customers is much higher. So the sales team does a really great job of going out and selling to existing clients, selling more services and continuing to expand on that just because of the branding. The ASR side is still a new technology, and we continue to sell those as well. But from a revenue perspective, the check sizes sometimes seem to be bigger on the K1B.

Stacy Stephens

How much cash on hand on the balance sheet at the end of Q2?

William Li

Again, we refer you to the regulatory filings for the exact number. But I think the cash on hand over the last 18 months, or every filing that we've had, has oscillated somewhere between $2 million plus to maybe $5 million and kind of oscillates along the way. And everyone keeps like, you guys don't have enough cash.

You don't have enough, yes, we need more funding. But I've heard this line of attack of you're going to run out of money, you're going to -- we're not running out of money. Everyone needs to just calm down, and we have been public for two and half years, we haven't run out money. We were private for nine years, we haven't run out of money. We continue to try to raise capital as efficiently as possible and try to reduce our burn.

And I would remind folks that three major corporations and three funded large start-ups have failed at this. And so there is a level of technical difficulty to get all this stuff to work and commercialized. We're at the bleeding edge of technology and everyone expecting some sort of overnight change, very quickly done in 30 days and everything is going to be fine is kidding themselves.

This is going to take some time, but I think the fundamental thesis of what we're trying to do and where we're going to go and now really focused on profitable growth is really important.

And I said in the video, I'll just restate it for the group here, first 10-plus years, we're focused on just getting the technology to work. Remember what I just said. Half a dozen companies failed at this and including three major corporations. And probably, I'm going to guess, $0.25 billion to $0.5 billion burned and nothing to show for it. That speaks a little bit to the level of difficulty here.

Now that we've got it working, now it's time to do the blocking and tackling, like, okay, can we optimize what material we use for that part? Did we pick the right architecture? Maybe we should change how we build these machines. So now we're in the optimization mode, now that we've proven that there is a market there, now we just need to do it more efficiently. And this is going to sound a little odd, that's actually the easier part, right, where there's not a -- I don't know how to get from A to B. I don't know how to cost-reduce that part. That's not the case. So let's just work on this to get done. And folks just ask you to continue to be supportive and be patient.

We are working very hard to turn this into a big success. And like I often say, Wall Street is typically, in my opinion, wrong in the short term and right in the long term. And our goal here is to make for a lucrative business, but also make a big impact on the country.

Apoorv Dwivedi

And I'll just follow up, Bill. It was $2.6 million of cash at the end of the quarter. Again, as you mentioned, that's kind of where we hovered, just between five and two every quarter.

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William Li

Yeah, I think maybe now would be a good time to talk about cleaning up some -- the balance sheet and some toxic financings that were put in place. And without getting too much into the weeds here, we had a convertible debt offering or financing that was done a few years back and had a lot of toxicity that was not helpful overall. And then there are some blockers in those agreements that precluded us from doing normal financings or raising capital that like any other company would be able to do.

You can refer to the 8-K that we filed maybe a few weeks back. We have now kind of cleared that up. And now we have freedom to raise capital in any form that we deem favorable for our shareholders and not pigeonholed only to be able to rely on one or two forms of capital.

I don't know if you want to add anything else to that, Apoorv.

Apoorv Dwivedi

Yeah, absolutely. I think I saw a question come up earlier about this. It's very important to kind of talk through this. So what we did is we had this fund that we had given warrants out to as part of other convertible note. It was 1.3 million warrants struck at $3.25. What we found is that as we look through the details of this transaction was that the warrants themselves were actually extremely toxic for the company. Toxic, how, in that they have these clauses -- there's one clause called the reset clause. So basically, if we do financing their warrants, the strike price comes down to whatever we finance at.

The second part of that warrant language was that as -- if we do a financing event and the price of the stock -- the strike price drops, we have to keep the value of that arrangement the same. So if you think about $3.25, 1.3 million shares or warrants equals $3.7 million of value, right? We would have had to essentially award them $3.7 million worth of warrants divided by whatever the strike -- the new strike price is. And as we looked at that, we thought that in terms of dilution, that's a highly dilutive instrument, and we had to get rid of that not only for ourselves, but also for our shareholders who are concerned about this dilution.

So yes, we -- the 8-K states that we were able to basically convince and get an agreement with the fund to extinguish the warrants. They also had things like participation rights. So if we did a funding deal in the future, they could step in and participate, which we didn't think was a great idea for us. And as a result of that, we were able to convince them to take about $3 million of this debt that we have on our books, but get rid of those warrants.

And we think it's the best deal that the company could come up with and do. And now it frees us to go out and have the freedom to do, as Bill said earlier, to go out do other types of funding to be able to attract other investors, to work with partners and our bankers to capitalize the company in a way that's potentially less dilutive than what that arrangement was contemplating.

William Li

All right. Stacy, what do you got next?

Stacy Stephens

They keep flooding in. Can you give me a status -- or give us the status, sorry, of the investigation into the possible legal actions of the short seller?

William Li

This is regarding the Capybara suit. It's an ongoing investigation and an ongoing lawsuit. There is no update to provide other than that. When and if something does change, we will certainly let you know, but nothing new to report.

Stacy Stephens

Most of the Knightscope press releases mention new contracts or new sales, but it gives zero indication of impact on profit loss.

William Li

Okay. So an announcement is a fun internal discussion because we have a lot of investors, which is awesome, but we also get a lot of inputs and opinions. And in some cases, folks like I don't want to hear anything until like it's actually deployed and the money is coming in the door. Okay. Well, that's the financial statements.

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Well, I want to know where these are deployed, okay. Well, that's a different thing. Well, I want to know when a contract is signed. And so we've played around with different when and how we do this. But what we kind of -- the best thing was for us to announce when we have a new contract. And then in a lot of cases, it's not for the Investor Relations perspective. It's actually to help the sales team so that the contract happened in, I don't know, North Carolina, that might help the Client Development team that might be talking to another prospective client in that area. So we typically do the announcement of that.

Then there's this whole process of getting the site ready or doing site surveys, or what have you, building all the machine or devices and then deploying it. So there is a time difference between when it shows up in the financials and when we announce. What we're hoping to do as we increase production is: one, to get rid of -- finish retiring all the v3 K5s that have been a financial drain and operational drain on us; second, clear out as much as the backlog as we can, and we've made a good amount of progress on that; and the third is to actually build some finished goods inventory. So one of the ways to improve the financial performance of the company is thinking through the order to cash. When do you get an order and when do you deliver?

And you don't want this to be a very long period. So if we had some finished goods inventory or subassemblies completed, the dream here is get a contract on Friday and ship the next Friday, right? So we're working our way towards that, and that's one of the other reasons why we're focused on throughput and cycle times and efficiencies and in, some cases, having to redo the technology so we can actually see that. But all those contracts that we sign, especially since Apoorv began on board here, very much focused on making sure it's lucrative for the company, makes sense for us to do, and frankly, in a lot of cases, going back to some of the existing clients where we have some very ancient, old contracts that need to get redone. So we're going through that process as well.

Stacy Stephens

Okay. So we're getting a lot of questions about specific numbers, how many robots, how many Blue Lights, how many -- where is the profit, where is this, where is that on the numbers side?

As Bill said earlier, and Apoorv also echoed, if you're looking for those specific numbers, be sure to go to the Knightscope Investor Relations site and look at the SEC filings. The 10-Q was filed yesterday. So we got to make sure that you're pulling that information directly from the legally available -

William Li

Yeah. It's ir.knightscope.com, ir.knightscope.com, and then you can just click there and all the regulatory filings are there and all the specifics are there, to a nauseating level of detail, with 32,000 footnotes to go along with them. It's an arduous process to do all this stuff. So we -- if you have that level of interest, I kindly ask you to go, please, look at the numbers directly.

Stacy Stephens

Yeah. I just didn't want anybody thinking it was -- when they see their question disappeared, that's the reason because you can find that without taking this time.

Next question is, given that you'll probably do a reverse stock split -- okay, that's an assumption. Sorry, but that's not a definite yet, what actions will Knightscope take to prevent the stock from being driven back down to a penny stock by sellers and/or short sellers after the split?

William Li

Okay. So Apoorv and I will do this one together. And I know it's top of mind for everyone. So we have until October 4.

Stacy Stephens

Sorry. Also, Bill, just reading the next question, and it dovetails into this, also explain what the vote was because I think there's still misconception as to the vote being for the split versus the --

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William Li

So a few bullet points on this, and we're going to take a little extra time because there's a flood of questions on this.

One, we have a deficiency notice with NASDAQ that basically in order to cure, we need the stock price to be over $1 for a minimum 10 trading days in a row in order to cure that. We have until October 4, as negotiated with NASDAQ, to do that. And you've got to kind of back up from that time, and there's some processes and the like to enact it if we decide to go forward. So that's bullet point one.

Bullet point two is the Annual Shareholder Meeting, the formal part, is actually tomorrow at 1:00 Pacific. And that's kind of the formal forum where we count all the votes for all the resolutions that are in the proxy statement.

With respect to the reverse stock split itself, what NASDAQ requested, and we agreed to and the Board agreed to, is we are requesting the shareholders to approve and delegate the authority to do a reverse stock split to the board. It is not to enact the reverse stock split. So this is basically the shareholders saying, okay, it looks like we may have to do this. We support management and the board. Here's the authority to go do this, only if you have to do it and you have no other choice. And we still obviously have some time before that. I, as the, on the personal side, as the largest shareholder, I am the -- significantly not interested in doing a reverse stock split unless we absolutely have to.

And the primary reason is a majority of the time, and we can argue as to how often. So a minority of the time, it goes fine and the stock may trade up. After a reverse stock split, you can look at the numbers, I don't know, 10%, 20%, 30% of the time, let's just say, big round numbers, it works out fine and actually in favor of the shareholders. But there is that 50%, 60%, 70% of the time, like it doesn't work well. And in some cases, the companies did it themselves, like they did a financing right on top of a reverse stock split or put out a bunch of bad news or whatever it is, and kind of shot themselves in the foot. And then every company is different, right?

