**Risk Factors Comparison 2024-02-27 to 2023-02-28 Form: 10-K**

**Legend:** **New Text** ~~Removed Text~~ Unchanged Text Moved Text Section

~~● difficulty converting the customers of the acquired business onto our platform and contract terms; ● diversion of management' s attention and other company resources; ● harm to our existing business relationships with business partners and customers as a result of the acquisition; ● the potential loss of key employees; ● use of resources that are needed in other parts of our business; and ● use of substantial portions of our available cash to consummate the acquisition. We cannot assure you that the anticipated benefits of any acquisition or investment would be realized or that we would not be exposed to unknown liabilities or risks. Integrating an acquired technology, asset or business into our operations can be challenging, complex and costly and we cannot assure you that we will be successful or that the anticipated benefits of the acquisitions that we complete will be realized or outweigh their costs. If our integration and development efforts are not successful and the anticipated benefits of the acquisitions that we complete are not achieved, our business, operating results, financial condition, and prospects could be adversely affected. In connection with these types of transactions, we may issue additional equity securities that would dilute our stockholders, use cash that we may need in the future to operate our business, incur debt on terms unfavorable to us or that we are unable to repay, incur large charges or substantial liabilities, encounter difficulties integrating diverse business cultures and values, and become subject to adverse tax consequences, substantial depreciation, or deferred compensation charges. These challenges could adversely affect our business, operating results, financial condition, and prospects. We are highly dependent on the services of Patrick W. Smith, our Chief Executive Officer. Our future success depends upon our ability to retain executive officers, specifically Patrick W. Smith, and any failure to do so could adversely impact our business, prospects, new product development, financial condition and operating results. Operational RisksUnavailability of materials or higher costs could adversely affect our financial results. We depend on certain domestic and international suppliers for the delivery of components used in the assembly of our products. Our reliance on third- party suppliers creates risks related to our potential inability to obtain an adequate supply of components or sub- assemblies and reduced control over pricing and timing of delivery of components and sub- assemblies. Specifically, we depend on suppliers of sub- assemblies, machined parts, injection molded plastic parts, printed circuit boards, custom wire fabrications and other miscellaneous customer parts for our products. Although we have and are implementing additional long- term agreements with strategic suppliers to mitigate the risk of supply continuity, there remains risk across our supply chain while we extend our supplier contract program, and there is no guarantee that supply will not be interrupted. Additionally, if our suppliers do not accurately forecast and effectively allocate production or if they are not willing to allocate sufficient production to us, or they decommit to us previously agreed to supply levels, it may reduce our access to components and require us to search for new suppliers. As the scale of our hardware production increases, we will also need to accurately forecast, purchase, warehouse and transport components at high volumes to our manufacturing facilities. If we are unable to accurately match the timing and quantities of component purchases to our actual needs, we may incur unexpected production disruption, storage, transportation and write- off costs, which may harm our business and operating results. Single or sole- source components used in the manufacture of our products may become unavailable or discontinued. Delays caused by industry allocations or obsolescence may take weeks or months to resolve. In some cases, parts obsolescence may require a product re- design to ensure quality replacement components. These delays could cause significant delays in manufacturing and loss of sales, leading to adverse effects significantly impacting 17our financial condition or results of operations and could harm our reputation. For example, revenue from TASER 7 for 2022 was impacted by approximately $ 35. 0 million for orders that were scheduled to ship prior to December 31, 2022, but could not be fulfilled due to the delayed receipt of a manufacturing component for our TASER 7 devices. Additionally, Axon Body revenue was impacted by approximately $ 15. 5 million for orders that were scheduled to ship prior to December 31, 2022, but could not be fulfilled due to supply chain constraints for our Axon Body 3 devices.~~ Due to the unique requirements of ~~the~~ TASER 10 **, including the regulation of certain TASER 10 components for import into the United States and export from foreign sources** , we purchase our raw materials from a limited number of suppliers. Some of the raw materials that are used in ~~the~~ TASER 10 may be subject to fluctuations in market price **,** which we may be unable to pass through to our customers to offset market fluctuations. Because of the unique requirements of ~~the~~ TASER 10, we cannot change suppliers easily. **We may be slower to establish alternative sources of supply for TASER 10 components as we continue to refine the design of the product.** Any delay or interruption in the supply of ~~these~~ -- **the** raw materials **that are used in TASER 10** could impair our ability to manufacture and deliver ~~the~~ TASER 10, harm our reputation or cause a reduction in revenues. A significant number of our raw materials or components ~~are comprised~~ - **comprise** ~~of~~ petroleum- based products or incur some form of landed cost associated with transporting the raw materials or components to our facility. Our freight and import costs and the timely delivery of our products could be adversely impacted by **the materialization or re- emergence of** a number of factors ~~which~~ **that** could reduce the profitability of our operations, including: higher fuel costs **(including increased petroleum prices as a result of, among other things, climate change- related regulations)** ; potential port closures **or shipping disruptions** ; customs clearance issues; increased government regulation or regulatory changes for imports of foreign products into the ~~U. S.~~ **United States and exports from foreign sources** ; delays created by terrorist attacks or threats, public health issues, national disasters or work stoppages; and other matters. **We are also subject to supply chain disruption should we learn that any of our suppliers is in violation of legislation that bans the import of goods based on their method of production, such as using forced labor or otherwise. This may also result in negative publicity regarding our production methods, and alleged unethical or illegal practices of any of our suppliers could adversely affect our reputation.** Any interruption of supply for any material components of our products could significantly delay the shipment of our products and have a material adverse effect on our revenues, profitability and financial condition. For example, there have been **and may continue to be** disruptions in the semi- conductor supply chain that could negatively impact our ability to make our products. **Domestic or** ~~International~~ **international** ~~or domestic~~ geopolitical or other events, including the imposition of new or increased tariffs and / or quotas by the U. S. ~~government~~ **Government** on any of these raw materials or components and other government trade policies, could adversely impact the supply and cost of these raw materials or components, and could adversely impact our revenues, profitability and financial condition. In particular, the implementation of tariffs and trade restrictions as well as changes in trade policies between the **United States** ~~U. S.~~ and China **have in the past led to some increases in our supply costs and have made it more difficult to obtain suppliers, and** may **in the future** have an adverse effect on our supply chain from a **cost and** sourcing ~~and cost~~ perspective. We source certain raw materials from China, as do some of our suppliers. We may be unable to transition away from China to other jurisdictions or obtain secondary sources for raw materials **,** which could result in a material adverse effect on **component availability and could result in a material adverse effect on** our revenues, profitability and financial condition. Material adverse developments in domestic and global economic conditions, or the occurrence of other world events, could materially adversely affect our revenue and results of operations. Various factors contribute to the uncertain economic environment, including the **ongoing** ~~conflict~~ **conflicts** ~~between Russia~~ **in Gaza** and Ukraine, the increase in, and volatility of, interest rates, high inflation, an actual recession or fears of a recession, trade policies and tariffs and geopolitical tensions. Our inability to offset price inflation in our materials, components, shipping ~~,~~ or labor through increased prices to customers with long- term fixed **- price** contracts and formula- based or long- term fixed **-** price contracts with suppliers could adversely affect our business, financial condition and results of operations. Global supply chain and labor market challenges could also negatively affect our performance as well as the performance of our suppliers. Interest rate increases have also created financial market volatility and could further negatively impact financial markets, lead to an economic downturn or recession or have an adverse effect on our ~~operating~~ **financial** results. Economic slowdowns can also negatively impact municipal and state tax collections and put pressure on law enforcement budgets **,** which may increase the risk that our customers will be unable to appropriate funds for existing or future contracts with us. In addition, geopolitical risks could affect our customers' budgets and policies. These and other factors may adversely affect customer demand and ability to pay, cause decrease in sales, and negatively impact the realizability of our accounts and notes receivable and contract assets. ~~18To~~ **20To** the extent demand for our products increases, our future success will be dependent upon our ability to manage our growth and to increase manufacturing production capacity. To the extent demand for our products increases significantly in future periods, one of our key challenges will be to increase our production capacity to meet sales demand while maintaining product quality. Our primary strategies to accomplish this include introducing additional shifts, increasing the physical size of our assembly facilities, the hiring of additional production staff, and the implementation of additional customized manufacturing automation equipment. **As we develop additional products, we may need to bring new equipment on- line, implement new systems, technology, methods and processes and hire personnel with different qualifications. The costs associated with implementing new manufacturing technologies, methods and processes, including the purchase of new equipment, and any resulting delays, inefficiencies and loss of sales, could harm our financial results.** The investments we make in ~~this~~ equipment **, technologies or personnel** may not yield the anticipated labor and material efficiencies **, and we may experience difficulty in attracting and retaining qualified personnel** . Our inability to meet any future increase in sales demand or effectively manage our expansion could have a material adverse effect on our revenues, operating results and financial condition. Delays in product development schedules may adversely affect our revenues and cash flows. The development of CEDs, devices, sensors and software is a complex and time- consuming process. **To achieve market acceptance for our products, we must effectively anticipate customer requirements, and we must offer products that meet changing customer demands in a timely and cost- effective manner. Customers may require product features and capabilities that our current products do not have. If we fail to develop products that satisfy customer requirements, our ability to create or increase demand for our products will be harmed. Without the timely and cost- effective introduction of new products, services and enhancements, our offerings will likely become less competitive over time, in which case our competitive position and operating results could suffer.** New products **,** and **services, as well as** enhancements to existing products **and services,** can require long development and testing periods **and may require significant investment, including substantial R & D, development of different engineering and manufacturing workflows, and adjustments to our data and analytics infrastructure** . Our focus on our SaaS platform also presents complex development issues. Significant delays in new product or service releases or significant problems in creating new products or services could adversely affect our business, **growth prospects,** operating results, cash flows and competitive position. We expend significant resources in anticipation of a sale due to our lengthy sales cycle and may receive no revenue in return. Generally, law enforcement and corrections agencies consider a wide range of issues before committing to purchase our products, including product benefits, training costs, the cost to use our products in addition to, or in place of, other products, budget constraints and product reliability, safety and efficacy. ~~The~~ **Because we sell to various types of government entities of multiple sizes, including national agencies, state agencies, county agencies and municipal agencies, which can require varying levels of approvals followed by appropriations, the** length of our sales cycle may range from a few weeks to as long as several years. Adverse publicity surrounding our products or the safety of such products has in the past, and could in the future, lengthen our sales cycle with customers. **We** ~~In the past, we~~ believe that **in the past** our sales were adversely impacted by negative **coverage and** publicity surrounding our products or the use of our products. We may incur substantial selling costs and expend significant effort in connection with the evaluation of our products by potential customers before they place an order. If these potential customers do not purchase our products, we will have expended significant resources and received no revenue in return. Changes in civil forfeiture laws may affect our customers' ability to purchase our products. Some of our customers use funds seized through civil forfeiture proceedings to fund the purchase of our products. **From time to time, civil forfeiture**