There's all kinds of circumstances. So we're trying to avoid this if we can. So the vote tomorrow is to give the authority to the board and delegate if we need it. And then there's a ratio as to what that number should be. Is it a 5 to 1 or 50 to 1? And that's another thing that the board will need to decide based on market conditions and the like.

I'll pause there, Apoorv, if you wanted to kind of add anything else to that.

Apoorv Dwivedi

Yeah. I think the goal here is not to rush into a reverse stock split, right? I know someone just asked how can investors help prevent this. Really, it's about three things, right? One, buy more shares. Two, hold those shares. Three, direct to your brokers to basically that they should be prevented or stop them from borrowing your shares to short sellers.

One of the things we did this deal that we put together with the fund, to the promissory note fund, actually will help us in the long term against further dilution of that share price. One of the things that would keep happening is because they were all -- because they had this exploding warrant feature, they could always just continue to short sell because they knew that they would get their shares back from us whenever there was a financing event.

Now effectively by doing this deal, we've been able to effectively stop them from actively short-selling those shares. So those type of things are things we're hoping to continue to keep doing. They take time, unfortunately, but we have until October 4. Actually, we probably have about, we'll say, until mid-September to get the share price above $1 organically. After that, we'll have to make some tough decisions. But again, our goal is not to go down the path. Our goal is to continue to be successful organically.

Stacy Stephens

And there are several questions related to, well, what are you guys doing about it?

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William Li

There's effectively only three things that we can do. Again, we don't directly control the share price, not to be funny about it, but you all do. It's supply and demand. If a bunch of people buy more shares and very few are selling, then likelihood the price goes up and the opposite is likely true. The three things that we can do, we are doing: improving the financial performance of the company; setting ourselves up for a successful long-term growth; and then lastly, just communicate, communicate, communicate.

The more we inform you, the more we answer your questions, the more we spend time like this, the better you're informed and then you can decide if you believe in the management team, do you believe in the market and do you believe in the technology and either decide to hold your shares, buy more shares or decide you'd rather sell them.

And that will have a direct impact on the price. So this is not a -- just a Knightscope team on their own is going to turn this around. We're going to need the active support of our investors, and supporters, and fans and the like to make this a success. But again, this is a kind of a two-way street. It's not just us. And we are working very hard to do our part.

Stacy Stephens

All right. Next up, can you describe the background of your sales force?

William Li

So our Head of Sales, Jason Gonzalez, has been with us now six years. He's ex-Honeywell. He's the COO of a guarding company. We've got folks that have spent almost their entire career selling K1 kind of Blue Light Tower stuff. Most of the folks on the team, in some form or fashion, have law enforcement, security or military veteran background. I think on the K1B side--

Stacy Stephens

Bill, sorry, as well as technology.

William Li

Yeah, obviously, and as well as technology. I think on the K1B side, the sales process is a lot more straightforward, I don't know, I'd say commodity-like. But the transaction is easier, the implementation sometimes is a little bit of a project. The ASR side of things does require a very technologically astute salesperson that also understands public safety, law enforcement and security. The complexities of the technology and the questions you get from clients and where it's applicable and a lot is somewhat an intense process. And having personally sold a few of these, it can be a bit challenging.

Stacy Stephens

How does Knightscope plan to help mitigate the risk of school shootings? Love that one.

William Li

So I think there's two answers. One, more technically focused and then the other one is cash or budgets. So the technology side of things, I think you need to provide more of a deterrence. Putting up a camera somewhere above your head is not going to deter anybody from doing anything. So that's why the robots can be very important, doing automated gunshot detection, adding visible weapon detection in the future and treating that school, I like to think like, more like a data center, in my view. Only the people authorized should be there, meaning the parents, the faculty and the students. Anyone else should be flagged. And there's technologies to be able to do that both outdoors and indoors.

I think my bigger concern, especially K-12, put the universities aside, is the budgets. I mean, to be frank, we as a country don't pay our schools, our teachers anywhere near what they're actually contributing to society. And in a lot of cases, the teachers themselves are covering for school supplies and all kinds of needs that the students have. And where exactly is that school supposed to come up with a six-figure or seven-figure budget to now properly harden and secure the facility?

So I think there's a fundamental budget problem, both a budget problem and a technical solution. And I think as Knightscope grows at some point in time, not now, we're going to need to spend some time in Washington, D.C. and speaking to Congress. And there's no way the, I forgot how many it is, 22,000 schools are going to fend for themselves and figure this out by themselves. I think that private schools might be a little bit different, but budget is a huge, huge problem.

Stacy Stephens

Also the fact that many cities are not enforcing and prosecuting criminal activities, i.e., shoplifting, et cetera, impacting the sale of the robots? So I'll speak from a law enforcement standpoint --

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William Li

Stacy, I think you need to answer this one because I'm going to lose my temper.

Stacy Stephens

I'll speak from a law enforcement standpoint for a moment on that. First and foremost, the number of cities that are doing that are very, very, very small in the grand scheme of things. Secondly, we've not seen an impact primarily because our focus on end users, the primary is not law enforcement. They are secondary, tertiary as far as the targets are concerned for many of the same reasons as the schools that Bill just mentioned a moment ago.

So we're not seeing a lot of that, but what we are seeing are private companies taking the security more seriously now and being more proactive about how they are able to collect information and deliver that information to law enforcement professionals so that we have, we, law enforcement, have better tools to investigate those crimes and prosecute them when able to do so. So we've not seen that impact, and I haven't -- I'm still obviously very close to the sales process and everything that's going on there. But I've not seen anybody say, well, this is not important. It's quite the opposite. Anything to add, Bill?

Okay. How do we get the t-shirt that you're wearing in the video?

William Li

That one I made personally for our internal -- for our employees. So that one's not in the store. But if you're interested in getting some swag, go to Knightscope.com and just hit the swag button. There's a bunch of stuff there. And at some point in time, we'll put up some new stuff as well. And I think about maybe seeing if we can add that one, Stacy.

Stacy Stephens

What efficiencies are being implemented in Q3 to reduce cost and improve earnings per share?

William Li

Executing all the stuff that was in the video. We don't want to keep hammering the same thing over and over again, but with massive change in telecommunications and what does that mean. Okay. Well, imagine you had 4 cell phones. And you wanted to live-stream high-definition video of YouTube kind of 24/7. Your -- the bill you're going to get from Verizon or T-Mobile or Sprint or whoever is going to be rather large at the end of the month. So we go through terabytes of data a year, a month actually. And we made a ton of significant technical changes and contractual changes that are going to go literally straight to the bottom line.

There's some head count impacts that will start hitting. There are some throughput QA type of things and kind of reduction in cost. In a lot of cases, it's not always the bill of material that is important, like how much does it cost to build the machine or the labor hours. But remember, these things are running 24/7. And the field service work, the maintenance and service, the parts, the shipping parts, if stuff is breaking like it costs a lot of money.

And that was a huge driver for why we wanted to retire the K5 v3 some time ago because it was costing a lot of money to build, it's taking too long to build. And by the way, when it's out in the field, it's kind of eating up a lot of the team's time, back to someone's question on how the heck are you going to go work on new stuff, and needing a lot of money. So we're still in transition, right? We retired well over 50% of the v3. There's still more to go. So I think that will also go -- end up going to the bottom line.

Apoorv, anything else you want to add?

Apoorv Dwivedi

Yeah. I mean I think, obviously -- or somebody mentioned this, right? We're taking a multi-pronged approach. And I think Bill had put together a 2024 path to profitability, which I think would be a great framework for you guys to look at on what we're trying to do. If you think about it, we need top line growth that's going to continue to happen as we invest in sales and invest in our products and invest in our -- the suite of product designs and product development that we're working in.

Simultaneously, we have to cut costs. It still costs us quite a bit to build these things because we're doing it by hand, because we're doing it at low scale. So changing that out and as we continue to start investing in that scale, we'll start to increase our margins, and those margins will then help drive some of that path to profitability.

Finally, becoming more efficient on the OpEx side, right? I think we did a really good job, Bill, of cutting our head count and our expenses down. If you look at just the second quarter, I think we saved over, I think, $0.5 million in just cost where we thought it was a good idea to do so. And we'll continue to evaluate those. So again, it's both. You've got to grow your top line and you got to decrease your cost and you've got to run lean, and we'll continue to hit on those fronts while introducing products that we think are going to be successful in this industry.

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William Li

Yeah. And I was just glancing on one of the questions earlier, some folks are worried that we might have terminated folks that spent a lot of time with us during innovation week. I think from memory, I don't think anyone that was on camera has left the team. So everyone is kind of waking up every morning, putting their heart and soul into the company and taking all the inbound beatings that we get.

I don't think you'd probably want to see my inbox. I can take the criticisms and all that. I don't appreciate the death threats. I can pass on those. But we are working genuinely very hard to make this a big success. It will take some time. We do have a path. We are not going to run out of money. And we're doing an honorable thing for the country, and this will work out. It's just going to take a little bit of time to get a very difficult set of technologies to work at scale now that we've got them working in low volume.

Stacy Stephens

What do -- what's your IP or patents deck?

William Li

We've got maybe a dozen patents. I'm not a huge fan of patents. This is not a pharmaceutical industry where your recipe is like the most important thing and you're going to protect it for 17 years. Like, the technology changes so fast. When we first started, I often say we had one Intel i7 or i8 in the CPU, in the machine, we're like, How the heck are we going to use all this stuff? And now we don't have enough compute, and we've got like 2 NVIDIA GPUs, a CPU, and we're wanting to add more capability. And in a lot of cases, the technology changes so fast, it's not really worth spending staff time, legal time to go get a large portfolio of IP -- or patents rather. Could we have patented probably 100 items? Sure, not a good use of shareholder money.

Stacy Stephens

I'm surprised we still get this question. How do you plan to incorporate AI into your business? Sorry, not poking fun at the question, it's a legitimate question. But I just don't think people realize how much is already there.

William Li

Yeah. I think maybe there's a different way to answer the question. So there's a ton of AI just to get the machines to do what they do today, right? They move on their own. They're replanning. They're remapping. They autonomously recharge on their own. There's no one sitting around remote controlling them. So this is the automotive equivalent of Level 5 completely hands off. So there's a ton of AI to be able to do that.