**proceedings have in the past received and may in the future receive media scrutiny and public criticism.** Legislative changes could impact our customers' ability to seize funds or use seized funds to fund purchases. Changes in civil forfeiture statutes or regulations could limit the amount of funds available to our customers, which could adversely affect the sale of our products ~~service providers to do so as well;however,security breaches that have not had a material effect on our business or our third- party service providers have occurred and will continue to occur,including as a result of third- party action,employee error,malfeasance or otherwise.Remote- work arrangements may also make our systems and employees more susceptible to attack.Breaches could occur during transfer of data to data centers or at any time,and~~ result in unauthorized physical or electronic access to our data or our customers' data.Third parties may attempt to fraudulently induce employees or customers into disclosing sensitive information such as usernames,passwords or other information in order to gain access to our data or our customers' data.Additionally,hackers may develop and deploy viruses,worms **,** and other malicious software programs that attack or gain access to our networks and data centers. ~~Recent developments in the threat landscape include use of AI and machine learning,as well as an increased number of cyber extortion and ransomware attacks,with higher financial ransom demand amounts and increasing sophistication and variety of ransomware techniques and methodology.~~ Increasing socioeconomic and political instability in some countries has heightened these risks.In addition,retaliatory acts by **Russia** ~~foreign governments~~ in response to Western sanctions could include cyber- attacks that could directly or indirectly impact our operations. **Because the techniques used to obtain unauthorized access,or to sabotage systems,change frequently,grow more complex over time,and generally are not recognized until launched against a target,we may be unable to anticipate these techniques or to implement adequate preventative measures.Moreover,our security measures and those of our third- party service providers or customers may not detect such security breaches if they occur.Although we have developed systems and processes that are designed to protect our data and user data,to prevent data loss,and to prevent or detect security breaches,we cannot assure that such measures will provide absolute security,and we may incur significant costs in protecting against or remediating cyber- attacks.** A security breach could expose us to a risk of loss or inappropriate use of proprietary and sensitive data,or the denial of access to this data.A real or perceived security breach could also result in a loss of confidence in the security of our ~~products and services~~ **service** ,disrupt our business,damage our reputation ~~,~~. Catastrophic events could materially adversely affect our business, results of operations and / or financial condition. A disruption or failure of our systems or operations in the event of a major earthquake, weather event **(including those caused or exacerbated by the effects of climate change)** , fire, explosion, failure to contain hazardous materials, industrial accident, utility failure, cyber- attack, terrorist attack, public health crisis, pandemic, or other catastrophic event could cause delays in completing sales, providing **products and** services, or performing other mission- critical functions. A catastrophic event that results in the destruction or disruption of any of our critical ~~business~~ **operations, or of the 22capacity, reliability or security of** ~~or~~ **our** information technology systems **,** could harm our ability to conduct normal business ~~operations~~ **activities** and our operating results as well as expose us to claims, litigation and governmental investigations and fines **. In addition, catastrophes may put pressure on federal, state and municipal government budgets, which may increase the risk that our customers will be unable to appropriate funds for existing or future contracts with us. These and other factors may adversely affect customer demand and ability to pay, cause decrease in sales, and negatively impact the realizability of our accounts receivable and contract assets. Public health emergencies such as the COVID- 19 global pandemic have adversely affected workforces, economies, and financial markets globally, and led to an economic downturn in the past and may do so again in the future. As an essential provider of products and services for law enforcement and other first responders, we remain focused on protecting the health and well- being of our employees while assuring the continuity of our business operations** . If our backup and mitigation plans are not sufficient to minimize business disruption, our financial results could be adversely affected. We are continuously monitoring our operations and intend to take appropriate actions to mitigate the risks arising from catastrophic events, but there can be no assurances that we will be successful in doing so. ~~19If our security measures~~ **Uncertainty in the development, deployment and use of AI in** ~~or~~ **our** ~~those~~ **products and services, as well as our business more broadly, could adversely affect our business and reputation. We are building and expect to use systems and tools that incorporate AI- based technologies, including generative AI, for customers and our workforce. As with many new and emerging technologies, AI presents numerous risks and challenges that could adversely affect our business. The development, adoption and use** of **generative AI technology remains in early stages, and ineffective** ~~our~~ - **or inadequate AI or generative AI development or deployment practices by us or** third **parties** ~~- party cloud~~ - **could result in unintended consequences.** ~~storage providers are breached and unauthorized access is obtained to customers' data or~~ **For example, AI algorithms that we use may be flawed** ~~our~~ - **or** ~~data,~~ **may be (** ~~our~~ - **or** ~~network, data centers and service~~ may be perceived **to be) based on datasets that are biased** ~~as not being secure, customers may curtail or stop using our~~ - **or insufficient** ~~service and we may incur significant legal and financial exposure and liabilities~~ . **In addition** ~~Security breaches of Axon body worn cameras~~ , ~~docks~~ **any latency** , **disruption** ~~fleet vehicle cameras, signal devices and Axon Evidence and other cloud services or products could expose our~~ - **or failure in** ~~clients and us to a risk of loss or~~ **our AI systems or infrastructure** ~~misuse of data. Any security breach~~ could result in **delays or errors in our offerings. Developing, testing and deploying resource- intensive AI systems may require additional investment and increase our costs. There also may be real or perceived social harm, unfairness or other outcomes that undermine public confidence in the deployment and use of AI. In addition, third parties may deploy AI technologies in** a **manner that reduces customer demand for** ~~loss of confidence in the security of~~ our **products and** services ~~, damage~~ **. Any of the foregoing may result in decreased demand for our products and services** ~~our~~ - **or harm to our business, financial results or** reputation **.** **The legal and regulatory landscape surrounding AI technologies is rapidly evolving and uncertain** , ~~disrupt~~ **including in relation to the areas of intellectual property, cybersecurity, and privacy and data protection. For example, there is uncertainty around the validity and enforceability of intellectual property rights related to our development, deployment**

**and use of AI. Compliance with new** ~~our~~ - **or** ~~business~~ **changing laws** , ~~lead~~ **regulations or industry standards relating** to **AI may impose significant operational costs and may limit our ability to develop, deploy or use AI technologies. Failure to appropriately respond to this evolving landscape may result in** legal liability, **regulatory** ~~and negatively impact our future sales. We devote significant resources to engineer secure products and ensure security vulnerabilities are mitigated, and we require our third- party service providers to do so as well; however, security breaches that have not had a material effect on our business or our third- party service providers have occurred and will continue to occur, including as a result of third- party~~ action, ~~employee error, and malfeasance or otherwise. Remote- work arrangements may also make our~~ - **or** ~~systems and~~ **brand** ~~employees more susceptible to attack. Breaches could occur during transfer of data- to- data centers or at any time,~~ and result in unauthorized physical or electronic access...... disrupt our business, damage our reputation **reputational** ~~, lead to legal liability, negatively impact our future sales and significantly~~ harm ~~our growth prospects, operating results and financial condition~~ . Defects or disruptions in our services could impact demand for our services and subject us to substantial liability. We currently serve our Axon Evidence customers from third- party cloud storage providers based in the **United States** ~~U. S.~~ and other countries **. The use of these cloud storage providers gives us greater flexibility in efficiently delivering a more tailored, scalable customer experience, but also exposes us to additional risks and vulnerabilities. Lack of availability of this infrastructure could be due to a number of potential causes, including technical failures, natural disasters, fraud or security attacks that we cannot predict or prevent** . Interruptions in our service, or loss or corruption of digital evidence, may reduce our revenue, cause us to issue credits or pay penalties, cause customers to file litigation against us, cause customers to terminate their subscriptions and adversely affect our renewal rates and our ability to attract new customers. Our business will also be harmed if our customers and potential customers believe our service is unreliable. ~~Since~~ **23Since** our customers use our services for important aspects of their operations, any errors, defects, disruptions in service or other performance problems could hurt our reputation and may damage our customers' operations. As a result, customers could elect ~~to~~ not **to** renew our services or **to** delay or withhold payment to us. We could also lose future sales or customers may make warranty or other claims against us, which could result in an increase in our warranty expense, an increase in collection cycles for and decline in the collectability of accounts receivable **or in the convertibility of contract assets to cash** , and an increase in the expense and risk of litigation. Defects in our products could reduce demand for our products or result in product recalls and result in a loss of sales, delay in market acceptance and damage to our reputation. Complex components and assemblies used in our products may contain undetected defects that ~~are~~ **could be** subsequently discovered at any point in the life of the product. **Errors or defects in our products may only be discovered after they have been tested, commercialized and deployed. If that is the case, we may incur significant additional development costs and product recall, repair or replacement costs, or liability for personal injury or property damage caused by such errors or defects. Our reputation or brand may be damaged as a result of these problems and may result in difficulty retaining current customers and securing new contracts.** Defects in our products could result in a loss of sales, delay in market ~~20acceptance~~ -- **acceptance** , damage to our reputation and increased warranty costs, which could adversely affect our business, financial results and competitive position. Additionally, we are subject to the U. S. Consumer Products Safety Act of 1972, as amended by the Consumer Product Safety Improvement Act of 2008, which empowers the Consumer Products Safety Commission to exclude from the market products that are found to be unsafe or hazardous, and similar laws under foreign jurisdictions. Under certain circumstances, the Consumer Products Safety Commission or comparable foreign agency could require us to repurchase or recall one or more of our products. If we were required to remove, or we voluntarily remove, our products from the market, our reputation could be tarnished, and we might have large quantities of finished products that we could not sell. Our international operations expose us to additional risks that could harm our business, operating results ~~,~~ and financial condition. Our international operations are significant, and we plan to continue **growing** ~~to grow~~ internationally by acquiring existing entities **and /** or setting up new legal entities in new markets. In certain international markets, we have limited operating experience and may not benefit from ~~any~~ first- to- market advantages or otherwise succeed. **Our** ~~In addition to risks described elsewhere in this section, our~~ international operations expose us to other risks, including ~~the following~~ : ● ~~Restrictions~~ **restrictions** on foreign ownership and investments ~~,~~ and stringent foreign exchange controls that might prevent us from repatriating cash earned in countries outside the **United States;** ~~U. S.~~ ● ~~Import~~ **import** and export requirements, tariffs, trade disputes and barriers, product certification requirements, sanctions ~~,~~ and customs classifications that may prevent us from offering products or providing services ~~to~~ **in** a particular ~~market~~ **country** or obtaining necessary parts and components to manufacture products **;** ~~, which may lead to decreased sales and may increase our operating costs.~~ ● ~~Longer~~ **longer** payment cycles in some countries, increased credit risk, and higher levels of payment fraud ~~.~~ **;** ● ~~Uncertainty~~ **uncertainty** regarding liability for our products and services, including uncertainty ~~as a result~~ **resulting** ~~of~~ **from** local laws and lack of legal precedent ~~.~~ **; and** ● ~~Different~~ **different** labor laws and customs, existence of workers' councils and labor unions, and other challenges caused by distance, language ~~,~~ and cultural differences ~~, making it harder to do business in certain jurisdictions~~ . ~~Additionally~~ **In addition** , **our suite of TASER devices are regulated by the U. S. Bureau of Industry and Security and require licenses for export abroad.** ~~changes~~ **Changes** in **U. S. foreign policy, foreign governmental status and evolving** international ~~local~~ **human rights policy objectives may impact Axon' s ability to obtain licenses. Changes to foreign** political, economic, regulatory, tax, social ~~,~~ and labor conditions may adversely harm our business ~~and~~ **.** ~~compliance~~ **Compliance** with complex foreign and U. S. laws and regulations ~~that apply~~ **makes it harder** to ~~our international operations~~ **do business in certain 24jurisdictions, potentially decreases sales, and** increases our cost of doing business. These numerous and sometimes conflicting laws and regulations include, among others, environmental **regulations, climate- and sustainability- related regulations, tax and statutory financial regulations, customs and duties** regulations, internal control and disclosure rules, privacy and data protection requirements, anti- corruption laws, such as the U. S. Foreign Corrupt Practices Act, and other local laws prohibiting corrupt payments to governmental officials, and competition regulations, among others. Violations of these laws and regulations could result in fines and penalties, criminal sanctions against us, our **directors,** officers

~~, or our~~ - **or** employees, prohibitions on the conduct of our business and on our ability to offer our products and services in one or more countries, and could also materially adversely affect our brand, ~~our~~ international growth efforts, ~~our~~ ability to attract and retain employees, ~~our~~ business ~~,~~ and ~~our~~ operating results. Although we have implemented policies and procedures designed to ensure compliance with these laws and regulations, there can be no assurance that our **directors, officers,** employees, contractors ~~,~~ or agents will not violate our policies. We depend on our ability to attract and retain our key management, sales and technical personnel. Our success depends upon the continued service of our key management personnel. Our success also depends on our ability to continue to attract, retain and motivate qualified technical employees **. Our ability to compete effectively and our future success depends on our continuing to identify, hire, develop, motivate and retain highly skilled personnel. In addition, our compensation arrangements, such as our equity incentives, may not always be successful in attracting new employees and retaining and motivating our existing employees. Restrictive immigration policy and regulatory changes may also affect our ability to hire, mobilize, or retain some of our global talent** . Although we have employment agreements with our officers and other members of our executive management team, the employment of such persons is " at- will " and either we or the employee can terminate the employment relationship at any time, subject to the ~~21applicable~~ -- **applicable** terms of the employment agreements. In particular, we expect to continue to face significant challenges in hiring personnel, particularly for **executive- level** engineering talent, whether as a result of competition with other companies or other factors. We **have had and expect to continue to** have unique equity incentives designed to attract and retain long- term employees. We utilize these plans to align pay and performance and drive shareholder returns while reducing near- term cash expenditures. Our equity incentives and ongoing stock and option grants are subject to having sufficient shares under our stock plan and any new plans or increases in the number of shares available for grant under existing plans must be approved by our shareholders. If we are unable to obtain shareholder approval, we may be unable to attract and retain top talent **, including senior executives** . Our ability to attract, retain ~~,~~ and motivate employees may also be adversely affected by stock price volatility. The loss of the service of one or more of our key personnel could adversely impact our business, prospects, financial condition and operating results. If we fail to comply with federal, state or local regulations applicable to our firearm product, TASER 10, we may be subject to governmental actions or litigation ~~which~~ **that** could materially harm our business, operating results ~~,~~ and financial condition. TASER 10 is primarily regulated by the ATF, which licenses the manufacture, sale ~~,~~ and import of firearms in the United States. The primary federal laws are the National Firearms Act of 1934, ~~or NFA,~~ the ~~Gun Control Act of 1968, or~~ GCA ~~,~~ and the Firearms Owners' Protection Act of 1986 ~~, or FOPA~~ , which have been amended from time to time. The ATF conducts periodic audits of our Arizona facilities ~~which~~ **that** hold federal firearms licenses. If we fail to comply with ATF rules and regulations, the ATF may limit our TASER 10 activities or growth, fine us, or, ultimately, suspend our ability to produce and sell the TASER 10 product line. There are also various state **and local** laws, regulations ~~,~~ and ~~local~~ ordinances relating to firearm characteristics, features ~~,~~ and sales. Axon and local distributors must comply with state and local laws, regulations ~~,~~ and ordinances pertaining to firearm and magazine sales in the jurisdictions where TASER 10 is sold. Additionally, certain TASER 10 components are regulated for import into the **United States** ~~U. S.~~ by **the** ATF and are subject to ATF import permits ~~which~~ **that** ~~limits~~ - **limit** Axon' s ability to source from some suppliers leading to a potential decrease in supply chain agility. Supply chain constraints or an inability to source TASER 10 components could have a material adverse ~~affect~~ **effect** on our business, prospects, financial condition and operating results. ~~Federal~~ **25Federal** and state legislatures frequently consider legislation relating to the regulation of firearms, including the amendment or repeal of existing legislation. Existing laws may also be affected by future judicial rulings and interpretations. These possible changes to existing legislation or the enactment of new legislation may seek to restrict the makeup of a firearm, mandate the use of certain technologies in a firearm, remove existing legal defenses in lawsuits, set minimum age limits to purchase certain firearms, or ban the sale and, in some cases, the ownership of various types of firearms and accessories. Such restrictions or bans could have a material adverse ~~affect~~ **effect** on our business, prospects, financial condition and operating ~~resultsIf~~ -- **results. If** we fail to maintain effective internal control over financial reporting or identify a material weakness or significant deficiency in our internal control over financial reporting, our ability to report our financial condition and results of operations in a timely and accurate manner could be adversely affected, investor confidence in our company could diminish, and the value of our common stock may decline. Preparing our consolidated financial statements involves a number of complex manual and automated processes, which are dependent upon individual data input or review and require significant management judgment. One or more of these processes may result in errors that may not be detected and could result in a material misstatement or other errors ~~of~~ **in** our consolidated financial statements. Such errors may be more likely to occur when implementing new systems and processes, particularly when implementing evolving and complex accounting rules. The Sarbanes- Oxley Act of 2002 (the " Sarbanes- Oxley Act ") requires, among other things, that as a publicly- traded company we disclose whether our internal control over financial reporting and disclosure controls and procedures are effective. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements ~~22will~~ -- **will** not be prevented or detected on a timely basis. While we continually undertake steps to improve our internal control over financial reporting as our business changes, we may not be successful in making the improvements and changes necessary to be able to identify and remediate control deficiencies or material weaknesses on a timely basis. For example, we identified a material weakness in our internal controls over revenue recognition and the reporting of deferred revenue for the year ended December 31, 2022 which **has been** ~~we are working to remediate~~ **remediated** as further discussed in **"** Item 9A. Controls and Procedures. **"** If we are unable to successfully remediate any ~~current or~~ future material weaknesses in our internal control over financial reporting, the accuracy and timing of our financial reporting may be adversely affected; our liquidity, access to capital markets and perceptions of our creditworthiness may be adversely affected; we may be unable to maintain compliance with securities laws, stock exchange listing requirements and debt instruments **'** covenants regarding the timely filing of periodic reports; we may be subject to regulatory investigations and penalties; investors may lose confidence in our financial reporting; we may suffer defaults under our debt instruments; and our stock price may decline. Financial RisksAn increasing percentage of our revenue is derived from subscription billing arrangements ~~which~~ **that** may result in delayed cash collections and may increase customer credit risk on receivables and contract assets. Our strategy includes continuing to shift an increasing amount of our business to a subscription model, to better match the municipal budgeting process of our customers as well as to allow for multiple product offerings to be bundled into existing subscriptions. This is in contrast to a traditional CED sale in which the entire amount being charged for the hardware is invoiced upon shipment. This impacts liquidity in a commensurate fashion, with the cash for the subscription or installment purchase received in multiple installments rather than up front. While we record an estimate of expected credit losses and perform ongoing reviews of trade accounts receivables, if we become aware of information related to the creditworthiness of a major customer, or if future actual default rates on receivables in general differ from those currently anticipated, we may have to adjust our expected credit loss reserve, which could adversely affect our business, financial condition or operating results. **Our** ~~We may experience a decline in gross margins due to a shift in product sales to software and sensors products and services which may continue to carry a lower~~ gross margin **is dependent on** ~~than that of Tasers. We continue to invest in the growth of the Software and Sensors segment, and this expected growth may result in~~ a **number** ~~higher percentage~~ of **factors, including our** ~~total revenues being comprised of Software and Sensors products~~ - **product mix** ~~and services. In 2022~~ , **cost structure and acquisitions we may make, any of which could cause our** gross margin ~~as a percentage of net sales for the Software and Sensors segment was 59. 