It requires AI and machine learning to detect a license plate and then read the license plate. It takes AI to detect a person. It takes AI to do facial recognition, for example. If you're speaking of generative AI, I think now that -- I think there still needs some work on telecom speeds and the speeds of the LLMs, but I think enabling the machines to be able to have a thoughtful, relevant conversation with someone would be something that's certainly on our road map where instead of just a button or just looking for an alert or something, you can actually have a conversation with the machine.

And that could be a citizen out in the wild, out in public somewhere, or could be internally for us, for our own risk and threat exposure people to have a dialogue with the next future version of a user interface where instead of typing away what we're looking for in an investigation is to be able to do that real time via speech.

So there's a ton of opportunities. But yeah, I think for a technology company that's in Silicon Valley, that has got AI working before it was a huge, big thing, it is a little awkward to get still that question. But we'll continue to answer and communicate.

Stacy Stephens

So just a quick time check. We got 35 minutes left in the scheduled time. Bill, I know you typically say, hey, we'll stay until we get all the questions answered.

William Li

Let me look at my calendar. I will stay, if we had to punt the next meeting, but Apoorv if you need to go, I think sometimes you're a little busy.

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Apoorv Dwivedi

No, I can stay for the next half an hour. But after that, I'll probably go.

William Li

I think there are so many questions that we're happy to stay on. And if folks are willing, then we're happy to invest the time.

Stacy Stephens

So we may need to do some speed round type answers then.

William Li

Okay, FedEx. Let's go.

Stacy Stephens

Is privacy a big market adoption concern? If so, how are you addressing them? What are other adoption headwinds?

William Li

Not really. We're typically operating in public, and privacy typically is more of a question that we get from the media than we get from clients. And then remember, contractually, the client owns the security-related data. All the machine data is owned by us. Other headwinds -- I think to be fair, one of the reasons we have the robot roadshow going across the country, we've done now, Stacy, help me here, more than 120 stops.

Stacy Stephens

Over 125.

William Li

125 stops is that education curve, is getting people comfortable. They can watch a video. They can get on a Zoom, PowerPoint people to death, but they still want to see the robots in action. And that mobile trade show can be really helpful in the marketing and sales process. So I think just there's still that comfort level needed for some folks. I would think that would be a little bit of a headwind.

Stacy Stephens

All right. What's happening with the Draganfly partnership?

William Li

So Draganfly owes us a prototype of what they think could work for us. They filmed something that I think we put on our social media. They're working on it. So once they're ready to go, then we'll be ready to go.

Stacy Stephens

Has Knightscope considered going into the residential market?

William Li

Now we're already in the residential market in a lot of cases, if you mean an HOA or an apartment complex. If you meant like literally consumer residential, someone's specific home other than a large estate for a multimillion or a billionaire, we haven't really spent too much time there. We do need to be careful here. We intentionally did a big focus on business-to-business.

Now we're adding business-to-government. Business-to-consumer is a very, very, very different business, maybe requiring different technology and certainly different sales, marketing and distribution techniques. So that likely is on our road map, but likely last.

Stacy Stephens

What do you consider to be the biggest obstacle preventing the stock price from going over $1 per share?

William Li

People buying shares. I mean, I can't legally tell people to go buy shares. But to answer your question, why would share price in general go up is because a bunch of people all bought shares roughly in the same time frame and very few people sold shares, for any company, not just Knightscope, share price would likely go up. And we don't control that. We don't control behavior of everyone on this call or other investors that we have. But I think we have, I'm going to guess, 15,000 investors or 20,000, something like that. If everybody went and bought or sold, it would have a material impact on the share price, or getting new investors.

I think one thing that we at Knightscope need to improve as we make more progress in our financial performance is attracting larger institutional investors. And this is a big challenge for any company less than a $500 million or $1 billion market cap is getting large institutions to participate. I think we're 90%, 95% retail, last time I checked. I think as we grow and improve our financial performance, we obviously will be spending a lot more time on attracting some larger institutional investors. I think that's something we certainly want to do.

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Stacy Stephens

Has any company approached us for potential acquisition and/or significant investment?

William Li

I don't think I legally can answer that. Can I answer that, Apoorv? I don't think I can answer that.

Apoorv Dwivedi

Yeah, I would hesitate.

William Li

Well, a different way to answer is the company is now for sale, but I am an officer of the company and I work for you, the shareholders, so I have to look at every single offer, every single opportunity to maximize shareholder value. So legally, I have to look at everything. But I don't think legally, I can comment, one way or the other. Please don't infer something for me not answering, it's just we need to be careful how we answer questions.

Stacy Stephens

I mean I think, Bill, the company is -- we're a business, right? So I think as a business, we have to be open to anything and everything, right? And we are. But whether anything materially is happening or not is something -- you're absolutely right. When the time is right, and if there is something to be announced, we will do so.

William Li

On the flip side, we have stated since we went public that we are always actively looking at acquisitions and obviously, preferably, accretive that can help on the top line revenue side, on technology, et cetera. And so we continue to have those ongoing discussions, which we had previously disclosed.

Stacy Stephens

Accounts receivable has gone up significantly. What is the strategy to collect on AR? Would there be a better source for cash other than using the ATM?

Apoorv Dwivedi

I can answer that question. Yes, we have. So basically, the AR increase is a reflection of kind of some of the things that were happening when the finance team was getting reorganized. We had a transition that occurred in the first quarter, when I joined. And as part of that, we were slow to jump into the AR side. Since then, we have a team in place that's focused primarily on AR. They work closely with the sales team. They work closely with our CX team to reach out to clients, to work with clients to get the AR down.

One of the other things to think about is, on the AR, there's a portion of that AR that actually is related to our case, what we call the municipal clients that we are working through to actually, what I would call, rightsized the relationships or at least the business aspects. As Bill mentioned a while ago, some of these contracts are 10-15 years old. And some of the terms, including payment terms, were designed in such a way that although they might have been profitable to the company 10 years ago, they are no longer profitable or sustainable.

So we are working closely in partnering with our clients on the municipal side to rightsized some of those contracts, and that's taking a little bit of time as well. Because again, as you guys might know, working with governments is not as easy or quick as resolving things on the commercial side. But we hope to get those resolved. And by doing so, not only will we obviously shrink our AR down but also set up the business such that those contracts become profitable in the long run.

William Li

All right. Let's do -- I think we're doing -- both of us, let's pick up the pace on the length of the answers. Otherwise, we're never going to get through all these, and we really wanted to answer.

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Stacy Stephens

What's the status of the New York City robot installation?

William Li

As disclosed by the New York Times, the city is looking at redeploying it at a different location, which has its own complications because the first location took, I don't know, a long time and dozens and dozens and dozens of people. So we're kind of going through the process again.

Stacy Stephens

It's me now.

William Li

Yeah, we got to do short. Come on, man.

Stacy Stephens

I was confused by the short answer. I am a Scouter, Daryl, thank you so much, wondering if you will get into alarm systems. Short answer, no. Sorry, I'll be blunt about it, but no, that's not our daily wick.

Please explain the discussions surrounding future stock split. We already did that one. During the previous town hall, it was mentioned manufacturing was being consolidated into Mountain View, and the goal was to ramp up production. What's the status of the consolidation and ramping up?

William Li

As we disclosed in our 10-Q, we have not only started the process but pretty much finished up shutting down the Irvine, California facility, consolidating everything into KHQ, or Knightscope headquarters, in Mountain View and that process is underway to have improved labor flexibility. So ASRs and K1Bs can be built depending on what orders are coming in or what the priorities might be. There's significant changes required in quality control. There are some engineering stuff that needs to get done. But that first huge step has already been taken.

The balance of the facilities are warehouse-y type of things. Our smaller offices, in a couple of instances or more, there's really annoying language contractual from some government stuff that may require some stuff to stay open. But we've been working through the process. So the big one kind of got done already.

Stacy Stephens

What is the company doing to increase institutional awareness so that the -- to avoid the stock continuing to struggle, so that the institutions begin investing?

William Li

We need to improve the financial performance of the company. Institutions typically want to see a $5 or above stock price. So we've got some work to do. I've been keeping almost half a dozen analysts up to speed. And hopefully, we get additional equity analysts to cover the stock. And then after we get through this cleaning house period, Apoorv and I will be spending some time with the typical conferences and the like to improve the awareness.

Stacy Stephens

How can the portfolio be expanded when there are no human or financial resources to undertake this?

William Li

Through partnerships, through acquisition, through deletion of dumb processes, so that people can actually be working on something that's productive and improvements through quality. If the team is not having to babysit and maintain and service and support stuff, they can be working on new things and then being very careful what battles we pick and what we want to work on, so being kind of very surgical.

I'm not going to kid you, it is tight. We don't have as much resources as we want to work through this. And the aforementioned toxic financing was a huge blocker for us for a very long time to be able to get the additional resources. But the work is being done. So we're scrapping entrepreneurs. We kind of figure it out.

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Stacy Stephens

What is being done to take key products international?

William Li

Nothing. Absolutely none. As I've also mentioned, I've worked on four continents. I kind of know exactly what needs to get done. That is not the additional operational, financial, legal, insurance and liability risk we want to be doing right now.

Stacy Stephens

Can you offer any update on the bond offering?

William Li

The bond was closed during the first quarter and was disclosed in the prior 10-Q that got completed. I think we raised $4.2 million or so.

Stacy Stephens

What are you doing to sell more of your tech and services out in the marketplace?

William Li

We need to overhaul the marketing and sales process. I mean, no different than what we were just talking about how do we become more efficient on the manufacturing side of things or how are we making the product better or whatever. We're looking and turning everything, looking under every rock. And actually Stacy has been working on improving the upfront process on lead generation, how the website flows or doesn't flow, when does the client experience analyst get involved in part of the sales process so that the sales team can be spending more time doing sales and not operational, sometimes back office or project managing work, a bunch of stuff to accelerate.

And then we need to recruit, recruit, recruit. So if there's anyone on the call here that has some awesome sales candidates, please send them to knightscope.com/careers because we are recruiting.