5 % while it was 63. 3 % for the TASER segment, and may continue~~ to **decline. Our** ~~be lower in the future thus decreasing our consolidated~~ gross margin **could decline in future periods due to adverse impacts from various factors, including: 26 ● changes in product mix; ● changes in shipment volume; ● increased warranty costs; ● sales discounts; ● entry into new markets or growth in lower margin markets, including markets with different pricing and cost structures, through acquisitions or internal development; ● our ability to reduce production costs; ● increases in material, labor or other manufacturing-related costs or higher supply chain logistics costs; ● excess inventory and obsolescence charges; ● increased amortization of purchased intangible assets, especially from acquisitions; and ● how well we execute on our strategy and operating plans. Any one of these factors or the cumulative effects of certain of these factors may result in significant fluctuations in our gross margin. This variability and unpredictability could result in our failure to meet internal expectations or those of securities analysts or investors for a particular period. Failure to meet or exceed such expectations for these or any other reasons may adversely affect the market price of our stock** . SaaS revenue for Axon Evidence is recognized over the terms of the contracts, which may be several years, and, as such, trends in new business may not be immediately reflected in our operating results. Our SaaS service revenue is generally recognized ratably over the terms of the contracts, which generally range from one to ten years. As a result, most of the SaaS revenue we report each quarter is the result of agreements entered into during previous quarters. Consequently, current trends, whether positive or negative, in this portion of our business may not be fully reflected in our revenue results for several periods **, and a decline in new or renewed SaaS contracts in any period may not be immediately reflected in our reported financial results for that period, but may result in a decline in our revenue in future reporting periods. If any of our assumptions about revenue from our SaaS delivery model prove incorrect, our actual results may vary materially from those anticipated, estimated or projected** . Most of our end- user customers are subject to budgetary and political constraints that may delay or prevent sales. Most of our end- user customers are government agencies. These agencies often do not set their own budgets and therefore, have limited control over the amount of money they can spend. In addition, these agencies experience political pressure that may dictate the manner in which they spend money. As a result, even if an agency wants to acquire our products, it may be unable to purchase them due to budgetary or political constraints, particularly in challenging economic environments. There can be no assurance that the economic, budgeting or political issues will not worsen and adversely impact sales of our products. Some government agency orders may also be canceled or substantially delayed due to budgetary, political or other scheduling delays, which frequently occur in connection with the acquisition of products by such agencies, and such cancellations may accelerate or be more severe than we have ~~23experienced~~ -- **experienced** historically. ~~Federal~~ **federal** agencies may be particularly impacted by governmental impasse regarding continued government funding and debt limit constraints **, which has resulted in shutdowns of the federal government in 2018 and 2019** . Due to ~~municipal~~ government funding rules, certain of our contracts are subject to appropriation, termination for convenience, or similar cancellation clauses, which could allow our customers to cancel or not exercise options to renew contracts in the future. Although we have entered into contracts for the delivery of products and services in the future and anticipate the contracts will be completed, if agencies do not appropriate money in future year budgets, terminate contracts for ~~convenience~~ **27convenience** or if other cancellation clauses are invoked, revenue and cash associated with these bookings will not ultimately be recognized, and could result in a reduction to bookings and revenue. **Termination without cause provisions generally allow agencies to terminate a contract at any time and enable us to recover only our costs incurred or committed and settlement expenses and profit, if any, on the work completed prior to termination. We may or may not be able to recover all the costs incurred during the start- up phase of a terminated contract. The unexpected termination of significant contracts could result in significant revenue shortfalls. If revenue shortfalls occur and are not offset by corresponding reductions in expenses, our business could be adversely affected. We cannot anticipate if, when, or to what extent our customers might terminate their contracts with us. The open bidding process creates uncertainty in predicting future contract awards. Many governmental agencies purchase products and services through an open bidding process. Generally, a governmental entity will publish an established list of requirements requesting potential vendors to propose solutions for the established requirements. To respond successfully to these requests for proposals, we must accurately estimate our cost structure for servicing a proposed contract, the time required to establish operations for the proposed customer, and the likely terms of any other third- party proposals submitted. We cannot guarantee that we will win any bids in the future through the request for proposal process, or that**

**any winning bids will ultimately result in contracts on favorable terms. Our contracts typically run for a fixed number of years and may be extended for an additional specified number of years if the contracting entity or its agent elects to do so. When these contracts expire, they may be opened for bidding by competing bidders, and there is no guarantee that the contracts will be renewed or extended. Our customers may elect to open bidding processes up earlier than anticipated, resulting in increased competition prior to the anticipated end of contracts. Our failure to secure contracts through the open bidding process, or to secure such contracts on favorable terms, may adversely affect our revenues and gross margins.** We maintain most of our cash balances, some of which are not insured, at ~~three~~ **two** depository institutions. We maintain the majority of our cash and cash equivalents accounts at ~~three~~ **two** depository institutions. As of December 31, ~~2022~~ **2023** , the aggregate balances in such accounts at these ~~three~~ **two** institutions were $ ~~139~~ **560** . ~~9~~ **4** million. Our balances with these **and other** institutions regularly exceed Federal Deposit Insurance Corporation insured limits for domestic deposits and various foreign deposit insurance programs covering our deposits in Australia, **Belgium,** Canada, Finland, France, Germany, Hong Kong, India, Italy, the Netherlands, Spain, the United Kingdom ~~,~~ and Vietnam. We could suffer losses with respect to the uninsured balances if the depository institutions failed **(such as the bank failures at several U. S. banks in spring 2023)** and the institution' s assets were insufficient to cover its deposits and / or the governments did not take actions to support deposits in excess of existing insurance limits. Any such losses **or delays in access to funds as a result of such events** could have a material adverse effect on our liquidity, financial condition and results of operations. Stock transactions may have a material, unpredictable impact on our results of operations and may result in dilution to existing shareholders. We have historically granted and expect to continue to grant stock- based compensation to key employees and non- employee directors as a means of attracting and retaining highly qualified personnel. All stock- based awards are required to be recognized in our financial statements based on their grant date fair values. The amount recognized for stock compensation expense could vary depending on a number of assumptions or changes that may occur. Changes in the subjective and probability- based assumptions can materially affect the estimates of the fair value of the awards and timing of recognition of stock- based compensation expense and **,** consequently, the related amount recognized in our statements of operations and comprehensive income. ~~If we achieve specific operational goals and the covered employees complete the requisite service conditions for the performance- based awards with multiple service, performance, and market conditions, including our CEO Performance Award and our eXponential Stock Performance Plan (" XSPP"), we will recognize stock compensation expense regardless of whether the market conditions are achieved and the underlying tranches vest.~~ As we continue to mature, the incentives to attract, retain ~~,~~ and motivate employees provided by our equity awards or by future arrangements may not be as effective as in the past. We may also issue equity securities to pay for acquisitions and grant stock- based awards to retain the employees of acquired companies. If we issue significant equity to attract additional employees, to retain our existing employees, or related to acquisitions, we could incur substantial ~~additional~~ **28additional** share- based compensation expense and the ownership of our existing ~~stockholders~~ **shareholders** would be further diluted **, which could depress the market price of our stock** . Our financial performance is subject to risks associated with changes in the value of the U. S. dollar versus local currencies. For current and potential international customers whose contracts are denominated in U. S. dollars, the relative change in local currency values creates relative fluctuations in our product pricing. These changes in international end- user costs may result in lost orders and reduce the competitiveness of our products in certain foreign markets. Additionally, intercompany sales to our non- U. S. dollar functional currency international subsidiaries are transacted ~~24in~~ **in** U. S. dollars **,** which could increase our foreign exchange rate risk caused by foreign currency transaction gains and losses. For non- U. S. dollar denominated sales, weakening of foreign currencies relative to the U. S. dollar generally leads us to raise international pricing, potentially reducing demand for our products. Should we decide not to raise local prices to fully offset the dollar' s strengthening, the U. S. dollar value of our foreign currency denominated sales and earnings would be adversely affected. We do not currently engage in hedging activities **related to fluctuations in foreign currency** . Fluctuations in foreign currency could result in a change in the U. S. dollar value of our foreign denominated assets and liabilities **,** including accounts receivable. Therefore, the U. S. dollar equivalent collected on a given sale could be less than the amount invoiced causing the sale to be less profitable than contemplated. We also import selected components ~~which~~ **that** are used in the manufacturing of some of our products. Although our purchase orders are generally in U. S. dollars, weakness in the U. S. dollar could lead to price increases for the components. Unanticipated changes in our effective tax rate and additional tax liabilities may impact our operating results **and financial condition** . We are subject to income taxes in the **United States** ~~U. S.~~ and various jurisdictions outside of the **United States** ~~U. S~~ . Our effective tax rate could fluctuate due to changes in the mix of earnings and losses in countries with differing statutory tax rates. Our tax expense could also be impacted by changes in non- deductible expenses, changes in excess tax benefits related to exercises of stock options and vesting of restricted stock units **(" RSUs ")** , changes in the valuation of deferred tax assets and liabilities and our ability to utilize them, the applicability of withholding taxes, and changes in our liability for unrecognized tax benefits. We are subject to potential tax examinations in multiple jurisdictions. While we regularly evaluate new information that may change our judgment resulting in recognition, derecognition or change in measurement of a tax position taken, there can be no assurance that the final determination of any examinations will not have an adverse effect on our operating results and financial ~~position~~ **condition** . Our tax provision could also be impacted by changes in **U. S.