Stacy Stephens

What is being done to mitigate cyberattacks?

William Li

Having spent three years going through the, as I often say, nightmare cybersecurity process with the U.S. federal government, they put a lot of conditions on us and we need to work to comply with those. And they're exorbitant.

Second, we are ramping up a cyber-team that Mercedes Soria is leading. Third, one of the other reasons to redo the entire technology stack is in order for -- instead of just having one product that is suitable for federal use, it's to have the entire portfolio be compliant. So there's a lot of strategic reasons as to how we approach that.

Stacy Stephens

Is the ATM still active? How many shares are selling weekly, how many shares are outstanding now?

William Li

We refer you to the 10-Q or 10-K. We don't do a play-by-play on them. That would not be appropriate. The ATM is available to us, but I'll turn it over to Apoorv.

Apoorv Dwivedi

Yei. Again, it's difficult to give you week by week just because that's not how the ATM is intended to be used. We use it when our bankers advise us, and they use the ATM when they think the time is right, when the stock is doing certain things. So we don't generally disclose week-by-week information, but you can definitely -- I think in our disclosures, we disclosed how much we raised in a given quarter.

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Stacy Stephens

If any large orders came in for a government agency, do you have confidence in fulfilling them in a reasonable amount of time?

William Li

Yes. Short answer is it requires people and some real estate, but other than that, be happy to have that problem, and we're actually working on that. But yes.

Stacy Stephens

And also, most of the federal contracts like that will also phase it out. There will be a delivery schedule and things like that, that kind of come into play as well.

William Li

Yeah.

Stacy Stephens

Would appreciate some elaboration on changes in the board. Strengths, weaknesses, what has been gained or lost?

William Li

I think as Apoorv eloquently put it, there's a time and place for certain skills. We're grateful for the original board that helped us get through a public listing in the first couple of years. We're on to a new phase. We've got Will Billings who has very extremely strong financial acumen. If you want to read their bios, please go to knightscope.com/board.

There are very few people in the world that have scaled up autonomous robotic technology, and Mel Torrie leads an entire organization that's been doing that for quite some time. So we've got the technical background. And then Bob Mocny is a former senior federal government official focused on the Department of Homeland Security. And as we continue to work on growing in the federal space, he's super important.

So we're part of the turnaround, and work that we're doing is in better aligning the governance structure. And if it helps, like I worked with Bob some time ago and so has Stacy. Apoorv has worked with Will, both are ex-GE finance people. So these are strong caliber folks, and we expect real financial results by making strategic decisions and improving our operations.

Stacy Stephens

All right. Other than the current legal process taking place, is there a strategy to eliminate the shorts?

William Li

Improve the financial performance of the company and try to instill confidence from our existing investors and get new investors. I mean there's shorting -- I mean, one of the reasons the South Koreans made shorting illegal is -- I'm not going to get into that. But there's only certain things that we can do. It's a very opaque process. One thing that we can't provide is financial advice. But as Apoorv mentioned earlier on the call, if you don't want your shares being used to short, you can literally call your broker up and tell them -- like, call up Charles Schwab or Robinhood or E\*TRADE, whoever you use, and tell them that you would not like your shares to be lent out for shorting, and that also can be helpful. But again, we can't provide financial advice, we're just providing a fact there for you.

Stacy Stephens

Can you provide some color on the future outlook for government and military contracts?

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William Li

Huge opportunity but it'd take a very, very long time. But I think the positive thing, since we're in this for the long haul, is once you're in, it's kind of hard to get kicked out. I think having spent a good amount of time looking at not on stuff on the battlefield but military, Border Patrol, NASA, FEMA, GSA, I mean the list is very, very long, and a humongous amount of opportunities for us. But it is very hard. And I think the opportunity is there. It's going to take some time, but we got our foot in the door or, as one of our directors on the team said, we didn't get our foot in the door. We got our whole body in the door. So we're working on it.

Stacy Stephens

Can you talk about some of the companies, competitive companies, large and small, that have failed on the robot side?

William Li

So Sharp failed, Switch failed and Amazon failed. I believe Cobalt Robotics, obviously, has disclosed that they're no longer doing robots, Gamma 2, and I'm losing track of the rest. But I think it speaks -- if you have a half a dozen teams with hundreds of people and hundreds of millions of dollars spent, and they couldn't get it to work, I just ask you all for a little bit of grace and cut us a little bit of slack, not a lot, just a little bit, to understand that the technology is extremely difficult to build and to operate. And we're now last team standing and we intend to make it to the finish line, but we do need your support to be able to do that.

Stacy Stephens

If Blue Light account for 68% of the sales, what is the profit breakdown? If robots are a drain, is it time to shift focus to the Blue Light?

William Li

That's not a short answer, but I'll try really fast. So selling the K1B stuff outright as a product has a positive gross margin, servicing the K1 Blue Light stuff needs a massive amount of work and that's part of the cleaning house part that we've been working on. So we're working to get that to profitability.

The ASR side of things can be profitable, but you need a certain critical mass for it to operate. So what I mean by that is, for example, we have a full-time, 24/7 staff to monitor the machines. So if we double, triple the number of machines, do we need to double, triple that team? No. So because it's a kind of a subscription basis, the economics look a little -- sorry, the accounting looks a little odd. But there is not, I think, a need to do that, especially since looking at our clients that have been around for half a decade plus, if you actually look at those margins, which we have, they're 60% plus. So it takes time and they need scale, no different than, frankly, a SaaS company.

Stacy Stephens

Why don't both the CEO and CFO buy some shares? Purchase of shares by insiders would give confidence for the investors to buy more shares.

William Li

Yeah. So I had 7 million shares. I didn't sell a single share in the public listing. I haven't sold any shares since then. And you can check out the regulatory filings, I did buy more shares recently for my personal account. To me, this share price is absolutely ridiculous. Like, you're, I don't know, one fifth, one sixth the invested capital, you're at a price that's below the Series A preferred, if I'm not mistaken, 10 years ago. If I didn't have my entire net worth in this, would I buy more? Sure, and already have done that. So hopefully, folks will take that as a positive indication and my confidence in the team and the business going forward.

Stacy Stephens

Is your gunshot detection currently available? Yes. Anybody interested, please go to knightscope.com/discover, fill out the form, and we will demo it for you, sort of.

William Li

Sure. Careful with that one.

Stacy Stephens

Could you incorporate 3D printing to lower cost and massively produce more machines?

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William Li

No. Because 3D printing, we already use, it actually costs more and it actually takes more time. It's very helpful for prototyping. But in terms of throughput and cycle time, not. And in a lot of cases, a lot of our parts are very big and it causes another problem. So we're actually actively, as part of the bill of material cost reduction exercise, how do we delete a bunch of these 3D printed parts because it costs a lot of money.

Apoorv Dwivedi

Also, I think from my understanding, the 3D printed parts, especially at the size that we're trying to build them at, tend to -- there's some structural issues sometimes that arise when basically, you're kind of gluing and layering each part, each layer of that part. And I think 3D printing is good, to your point, for prototyping but not necessarily for what we're trying to do. But that technology is also all being, so obviously, it could become feasible.

William Li

Trust me, I'm a fan, and I keep nagging the team. I had the team spend four months looking at even buying our own -- setting up our own 3D printing in-house. And just the math doesn't work. But let's move on because I know there's more questions.

Stacy Stephens

Is it difficult to get cities with major serious crime to order robots to help their police force?

William Li

Yes. Absolutely. It is. I mean that's another huge challenge is just getting -- not intended to be a negative comment, bureaucrats and the local state or federal government have to rethink how they do public safety. And that, I think someone asked about a headwind, is you're trying to change an entire country's way of doing things. And yes, because what we're doing right now is not working. You don't have to believe me, a violent crime occurs every 26 seconds and a property crime every 4 seconds, and that's normal? Sorry, that's not okay.

Stacy Stephens

Can you discuss how you plan to reach net positive EBITDA and profitability within the previous time line mentioned? Are we still on track?

William Li

I think we have some difficulties there because of the aforementioned financing problems with that blocker in terms of the toxic financing. Now that we got it resolved, we're trying everything to make up for the lost time because I think some people have mentioned here in the chat, you need resources to do this stuff, right? And so I think one of the things that we really want to focus on is showing a steady improvement. And we'll see how things turn out.

But I don't know, Apoorv, if you wanted to add anything. We're often careful to not be providing forward-looking statements or guidance, but --

Apoorv Dwivedi

Yeah. Sorry, can repeat your question, Bill? I was trying to answer --

William Li

Timing of profitability.

Apoorv Dwivedi

Yeah. I mean, look, I think we are on the path to get there, right? It will be, I think for now, premature for us to give you the exact time line as we're cleaning up many of the aspects of the business, both on the operational front as well as on the capital front as well as on the balance sheet side.

I think what we're asking for, as you mentioned earlier, is continue to support us, be patient, and we're going to continue to execute. At this point, we don't give out that level of guidance. But we are working towards that. And our goal is aligned with our investors is to get to profitability as soon as we can.

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William Li

Yeah. So I think, well, there's three things we can do, it's grow the top line, lower the variable cost and lower the fixed cost. I think we're at a point where there's some more fixed costs that we can reduce, but there's a certain amount of money to be able to be public, to run the company, to do everything else, and you can't just kind of cut your way to profitability. It's just not going to work. So then you need to work on variable costs and operating expenses and the like associated with the machines, which we're actively working on. We need the top line to grow.

I think there's a lot of people asking, well, at these kind of percent of revenue losses, how do you fix this? Remember, you need critical mass to run the company. But after that, it starts adding up very nicely. It's not like we triple the size of the company and we have to triple the cyber team, right? So as the top line grows, this will start looking more and more attractive.

Stacy Stephens

Who is your IT compute platform, AWS, Azure or other?

William Li

We're on AWS for 11 years. And thank you to the Amazon AWS team. They've been really supportive and helpful.

Stacy Stephens

So here's a very, very sticky one, but I'm going to ask because we answer all the questions that come in. How about replacing the CEO?

William Li

How about it? Feel free. Give it a shot. Find someone that's willing to work 60, 80, 100, 120 hours a week to do the irrational, illogical things to force a win to happen, who will sit here for hours on end and take whatever questions are at hand, make himself or herself available, is fluent in law enforcement and security and automotive, knows the entire technology stack, understands the Investor Relations side of things, actually sold stuff and can run a very complicated organization and, even when turnaround experts have come in, have been unable to resolve the matter.

And 11 years later, when everyone said the company would never make it, would never be able to build these products, would never have any of the autonomy working, would never be able to scale up to any regard, nobody else has been able to do that, including those 6 major companies and start-ups that have failed.

So I think if you wanted to do that, you're going to have an impossible recruiting problem. Like, it's going to be very difficult to find somebody to do the job with the passion that I and the team have. And it's not just me. We've got a relentless group of people that have been at it for a very long time. And if you want to try, give it a shot. By the way, I have 10x voting shares. So that will be another discussion to have.

I'm happy to take accountability for all the mistakes that have been made. I'm also happy to get criticized. I'm happy to be responsive and be respectful and civil with folks. I try very hard to answer the thousands and thousands of questions and messages I get. I can't always answer all of them, but I hope the spirit is there.

And you need to decide what you want to do. Do you want to bet on this management team who has forced us to build the team and willed it into existence and now know than most -- we've forgotten why most people will know how to do this. Or do you think the market opportunity is there? Do you believe in the technology? If you don't, please sell your shares.

And if you think that, okay, this team has gone through the most difficult times. No matter what it took, when everyone said it would fail, somehow they kept pushing forward, right? I appreciate you placing your bet on the team just like I have. My entire net worth is in this. I'm not going anywhere. So I will fight to the very end to make sure that we get done what is supposed to get done.

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Stacy Stephens

Thanks, Bill. I feel that running with such line of products, they may be running themselves too thin. What is the main focus? Public safety, that's the main focus, using technology. Short answer.

William Li

I'd modulate there a little bit. There are a lot of SKUs. And so we've had some investors go, wait, you're building too many things and you're spread too thin. So one of the reasons when I mentioned in the video platform commonality is kind of really important, so that you can fix the spread too thin but, at the same time, have a wide breadth.

You're not going to fix and deliver the mission with one single product and you're going to keep going to that Chief Security Officer or the Chief of Police with your one little solution, and that's going to fix the problem. It's not going to work.

Criminals and terrorists can be anywhere, so we have to be everywhere. The key here, the little Jedi mind trick, is how can you be everywhere and do it efficiently? And that's what this whole ICM platform commonality is really kind of important.

Stacy Stephens

The next is actually a comment, but I think it begs a rebuttal, to an extent. At the end of the day, this vision is great. However, without a solid partnership with another company or VC group and an infusion of cash, the stock will continue to go down.

William Li

I think there's some misunderstanding in that question. One, VCs typically don't participate in public companies. Two, they're typically wrong 9 times out of 10, although they walk around like they have an attitude that they're right 9 times out of 10. I live here in Silicon Valley, and I can say that. A VC is not going to fix this, neither is a private equity shop or a hedge fund.

A strategic partner, possibly. We have had three -- two or three that have invested in the company prior or still investors. Actually, I think all three of them are still investors. In some cases, they're going to be super helpful, to a point, in a certain area. Like, Konica Minolta where, all of a sudden, we had 2,000 service technicians accessible to us when we were still in California and didn't know how to operate across the country. So that can be helpful.

But there are very few that are focused on the problem that we're working on. And autonomy is not something that's been solved. So that's likely not a place. The law enforcement security sector is very, very fragmented. We have partnered with some of the large guarding companies. Usually, there's an actual conflict of interest there.

So we're continuing without saying anything out of turn. Always looking for additional partnerships, like we've announced this last few months between automated gunshot detection, the K1 Laser and Draganfly. And there's always an opportunity. We haven't found a solid one yet.

I think I actually had this discussion with Apoorv last night. To me, I think the more exciting one is going down the acquisition route to be able to bring in additional resources, fix some gaps, catch up on some technologies that we're super interested in. And living here in Silicon Valley, 22,000 start-ups, literally 95% of them fail. So there's always interesting things to look at. But I'll maybe say it a different way and I'll shut up, is trying to just grow this organically by itself without some inorganic growth is likely not going to work for where we wanted to go.

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Stacy Stephens

How will these changes allow you to become profitable if you continue the current business model of leasing expensive equipment at a loss?

William Li

We don't lease expensive equipment. It's a full subscription. So a lease implies that someone has a financial interest in a particular asset. And as I mentioned, it requires scale. And as we scale up, the financials will follow.

Stacy Stephens

I want to know about where the data is delivered after being collected and what's the response time of each robot to human response.

William Li

The data is problematic. So there's all kinds of data. Some of it stays on the robot. Some of it goes up in the cloud. Some of it gets deleted off the robot. So crudely speaking, as I mentioned earlier, the private like security-related data is owned by the clients. And then the machine-related data is owned by us. Response times, the machines do things in milliseconds. We now stood up an RTX team, the risk and threat exposure department. That's helping our clients be able to utilize the technology, so that things are much quicker. And that's helped not just our clients who are inundated with alerts. If you imagine trying to manage a large enterprise with all kinds of alarms in gates going off and what have you, they're short staffed, so adding that extra layer helps and it also helps us operationally as well.

Stacy Stephens

In the recently filed 8-K, kindly explain the reason for the non-disparagement clause and confirm that actual -- or did money actually flow to Knightscope? Or is Knightscope simply adding $3 million of debt to its balance sheet?

William Li

Apoorv, do you want to?

Apoorv Dwivedi

Yeah, I can answer that. The non-disparagement clause, and I kind of added it earlier, is really -- it's a typical clause that most -- when you negotiate with parties, that neither party wants the other party to say anything negative about them publicly. And I think that's just a clause that's normally there. In this case, investor was extremely interested in making sure that they have that clause, and we don't have a problem giving them that.

In terms of the $3 million, yes, we do have that debt in place. We did not receive cash for it. But what we got in return was extinguishment of the warrants, the extinguishment of their participation rights and some of the many other obligations that the company had previously signed up for as a result of that agreement. We believe that it's a really good agreement for us. It opens up -- not only does it open us up for getting better funding but also opens us up to work with better types of investors as we go out and partner with them to grow the business.

Stacy Stephens

Has there been any attempt to integrate threat information from social media platforms, particularly for K-12 schools?

William Li

We actually looked at that a long time ago. And then the social media platforms, if I recall this correctly, stopped providing as much information as one would need to do that, right? And we haven't looked at that for a very, very long time. Probably at some point in time, we should go back to that, but we haven't looked at for five-seven years.

Stacy Stephens

Any plan to be a Platform as a Service versus Software as a Service? I think maybe there's a miscommunication there.

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William Li

We're already more of a Platform as a Service, so we call it Machine as a Service. So you get the machines, the software, the maintenance, the decal, the training, the user interface, the RTX team, everything is included in that subscription.

Stacy Stephens

How many shares need to be bought and held to get the stock price to $1, i.e., get this many people on the call and...

William Li

I don't know if that's a question we can answer. The way we can answer that --

Apoorv Dwivedi

The math required for that would be super intense.

Stacy Stephens

Can you repurpose and license your technology to other companies for additional revenue?

William Li

No.

Stacy Stephens

Can we write in William Santana Li for President IN the general election in November? Of course, you can write it in anybody.

William Li

Thank you. It's been a long few months. I appreciate that. It's not easy.

Stacy Stephens

Does Chase or Fidelity lend out the shares to be sold or shorted?

William Li

We don't know how each broker does things, but almost every broker has that ability. So if you don't want them doing that, you need to call your broker directly.

Apoorv Dwivedi

Yeah. It's a question you should definitely ask your broker directly. And sometimes it's just a setting in your dashboard when you log in. But we wouldn't have a way to answer that question. You can easily ask your broker.

Stacy Stephens

How long does the robot need to be in service to pay for the production cost?

William Li

A year, plus or minus, depending on the robot. And we're trying to improve that. So one way to think about it, as I often say, is we try very hard to get the first year's revenue to pay for the machine. And then the second, third, fourth, fifth year, you're generating margin.

And that's why the operating costs are really important, so the telecommunications cost every year, the cloud costs, the maintenance cost, the service cost, the service parts. All that is almost, in some cases, more important than the cost of the machine. If you want the details of that, you can go to knightscope.com/rise and download the latest investor deck. One of the slides actually gives you an example, so you can see that in a graph form.

Stacy Stephens

What's the head count of the R&D team?

William Li

You would think I'd have this memorize. So the team, we went down from maybe 114 heads at the peak to now 70 plus. And now we're kind of recruiting. It's a little weird to answer your question only because the R&D team does a lot of operations work, so that we don't have folks only exclusively working on research only or development only. They are helping our clients, improving tools, fixing issues and the like. So I don't know, a couple of dozen.

Apoorv Dwivedi

I will add, Bill, that engineering is one of our largest departments, so we do focus on R&D technology. We're a technology firm. So again, to your question, I don't know if we have specifically that many people that are dedicated directly just to R&D. If you think about where we look at engineers, I'm looking right now, we have, what is it, close to more -- almost half of our -- more than half of our head count is engineering across the KNOC team, across the deployment team, across the manufacturing team. Engineering is a big part of our culture.

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Stacy Stephens

How many -- I guess, talk about the backlog. Actually, I had two questions about that. So we previously talked about there being a backlog, and where are we on that?

Apoorv Dwivedi

It's about just under $3 million of backlog and a split probably half and half between the two. We do disclose it in our 10-Q, if you just go open it up and just look at the backlog.

William Li

Historically, we were in the $5 million to $6 million range. So we've cut it by more than half. We still got some work to do, but the team is cranking away.

Stacy Stephens

What's the main reason for the termination of some of the contracts using the technology?

William Li

Off the top of my head, company went out of business, company closed the facility, they opted to go back to human guards. I think a lot less now than before, we probably -- we or a third-party sold it to someone that we shouldn't have sold it to. So the not funny but funny example for me is the worst client we could possibly have is like the Chief Innovation Officer at some major corporation who has budget and need something shiny.