** federal, state **and local** or ~~international~~ **foreign** tax laws **,** including fundamental tax law changes applicable to corporate multinationals, ~~including~~ **and** proposals by the current U. S. ~~president~~ **President or Congress** . Additionally, we may be subject to additional tax liabilities due to changes in non- income- based taxes resulting from changes in **U. S.** federal, state ~~, city~~ **and local** or ~~international~~ **foreign** tax laws, changes in taxing jurisdictions' administrative interpretations, decisions, policies ~~,~~ and positions, results of tax examinations, settlements or judicial decisions, changes in accounting principles, changes to ~~the~~ **our** business operations, including acquisitions, as well as the evaluation of new information that results in a change to a tax position taken in a prior period. **Further, recommendations from the Organization for Economic Co- operation and Development (" OECD ") regarding a global minimum income**

**tax and other changes are being considered and / or implemented in jurisdictions where we operate. We believe enactment of the recommended framework in jurisdictions where we operate will result in minimal impacts to our financial results in the near term. The impact of any new tax legislation may differ materially from our estimates due to future regulatory guidance or changes in our interpretations or assumptions we have made.** ~~Our~~ **29Our** revenues and operating results may fluctuate unexpectedly from quarter- to- quarter, which may cause our stock price to decline. Our revenues and operating results have varied significantly in the past and may vary significantly in the future due to various factors, including ~~, but not limited to~~: ● budgetary cycles of municipal, state and federal law enforcement and corrections agencies; ● market acceptance of our products and services; ● the timing of large domestic and international orders; ● the outcome of any existing or future litigation; ● adverse publicity surrounding our products, the safety of our products, or the use of our products; ● changes in our sales mix; ● new product introduction costs; ● increased raw material expenses; ~~25~~ ● changes in our operating expenses, including stock- based compensation expense; ● changes in foreign currency exchange rates, inflation ~~,~~ and interest rates **; ● inventory obsolescence; ● changes in warranty reserve; ● existing or future tariffs** ; and ● regulatory changes that may affect the marketability of our products **and services** . As a result of these and other factors, we believe that period- to- period comparisons of our operating results may not be meaningful in the short term, and our performance in a particular period may not be indicative of our performance in any future period. **Fluctuations in our revenues and operating results may also cause our stock price to decline. Our profitability could suffer from declines in fair value or impairment of our investments, including our strategic investments, and could fluctuate if the fair values of our investments increase. We invest a portion of available funds in a portfolio consisting of equity securities of various types. Our equity investments consist of investments in both marketable and non- marketable securities. Investments in marketable securities are measured at fair value on a recurring basis. We have elected to apply the measurement alternative for non- marketable securities. Under the alternative, we measure investments without readily determinable fair values at cost, less impairment, adjusted by observable price changes and we assess for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Our future investment income may fall short of expectations due to changes in interest rates, or due to certain inherent risks involved in investments in early- stage privately held companies. For example, we have recognized and may in the future recognize an unrealized loss on an investment if we determine that our carrying amount for an investment without a readily determinable fair value is not expected to be fully recovered, which would cause our earnings performance to suffer from such losses. By contrast, we have recorded and may in the future record an unrealized gain on an investment if we determine the fair value exceeds the carrying amount, which would benefit our earnings performance.** ~~Legal~~ **30Legal** and Compliance RisksWe may face personal injury, wrongful death, product liability and other liability claims that harm our reputation and adversely affect our sales and financial condition. Our CED products are often used in aggressive confrontations that may result in serious, permanent bodily injury or death to those involved. Our CED products may be associated with these injuries. A person, or the family members of a person, injured or killed in a confrontation or otherwise in connection with the use of our products, may bring legal action against us to recover damages on the basis of **a number of** theories **,** including wrongful death, personal injury, negligent design, defective product, product performance issues, or inadequate warnings or training. We are currently subject to a number of such lawsuits and ~~we~~ have been **and may be in the future** subject to significant adverse judgments and settlements. We may also be subject to lawsuits involving allegations of criminal misuse of our products. We have no control over how our products ~~and services~~ are used by our customers or other end- users and cannot assure they are used consistent with our specifications ~~and~~ **,** design **and warnings** . While our products are designed to be non- lethal, we cannot guarantee they will be used in a manner consistent with ~~our intent~~ **their intended use** and any **misuse** ~~such use~~ exposes us to litigation, reputational harm and controversy. ~~If successful~~ **Although we maintain product liability insurance in amounts that we believe are reasonable** , ~~wrongful death~~ **we may not be able to maintain such insurance on acceptable terms** , ~~personal injury~~ **if at all** , ~~misuse~~ and ~~other~~ **product liability** claims could ~~have~~ **result in** a **potential award of monetary damages** ~~material adverse effect on our operating results and financial condition and could result~~ in ~~negative publicity about~~ **excess of the amount of insurance coverage available to us. Because we manufacture and sell CEDs, insurance carriers may decide not to insure** our products **or our company in the future** . Similar to product liability claims, we face exposure to class action lawsuits related to the **design,** performance, safety, **pricing** or advertising of our products. Such class action lawsuits could also result in substantial monetary judgments, **defense costs, business distraction, reallocation of internal resources,** injunctions related to the sale of products, and potentially harm our reputation. **If successful** ~~Although we maintain product liability insurance in amounts that we believe are reasonable~~ , **wrongful death** ~~we may not be able to maintain such insurance on acceptable terms~~ , **personal injury** ~~if at all~~ , **misuse** and **other** ~~product liability~~ claims **could result in adverse judgments** ~~may exceed the amount of insurance coverage available to us. Because we manufacture and sell CEDs, insurance carriers may decide not to insure our~~ **or unfavorable settlements** ~~products or our company in the future~~ . We incur significant legal expenses in defending these cases, and significant litigation could ~~also~~ result in a diversion of management' s attention and resources ~~,~~ **and could also result in** negative publicity **about** ~~and a potential award of monetary damages in excess of~~ our **products** ~~insurance coverage~~ . The outcome of any litigation is inherently uncertain and there can be no assurance that our existing or any future litigation will not have a material adverse effect on our business, financial condition or operating results. Other litigation, government inquiries and regulatory actions may subject us to significant costs and judgments and divert management attention from our business. We have been ~~or~~ **and** could in the future be involved in numerous other litigation, government inquiries and regulatory matters relating to our products, **contracts,** employees ~~, contracts~~ and business relationships, including litigation against persons ~~whom~~ **or entities** we believe have infringed on our intellectual property, infringement litigation filed against us, litigation against a competitor, **antitrust litigation, and** enforcement actions filed against us ~~, and~~ **. See discussion of** litigation ~~involving~~ **in Note 12 to** the ~~U. S. Federal Trade Commission (FTC)~~ **consolidated financial statements included in Part II,**

**Item 8 of this Annual Report on Form 10- K** . Such matters have resulted, and are expected to continue to result in, substantial costs to us, including in the form of attorneys' fees and costs, damages, fines or other penalties, whether pursuant to ~~a~~ **an adverse** judgment or settlement, and diversion of our management' s attention, which could adversely affect our business, financial condition or operating results. **We** ~~There is also a risk of adverse judgments, as the outcome of litigation is inherently uncertain. 26We~~ have been, and may be in the future, subject to intellectual property infringement and other claims, which could incur substantial litigation costs, result in significant ~~damage~~ **damages** awards, inhibit our use of certain technologies, and divert management attention from our business. Many companies own intellectual property rights that are directly or indirectly related to public safety technologies. These companies periodically demand licensing agreements or engage in litigation based on allegations of infringement or other violations of their patents, trademarks, copyrights ~~,~~ or trade secrets. Non- practicing entities ~~also~~ **31also** have patents they have been granted or otherwise acquired, including patents that are directly or indirectly related to public safety technologies. These entities may seek compensation for perceived infringement of their patents, including by filing claims against us, independent of the merit of any such claims. As we enter new markets, expand into new product categories, and otherwise offer new products, services ~~,~~ and technologies, additional intellectual property claims may be filed against us by these companies, entities ~~,~~ and other third parties **. Our use of AI tools in our business may increase the likelihood that third parties will claim that we infringe their intellectual property rights** . Intellectual property claims may also be filed against us as our current products, services ~~,~~ and technologies gain additional market share. If our products, services ~~,~~ or technologies were found to infringe a third- party' s proprietary rights, we could be forced to discontinue use of the protected technology or enter into costly royalty or licensing agreements in order to be able to sell our products **, services or technologies** . Such royalty and licensing agreements may not be available on terms acceptable to us or at all. We could also be required to pay substantial damages, fines or other penalties, indemnify customers or distributors, cease the manufacture, use ~~,~~ or sale of infringing products or processes, make proprietary source code publicly available, and / or expend significant resources to develop or acquire non- infringing technologies. Our suppliers may not provide, or we may not be able to obtain, intellectual property indemnification sufficient to offset all damages, fines or other penalties resulting from any claims of intellectual property infringement brought against us or our customers. There is no guarantee that our use of conventional technology searching and brand clearance searching will identify all potential rights holders. Rights holders may demand payment for past infringements and / or force us to accept costly license terms or discontinue use of protected technology and / or works of authorship that may include, for example, photos, videos ~~,~~ and software. Our current ~~research and development~~ **R & D** focus on developing software- based products, including that which is related to **AI** ~~artificial intelligence~~ or **VR** ~~virtual reality~~ , increases this risk. If we are unable to protect our intellectual property, the value of our brands and products may decrease and we may lose our competitive market advantage. Our future success depends upon our proprietary technology. Our protective measures for this proprietary technology include patents, trademarks, copyrights ~~,~~ and trade secret protection. However, these protective measures, as well as our efforts to pursue such protective measures, may prove inadequate. For example, the value of intellectual property protection in certain countries may not be apparent until after such protection can no longer be pursued. As such, our intellectual property protection may not extend to all countries in which our products are distributed or will be distributed in the future. Though we work to protect our innovations, we may not be able to obtain protection for certain innovations. For example, we may be unable to patent some software- based products. **Furthermore, any use of AI tools to create content or code that may be incorporated into our products or services may also impact our ability to obtain or successfully defend certain intellectual property rights.** The scope of any patent protection we have obtained, or may obtain, may not prevent others from developing and selling competing products. Despite our efforts, any intellectual property protection we obtain may be later determined to be insufficient or ineffective. Our protective measures may prove inadequate for reasons outside of our control. Varying intellectual property laws across countries may lead to differences in protection between such countries. In certain countries in which our products are distributed, the ability to effectively enforce intellectual property rights may not exist. Patent requirements differ by country and certain domestic or ~~foreign~~ **international** laws may prohibit us from satisfying these requirements, creating a risk that some of our international patents may become unenforceable. Patents for older technologies, such as those first introduced in our M26 and X26 models of CEDs, have expired or will expire due to statutory limits on patent term. Despite policies and efforts to maintain secrecy ~~,~~ **of** trade secrets and other confidential information, such information could be compromised by employees, partners ~~,~~ or other third parties. Once established, there is no guarantee that our intellectual property rights will remain in force. Issued patents may be re- examined and subsequently ruled invalid or unenforceable. Our registered trademarks may also be diminished or lost. For example, there is a risk that our " TASER " trademark could become synonymous with the general product category of " conducted energy devices " **resulting in claims of genericness that could interfere with our enforcement efforts and create customer confusion as to product source** . The right to stop others from misusing our trademarks and ~~27service~~ -- **service** marks in commerce depends, to some extent, on our ability to show evidence of enforcement of our rights against such misuse in commerce. Our efforts to stop improper use, if ineffective, may lead ~~to~~ **32to** loss of trademark and service mark rights, brand loyalty and notoriety among our customers and prospective customers ~~. Our intellectual property may also be at risk if we are unable to defend against enforcement actions, such as that filed by the FTC regarding our acquisition of Vievu LLC from Safariland LLC on May 3, 2018. For additional discussion of this matter, refer to Note 13 to the consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10- K. If successful, the FTC is seeking a divestiture of Vievu along with Axon assets sufficient to stand up a viable competitor~~ . Inability to protect our intellectual property could negatively impact our commercial efforts and competitive market advantage. Regardless of outcome, the prosecution of patent and other intellectual property claims is both costly and time **-** consuming. Unauthorized use of our proprietary technology could divert our management' s attention from our business ~~,~~ and could result in a material adverse effect on our business, financial position ~~,~~ and operating results. We may be **unable** ~~limited in our ability~~ to enforce patent rights internationally **, which may limit our ability** to ~~only those~~ **prevent our product**

**features from being used by competitors in some foreign** jurisdictions ~~in which our patent applications have been granted~~ . Our U. S. patents protect us from imported infringing products coming into the **United States** ~~U. S.~~ from abroad. We have ~~made~~ **filed** applications for patents in ~~a few~~ foreign countries; however, these may be inadequate to protect markets for our products in ~~other~~ **these** foreign countries. Each patent is examined and granted according to the law of the country where it was filed independent of whether a U. S. patent on similar technology was granted. Certain foreign countries have patent working requirements that require a patent owner to practice a patented invention ~~with~~ **within** the respective country. A patent in a foreign country may be subject to cancellation, forfeiture, compulsory license ~~,~~ or other penalty if the claimed invention has not been worked in that country. Meeting the requirements of working an invention differs by country and ranges from sales in the country to manufacturing in the country. U. S. export law, or the laws of some foreign countries, may prohibit us from satisfying the requirements for working the invention, creating a risk that some of our international patents may become unenforceable. In a country in which we do not have a patent or a country in which our patent in that country is unenforceable or unenforced, other companies and makers of similar products ~~and services~~ may be able to copy our products or features of our products without consequence, thus limiting our ability to capture market share or protect our technology, which could materially harm our growth prospects and operating results. **The use of open source software in our products, services and technologies may expose us to additional risks and harm our intellectual property. Open source software is typically freely accessible, usable and modifiable. Certain open source software licenses require a user who intends to distribute the open source software as a component of the user' s software to disclose publicly part or all of the source code to the user' s software or require the user of such software to make any derivative works of the open source code available to others on potentially unfavorable terms or at no cost. The terms of many open source licenses have not been interpreted by courts, and there is a risk that those licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to commercialize our products, services and technologies. In that event, we could be required to seek licenses from third parties in order to continue offering our products, to re- develop our products, to discontinue sales of our products or to release our proprietary software code under the terms of an open source license, any of which could harm our business. Although we aim to avoid any use of open source software in our products, services and technologies, and otherwise only use open source software available under permissive open source licenses, it is possible that other manners of use, including those that a third party may allege to be in breach of a corresponding open source license, may have inadvertently occurred in deploying our products, services and technologies. If a third- party software provider has incorporated certain types of open source software into software we license from such third party for our products, services and technologies without our knowledge, we could be required to disclose the source code to our products, services and technologies. This could harm our intellectual property position as well as our business, financial condition, cash flows and results of operations.** A variety of new and existing laws and / or interpretations could materially and adversely affect our business. As detailed in " Item I. Business – Government Regulation **,** " we are subject to a variety of laws and regulations in the United States and abroad that involve matters central to our business, including **laws and regulations related to:** privacy, data protection ~~and personal information~~ , **security, retention and deletion;** rights of publicity ~~,~~**;** content ~~,~~**;** intellectual property ~~,~~**; regulation of certain of our CEDs as firearms;** advertising ~~,~~**;** marketing ~~,~~**;** distribution **;** ~~, data security, data retention and deletion,~~ electronic contracts and other communications ~~,~~**;** competition ~~,~~**;** consumer protection ~~,~~**;** telecommunications ~~,~~**;** product liability ~~,~~**;** taxation ~~,~~**;** labor and employment ~~,~~**; sustainability;** economic or other trade prohibitions or sanctions ~~,~~**;** securities law **;** ~~compliance,~~ and online payment ~~services~~ **33services** . The introduction of new products, expansion of our activities in certain jurisdictions, or other actions that we may take may subject us to additional laws, regulations ~~,~~ or other government scrutiny. In addition, foreign **privacy,** data protection, ~~privacy,~~ content, competition, **sustainability** and other laws and regulations can impose different obligations or be more restrictive than those in the United States. These U. S. federal and state and foreign laws and regulations, which in some cases can be enforced by private parties in addition to government entities, are constantly evolving and can be subject to significant change. As a result, the application, interpretation, and enforcement of these laws and regulations are often uncertain and may be interpreted and applied inconsistently from country to country and inconsistently with our current policies and practices. New laws and regulations (or new interpretations of existing laws and regulations) may require us to incur substantial costs, expose us to unanticipated civil or criminal liability, or cause us to change our business practices. The ~~costs~~ - **cost** of compliance with these laws and ~~regulation~~ **regulations** ~~are~~ **is** high and ~~are~~ **is** likely to increase in the future. Additionally, these laws and regulations, or any associated inquiries or investigations or other government actions, ~~28may~~ -- **may** delay or impede the development of new products, result in negative publicity **, cause customers to delay purchases** , require significant management time and attention, and subject us to remedies that may harm our business, including fines or demands or orders that we modify or cease existing business practices. For example, as has been reported in the press, there is a grand jury investigation being conducted by the U. S. Attorney' s Office for the Northern District of Illinois. We have fully cooperated with the investigation and continue to do so. While we conducted an extensive internal investigation into, among other things, lobbying activities, and have found no indication of any wrongdoing by any Axon employee, there can be no assurance that this matter will not harm our business. Radio Spectrum **and Unmanned Aerial and Ground- Based Robotic** DevicesCertain of our products utilize ~~the~~ radio spectrum to provide wireless voice, data and video communications services. The allocation of spectrum is regulated in the **United States** ~~U. S.~~ and other countries and limited spectrum space is allocated to wireless services and specifically to public safety users. We manufacture and market products in spectrum bands already made available by regulatory bodies. If current products do not comply with the regulations set forth by these ~~governing~~ **regulatory** bodies, we may be unable to sell our products or could incur penalties. Our results could be negatively affected by the rules and regulations adopted from time to time by the ~~U. S. Federal Communications Commission (~~ FCC ~~)~~ **, ISED, the European Union Directorate- General for Environment** or regulatory ~~agencies~~ **bodies** in other countries. Regulatory changes in current spectrum bands may also require modifications to some of our products so they can continue to be manufactured and marketed. Axon body **-** worn cameras, docks, **Axon** ~~fleet~~ **Fleet** vehicle cameras and **Axon** ~~signal~~ **Signal** devices are subject to the FCC' s rules and regulations **in the United States, as well as rules and regulations as applicable outside of the United States** . These regulations affect CEDs with **Axon** Signal technology, including the TASER 7, SPPM **, TASER 10** , and future CEDs implementing wireless technology. Compliance with government regulations could increase our operations and product costs and **impact our future financial results. Additionally, some of our products depend on drones or other unmanned aerial and ground- based systems that operate on the radio spectrum. The FCC, the Federal Aviation Administration and other agencies at the federal, state and local levels (as well as in foreign jurisdictions) are beginning to address some of the numerous certification, regulatory and legal challenges associated with drones, but a comprehensive set of standards and enforcement procedures has yet to be developed. Changes to the regulation of drones or other unmanned aerial systems may** impact our future financial results. Axon and TASER DevicesFor our TASER products, we rely on the opinions of the ATF, including the determination that a device that does not expel projectiles by the action of an explosive is not classified as a firearm. Changes in ~~statutes~~ **laws** , regulations ~~,~~ and ~~interpretation~~ **interpretations** outside of our control may result in our products being classified or reclassified as firearms. If this were to occur, our private citizen ~~market~~ **demand** could be substantially reduced because consumers would be required to comply with federal, state ~~,~~ or local firearm transfer requirements prior to purchasing our products. ~~Federal~~ **34Federal** regulation of sales in the **United States** ~~U. S.