And then come time for a renewal, he's like, "Well, you didn't solve any of our problem." Well, you didn't have a problem in the first place. You just wanted a robot. I think that we've fixed it now with a very poignant sales process of our long list of deployment checklist, site surveys, technical reviews. Like, why do you need this robot? Do you have a budget? So that's another process improvement that the team has made.

Stacy Stephens

Stay motivated, Bill. If you are, however, forced into a reverse split, how severe of a split are you thinking it would be?

William Li

I don't think I can legally answer that, one. Two, in the proxy statement, there's a 5 to 1 up to 50 to 1. That's up to the board to decide. And then to be fair to the board, it's kind of when you make the decision because the stock price obviously fluctuates and that can have an impact. And there are other market or business conditions that one would need to think about. So again, we're trying very hard to avoid that altogether, but it's obviously very challenging.

Stacy Stephens

With the other companies failing, so I think this goes back to the competition, surprised that Wall Street doesn't recognize or reward that. Can you comment?

William Li

There is going to be a collective -- how many folks, there's a couple of hundred folks on here -- roll of the eyes with the first answer. As much as certainly our world revolves around Knightscope, you would be shocked at the amount of people that don't know who the hell Knightscope is, and what do we do, and nice prototype, when are you launching kind of thing.

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For the amount of advertising, robot roadshows, webinars and everything we do, I don't know how many investors and how many funds and how many, frankly, people in law enforcement and security have never heard of us. I know that sounds ridiculous to everyone on this call. I've been an investor for five years. Like, how can they possibly not know about Knightscope? And that's one of the reasons we ask you to please -- we send out a newsletter, forward it on to someone. When we post something on social media, please share it. Invite people to webinars. Send them to the website. Help us get the word out. Because as silly as it might sound, there's a lot of people that don't see that.

I think the share price doesn't help. Again, large investors typically are looking at stuff that's maybe $500 million, $1 billion, $1.5 billion market cap. They're typically not looking at companies less than, I don't know, arbitrarily, $20 million, $25 million of revenue. So we'll get there, but it's been a bit of a challenge.

I think at the end of the day, it's going to be very hard in the future for Wall Street to just ignore a growing company in the middle of autonomy, robotics and AI, and working on the nation's most difficult problem and just ignore it. And so I think in the future, that's going to change dramatically. And for those that have supported and stuck with us, hopefully, that will be a good tailwind.

Stacy Stephens

What happens if the company gets delisted?

William Li

We don't really spend too much time on that because NASDAQ told us exactly what we need to do to not get delisted which is, unfortunately, if we have to, enact the reverse stock split. So we're not spending any time on the company not getting -- not staying on NASDAQ.

Apoorv Dwivedi

I would say we have -- delisting is not on the horizon. We work closely with NASDAQ. We have a path. We don't expect that to be anything anytime in the near future or ever really.

William Li

Stacy, I'm going to cancel the next meeting, and there's like 160 people still on here, and there's still questions coming in. So I'm going to cancel the next meeting, so you can keep going.

Stacy Stephens

Got it. What are the top products? And what are the top markets for the products? What will it take to successfully penetrate the markets?

William Li

I think we've had a lot of success. If you go to knightscope.com, you can see the verticals. But the ones I would highlight would be certainly a lot of hospitals, a lot of casinos, corporate campuses, commercial real estates. I think those would probably be the first that come to mind.

And for those of you that have been with us for a long time, you've heard me say this before, it's really hard to get the first casino. It's really hard to get the second casino. Getting the third, fourth, fifth, sixth casino gets a lot easier. And that's why we just keep kind of pounding away. And I think one of the reasons I get really excited and get maybe a little prickly when folks are like, I don't think you're going to make it, it's not going to work, it's like, yes, but we have clients that have renewed for the service on the ASR side for 2, 3, 4, 5, 6, 7, 8 consecutive years. If you think some major hospital or major corporation is just going to pay us for half a decade plus, and we're not providing them value, and we know that there is margin there, like there is a business there. Crime is not going away. We got the technology working. We just need to improve and scale things up.

And now that we've got some of these headwinds, which someone is asking about headwinds, that toxic financing that we spoke of earlier was a massive headwind for us. And now that that's out of the way, I think we're going to be in good shape in the coming years.

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Stacy Stephens

Is robots being damaged an issue?

William Li

I'll be honest with you, I thought it was going to be a lot worse, a lot, lot worse than what we've experienced. There's been a handful of locations that are highly, highly problematic. And honestly, it wouldn't matter if it's a robot, your car, a human, a gate or a camera, it's going to get destroyed. Like, I don't want to say it looks like a war zone, but it kind of looks like a war zone. So it's not really the robot, in essence. I thought it would be a lot worse. It does happen. It's the cost of doing business. Like, does a cop car get graffitied? Sure. Does a gate get broken? Sure. I think it's kind of just part of it, and we kind of need to deal with it, but also be careful where we put these.

Stacy Stephens

If we were to get delisted, would we hold the same number of shares until we are relisted?

William Li

So I'll -- we already just covered that. We're not getting delisted. We have a path forward. We have a very good relationship with NASDAQ that dates back to 2017. They've been profoundly supportive of us and very helpful. We're not getting delisted. We have a path. But hypothetically, or just for your awareness, I think one thing people freak out is delisting. It doesn't mean your shares are taken away from you.

NASDAQ and the NYSE and the OTC is just a place where people trade stuff. It could be Facebook. Like, you could be trading different kinds of furniture. It's just a forum to trade stuff. So if we move to a different exchange, you still own the shares that you own. It just would be trading somewhere else. So no one is going to take anything away from you, and we're not getting delisted.

Stacy Stephens

How many people are in sales now? How many more are you hiring?

William Li

We've got roughly about a half a dozen in marketing and sales. We probably need to -- Apoorv's going to knock me over that. We probably need to double or triple that, but we're working on it. So we're actively recruiting both more senior, kind of director-level positions, and more junior, kind of inside sales and lead generation and marketing folks.

Stacy Stephens

Wouldn't long-term growth be better if the company replace the CTO since there continues to be issues with the tech and it would save the company money?

William Li

First of all, we don't have a CTO position. Second, as part of this cleaning house and reorg and all this other stuff that we've done, engineers report to me directly. And I know Apoorv and a few folks who are not happy with this, but I've got, I've lost track, maybe 15 direct reports. So the person that's making the changes and improving things is me personally. And so it has the management attention.

Part of the problem is some of these technologies are extremely difficult and require someone that's actually gone through numerous new product development cycles. And replacing one particular person is not going to fix the technology. You've got mechanical, firmware, software, process, operating system, cyber, all kinds of issues. And there is not -- one reason we don't have a CTO, good luck trying to recruit that person. That person doesn't exist. You also need to be fluent in all the K1B stuff, all the telecom stuff. And we've got two software platforms, KEMS and the KSOC. It's unmanageable to have one person manage all of that.

So I have pretty solid engineers and senior engineers that I work with directly. So that we can better manage this and improve things, and the team's delivering, and I've got direct insight to that.

Stacy Stephens

This is a rather long one, but I'm going to try to get it all out, okay? There are a lot of manufacturers, engineers and resources that have time available or machines sitting stateside that are willing to set a lower rate or help intellectually or point to top-tier suppliers or coders because we all have a stake in seeing a positive outcome. Is there someone or a resource we can go to, to help align our talents to see a positive result?

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William Li

I appreciate the gesture. One thing that we have been doing because some of the stuff gets really gnarly on the technology side, we have been kind of laser -- hiring individual contributors, consultants on kind of specific subject, but I don't have a quick answer for that. I'm just thinking how do you implement it and it's kind of hard because the technology is extremely difficult.

I may flip the question a different way, what can our investors do to kind of help? The best thing you can do to help us is get the word out. Get people to go to learn about the technology, have them go to knightscope.com/discover and fill out the form and do a deep dive and see if we can actually be helpful for them. So kind of anything on the revenue side of things would be super helpful to the team.

I think the second thing you can do is on the recruiting side. Time is money and recruiting can be tedious. And the more volume of possible candidates that we can get would be super helpful, especially if they're qualified. So please send them to knightscope.com/careers.

And then again, I can't tell people to go buy the shares, but I can tell you to communicate with folks. And if they want to learn more about the company, just have them download the investor presentation and they can download that at knightscope.com/rise. And those are kind of the big three things you can do.

The rest of the stuff is highly specific. And sometimes the best intentions can cause more difficulties and not -- I've got to pause there, but I appreciate the gracious thought.

Stacy Stephens

If you get a senator to see the common sense of supporting your technology, that's an appropriations bill law to support the industry, agree or disagree?

William Li

Having worked in Washington, D.C. up and down, both the Senate, the House and the White House in a past life, if the question was a senator, no, that won't work. You would have to have a coalition of folks in the House, in the Senate, in the White House and the appropriate agencies. And that is on our to-do list once we've scaled up large enough in the private sector to go do what you're suggesting. But that is a very expensive, time-consuming and laborious process.

And Stacy, you've had similar experience as I have with this, and that's a 3, 5, 7-year commitment. And I think the best thing that we can do is scale up the company and then go have that conversation. Doing that now, it would not be time well spent. I will put it that way.

Stacy Stephens

Regarding sales, what about Amazon, Walmart, et cetera, distribution centers?

William Li

I can't speak to specific clients for obvious reasons. Distribution centers are certainly an opportunity. Some very large companies can be extremely difficult to deal with, and sometimes it's, frankly, not worth the effort, not speaking to any particular company. But distribution centers is certainly an opportunity for us.

Stacy Stephens

How does the Knightscope team feel about the recent CrowdStrike outage? And what impact, if any, does it have on short- or long-term strategy?

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William Li

Fortunately, no effect on us. And a lot of our technology is on Ubuntu. And all the CrowdStrike stuff is primarily around Windows-related stuff, which we don't use.

Stacy Stephens

Are there any lease expenses still from the closed locations?