~~ : The majority of our currently offered CEDs are not classified as firearms regulated by the ATF. However, the ATF regulates TASER 10 as a firearm under the **GCA** ~~Gun Control Act of 1968~~ due to a technological advancement specific to the propulsion design of ~~the~~ TASER 10 ~~CED' s~~ cartridges. **In the event we make** ~~While this classification will have little impact on Axon' s ability to sell~~ TASER 10 **available** to ~~law enforcement and government entities,~~ our private citizen and enterprise ~~market~~ **customers, demand** could be substantially reduced **as a result of this classification** because non- governmental end- users would be required to comply with federal, state ~~,~~ or local firearm transfer requirements prior to purchasing TASER 10. ~~Additionally~~ **In addition** , **the implications of such classification on use- of- force standards and regulations could impact our ability to sell TASER 10 to law enforcement and government entities. Because** Axon must maintain a federal firearms license to manufacture and sell ~~the~~ TASER 10, ~~which~~ **we are** ~~subjects~~ - **subject** ~~Axon~~ to periodic compliance inspections by the ATF. License violations discovered by the ATF can result in fines, penalties, warning letters or license revocation, leading to disruptions in operations **. Further, we are required to administer, track and remit firearm excise taxes as applicable** . Our CED products are also subject to testing, safety and other standards by organizations such as the American National Standards Institute, the International Electrotechnical Commission, the National Institute of Standards and Technology, and Underwriters Laboratories. These regulations also affect CEDs with Axon Signal technology, including **SPPM** ~~Signal Performance Power Magazine~~ technology, and TASER 7 **and TASER 10** battery packs. Federal regulation of international sales: Our CEDs are considered a " crime control " product by the ~~U. S. Department of Commerce (~~ DOC ~~)~~ for export directly from the **United States** ~~U. S.~~ which requires us to obtain an export license from the DOC for the export of our CED devices from the **United States** ~~U. S.~~ to any country other than Canada. Future products and services may require classifications from the DOC before they may be shipped internationally. Our inability to obtain DOC export licenses or classifications on a timely basis for sales of our products **and services** to our international customers could significantly and adversely affect our international sales. Although TASER 10 is regulated by the ATF for domestic sales, the ~~U. S.~~ DOC has ruled that the product' s unique propulsion design has no impact on its export classification and that the TASER 10 model' s export classification remains consistent with all other TASER CED models. ~~29Federal~~ -- **Federal** regulation of foreign national employees: Our CED development and production is also considered controlled " technology " by the ~~U. S.~~ DOC and is categorized as a " deemed export " for any foreign national employees exposed to the technology within the **United States** ~~U. S~~ . Consequently, we must obtain export licenses from the DOC for any deemed export within the **United States** ~~U. S.~~ made to a foreign national employee exposed to the ~~deemed~~ controlled technology. Deemed export licenses are subject to DOC approvals and issued licenses require annual status reports for the stated employees. Inability to obtain proper licensing could curtail the ~~company~~ **Company** ' s ability to execute R & D and production related to CED technology. State and local regulation: Our CEDs are controlled, restricted or, less frequently, prohibited by some state and local governments. Other jurisdictions may ban or restrict the sale of our TASER- branded devices, or restrict their use through changes to use- of- force laws or regulations, and our product sales may be significantly affected by additional state, county and city governmental regulation. The change in TASER 10' s propulsion design may impact how TASER 10 is regulated at the state and / or local level depending on each state' s firearm laws. International regulation of foreign imports and sales: Certain jurisdictions prohibit, restrict, or require a permit for the importation, sale, possession or use of CEDs, including in some countries by law enforcement agencies, limiting our international sales opportunities. U. S. and ~~International~~ **international** regulation of component movements globally: We rely on a global supply chain of components across our product lines with most final assembly occurring in the **United States** ~~U. S~~ . Export of these components from abroad is subject to shifting regulatory landscapes imposed by both the foreign government and U. S. authorities upon import. Abrupt changes to these regulations can result in delays or interruptions to final product supplies. Additionally, ATF regulation of certain imports of TASER 10 components may limit Axon' s supply chain agility. International regulation of foreign- based operations: We maintain foreign operations in several countries globally for purposes of logistics, **SG & A services** ~~sales, general and administrative,~~ and R & D support. **Depending on these activities, applicable regulations include business activity licensing and registration, import permits and recordkeeping, warehousing and 35storage security and permitting, and government reporting.** Any failure to ~~properly maintain or license~~ **comply with these requirements** could limit our ability to sell, support ~~,~~ or develop our products and services both internationally and in the **United States** U. S. market. Environmental...... significant expenses, delays, or fines . Privacy RegulationsWe are subject to various ~~risks~~ **U. S.** and ~~costs~~ **foreign laws and regulations** associated with the collection, processing, storage and transmission of personally identifiable information and other sensitive and confidential information. This data is wide ranging and relates to our employees, customers ~~,~~ **and other** third parties, ~~and~~ **including** the subjects of law enforcement. Our compliance obligations include **those prescribed under** laws and regulations that dictate whether, how ~~,~~ and under what circumstances we can **receive, process, hold and / or** transfer ~~, process and / or receive and hold~~ certain data that is critical to our operations, including data shared between countries or regions in which we operate and data shared among our products and services. If one or more of the legal mechanisms for transferring data from other countries to the **United States** ~~U. S.~~ is invalidated, if we are unable to transfer data between and among countries and regions in which we operate, or if we are prohibited from sharing data among our products and services, it could affect the manner in which we provide our **products and** services or adversely affect our financial results. Countries may also pass legislation implementing data protection requirements or requiring local storage and processing of data or similar requirements that could increase the cost and complexity of delivering our **products and** services and expose us to significant penalties for non- compliance. **The European Parliament adopted the GDPR, effective May 2018, that extended the scope of European privacy laws to any entity that controls or processes personal data of E. U. residents in connection with the offer of goods or services or the monitoring of behavior and imposes compliance obligations concerning the handling of personal data. Further, Vietnam' s PDPD, which entered into force July 1, 2023, applies to organizations (wherever based) so long as they participate in personal data processing in Vietnam.** We are also subject to U. S. laws and regulations, including ~~, without limitation,~~ the **CPRA** ~~California Privacy Rights Act~~ , which provides for enhanced consumer protections for California residents, a private ~~30right~~ -- **right** of action for data breaches and statutory fines and damages for data breaches or other **CCPA** ~~California Consumer Privacy Act~~ violations, as well as a requirement of " reasonable " cybersecurity **, which could subject us to additional compliance costs as well as potential fines, individual claims, class actions and commercial liabilities** . Any inability, or perceived inability, by us to adequately address privacy concerns, or comply with applicable laws, regulations, policies, industry standards and guidance, contractual obligations ~~,~~ or other legal obligations, even if unfounded, could result in significant regulatory and third **-** party liability, increased costs, disruption of our business and operations, and a loss of confidence and other reputational damage. Furthermore, as new privacy- related laws and regulations are implemented, the time and resources needed for us to comply with such laws and regulations continues to increase and become a significant compliance workstream. **U.S.market.Environmental RegulationsWe are subject to various state,federal** and international laws and regulations governing the environment,including restricting the presence of certain substances in our products and making us financially responsible for the collection,treatment,recycling and disposal of such products.In addition,further environmental or climate change disclosure legislation may be enacted in other jurisdictions,including the ~~United States~~ **U.S.** (under federal and state laws) and other countries,the cumulative impact of which could be significant. ~~For example,in September 2023,California passed the Climate Corporate Data Accountability Act and the Climate- Related Financial Risk Act,requiring increased climate- related reporting.See " Item 1.Business – Governmental Regulation – Environmental Regulations."~~ New,or changes in,environmental safety laws,regulations or rules could also lead to increased costs of compliance,including remediations of any **discovered issues,and changes to our operations,which may be significant.Any failures to comply could result in significant expenses,delays,or fines** Our business is subject to evolving corporate governance and public disclosure regulations and expectations, including with respect to ~~environmental, social and governance matters, that could expose us to numerous risks. We are subject to changing rules and regulations promulgated by a number of governmental and self- regulatory organizations, including the SEC, the Nasdaq Stock Market and the Financial Accounting Standards Board. These rules and regulations continue to evolve in scope and complexity and many new requirements have been created in response to laws enacted by Congress, making compliance more difficult and uncertain. In addition, increasingly regulators, customers, investors, employees and other stakeholders are focusing on~~ environmental, social and governance (" ESG ") matters **, that could expose us to numerous risks. We are subject to changing rules and regulations promulgated by a number of governmental and self- regulatory organizations, including the SEC, the Nasdaq Stock Market and the Financial Accounting Standards Board. These rules and regulations continue to evolve in scope and complexity and many new requirements have been created in 36response to laws enacted by Congress, making compliance more difficult and uncertain. In addition, increasingly regulators, customers, investors, employees and other stakeholders are focusing on ESG matters** and related disclosures. These changing rules, regulations and stakeholder expectations have resulted in, and are likely to continue to result in, increased general and administrative expenses and increased management time and attention spent complying with or meeting such regulations and expectations. For example, developing and acting on initiatives within the scope of ESG, and collecting, measuring and reporting ESG **-** related information and metrics can be costly, difficult and time **-** consuming and is subject to evolving reporting standards, including the SEC' s recently proposed climate- related reporting requirements, and similar proposals by other **domestic or** international regulatory bodies **. Foreign governments have also enacted legislation to address ESG issues, such as the UK Modern Slavery Act. Additionally, unfavorable perception regarding our social initiatives, governance practices, diversity initiatives, the perceived or actual impacts of our products and services, environmental policies or other growing concerns of our stakeholders, could adversely affect our reputation. Any negative effect on our reputation could have an adverse effect on the size of our customer base, which could adversely affect our business and financial results. We have been, and may be in the future, subject to informal private or public inquiries and formal proxy proposals by activists urging us to take certain corporate actions related to ESG matters, which may not be aligned with our best interests. These activities may adversely affect our business in a number of ways, since responding to inquiries or proposals can be costly, time- consuming, and disruptive to our operations and could meaningfully divert our resources, including the attention of our management team and our employees** . We may also communicate certain initiatives and goals, regarding environmental matters, diversity, responsible sourcing and social investments and other ESG **-** related matters, in our SEC filings or in other public disclosures. These initiatives and goals within the scope of ESG could be difficult and expensive to implement, the technologies needed to implement them may not be cost effective and may not advance at a sufficient pace, and we could be criticized for the accuracy, adequacy or completeness of the disclosure. Further, statements about our ESG **-** related initiatives and goals, and progress against those goals, may be based on standards for measuring progress that are still developing, internal controls and processes that continue to evolve, and assumptions that are subject to change in the future. In addition, we could be criticized for the scope or nature of such initiatives or goals, or for any revisions to these goals. **Given the dynamic nature of ESG expectations, standards and regulations, which may change over time, we may from time to time need to update or otherwise revise our current practices, initiatives and goals, including in response to legislative or legal developments.