William Li

Yes. So we're still working through those. It's not an insignificant amount of workload to shut down a location. So we're working on it. We've got a few down. We've got a lot more to go. But in a lot of cases, we need to prioritize production versus having people go out and doing inventory counts and the like. It will get done. It's just going to take some time, as we warned you. This is not going to -- it's not a cliff, just show up to 12 different landlords and just say, hey, we're going to be out of here tomorrow. So it's being worked on.

Stacy Stephens

Have you asked the Carnegie Tech team to evaluate the IT aspect of your business? The team knows them, but are you using them?

William Li

So I'm a Carnegie alum. I spoke at one of their conferences. We've met with folks. And one of the professors there has been sending over recruits for many years. Nothing in particular to do there. There's been some spinouts that were interesting. But remember that a university is mostly R&D, focused on the word R, research, like more pie in the sky scientific basic stuff. And we're doing very little research and a lot of development. Like, if we can't ship it in the next 3, 6, 9, 12, 15 months, we're probably not working on it.

Stacy Stephens

All right. Please discuss executive compensation as well as incentives, bonuses for profitable earnings per share as well as clawback reduction from non-profitable quarters. How is the executive team financially held accountable?

William Li

So there's an independent board of directors. They make up the compensation committee. They look at other comparables for other firms, the size of us and with the risk loss and also retaining talent. We've got recruiters climbing all over this place trying to steal our talent. So as much as people are like, you should just pay everybody a dollar, it's like, okay, good luck retaining the talent to be able to do that.

The new board is very much focused on equity incentives and long-term decision-making. And all that comp is spelled out in our regulatory filings and management can provide input, but the decision is done independently. And those directors literally and legally represent the shareholders so they need to do what's in the best interest of the shareholders.

Stacy Stephens

Is there a public relations plan to include your local congressional delegation and an update on how the company is making communities safe?

William Li

There is not because of the aforementioned work required at the federal lobbying level is in abyss of workload in money and having had some experience doing that is not going to get you the bang for the buck that you're looking for in the short term. I'm not saying we won't do it. We've had obviously some of the conversations with folks, but there's a time and place and now is not the time and place.

Stacy Stephens

Are there still issues with the supply chain, has Knightscope able to acquire all the materials needed to manufacture the units?

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William Li

Right, fortunately all the COVID-related nightmare and supply chain issues that has significantly subsided. So we didn't -- I don't think we even flagged that as a risk factor anymore in our filings.

Stacy Stephens

Are you utilizing Adam Beam [ph] in your storage and transmission functions?

William Li

No.

Stacy Stephens

Any pending government contracts in the works?

William Li

We're always working on contracts. Government, private or the like, and we wouldn't be able to disclose anything in advance.

Stacy Stephens

Can you do a robot roadshow in the Denver, Colorado area?

Yes, we have, and we will come back again should we have a host willing to bring us in. So if you go to knightscope.com/roadshow, there is -- first off, there's a calendar of all the upcoming events. And secondly, if you have a host location where we can bring in the roadshow pod, which takes up approximately six parking spaces, and you will allow us to be there for a day, then we will use your location for a stop.

William Li

Anywhere in the continental U.S., you can be a host, you could be the cool person that brought the robots into town. And Stacy manages that directly. So he's always hopeful to have a host and some support. So that's another way you can actually help.

Stacy Stephens

Tom, it is promoting the fact that he would like us to come to Australia, and he's ready to help. Unfortunately, Tom, we're just not there. Very much appreciate the support and the enthusiasm now. Okay, sorry I'm -- you caught up with me, so I'm trying to find another question that's not yet been answered.

William Li

I'm still in shock. We've been on here for a like how long, and there is still 100-plus people on here. You guys and gals are awesome, like seriously to spend this amount of time with us and to ask all these probing and thoughtful questions, we don't take your time lightly. So thank you.

Stacy Stephens

So Charles asked a question. I actually love this question because it's a fortunate assumption. 120 roadshow stops, that's expensive and not working.

William Li

Yes, Stacy.

Stacy Stephens

Let me shed some light on the difference. A typical trade show will cost me well in excess of $150,000. Each one of our roadshows costs a miniscule fraction of that, and the majority of our sales can be attributed directly to roadshow stops. So sorry, that is an incorrect assumption. It is the absolute best thing that we have as a marketing tool. We get rave reviews everywhere we go. So --

William Li

And then just to be -- to be helpful with -- for Stacy's benefit, I think there's a lot of investors that have a different perception of what the roadshow should be. They're thinking they're going to show up to a location and it's like a huge party or a rave and like there's all kinds of retail, media and politicians there, and it's like a huge monster event. In some cases, that has occurred.

Well, a majority of the cases is we're trying to close a prospective client that has an actual need and we just need to make sure that their top decision-makers are there. And it's not intended to be some party or festival, and it's more for specific people. And if there's an opportunity to meet with the media or a local official or whatever, sure, but that's not the primary reason this mobile trade show keeps going around the country.

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Stacy Stephens

Is Knightscope considering collaboration with Tesla since Tesla mentioned that they are planning to create products that seem to be similar to Knightscope products or if not consider in collaboration, how do you plan to keep your market advantage?

William Li

We can't comment on particular names like that. I personally am a huge fan of the Tesla team, I have a Tesla, I'm an ex car guy, good luck to the legacy automakers like it's going to be really hard decade or two coming up for you.

How do we -- kind of from a competitive standpoint, I think we've talked about it a few times in the last couple of hours is we've been at this for a very long time. We've learned a lot. There's that 3 million hours of field experience. We can look at a new design and go, yes, that's not going to work or some new competitor might show up, yes, that's not going to work because X, Y and Z. And I think we just need to kind of focus on our clients and not so much the potential competitive noise.

Second, I think that we would be profoundly arrogant and naive and genuinely stupid to think we're going to secure the U.S. by ourselves. So I in a weird way, would welcome other players who are working on public safety and law enforcement because the country really needs it, and there's more than enough problems to go around.

Stacy Stephens

How is the FedRAMP approval process going? Are you able to accept other government contracts outside of the VA?

William Li

So long as the other agencies willing to accept what the VA has done, then yes. We're having ongoing discussions. There's a ton of opportunities. I don't think we would have spent this amount of money and time and frankly, headache to work on all this stuff, if there wasn't a genuine opportunity, but working with the Feds is very, very difficult. And frankly, some of the very large law enforcement agencies and large corporations can be just as difficult.

I kind of joke sometimes with Apoorv who unfortunately had to go. He's kind of tied up with some other things that he needs to do. But maybe we should just sell to easy clients and not have to go through all that, but some of those volumes are a little bit lower. But stuff that we worked about.

Stacy Stephens

All right. Speaking of acquisitions, has the CASE business gone up or down since acquisition?

William Li

Let me do the math in my head real quick. I think the answer in any form would be up.

Stacy Stephens

For the marketing aspect, why haven't you offered the presidential candidates, some of your tech robots for the rallies and conventions to keep candidates safe and better recognize potential threats? I think if you had a robot at the conventions of rallies, would cause millions of photos and videos.

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William Li

The technology is more appropriately used for monotonous, 24/7, do the same thing over and over and over again. It is not necessarily great for one-time events, parades, rallies, sporting events and the like. This is intended to be used in places where you're just going to rinse and repeat and do the thing over and over and over again.

Stacy Stephens

So in the same vein, how could Knightscope security solutions have helped prevent or mitigate incidents like the assassination attempt?

Same answer is in small short events at this stage of the game, it could -- it's not an appropriate technology for deployment there.

William Li

Questions keep coming in. I'm amazed. Thanks, folks. Let's keep going.

Stacy Stephens

Usually --

William Li

Are you going to pass out of me, Stacy?

Stacy Stephens

No, I'm good. Usually, I've seen companies go public after they are profitable. Do you regret going public early asking after looking at the challenge to attract more investors?

William Li

My wife ask me this question a lot. Do I regret? There's a few mistakes that we made that in hindsight we would have not done. Second -- and I've said this publicly before, so I guess I could repeat it. I didn't think at the time, we could have continued to raise more capital while we were private in a manner that we were raising the capital. And despite the chaos in the market, one of the nice things about being public and this is not 100% truthful. But in theory, one should never run out of capital. It's the cost of capital.

When you're private, it can be a binary situation where you've got a company that found themselves in a very set -- very difficult set of circumstances, and there is only one or two routes for them to raise capital and if they both say no, game over. Like I mentioned, 22,000 startups in Silicon Valley, 95% failed. And part of it is they can't get any more funding.

One of the nice things about being public, there's all kinds of permutations of all kinds of very clean same capital, very complicated capital, but there's all kinds of capital. It's a commodity and can be helpful for some companies. That's not 100% true. There are situations where the company may not be able to raise more capital to keep investing and growing the company.

But I think the one regret, whoever asked the question, the one thing that absolutely drives me crazy is, I can't have a sane normal conversation with friends, family, investors, clients, the media who ask me seemingly benign, normal everyday questions, and it's really frustrating because I can't have a normal conversation with anyone. So I think that's one of the reasons I'm sitting here because I can try to be careful here and not get in trouble with the authorities. But that's probably the one massive regret.

Stacy Stephens

All right. You're going to love this one. Why not act to put K5s and kids on TikTok? Kids playing with and being protected, humorously could be a cheap way to get better known, kids on early TV get their parents to buy things. I'm thinking something like an SNL type episode, et cetera, et cetera.

William Li

Because Stacy won't download TikTok to post that.

Stacy Stephens

I will not.

William Li

I think that could be -- there's a lot of fun things here be done, but remember the audience of who we're trying to sell to, in some cases, have a great sense of humor, and in some cases, not so much. So we -- Stacy is working on with the team on improved messaging to focus on the end user decision-maker who likely is not necessarily on TikTok and would enjoy that -- that kind of video. But, you never know.

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Stacy Stephens

Regarding distribution centers, have you looked into the defense logistics agency, they have 17 distribution centers across the U.S., including Barksdale and San Joaquin?

William Li

On the very long list, have not spoken to them directly.

Stacy Stephens

How many VA medical facilities is Knightscope deployed at? Are you aware of any new hospital size clinic under -- I'm sorry, are you aware of the new hospital size clinic under construction at the Fredericksburg, Virginia area?