** If our ESG- related data, processes and reporting are incomplete or inaccurate, or if we fail to achieve progress with respect to our goals within the scope of ESG on a timely basis, or at all, **we may be exposed to potential liability or litigation, and** our reputation, business, financial performance and growth could be adversely affected. **Our amended and restated bylaws include exclusive forum provisions that could increase costs to bring a claim, discourage claims or limit the ability of the our shareholders to bring a claim in a judicial forum viewed by shareholders as more favorable for disputes. Our amended and restated bylaws provide that, unless we consent in writing to the selection of an alternative forum, the Chancery Court of the State of Delaware will be, to the fullest extent permitted by law, the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf; (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or shareholders; (iii) any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law or of our amended and restated certificate of incorporation or our amended and restated bylaws; or (iv) any action asserting a claim against us or any of our directors or officers governed by the internal affairs doctrine. In addition, our amended and restated bylaws also provide that, unless we consent in writing to the selection of an alternative forum, the federal district courts of the United States shall be the exclusive forum for the resolution of any claim arising under the Securities Act. The exclusive forum provision in our amended and restated bylaws does not apply to suits brought to enforce any duty or liability created by the Exchange Act or any other claim for which the federal courts have exclusive jurisdiction. The choice of forum provision may increase costs to bring a claim, discourage claims or limit a shareholder' s ability to bring a claim in a judicial forum that it finds favorable for disputes with Axon or Axon' s directors, officers or other employees, which may discourage such lawsuits against Axon or Axon' s directors, officers and other 37employees. Alternatively, if a court were to find the choice of forum provision contained in our amended and restated bylaws to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions.** Risks Related to our Convertible NotesServicing our debt requires a significant amount of cash, and we may not have sufficient cash flow ~~from our or their businesses~~ to pay our substantial debt. As of December 31, ~~2022~~ **2023** , we had outstanding an aggregate principal amount of $ 690. 0 million of our 0. 50 % ~~Convertible~~ **convertible** ~~Senior~~ **senior** ~~Notes~~ **notes** due 2027 (the " Notes " **or " 2027 Notes "** ). Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness, including the ~~notes~~ **Notes** , depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our ~~businesses~~ -- **business** may not continue to generate cash flow from operations in the future sufficient to service our debt and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations, including the ~~notes~~ **Notes** . ~~31The~~ -- **The** conditional conversion feature of the Notes, if triggered, may adversely affect our financial condition and operating results. In the event the conditional conversion feature of the Notes is triggered, holders of Notes will be entitled to convert their Notes at any time during specified periods at their option. If one or more holders elect to convert their Notes, we would be required to settle any converted principal amount of such Notes through the payment of cash, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Notes as a current, rather than long- term, liability, which would result in a material reduction of our net working capital. Conversion of the Notes may dilute the ownership interest of our ~~stockholders~~ **shareholders** or may otherwise depress the price of our common stock. The conversion of some or all of the Notes may dilute the ownership interests of our ~~stockholders~~ **shareholders** . Upon conversion of the Notes, we have the option to pay or deliver, as the case may be, cash, shares of our common stock, or a combination of cash and shares of our common stock in respect of the remainder, if any, of our conversion obligation in excess of the aggregate principal amount of the Notes being converted. If we elect to settle the remainder, if any, of our conversion obligation in excess of the aggregate principal amount of the Notes being converted in shares of our common stock or a combination of cash and shares of our common stock, any sales in the public market of our common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. In addition, the existence of the Notes may encourage short selling by market participants because the conversion of the Notes could be used to satisfy short positions, or anticipated conversion of the Notes into shares of our common stock could depress the **market** price of our common stock. Changes in the accounting treatment for the Notes could have a material effect on our reported financial results. We have adopted Accounting Standards Update **2020- 06** (" ASU 2020- 06 ") ~~2020- 06~~ as of January 1, 2022. Accordingly, we do not bifurcate the liability and equity components of the Notes on our balance sheet and we use the if- converted method of calculating diluted earnings per share. Under the ~~"~~ if- converted ~~"~~ method, diluted earnings per share will generally be calculated assuming that all the ~~notes~~ **Notes** were converted solely into shares of common stock at the beginning of the reporting period, unless the result would be anti- dilutive, which could adversely affect our diluted earnings per share. Because the principal amount of the Notes upon conversion is required to be paid in cash, and only the excess is permitted to be settled in shares, the application of the if- converted method will produce a similar result as the treasury stock method prior to the adoption of ASU

2020- 06. The effect of the treasury stock method is that the ~~shares~~ **38shares** issuable upon conversion of such Notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of such Notes exceeds their principal amount. In accordance with ASU 2020- 06, the Notes are reflected as a liability on our consolidated balance sheets, with the initial carrying amount equal to the principal amount of the Notes, net of issuance costs. The issuance costs ~~will be~~ **have been** treated as a debt discount for accounting purposes, which **is and** will be amortized into interest expense over the term of the Notes. As a result of this amortization, the interest expense that we ~~expect to~~ recognize for the Notes for accounting purposes **is** ~~will be~~ greater than the cash interest payments **payable** ~~we will pay~~ on the Notes, ~~which will result~~ **resulting** in lower reported income. We cannot be sure whether future changes made to the current accounting standards related to the Notes will not have a material effect on our reported financial results. The convertible note hedge and warrant transactions may affect the value of the Notes and our common stock. In connection with the pricing of the Notes, we have entered into convertible note hedge transactions with the option counterparties. We have also entered into warrant transactions with the option counterparties. The convertible note hedge transactions are expected generally to reduce the potential dilution to our common stock upon any conversion of Notes and / or offset any cash payments we are required to make in excess of the principal amount of converted ~~notes~~ **Notes** , as the case may be. However, the warrant transactions could have a dilutive effect on our common stock to the extent that the market price per share of our common stock exceeds the strike price of the warrants. ~~32In~~ **In** addition, the option counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our common stock and / or purchasing or selling our common stock or other securities of ours in secondary market transactions following the pricing of the ~~notes~~ **Notes** and prior to the maturity of the ~~notes~~ **Notes** (and are likely to do **so** in connection with any conversion of the Notes or redemption or repurchase of the Notes). This activity could cause or ~~avoid~~ **avert** an increase or a decrease in the market price of our common stock. In addition, if any such convertible note hedge and warrant hedging transactions fail to become effective, the option counterparties or their respective affiliates may unwind their hedge positions with respect to our common stock, which could adversely affect the value of our common stock. The potential effect, if any, of these transactions and activities on the market price of our common stock will depend in part on market conditions and cannot be ascertained at this time. Any of these activities could adversely affect the value of our common stock. We are subject to counterparty risk with respect to the convertible note hedge transactions. The option counterparties are financial institutions, and we will be subject to the risk that any or all of them might default under the convertible note hedge transactions. Our exposure to the credit risk of the option counterparties will not be secured by any collateral. If an option counterparty becomes subject to insolvency proceedings, we will become an unsecured creditor in those proceedings with a claim equal to our exposure at that time under the convertible note hedge transactions with such option counterparty. Our exposure will depend on many factors but, generally, an increase in our exposure will be correlated to an increase in the market price and in the volatility of our common stock. In addition, upon a default by an option counterparty, we may suffer adverse tax consequences and more dilution than we currently anticipate with respect to our common stock. We can provide no assurances as to the financial stability or viability of the option counterparties. Item 1B. Unresolved Staff CommentsNone. **39** ~~Item 2. PropertiesOur corporate headquarters and manufacturing facilities are based in an approximately 100, 000 square foot facility in Scottsdale, Arizona, which we own. We also lease premises in Phoenix and Scottsdale, Arizona; San Leandro, California; East Point, Georgia; Topsfield, Massachusetts; Seattle and Spokane, Washington; Melbourne and Sydney, Australia; Toronto, Canada; Daventry and London, England; Tampere, Finland; Frankfurt, Germany; Delhi, India; Rome, Italy; Amsterdam, Netherlands; and Ho Chi Minh City, Vietnam. We also own a parcel of land located in Scottsdale, Arizona on which we intend to develop a new campus. We believe our existing facilities are well maintained and in good operating condition. We also believe we have adequate manufacturing capacity for our existing product lines. To the extent that we introduce new products in the future, we will likely need to acquire additional facilities to locate the associated production lines. However, we believe we can acquire or lease such facilities on reasonable terms. We continue to make investments in capital equipment as needed to meet anticipated demand for our products. The majority of our locations support both of our reportable segments, except for our Vietnam and Seattle, Washington locations, which primarily support our Software & Sensors segment. 33~~