William Li

No, we we've been -- the plan was, and I think maybe is worthy of some clarification here. I think people are expecting that we would get the authority to operate, and then there's be a massive flood of contracts. We've successfully deployed the first machine, the K5 Gov machine. On the outside, it looks exactly the same as the other V5 machines, but inside, it's completely different. It's kind of at the federal requirement levels. So the software, hardware, everything inside is significantly different, and there are some operational things that we need to kind of manage for that.

So that one has been successfully deployed in Texas, and now we're with ongoing discussions on the -- help me out here, 143, 147 other VA hospitals to see if there might be some opportunities there. And then as well as obviously other federal agencies. But we needed to get the first one working, which is a massive undertaking despite it's looking like every other robot out there and that we have.

Stacy Stephens

Has your team -- has your team looked into power devices with hydrogen, in particular, the drone part of the business?

William Li

No.

Stacy Stephens

What products of Knightscope could be -- could not be deployed to be used in securing the border?

William Li

Could not be what?

Stacy Stephens

Maybe we should just ask what could be used, and that's pretty easy K5 and the hemisphere and the emergency phones, gunshot detection, the laser. So yes, pretty much everything.

William Li

Yeah, and maybe a few other things we might have our first relief.

Stacy Stephens

Everything about a package deal with the government, meaning we sell a K7 with a blue light, we could identify the situation and then provide us a -- provide that situation a way to get help if they need it.

William Li

One thing I am in the search for that I think it's okay to say is a single military base in the continental U.S. that would want -- that has a decision maker that would want to reimagine a military base physical security profile and take a look at what technologies and learnings that we have from the private sector that can be put into the public sector. And then what gaps might be missing that we could develop something new for them. So we're on that search for that one leader that could be the laboratory for lack of a better way of saying it.

Stacy Stephens

We saw your product in motion at Pechanga for many years ago and gave it a hug. Did the robots -- did the robots ever get vandalized?

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William Li

We saw you too. As I mentioned before, a lot less than I expected, but it does happen.

Stacy Stephens

Is the K7 deployed yet?

William Li

No, the K7 is at alpha prototype stage. We've got it running. Cross fingers. If everything goes well, we're running a little bit behind we're hopeful that next year we can start taking pre-orders for it, but it's a complicated product. And well, I'm personally and professionally super excited about it.

Stacy Stephens

Sorry, still scanning for questions in between the comments. If the company was delisted from the NYSE, NASDAQ will say. Are there clear guidelines on how to get listed again?

William Li

We have -- it's almost 0 risk of us getting delisted. We on NASDAQ, not the NYSE and you still own your shares if that were to ever happen, but we have an agreement and plan with NASDAQ as to how to stay listed. So that's not really any time -- and we're not spending any time on that because that's not a thing.

Stacy Stephens

I'm not sure if this must be a sideways comment. There's another one that says, who do you consider your competitors with the others that have exited?

William Li

Sorry, we -- all the competitors have gone under what's the question?

Stacy Stephens

They're asking if there are any other competitors and then somebody else say ATX would like a word.

William Li

Yeah, I think on the -- if we're talking about autonomy, I think that would probably be an interesting discussion.

Stacy Stephens

Same thing with Boston Dynamics and then Singapore-based Kabam seems to be doing well. Just other comments coming in on the same subject.

William Li

Okay.

Stacy Stephens

And actually, I can tell you, Boston Dynamics is not focused on security, they're focused on --

William Li

Or autonomy.

Stacy Stephens

Yeah, they are focused on business checks or specific checks, systems checks.

William Li

Inspections.

Stacy Stephens

Some of these, I'm sorry, I don't understand if -- they must have been -- they must have been commenting, they're asking a question about something that was being said, so I'm not sure what they're asking.

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How can you expect people to buy more shares if we can't get into about how many K5s are operating and how many you need operating to achieve profitability? There's very little clarity on the operations of the business.

William Li

I think we would take issue with that. We do massive regulatory filings every 90 days. They're all readily available for you at ir.knightscope.com. Second, you -- with two thirds of the business being K1B, one thirds being ASRs, your question presupposes that you're going to get -- the math -- it doesn't work. You're trying to take one product to see if we can get the entire company to be profitable and you want me to give you a fictional number on the number of K5s needed when we have, I don't know, 8 different products.

So that's like, I don't know, back in Ford Motor company like how many Lincoln Navigators do you need to sell to make the whole company profitable and exclude the millions of other vehicles, like the question doesn't make a lot of sense. We do break down the K1B sales and the product sales and everything is in there.

I think the other notional problem with the question is well, how many ASRs versus K1B? Well, look at the price point of a K1 Hemisphere versus the price point of an ASR and you're going to combine those and co-mingle those into the amount of units needed, like it's -- doesn't make sense. The question doesn't make any sense.

Probably the better way to think about it would be what is the -- and we're working on this, what is the top line revenue needed to get to profitability? And the big inherent problem with that is product mix. There's at least, I don't know, 17 different ways you can cut it. So then to give forward guidance with one exact particular number when there are 17 different ways to get there is also problematic.

So that's one of the reasons we don't -- we're not hiding and obviously, hopefully, having spent a few hours here with you. We're not hiding away from any questions, but sometimes the questions that are asked don't make logical sense. And we're not looking to hide anything. We're publicly traded. We have to disclose everything. And again, everything is readily available for you at ir.knightscope.com.

Stacy Stephens

Have you considered implementing crypto solutions like a security DAO to tap into the social and financial capital of the large and impactful crypto community?

William Li

I'm going to get in trouble with this answer, but maybe I'm a little old school. If the SEC is investigating, we're not involved. So we -- I think on just encryption overall, our cryptography, I think what could be helpful for us in the future is chain of custody on evidence and would be a super interesting use case, but that's not kind of critical on the immediate roadmap.

Stacy Stephens

And we reintroduced another referral sales program of some kind? Or can you speak to the one that exists if applicable? I know you have resellers that maybe we should make everyone a potential seller.

William Li

Do you want to answer that one?

Stacy Stephens

Sure. The Scout program is still in place. The Scout program is a referral program. It's intended to be not a sales position. It is you know somebody in your Rolodex, on your list of contacts that you know has influence over the purchase of security-related technologies, and you -- you can over dinner or a bear go and tell them, "Hey, you should look at Knightscope," and then you get paid for that.

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Resellers are completely different. These are industry experts, whether they are security companies, integrators or other technology providers that already have an existing client base or customer base in their case, and they can implement the technology as well into the current offering of technologies that they have. Would love to have more. But as Bill led to earlier when we were talking about the sales side of things, these are incredibly complicated, complex sales to go through, when talking about specifically the security robots.

On the blue light towers, we have a bunch of resellers and they are phenomenal. They do an outstanding job, and we are still very proud of those relationships. So all of the --

William Li

You know, Stacy, you got to stop saying it Rolodex because I know there's a 20-something in this crowd in here and they're on Google going. What is the Rolodex?

Stacy Stephens

But yes, it's -- both programs are already in place. The Scout program is there, the reseller program is there. It just depends on who you are and what you have access to. But referrals are always, always, always appreciate it.

William Li

Okay.

Stacy Stephens

Please explain the rationale for the huge stock option award. The CEO was granted in June '24, given the massive dilution experienced by long-term shareholders. This is absolutely inconsistent with the oft-repeated claim that the CEO is in the same boat as investors. Investors do not get the dilution mitigation benefit of a massive new option grant.

William Li

That is the decision of the Compensation Committee to incentivize management to turn this around and keep growing the company. And that goes for the other stock option grants as well. Some of these folks have been around for a very long time and don't have either all fully vested or have no big upside and its decision of the comp committee, not my decision.

Stacy Stephens

Q2 gross loss is $558,000 or 117% of revenue. Please explain how this is sustainable?

William Li

I already answered that question earlier. It requires some additional scale in order to cover the critical mass required to run the company.

Stacy Stephens

Regarding the toxic financing deal, who put the deal in place, you keep referring to it, who approved it?

William Li

I relied on prior management, prior outside legal counsel and prior Board, but I was involved as well. And that was one thing I wish we had not done in order to finance the acquisition.

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Stacy Stephens

Much discussion has been had over the closing of the multiple different locations, your manufacturing still in California. Have you considered leaving California to get away from a non-friend -- business friendly state?

William Li

Two answers to that. I have lived in a lot of places in my life. The one thing I learned, especially with startups, like if you want to be an actor, be in Hollywood. You want to be a politician, be in DC. You want to build cars, be in Detroit. You want to work on Wall Street, be in New York. You want trade commodities, be in Chicago. Like if you want to build cutting-edge brand-new technology, you need to be in the heart of Silicon Valley, like -- this is like the equivalent of being in the renaissance in Italy at that time and decided to go somewhere else.

So we're in the right location. I think the other thing to think about is if we were building 10 million machines a year, and we're kind of rinse and repeat on more of a commodity product, sure. Maybe there's multiple facilities across the U.S. at that point. But we're not at that stage right now. As it hasn't come across over the last couple of hours, this technology is extremely difficult. You just don't stick a plant somewhere and have them continue to rinse and repeat.

Stacy Stephens

Well, Bill, regrettably, I do have a commitment that I cannot get out of right now.

William Li

You're going to bail? There's like 107 people on here.

Stacy Stephens

I'm aware.

William Li

All right. So let's do this for the -- if I didn't answer your question, please go to knightscope.com/rise, the little button at the bottom is that instant messaging thing. If you leave your e-mail in there, I'll be sure to reply. If it's a really long question, you can send it to me directly at invest@knightscope.com that only comes to me. Nobody else is going to see that.

And I tried to answer as best I can. I do get thousands of messages. So just be a little bit patient if my answer is a little shorter than you might like or take a little longer than you might like. But I appreciate everyone taking so much time out of your day. I really hope to continue to have your trust and support and continue to build the company. We will get through this, and it's a difficult time, but we've been through much, much, much, much worse, and we always make it through.

And the future is bright. There's a lot of fun, good stuff is going to happen, and we just need to keep at it and appreciate everyone tuning in. The videos and everything else will be on the -- if not already on the YouTube channel, if you need them. And thanks, everybody. Cheers.

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